

2014 CHAIRMAN'S ADDRESS COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 14TH, 2014

EXCHANGE SQUARE AUDITORIUM
AUSTRALIAN SECURITIES EXCHANGE
20 BRIDGE STREET, SYDNEY NSW 2000

Ladies and gentlemen, let me now start my address.

I am pleased this morning to share with you highlights of financial year 2014. These include:

- our products and services delivered to the market;
- a review of our financial performance; and
- how we are preparing for the future.

Delivering new products to markets

2014 was an important year for Cochlear. New products were launched in every category, including the Nucleus® 6 Sound Processor, the Nucleus Profile Implant, the Baha® 4 Sound Processor and Baha Attract, Hybrid™ Hearing and the Aqua+ Accessory.

These were well received by the market, and by recipients. Together, they ensured Cochlear remained the global leader in implantable hearing solutions.

Building the customer experience

Enhanced professional and customer engagement were also a hallmark of the year.

One example was the opening of Melbourne's Cochlear Care Centre, in collaboration with the Royal Victorian Eye and Ear Hospital. The Centre helps recipients with implant system programming and aftercare, so the hospital can focus its expertise on cochlear surgeries, research and specialist services.

In 2014 we also opened a new regional office in the Dubai Healthcare City. This offers new opportunities for hearing diagnosis and treatment, and expands our reach in this fast-growing market.

Globally, we strengthened our relationships with audiologists and post-implant medical professionals, creating new opportunities in customer care.

We also developed and delivered a new range of online tools:

- helping implant candidates to navigate their referral pathway, and
- supporting recipients and health care professionals in their lifelong relationship with Cochlear.

F14 Financial Results & Dividend

In F14 we achieved a record \$821 million in sales revenue. This represents a 15% increase on F13 results.

To understand the full year results, you need to look at the launch of major products in the first half and their impact on sales momentum in the second half. Additional products were launched in the second half, and by the end of F14, new products had been launched in all product categories.

Focusing on the H2 performance, we saw:

- sales revenue of \$443.9 million – up 18% on H1 of F14 and up 28% on H2 of F13;
- Net Profit After Tax of \$72.7 million, which was in line with guidance.

I also remind you that the H1 result included a provision of \$22.5 million in relation to a patent dispute in the United States. As explained in Note 20 of the Financial Statements, no Judgment has been handed down in this matter, and the Directors remain of the opinion that neither the facts nor the law support any adverse finding. However, the outcome is uncertain and we have created the provision for commercial prudence.

The final dividend of \$1.27 brought the full year dividend to \$2.54 per share, up 1%. This was in line with guidance provided to the Annual General Meeting in October 2013.

As announced in August 2014, the Board anticipates that the F15 dividend will return to the more historic payout ratio of approximately 70% of NPAT.

The Board

During the year the Board continued to work cohesively, dealing with a range of complex global issues including the timing of new product launches and investment in medium-term strategic growth.

We benefited from regular scheduled presentations from senior management. We also travelled to the Middle East and Europe to further expand our knowledge and understanding of these important regions.

The Board determined that Director base fee levels should remain unchanged in F15. This is the third consecutive year that our base fee levels will remain unchanged. However, a market-based review of fees will occur in the coming year.

Mr Paul Bell is retiring as a director with effect from the close of this year's AGM. Paul has been an active Board member since he joined in 2005, he chaired the Human Resources Committee

and served as a valued member of other committees over the years. We thank Paul for his wise counsel and wish him well for his retirement.

I am happy to say the search for additional directors is well advanced. I anticipate we will announce in the near future the appointment of at least one - and possibly two - new directors. This renewal activity has followed the Board's established internal processes, and includes involvement from external consultants. It is an important opportunity to add further talent and strength to the Board.

Remuneration

The Board's approach to executive remuneration continues to be structured around fair, market-competitive outcomes. These include a base remuneration level for skills and expertise, and a risk and reward framework that supports the Company's longer-term growth.

Mindful of these principles, a comprehensive review of executives' remuneration occurred in F13 and was approved by shareholders at the October 2013 Annual General Meeting.

Review outcomes were implemented in F14. Feedback from shareholders and executives indicates that the new remuneration framework has been well received.

F14 incentive outcomes reflect our results – a challenging H1 followed by a strong H2. Individual non-financial performance incentives were generally near target. Incentives relating to financial metrics were generally below target, reflecting the relevant H1 and H2 results but with significant variations by individual and location.

Agenda Items

I would like to briefly turn to Items 5 and 6 on the Notice of Meeting. These relate to the approval of future retirement allowance payments to Professor Ed Byrne.

The rationale for these items is outlined in the explanatory notes. In essence, the resolutions allow compliance with the terms of our legacy employment agreement with Professor Byrne. I urge you to support these items.

Cochlear Workforce

As you know, Cochlear has a global workforce of over 2,700 talented, passionate and hard-working people. We are rightly proud of their achievements and their commitment to the Company. This year, as in previous years, they have helped many thousands of people to hear and be heard, and to live their lