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Appendix 4D

Cochlear Limited
Half Yearly Report
As at 31 December 2020

Results for announcement to the market

		Movement from 31 December 2019		$m
Sales Revenue	down	4%	to	742.8
Total Revenue	down	2%	to	743.2
Earnings before interest and taxes (EBIT)	up	11%	to	243.4
Net profit for the period attributable to members	**up**	**50%**	**to**	**236.2**
Underlying net profit for the period[1]	down	6%	to	125.3
Basic earnings per share (cents)	up	32%	to	359.4
Underlying basic earnings per share (cents) [1]	down	17%	to	190.6
Dividend (dollars)	down	28%	to	$1.15

Net tangible assets per share at 31 December 2020 (cents)[2]	up	187%	to	1,877.2
Net tangible assets per share at 31 December 2019 (cents)				653.2

Dividends	Amount per security	Franked amount per security	Conduit foreign income per security
Interim dividend per share (dollars)	$1.15	$0.00	$1.15
Previous corresponding period (dollars)	$1.60	$1.60	$0.00

Record date for determining entitlements to the dividend	Friday 26 March 2021
Dividend payment date	Tuesday 20 April 2021

No dividend reinvestment plans were in operation during or since the half-year.

Additional Appendix 4D disclosure requirements can be found in the 31 December 2020 Interim financial report lodged with this document. This report is based on the 31 December 2020 Interim financial report which has been reviewed by KPMG with the Independent auditor's review report included in the 31 December 2020 Interim financial report.

[1] Excluding one-off and non-recurring items.
[2] Net tangible assets are net assets less intangible assets.

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Cochlear Limited and its controlled entities

ACN 002 618 073
Consolidated Interim Financial Report
31 December 2020

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The directors present their report, together with the consolidated interim financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the half year ended 31 December 2020 and the independent auditor's review report thereon.

Directors

The directors of the Company during or since the end of the interim period are:

Name	**Period of directorship**
Non-executive directors	
Mr Rick Holliday-Smith, *Chairman*	Director since March 2005
Mrs Yasmin Allen	Director since August 2010
Mr Glen Boreham, AM	Director since January 2015
Ms Alison Deans	Director since January 2015
Mr Andrew Denver	Director since February 2007
Professor Bruce Robinson, AC	Director since December 2016
Mr Abbas Hussain	Director since December 2018
Mr Michael Daniell	Director since January 2020
Ms Christine McLoughlin	Director since November 2020
Mr Donal O'Dwyer	Director from August 2005 to 20 October 2020
Executive directors	
Mr Dig Howitt, *CEO & President*	Director since 14 November 2017 Managing Director since 3 January 2018

Principal activities and review of operations and results

Other than as discussed in this report, there were no significant changes in the nature of operating activities during the half year ended 31 December 2020 and the results of those operations are set out below.

Review of operations

The following provides a summary of Cochlear's performance for the half year ended 31 December 2020.

	31 Dec 2020 $m	31 Dec 2019 $m
Total Revenue	**743.2**	**755.7**
Sales revenue[1]	742.8	777.6
Statutory net profit[2]	**236.2**	**157.7**
Underlying net profit[3]	125.3	132.7
Basic earnings per share (cents)	359.4	272.9
Diluted earnings per share (cents)	359.4	272.9
Underlying basic earnings per share (cents)[3]	190.6	229.6
Interim dividend per share (dollars)	$1.15	$1.60

[1] Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange (FX) contract gains/(losses) on hedged sales of $0.4m (31 December 2019 losses of $21.9m).
[2] This represents net profit attributable to members as per Appendix 4D.
[3] Excluding one-off and non-recurring items (refer to Page 9).

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Product and service highlights

	31 Dec 2020 $m	31 Dec 2019 $m	Change % (Reported)	Change % (CC)[1]	Sales Mix %
Cochlear implants (units)	17,377	18,894	↓ 8%		
Sales revenue					
Cochlear implants	454.7	469.9	↓ 3%	↑ 1%	61%
Services (sound processor upgrades and other)	214.9	225.5	↓ 5%	↓ 2%	29%
Acoustics	73.2	82.2	↓ 11%	↓ 7%	10%
Total sales revenue	**742.8**	**777.6**	**↓ 4%**	**↓ 1%**	**100%**

[1] Constant currency (CC) removes the impact of foreign exchange (FX) rate movements and FX contract gains/(losses) to facilitate comparability. See Notes on page 13 for further detail.

Cochlear implants

Cochlear implant units declined 8% with improving momentum in both developed and emerging markets across the half. Sales revenue increased by 1% in CC, benefitting from a mix shift to the developed markets and a higher rate of private pay surgeries across the emerging markets.

For developed markets, the pace of recovery has varied across countries with strong growth in the US, Japan and Korea and improving momentum in Western Europe. Overall developed market unit volumes grew 5% for the half, up 9% in Q2. While there had been some concern that candidates would hesitate in progressing to surgery during the pandemic, surgeries have progressed across all age groups, with the mix of seniors' surgeries back to pre-COVID levels across most countries. The majority of clinics have re-opened, and the new candidate pipeline is rebuilding quickly supported by Cochlear's direct-to-consumer activities.

The US, Japan and Korea delivered strong unit growth with clinics generally operating at pre-COVID capacity for much of the half. Growth was driven by the combination of rescheduled surgeries from the March/April shutdowns, market growth and market share gains following successful new product launches and connected care services.

The US in particular is benefitting from the successful integration of a comprehensive suite of products and services for customers over the last few years, from the leading implant portfolio to clinical support tools like Cochlear Link and Remote Check, supported by the sales team. The investment has strengthened capability, broadened reach and is reducing workload for clinics.

Western Europe experienced a small decline in units for the half. Momentum grew rapidly until the end of October with a pullback again in November/December in response to increasing COVID infections and new government lock downs across many countries. Elective surgeries in the UK continued to recover albeit at a slower pace than the rest of Western Europe given the relatively higher strain on hospitals from COVID infections.

Australia delivered cochlear implant volumes in line with last year, a great result given the material impact to surgeries from shutdowns in Victoria for most of the half.

For the emerging markets, unit volumes overall were down around 30%. Emerging markets experienced an improving rate of surgeries across the half albeit at a slower pace than the developed markets. Surgeries in China are higher than last year and are growing quickly due to strong private pay demand. In other markets, parts of Latin America and Eastern Europe are recovering, with volumes still well down in India and Brazil.

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Services

Services revenue declined 5% (2% in CC) with improving momentum across the half. Q1 revenue was impacted by lower clinical capacity for sound processor upgrades, with new patients prioritised as COVID concerns limited clinic capacity. Q2 revenue grew 11% in CC, with improved clinical capacity and Services also benefitting from the successful launch of the Cochlear™ Nucleus® Kanso® 2 Sound Processor in October across the US and Europe.

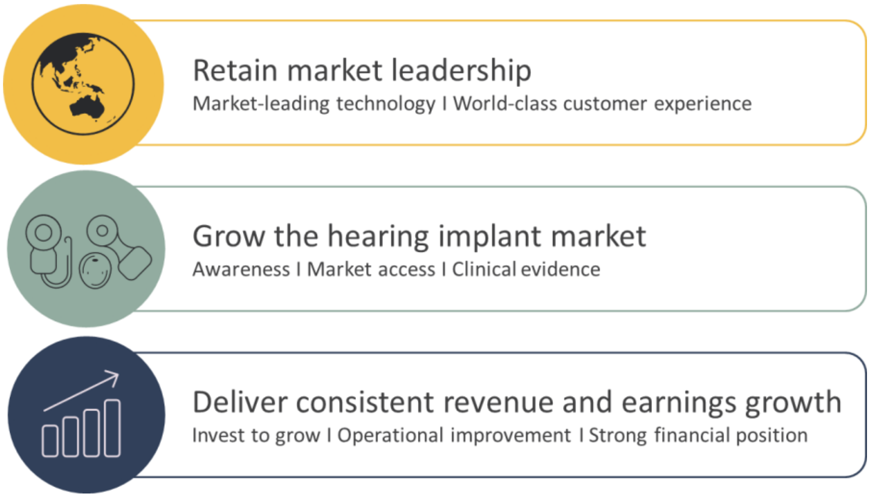
Cochlear continues to strengthen its direct relationship with the growing recipient base with the recipient membership program, Cochlear Family, now exceeding 200,000 members. Cochlear Family enables the Company to provide a better customer experience by connecting directly with recipients to provide service and support.

Acoustics

Acoustics revenue declined by 11% (7% in CC). Acoustics revenue is largely generated from the US and the UK. Surgery volumes have been recovering in the US since May with strong demand for the Cochlear™ Osia® 2 System. Acoustic implant surgeries recommenced in the UK during the first quarter with a slower rate of recovery as a result of COVID.

Cochlear's strategic priorities

Cochlear has been focused on ensuring it emerges from the pandemic in a stronger competitive position, with the strategic priorities continuing to guide investment. Over the past 12 months, new products have been successfully launched across all product categories, with market share gains realised in many markets. The focus on growth has continued with increasing levels of investment across major R&D projects and market growth activities.



Retaining market leadership

2021 marks Cochlear's 40th anniversary and four decades serving as the global leader in implantable hearing solutions. The investment in R&D aims to strengthen Cochlear's leadership position through the development of market-leading technology with seven product launches over the past 12 months across all parts of the portfolio. For HY21, Cochlear invested $88.4 million in R&D, representing 12% of sales revenue. An update on the progress of key new products in market is as follows:

Cochlear™ Osia® 2 System: The Osia 2 System represents a significant improvement in performance, aesthetics and quality of life for bone conduction patients[1] and has received an enthusiastic response from surgeons and patients in the US since launch in February 2020. It has quickly been established as the primary implant for clinics

[1] ClinicalTrials.gov [Internet]. Bethesda (MD): National Library of Medicine (US); 2017 March 22. Identifier NCT03086135.
Clinical Performance of a New Implant System for Bone Conduction Hearing; 2019 January 31 [cited 2019 June 20]; [4 screens].
Available from: https://clinicaltrials.gov/ct2/show/NCT03086135

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that have started implanting it, representing around 70% of acoustic implants in those clinics. Cochlear continues to be excited about the potential for the Osia 2 System with the opportunity for both increased penetration of bone conduction implants as well as geographic expansion in the coming years. Cochlear is aiming to get regulatory approval in Europe by mid-2021.

Cochlear™ Nucleus® Kanso® 2 Sound Processor: The Kanso 2 Sound Processor commenced its rollout in the US and Europe during the half, bringing the features of the Cochlear™ Nucleus® 7 Sound Processor into an off-the-ear form factor. The launch of the Kanso 2 Sound Processor during October contributed to a strong uplift in Services revenue during the second quarter.

The rollout of Remote Check, Custom Sound® Pro fitting software and the Nucleus® SmartNav System are all progressing to plan, with positive engagement and feedback from customers.

Growing the hearing implant market

Cochlear is focused on driving long-term market growth by transforming the way people understand and treat moderately severe to profound hearing loss through awareness and access activities. In HY21, Cochlear continued to invest in expanding programs for driving growth of the adults and seniors segment which include direct-to-consumer marketing activities, building referrals from the hearing aid and ENT channels, and standard of care initiatives aimed at building a consistent treatment pathway for adults with severe to profound hearing loss.

August saw the publication of a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant. The publication is an important step forward, providing the foundation for the development of formal clinical practice guidelines in the coming years. It is anticipated that these guidelines for hearing loss professionals will be important in building a clear and consistent referral path for adults from hearing aids to cochlear implants.

Market access activities have been focused on expanding indications and reimbursement for Cochlear's products, contributing to growth in many markets. Belgium experienced a lift in demand following the expansion of reimbursement criteria for cochlear implants to include candidates with a severe hearing loss while expanded reimbursement for Baha sound processors boosted acoustics upgrade revenue in France.

Targeting the delivery of consistent revenue and earnings growth

Underlying net profit declined 6% (4% in CC) to $125.3 million. Improving trading conditions have driven a significant improvement in earnings since the second half of FY20. Earnings however were below last year's record – and COVID-free – first half result.

There are a number of factors contributing to the underlying net profit result. While the recovery in trading has been faster than expected, sales revenue declined 4% (1% in CC) on HY20. On the cost side, operational expenses are tracking below historic run rates. While continued investment was made in R&D, market growth activities, standard of care and market access initiatives, there were material COVID-related savings including travel and conference expenses which saw total operating expenses decline 9% (7% in CC). The gross margin declined three points to 72%, partly offsetting the benefit of lower operating expenses.

The dividend has been re-introduced as a result of improved trading conditions and cash flow generation. An interim dividend of $1.15 per share has been determined, representing a payout of 60% of underlying net profit. The dividend is unfranked with the franking balance depleted as a result of the losses incurred by the business in FY20.

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Statutory profits benefit from $110.9m in one-off gains

Patent litigation-related tax & other benefits

Cochlear recorded $59.0 million in patent litigation-related tax & other benefits after-tax primarily relating to the receipt of a private ruling from the Australian Tax Office in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020.

Innovation fund gains

Cochlear's innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage Cochlear's core technology. The innovation fund includes investments in Saluda, Nyxoah and EpiMinder, with $34.7 million in non-cash gains realised in the half from investments in Nyxoah and EpiMinder.

Nyxoah listed in September with a $23.5 million after-tax gain realised based on the value of Cochlear's shareholding in Nyxoah on listing. Cochlear invested a further EUR 5.0 million ($8.1 million) in the initial public offering.

The $12.4 million after-tax gain in EpiMinder represents the increase in value of Cochlear's shareholding following a financing round which saw Cochlear invest a further $1.5 million.

Decision to return FY21 COVID government assistance

Cochlear notes its decision to repay $24.6 million in pre-tax COVID government assistance received in the first half as trading conditions have improved. Most of the assistance, $23.1 million, was received from the Australian Federal Government's JobKeeper program.

Cochlear met the eligibility requirements to participate in these programs which were designed to support jobs during COVID, providing an important safety net at a time of great disruption and uncertainty. Trading conditions since July have improved, and while there is still uncertainty ahead, Cochlear considers returning the COVID government assistance payments the appropriate thing to do.

COVID government assistance of $24.6 million ($17.2 million after-tax) has been classified as a one-off item with funds expected to be repaid during the second half.

FY21 outlook

For FY21, Cochlear expects to deliver underlying net profit of $225-245 million, a 46-59% increase on underlying net profit for FY20. While there continues to be uncertainty about the trajectory of COVID, Cochlear is increasingly confident of the resilience of the hearing implant business. Cochlear experienced consistent improvements in surgery rates across most markets since May as hospitals adapted to managing cochlear implant surgeries during COVID. Momentum since November has slowed across a few countries as a result of the current surge in COVID infection rates. The deployment of COVID vaccines, and the rapid return to surgeries that followed the March/April shutdowns, gives Cochlear some confidence that any further surgery deferrals could also recover quickly.

In the second half, developed markets are expected to deliver similar CI units to the first half. Earnings guidance factors in slower January/February trading as a result of recent COVID surgery slowdowns. In the first six weeks of 2021, CI units were down modestly on last year driven by a slowdown in a few Western European countries and a

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few regions in the US. The UK continues to be the most affected with the majority of clinics now limited to emergency procedures only.

Emerging markets are expected to continue to improve but at a slower rate than developed markets, with many countries still well down on last year.

Investment priorities continue to be focused on market growth activities and strengthening competitive position. Operating expenses are expected to increase on the first half following the decision to accelerate a number of growth projects.

The strengthening Australian dollar is expected to have a material impact on second half net profit with over 95% of revenue derived from overseas while only around 50% of expenses are denominated in foreign currencies. The forecast assumes a spot FX rate of AUD/USD 77 cents for the second half and FX contract gains of $0-5 million, with a negative impact to net profit expected from FX translation. The level of hedging in place for FY21 is lower than normal due to COVID-related uncertainty of cashflows.

With a number of major projects now complete, capital expenditure is expected to be around $70 million for FY21 and in the range of $60-80 million for FY22.

The Board is committed to maintaining the dividend policy which targets a 70% payout of underlying net profit and would anticipate returning to the 70% payout as markets continue to improve.

Financial review

Profit & loss

	31 Dec 2020 $m	31 Dec 2019 $m	Change % (Reported)	Change % (CC)
Sales revenue	**742.8**	**777.6**	**(4%)**	**(1%)**
Costs of sales	209.2	192.7	9%	11%
% gross margin	*72%*	*75%*	*(3) pts*	*(3) pts*
Selling, marketing and general expenses	209.8	243.5	(14%)	(11%)
Research and development expenses	88.4	93.9	(6%)	(6%)
% of sales revenue	*12%*	*12%*	*0 pt*	*(1) pt*
Administration expenses	54.2	47.9	13%	14%
Operating expenses	**352.4**	**385.3**	**(9%)**	**(7%)**
Other net (expenses)/income	(6.0)	6.0		
FX contract gains/(losses)	0.4	(21.9)		
Underlying Earnings before interest and tax (EBIT) [1]	**175.6**	**183.7**	**(4%)**	**(3%)**
% Underlying EBIT margin[1]	*24%*	*24%*		
Net finance expense	4.5	4.8	(6%)	
Income tax expense[1]	45.8	46.2	(1%)	
% effective tax rate	*27%*	*26%*		
Underlying net profit[1]	**125.3**	**132.7**	**(6%)**	**(4%)**
% net profit margin[1]	*17%*	*17%*		
One-off and non-recurring items[2]	110.9	25.0		
Statutory net profit	**236.2**	**157.7**	**50%**	**52%**

[1] Excluding one off and non-recurring items refer to page 9.
[2] Refer to page 13 for reconciliation.

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Sales revenue declined 4% (1% in CC) to $742.8 million. Underlying net profit declined 6% (4% in CC) to $125.3 million. Statutory net profit increased 50% to $236.2 million and includes $59.0 million in patent litigation-related tax & other benefits, $34.7 million in innovation fund gains and $17.2 million in COVID government assistance (after-tax).

Key points of note:

- Cost of sales increased 9% (11% in CC) to $209.2 million with the gross margin declining by three percentage points to 72%. The decline was driven by one-off launch-related production costs associated with new products, write-down in obsolete componentry and COVID-related manufacturing inefficiencies;
- Selling, marketing and general expenses declined 14% (11% in CC) to $209.8 million. Continued investment was made in market growth activities including direct-to-consumer marketing, standard of care and market access initiatives with material COVID-related savings including a decline in travel and conference expenses;
- Investment in R&D declined 6% (6% in CC) to $88.4 million, driven by COVID-related savings including travel and conference expenses. Continued investment was made in key R&D projects and development of the pipeline;
- Administration expenses increased 13% (14% in CC) to $54.2 million with significant increases in insurance costs as well as increased depreciation and IT expenses;
- FX contract gains of $0.4 million represent an increase of $22.3 million on last year reflecting the low level of hedging in the first half; and
- Net finance expenses declined 6% to $4.5 million and include $3.4 million in expenses relating to leasing accounting standard AASB16. Net finance expense (excluding the lease-related expense) reduced by 45% to $1.1 million with the business benefitting from lower interest rates on debt and interest income on cash deposits from the March 2020 capital raising.

One-off and non-recurring items

31 Dec 2020	Pre-tax $m	Tax impact $m	Post-tax $m
Patent litigation-related tax & other benefits:			
ATO ruling on tax deductibility of litigation expenses	-	63.5	63.5
Withholding tax associated with ATO ruling	(29.6)	8.9	(20.7)
FX gains associated with balance sheet items	23.2	(7.0)	16.2
Total patent litigation-related tax & other benefits	**(6.4)**	**65.4**	**59.0**
Innovation fund gains	49.6	(14.9)	34.7
Government assistance in respect of COVID	24.6	(7.4)	17.2
Total one-off and non-recurring items	**67.8**	**43.1**	**110.9**

$110.9 million in one-off gains after-tax have been recognised in the HY21 result including:

- $59.0 million in patent litigation-related tax & other benefits after-tax which includes a $63.5 million tax benefit following the receipt of a private ruling from the Australian Tax Office (ATO) in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020; $20.7 million in withholding tax payable as a consequence of the ATO ruling; and $16.2 million in FX gains on balance sheet items related to the patent litigation since 30 June 2020;
- $34.7 million in innovation fund gains after-tax includes a $23.5 million gain from the revaluation of Nyxoah following its listing in September, a $12.4 million gain from the revaluation of the EpiMinder shareholding following a financing round and $1.2 million in equity accounted losses relating to Nyxoah; and
- $17.2 million in COVID government assistance after-tax which has been classified as a one-off item following the decision to repay funds received during the second half.

Cash Flow

	31 Dec 2020 $m	31 Dec 2019 $m	Change $m
Underlying EBIT[1]	175.6	183.7	(8.1)
Depreciation and amortisation	37.2	34.2	3.0
Changes in working capital and other	1.9	(28.0)	29.9
Cash impact of USD 75 million AMF payment (pre-tax)	(104.4)	-	(104.4)
Cash impact of government assistance - COVID (pre-tax)	24.6	-	24.6
Net interest paid	(4.5)	(4.8)	0.3
Income taxes paid	(42.9)	(58.3)	15.4
Operating cash flow	**87.5**	**126.8**	**(39.3)**
Capital expenditure	(35.3)	(60.6)	25.3
Other net investments	(15.6)	-	(15.6)
Free cash flow	**36.6**	**66.2**	**(29.6)**
Proceeds from issue of shares	2.0	6.3	(4.3)
Dividends paid	-	(101.2)	101.2
Other	6.3	(12.6)	18.9
Change in net debt – decrease / (increase)	**44.9**	**(41.3)**	**86.2**

[1] Excluding one off and non-recurring items refer to page 9.

Free cash flow declined by $29.6 million to $36.6 million.

Key points of note:

- The $104.4 million cash outflow is USD 75 million in prejudgment interest and attorneys' fees resulting from the AMF judgment;
- Capital expenditure (capex) decreased by $25.3 million to $35.3 million, reflecting stay-in-business capex. The decline in capex also reflects the completion of major projects in FY20 including the development of the new China manufacturing facility and fit out of the new Denver office; and
- A $55.0 million tax refund is expected during the second half due to an overpayment of tax instalments in FY20.

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Capital employed

	31 Dec 2020 $m	30 Jun 2020 $m	Change $m
Trade receivables	218.0	211.4	6.6
Inventories	196.8	223.8	(27.0)
Less: Trade payables	(143.5)	(155.3)	11.8
Working capital	**271.3**	**279.9**	**(8.6)**
Working capital / sales revenue[1]	*18%*	*21%*	
Property, plant and equipment	228.6	230.5	(1.9)
Intangible assets	407.3	410.3	(3.0)
Investments & other financial assets	156.3	99.9	56.4
Other net assets/(liabilities)	76.0	(76.1)	152.1
Capital employed	**1,139.5**	**944.5**	**195.0**

[1] Dec20 calculation based on doubling HY21 sales revenue.

Capital employed increased by $195.0 million to $1,139.5 million since June 2020 reflecting an increase in investments and other net assets and a fall in liabilities.

Key points of note:

- Inventories reduced by $27.0 million, a result of improved trading, and the impact of an $8.0 million write-down in obsolete componentry;
- The increase in investments reflects the increase in the fair value of EpiMinder and Nyxoah; and
- Other net assets increased $152.1 million reflecting movements across a number of other assets and liabilities. The $88.7 million reduction in current provisions reflects the payment of USD 75 million in prejudgment interest and attorneys' fees provided for in FY20 and paid during the half. Net tax assets increased by $48.2 million reflecting the ATO judgment enabling the tax deductibility of part of the AMF damages award. The $25.5 million increase in net FX contract assets represents the change in mark-to-market value of all FX hedging contracts as at 31 December 2020.

Net debt

	31 Dec 2020 $m	30 Jun 2020 $m	Change $m
Loans and borrowings:			
Current	29.8	393.1	(363.3)
Non-current	81.0	79.9	1.1
Total loans and borrowings	**110.8**	**473.0**	**(362.2)**
Less: Cash, cash equivalents and term deposits	(612.7)	(930.0)	317.3
Net (cash)	**(501.9)**	**(457.0)**	**(44.9)**

Net cash increased by $44.9 million to $501.9 million.

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Dividends

	31 Dec 2020	31 Dec 2019	Change %
Interim ordinary dividend (per share)	$1.15	$1.60	(28%)
% payout ratio (based on underlying net profit)	60%	70%	
% franking	0%	100%	

An interim dividend of $1.15 per share has been determined, representing a payout of 60% of underlying net profit. Dividend payments had been suspended in March 2020 until trading conditions improve as a result of the impact of COVID on the business.

The interim dividend is unfranked. The franking balance was depleted due to losses incurred by the business in FY20.

The ex-dividend date is the 25 March 2021. The record date for calculating dividend entitlements is 26 March 2021 with the interim dividend expected to be paid on 20 April 2021.

Notes

Forward looking statements

Cochlear advises that this document contains forward-looking statements which may be subject to significant uncertainties outside of Cochlear's control. No representation is made as to the accuracy or reliability of forward-looking statements or the assumptions on which they are based. Actual future events may vary from these forward-looking statements and it is cautioned that undue reliance is not placed on any forward-looking statement.

Non-International Financial Reporting Standards (IFRS) financial measures

Cochlear uses non-IFRS financial measures to assist readers in better understanding Cochlear's financial performance. Cochlear uses three non-IFRS measures in this document: sales revenue, underlying net profit and constant currency. The directors believe the presentation of these non-IFRS financial measures are useful for the users of this document as it reflects the underlying financial performance of the business. Each of these measures is described below in further detail including reasons why Cochlear believes these measures are of benefit to the reader.

These non-IFRS financial measures have not been subject to review or audit. However, Cochlear's external auditor has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

Sales revenue

Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange contract losses on hedged sales.

Underlying net profit

Underlying net profit allows for comparability of the underlying financial performance by removing one-off and non-recurring items. The determination of items that are considered one-off or non-recurring are made after consideration of their nature and materiality and is applied consistently from period to period. Underlying net profit is used as the basis on which the dividend payout policy is applied.

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A reconciliation of underlying net profit (non-IFRS) to Statutory net profit (IFRS) which details each item excluded from underlying net profit is set out below.

Reconciliation of underlying net profit

	31 Dec 2020 $m	31 Dec 2019 $m	% Change
Underlying net profit	**125.3**	**132.7**	**(6%)**
Innovation fund gains (incl. equity-accounted losses)	49.6	35.8	
Patent litigation expense	(6.4)	-	
Government assistance in respect of COVID	24.6	-	
Income tax expense – above items	(20.4)	(10.8)	
ATO ruling on tax deductibility of litigation expenses	63.5	-	
One-off and non-recurring items	**110.9**	**25.0**	
Statutory net profit	**236.2**	**157.7**	**50%**

Constant currency

Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of the translation currency effect and foreign currency effect is the amount by which EBIT and net profit is adjusted to calculate the result at constant currency.

Reconciliation of constant currency net profit

	31 Dec 2020 $m	31 Dec 2019 $m	% Change
Underlying net profit	125.3	132.7	(6%)
FX contract movement		22.3	
Spot exchange rate effect to sales revenue and expenses[1]		(19.2)	
Balance sheet revaluation[1]		(5.3)	
Underlying net profit (CC)	**125.3**	**130.5**	**(4%)**
One-off and non-recurring net gains	110.9	25.0	
Statutory net profit (CC)	**236.2**	**155.5**	**52%**

[1] HY21 actual v HY20 at HY21 rates.

Dividends

No final dividend was declared for 30 June 2020.

The interim dividend in respect of the current financial year has not been provided for in this financial report as it was not determined until after 31 December 2020. Since the end of the financial half-year, the directors determined an interim dividend of $1.15 unfranked amounting to a total of $75.6 million.

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Lead Auditor's Independence Declaration under Section 307C of the Corporations Act

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors' Report for the half year ended 31 December 2020.

Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument) dated 24 March 2016 and in accordance with that Instrument, amounts in the Directors' Report and Financial Report have been rounded off to the nearest one hundred thousand dollars unless otherwise indicated.

Dated at Sydney this 19th day of February 2021.

Signed in accordance with a resolution of the directors:

Director

Director

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Cochlear Limited for the half-year ended 31 December 2020 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Julian McPherson, *Partner*

Sydney, 19 February 2021

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Cochlear Limited and its controlled entities
Consolidated Interim Financial Report
Interim Income Statement
For the half year ended 31 December 2020

	Note	31 Dec 2020 $m	31 Dec 2019 $m
Revenue	2.2	743.2	755.7
Cost of sales	2.3	(209.2)	(192.7)
Gross profit		**534.0**	**563.0**
Selling, marketing and general expenses		(209.8)	(243.5)
Research and development expenses		(88.4)	(93.9)
Administration expenses		(54.2)	(47.9)
Other income	2.4	79.3	45.9
Other expense	2.3	(9.4)	(4.1)
Patent litigation expense	2.3	(6.4)	-
Share of losses on equity accounted investments		(1.7)	-
Results from operating activities		**243.4**	**219.5**
Finance income - interest		2.5	0.2
Finance expense - interest		(7.0)	(5.0)
Net finance expense		**(4.5)**	**(4.8)**
Profit before income tax		**238.9**	**214.7**
Income tax expense	3	(2.7)	(57.0)
Net profit		**236.2**	**157.7**
Basic earnings per share (cents)	2.5	359.4	272.9
Diluted earnings per share (cents)	2.5	359.4	272.9

The notes on pages 21 to 29 are an integral part of these consolidated interim financial statements.

Interim Statement of Comprehensive Income
For the half year ended 31 December 2020

	31 Dec 2020 $m	31 Dec 2019 $m
Net profit	**236.2**	**157.7**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to the income statement:		
Financial investments measured at fair value through other comprehensive income, net of tax	(6.1)	(0.6)
Total items that will not be reclassified subsequently to the income statement	(6.1)	(0.6)
Items that may be reclassified subsequently to the income statement:		
Foreign currency translation differences	(15.1)	7.5
Effective portion of changes in fair value of cash flow hedges, net of tax	18.1	(1.0)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(0.3)	15.4
Total items that may be reclassified subsequently to the income statement	2.7	21.9
Other comprehensive (loss)/income, net of tax	**(3.4)**	**21.3**
Total comprehensive income	**232.8**	**179.0**

The notes on pages 21 to 29 are an integral part of these consolidated interim financial statements.

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Cochlear Limited and its controlled entities
Consolidated Interim Financial Report
Interim Balance Sheet
For the half year ended 31 December 2020

	Note	31 Dec 2020 $m	30 Jun 2020 $m
Assets			
Cash and cash equivalents		587.7	565.0
Term deposits		25.0	365.0
Trade and other receivables	4.1	242.6	235.5
Forward exchange contracts		18.4	1.2
Inventories		196.8	223.8
Current tax assets		84.9	69.4
Prepayments		28.1	17.6
Total current assets		**1,183.5**	**1,477.5**
Forward exchange contracts		9.6	2.1
Property, plant and equipment		228.6	230.5
Intangible assets		407.3	410.3
Investments	4.2	132.1	25.9
Equity accounted investments	4.2	-	69.0
Other financial assets	4.2	24.2	5.0
Deferred tax assets		179.8	147.1
Right of use asset		195.3	208.3
Total non-current assets		**1,176.9**	**1,098.2**
Total assets		**2,360.4**	**2,575.7**
Liabilities			
Trade and other payables		146.3	159.3
Forward exchange contracts		1.2	0.3
Loans and borrowings	5.1	29.8	393.1
Current tax liabilities		10.2	7.2
Employee benefit liabilities		67.5	54.4
Provisions	4.4	41.5	130.2
Deferred revenue		45.7	47.0
Lease liability		27.4	26.0
Total current liabilities		**369.6**	**817.5**
Trade and other payables		4.4	13.6
Forward exchange contracts		-	1.7
Loans and borrowings	5.1	81.0	79.9
Employee benefit liabilities		12.1	12.4
Provisions		27.6	27.2
Deferred tax liabilities		27.2	14.1
Deferred revenue		2.2	2.3
Lease liability		194.9	205.5
Total non-current liabilities		**349.4**	**356.7**
Total liabilities		**719.0**	**1,174.2**
Net assets		**1,641.4**	**1,401.5**
Equity			
Share capital		1,276.2	1,272.4
Reserves		12.6	12.7
Retained earnings		352.6	116.4
Total equity		**1,641.4**	**1,401.5**

The notes on pages 21 to 29 are an integral part of these consolidated interim financial statements

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Cochlear Limited and its controlled entities
Consolidated Interim Financial Report
Interim Statement of Changes in Equity
For the half year ended 31 December 2020

Amounts $m	Issued capital	Translation reserve	Hedging reserve	Fair value reserve	Share based payment reserve	Retained earnings	Total equity
Balance at 1 July 2019	**182.3**	**(47.2)**	**(17.0)**	**(1.1)**	**50.0**	**546.8**	**713.8**
Total comprehensive income/(loss)							
Net profit	-	-	-	-	-	157.7	157.7
Other comprehensive income/(loss)							
Foreign currency translation differences	-	7.5	-	-	-	-	7.5
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(1.0)	-	-	-	(1.0)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	15.4	-	-	-	15.4
Financial investments measured at fair value through other comprehensive income, net of tax	-	-	-	(0.6)	-	-	(0.6)
Total other comprehensive income/(loss)	**-**	7.5	14.4	(0.6)	-	**-**	21.3
Total comprehensive income/(loss)	-	**7.5**	**14.4**	**(0.6)**	**-**	**157.7**	**179.0**
Transactions with owners, recorded directly in equity							
Performance rights vested	-	-	-	-	(0.5)	-	(0.5)
Share options exercised	7.4	-	-	-	(0.6)	-	6.8
Share based payment transactions	-	-	-	-	5.6	-	5.6
Deferred tax recognised in equity	-	-	-	-	2.5	-	2.5
Dividends paid to shareholders	-	-	-	-	-	(101.2)	(101.2)
Balance at 31 December 2019	**189.7**	**(39.7)**	**(2.6)**	**(1.7)**	**57.0**	**603.3**	**806.0**
Balance at 1 July 2020	1,272.4	(43.3)	0.9	(2.9)	58.0	116.4	1,401.5
Total comprehensive income/(loss)							
Net profit	-	-	-	-	-	236.2	236.2
Other comprehensive (loss)/income							
Foreign currency translation differences	-	(15.1)	-	-	-	-	(15.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	18.1	-	-	-	18.1
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	(0.3)	-	-	-	(0.3)
Financial investments measured at fair value through other comprehensive income, net of tax	-	-	-	(6.1)	-	-	(6.1)
Total other comprehensive (loss)/income	**-**	(15.1)	17.8	(6.1)	-	**-**	(3.4)
Total comprehensive (loss)/income	-	**(15.1)**	**17.8**	**(6.1)**	**-**	**236.2**	**232.8**
Transactions with owners, recorded directly in equity							
Performance rights vested	-	-	-	-	(0.7)	-	(0.7)
Share options exercised	3.8	-	-	-	(1.1)	-	2.7
Share based payment transactions	-	-	-	-	3.4	-	3.4
Deferred tax recognised in equity	-	-	-	-	1.7	-	1.7
Balance at 31 December 2020	**1,276.2**	**(58.4)**	**18.7**	**(9.0)**	**61.3**	**352.6**	**1,641.4**

The notes on pages 21 to 29 are an integral part of these consolidated interim financial statements.

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Cochlear Limited and its controlled entities
Consolidated Interim Financial Report
Interim Statement of Cash Flows
For the half year ended 31 December 2020

	31 Dec 2020 $m	31 Dec 2019 $m
Cash flows from operating activities		
Cash receipts from customers	725.7	751.6
Cash paid to suppliers and employees	(618.8)	(564.9)
Grant and other income received	3.4	3.2
Government assistance in respect of COVID received	24.6	-
Interest received	2.5	0.2
Interest paid	(3.6)	(2.2)
Interest paid lease liability	(3.4)	(2.8)
Income taxes paid	(42.9)	(58.3)
Net cash provided by operating activities	**87.5**	**126.8**
Cash flows from investing activities		
Acquisition of leasehold improvements and plant and equipment	(19.2)	(38.8)
Acquisition of IT system costs	(1.7)	(11.0)
Acquisition of other intangibles	(14.4)	(10.8)
Acquisition of investments	(15.6)	-
Proceeds from term deposits	340.0	-
Net cash provided by/(used in) investing activities	**289.1**	**(60.6)**
Cash flows from financing activities		
Repayment of borrowings	(339.2)	(100.0)
Proceeds from borrowings	1.7	152.1
Payment of lease liability	(10.5)	(12.6)
Proceeds from exercise of share options and performance rights, net	2.0	6.3
Dividends paid	-	(101.2)
Net cash used in financing activities	**(346.0)**	**(55.4)**
Net increase in cash and cash equivalents	**30.6**	**10.8**
Cash and cash equivalents at 1 July	565.0	78.6
Effect of exchange rate fluctuation on cash held	(7.9)	-
Cash and cash equivalents, net of overdrafts at 31 December	**587.7**	**89.4**

The notes on pages 21 to 29 are an integral part of these consolidated interim financial statements.

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1 Basis of preparation

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The Consolidated Interim Financial Report of the Company as at and for the half year ended 31 December 2020 comprises the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and operates in the implantable hearing device industry. Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2020 is available upon request from the Company's registered office at 1 University Avenue, Macquarie University NSW 2109, Australia or at www.cochlear.com.

1.2 Statement of compliance

The Consolidated Interim financial report is a general purpose financial report which has been prepared in accordance with AASB134 *Interim financial reporting* and the *Corporations Act 2001*, and with IAS 34 *Interim financial reporting*.

The Consolidated Interim Financial Report does not include all of the information required for a full annual financial report and should be read in conjunction with Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2020. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the half year ended 31 December 2020 in accordance with continuous disclosure obligations arising under the *Corporations Act 2001*.

The Consolidated Interim Financial Report was approved by the Board of Directors on 19 February 2021.

The Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument) dated 24 March 2016 and in accordance with that Instrument, all financial information presented in Australian dollars (AUD) has been rounded to the nearest one hundred thousand dollars unless otherwise stated.

Coronavirus (COVID) impacts

While there continues to be uncertainty about the trajectory of COVID, Cochlear continues to satisfy solvency and going concern assumptions. Improved trading conditions and cash flow generation has provided the Board with the confidence to recommence dividend payments with an interim dividend determined subsequent to the end of the period.

At 31 December 2020, Cochlear has $501.9 million in net cash (including term deposits and net of outstanding loan liabilities) and has access to a further $528.6 million in unutilised bank loan facilities. Cochlear obtained debt covenant waivers for the leverage and interest cover ratio covenants for the December 2020 testing period. Notwithstanding these waivers, Cochlear met all covenant requirements. These financial resources provide Cochlear with ability to continue to meet its financial obligations despite the economic effects of COVID.

1.3 Significant accounting policies

The accounting policies applied by the Consolidated Entity in this Consolidated Interim financial report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2020.

1.4 Estimates and judgements

The preparation of the Consolidated Interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this Consolidated

Interim financial report, the significant judgements made by management in applying Cochlear's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Annual Financial Report as at and for the year ended 30 June 2020.

1.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2020 and have not been applied in preparing these consolidated financial statements. These new standards are not expected to have an effect on the consolidated financial statements of Cochlear.

2. Performance for the half year

2.1 Operating segments

	Americas		EMEA(i)		Asia Pacific		**Total**	
	2020	2019	2020	2019	2020	2019	**2020**	**2019**
	$m	$m	$m	$m	$m	$m	**$m**	**$m**
Reportable segment revenue	375.7	381.9	237.6	262.4	129.5	133.3	**742.8**	**777.6**
Reportable segment EBIT	203.2	211.8	100.5	112.8	45.3	41.2	**349.0**	**365.8**

(i) Europe, Middle East and Africa

Reconciliations of reportable segment revenues and profit or loss

Revenues	Cochlear implants	Services (sound processor upgrades and other)	**Total Cochlear implants**	Acoustics (bone conduction and acoustic	**Reportable segment revenue**	Foreign exchange gains/(losses) on hedged	**Consolidated revenue**
	$m	$m	**$m**	$m	**$m**	$m	**$m**
31 Dec 2020	454.7	214.9	**669.6**	73.2	**742.8**	0.4	**743.2**
31 Dec 2019	469.9	225.5	**695.4**	82.2	**777.6**	(21.9)	**755.7**

Profit or loss	Reportable segment EBIT	Corporate and other net expenses	Foreign exchange gains/(losses) on hedged sales	Net finance expense	**Consolidated profit before income tax**
	$m	$m	$m	$m	**$m**
31 Dec 2020	349.0	(106.0)	0.4	(4.5)	**238.9**
31 Dec 2019	365.8	(124.4)	(21.9)	(4.8)	**214.7**

2.2 Revenue

	31 Dec 2020	31 Dec 2019
	$m	$m
Sale of goods revenue before hedging	726.8	760.9
Foreign exchange gains/(losses) on hedged sales	0.4	(21.9)
Revenue from the sale of goods	**727.2**	**739.0**
Rendering of services revenue	16.0	16.7
Total revenue	**743.2**	**755.7**

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2.3 Expenses

	31 Dec 2020 $m	31 Dec 2019 $m
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	197.2	187.4
Write-down in value of inventories	8.0	1.6
Other	4.0	3.7
Total cost of sales	**209.2**	**192.7**
(b) Other expense		
Net foreign exchange loss	9.4	4.1
Total other expense	**9.4**	**4.1**
(c) Patent litigation expense		
Withholding tax expense	29.6	-
Foreign exchange (gain)	(23.2)	-
Total patent litigation expense	**6.4**	**-**

Patent litigation expense

In the current year, $29.6 million has been recognised for withholding tax payable on the settlement amounts. This follows receipt of a private ruling from the ATO in December 2020 discussed in Note 3. Of this amount $9.7 million was paid in the current period with the remaining amount held in the provision at 31 December 2020.

The foreign exchange gain of $23.2 million represents the revaluation of balance sheet items related to the patent litigation from 1 July 2020 to 31 December 2020. This includes the USD 268 million loan facility for patent litigation at 30 June 2020. As at 31 December 2020, USD 20 million remains of this facility.

2.4 Other income

	31 Dec 2020 $m	31 Dec 2019 $m
Grant received or due and receivable	0.9	0.9
Release of contingent consideration	-	6.9
Government assistance in respect of COVID	24.6	-
Fair value change in investments measured at fair value through profit or loss	51.3	35.8
Other	2.5	2.3
Total other income	**79.3**	**45.9**

Due to the impact of COVID, in the current year Cochlear has received $24.6 million in government assistance through Australia's JobKeeper Program and other government programs in countries where Cochlear operates.

Cochlear has recognised a $51.3 million fair value gain from the revaluation of the investment in Nyxoah S.A. and the revaluation of other financial assets in the balance sheet (refer Note 4.2).

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2.5 Earnings per share

Basic earnings per share

The calculation of basic EPS has been based on the following net profit attributable to equity holders of the parent entity and weighted average number of ordinary shares of the Company:

	31 Dec 2020	31 Dec 2019
Net profit attributable to equity holders of the parent entity	$236,234,000	$157,737,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,687,402	57,715,821
Effect of options and performance shares exercised (number)	35,943	70,677
Effect of shares issued under Employee Share Plan (number)	-	3,329
Weighted average number of ordinary shares (basic)	**65,723,345**	**57,789,827**
Basic earnings per share (cents)	**359.4**	**272.9**

Diluted earnings per share

The calculation of diluted EPS has been based on the following net profit attributable to equity holders of the parent entity and weighted average number of shares outstanding after adjustments for the effects of all dilutive potential ordinary shares:

	31 Dec 2020	31 Dec 2019
Net profit attributable to equity holders of the parent entity	$236,234,000	$157,737,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,723,345	57,789,827
Effect of options, performance shares and rights unvested (number)	307	14,438
Weighted average number of ordinary shares (diluted)	**65,723,652**	**57,804,265**
Diluted earnings per share (cents)	**359.4**	**272.9**

2.6 Options and performance rights

The Company has granted options and performance rights to certain employees and key management personnel under the Cochlear Executive Incentive Plan (CEIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2020.

Grants made in the current period to certain employee and key management personnel under the CEIP are set out below.

Grant date	Exercise price per option	Number of options	Number of performance rights	Contractual life
21 October 2020[1]	$206.06	55,729	-	5 years
21 October 2020	-	-	12,557	4 years

1. Options offered under the Cochlear Executive Incentive Plan (CEIP) with a four- year performance period and seven- month exercise period.

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2.7 Dividends

Dividends recognised in the current and prior financial period by Cochlear Limited are:

	Dollars per share	Total amount $m	Franked/ unfranked	Date of payment
31 December 2019				
Final – ordinary	1.75	101.2	100% Franked	14 October 2019
Subsequent event				
Since the end of the reporting period, the directors determined the following dividend:				
Interim – ordinary	1.15	75.6	Unfranked	20 April 2021

The financial effect of these dividends has not been brought to account in the Consolidated Interim financial report for the half year ended 31 December 2020 and will be recognised in subsequent financial statements.

3. Income taxes

Numerical reconciliation between income tax expense and profit before income tax

	31 Dec 2020 $m	31 Dec 2019 $m
Net profit	236.2	157.7
Income tax expense	2.7	57.0
Profit before income tax	**238.9**	**214.7**
Tax at the Australian tax rate of 30% (Dec 2019: 30%)	71.7	64.4
Add/(less) adjustments for:		
Research and development allowances	(5.0)	(4.7)
Net non-deductible/(non-assessable) items	2.0	(1.0)
Effect of tax rate in foreign jurisdictions	(2.1)	(1.3)
	66.6	57.4
Patent litigation adjustment for prior year[1]	(63.5)	-
Other adjustments for prior year	(0.4)	(0.4)
Income tax expense on profit before income tax	**2.7**	**57.0**

[1] Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020.

4. Operating assets and liabilities

4.1 Trade and other receivables

In response to COVID, Cochlear undertook a review of its outstanding trade debtors at 31 December 2020 that was consistent with the review performed at June 2020. The review considered the macroeconomic conditions, COVID impacts and outlook in the country that the customer is located as well as any specific collection risk identified by either Cochlear or the customer.

4.2 Investments, equity-accounted investments and other financial assets

The following table shows movements in investments, equity-accounted investments and other financial assets during the period:

	Investments	Equity-Accounted investments	Other Financial Assets
	$m	$m	$m
Balance at 1 July 2020	25.9	69.0	5.0
Additions	6.0	8.1	1.5
Share of equity-accounted losses	-	(1.7)	-
Fair value change in investments measured at fair value through profit or loss	-	33.6	17.7
Transferred from equity accounted investments	109.0	(109.0)	-
Fair value gain/(loss) through other comprehensive income (before tax)	(8.8)	-	-
Balance at 31 December 2020	**132.1**	**-**	**24.2**

In September 2020, one of Cochlear's investees, Nyxoah S.A., completed an Initial Public Offering ('IPO'). Cochlear invested a further EUR 5.0 million ($8.1 million) in the IPO, however, the IPO resulted in Cochlear ownership interest falling to 17.9% and Cochlear's right to appoint a director to the Nyxoah board terminated at completion of the IPO. This change in ownership interest resulted in the investee being reclassified from an investment that is equity accounted to an investment that is fair valued through other comprehensive income.

As required by accounting standards, on ceasing equity-accounting of Nyxoah S.A. a $33.6 million gain was recognised in profit & loss, being the difference between the fair value and the equity-accounted carrying value at completion of the IPO. Cochlear has elected to recognise subsequent changes in fair value in other comprehensive income resulting in a loss of $9.3 million based on the listed share price at 31 December 2020

At 31 December 2020, $22.7 million of investments is measured at fair value through profit or loss with the remaining $109.4 million measured at fair value through other comprehensive income.

4.3 Intangible assets

Impairment tests for cash generating units

At the end of each financial year, Cochlear performs impairment testing of goodwill and other intangible assets with an indefinite useful life for impairment.

Cochlear considered and assessed reasonably possible changes to cash flow forecasts, discount rates and terminal value growth rate assumptions used in the value in use calculation at 30 June 2020. Based on this assessment, Cochlear has not identified any reasonably possible changes in these assumptions that could cause the carrying amount of these cash generating units (CGU) to exceed its recoverable amount.

There are no other indicators of potential impairment identified by management and as a result detailed impairment testing has not been performed at 31 December 2020.

4.4 Provisions

Provisions include amounts provided in relation to the long-running patent dispute with Alfred E. Mann Foundation for Scientific Research and Advanced Bionics LLC (collectively referred to as AMF and AB). During the period the USD 75 million which was provided in June 2020 in relation to claims for pre-judgment interest and attorneys' fees was paid.

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In the current year an additional $29.6 million has been recognised following finalisation of the withholding tax due on the settlement amounts. As at 31 December 2020, $20.9 million of the provision remains. Refer to Note 2.3 for further details.

4.5 Contingent liabilities

The details of contingent liabilities are set out below. The directors are of the opinion that provisions are either adequate or are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Product liability claims

Cochlear is currently, and/or is likely from time to time to be, involved in claims and lawsuits incidental to the ordinary course of business, including claims for damages relating to its products and services.

In addition, Cochlear has received legal claims and lawsuits in various countries including the United States by recipients who have had Cochlear implant CI500 series devices stop functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices.

Cochlear carries product liability insurance and has made claims under the policies. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policies including deductibles and exclusions. In the opinion of the directors, the details of the product liability insurance policies are commercially sensitive and any disclosure of these details may be prejudicial to the interests of Cochlear.

Regulatory actions

Cochlear operates in multiple overseas jurisdictions and is currently, and/or is likely from time to time to be, subject to tax, customs and regulatory reviews, audits and investigations. Individually significant confidential investigation(s) by an authority are not disclosed, as disclosure may prejudice Cochlear.

5. Financial and capital structure

5.1 Loans and Borrowings

	31 Dec 2020 $m	30 Jun 2020 $m
Loans and borrowings:		
Current	29.8	393.1
Non-current	81.0	79.9
Total loans and borrowings	110.8	473.0
Less: Cash and cash equivalents	(587.7)	(565.0)
Less: Term Deposits	(25.0)	(365.0)
Net (cash)	**(501.9)**	**(457.0)**

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Multi-option bank facilities - Unsecured bank loan

As at December 2020, Cochlear's bank loan facilities are as follows:

Debt Facility	1 year term $m	2 year term $m	3 year term $m	4 year term $m	Total facilities $m
Committed Debt including Guarantees	357.0	100.0	147.3	35.1	639.4

All facilities are unsecured and have interlocking guarantees provided by certain controlled entities. Interest on the facilities is variable and changed at prevailing market rates.

Cochlear obtained covenant waivers from all lenders for the leverage and interest coverage ratio for the 31 December 2020 covenant testing period. Notwithstanding the waivers, Cochlear met all covenant requirements.

Other credit facilities

Unsecured bank overdrafts

Certain unsecured bank overdrafts are payable on demand and are subject to annual review. Interest on unsecured bank overdrafts is variable and is charged at prevailing market rates.

Secured bank loan

Cochlear has no secured bank loans.

Bank guarantees

As at 31 December 2020, Cochlear had contingent liability facilities denominated in United States dollars, Euros, Sterling, Indian rupees and New Zealand dollars totaling AUD 9.4 million (June 2020: AUD 9.6 million).

5.2 Financial Instruments

Fair values

The carrying amounts and estimated fair value of Cochlear's financial assets and liabilities are materially the same.

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using benchmark bill futures and swap rates. These fair values are provided by independent third parties.

Valuation of financial assets and liabilities

For financial asset and liabilities measured and carried at fair value, Cochlear uses the following levels to categorise the valuation methods used:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2) and there were no transfers between levels during the half year.

The equity securities classified as financial assets measured at fair value through other comprehensive income are valued where available using quoted prices (Level 1), or where not available using unobservable market inputs (Level 3).

The fair value gains in Note 2.4 were measured using Level 1 and Level 3 inputs. At 31 December 2020, AUD 31.1 million (30 June 2020 AUD 25.1 million) in investments and AUD 24.2 million (30 June 2020 AUD 5.0 million) of other financial assets were measured using Level 3 inputs. During the period, no transfers were made into or out of Level 3 of the fair value hierarchy.

Unobservable inputs are those not readily available in an active market. These inputs are generally derived from other observable inputs that match the risk profile of the financial instruments and validated against current market assumptions and historical transactions where available.

6. Other notes

6.1 Events subsequent to reporting date

Other than reported below, there has not arisen in the interval between the reporting date and the date of this financial report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years.

Dividends

For dividends determined after 31 December 2020, see Note 2.7.

Decision to return FY21 government assistance in respect of COVID

As disclosed in Note 2.4 due to the impact of COVID, Cochlear has received $24.6 million in government assistance through Australia's JobKeeper Program and other government programs in countries where Cochlear operates.

Subsequent to 31 December 2020, Cochlear decided the Company will repay $24.6 million in pre-tax COVID government assistance received in the first half as trading conditions have improved. Most of the assistance, $23.1 million, was received from the Australian Federal Government's JobKeeper program.

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Cochlear Limited and its controlled entities
Directors' Declaration
For the half year ended 31 December 2020

In the opinion of the directors of Cochlear Limited:

1. The consolidated financial statements and notes set out on pages 16 to 29 are in accordance with the *Corporations Act 2001*, including:

   a. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020, and of its performance, for the six month period ended on that date; and

   b. complying with Australian Accounting Standard AASB 134 *Interim financial reporting* and the *Corporations Regulations 2001*; and

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 19th day of February 2021.

Director

Director

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Independent auditor's review report

To the Members of Cochlear Limited

Report on the consolidated Interim Financial Report

Conclusion

We have reviewed the accompanying consolidated Interim Financial Report of Cochlear Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated Interim Financial Report of Cochlear Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001.*

The consolidated Interim Financial Report comprises:

- the consolidated interim balance sheet as at 31 December 2020
- the consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date
- Notes 1 to 6 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The Consolidated Entity comprises Cochlear Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Basis for conclusion

We conducted our review in accordance with *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in *the Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors for the consolidated Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the consolidated Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the consolidated Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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Independent auditor's review report

Auditor's responsibility for the review of the consolidated Interim Financial Report

Our responsibility is to express a conclusion on the consolidated Interim Financial Report based on our review. *ASRE 2410* requires us to conclude whether we have become aware of any matter that makes us believe that the consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

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Julian McPherson, *Partner*
Sydney, 19 February 2021

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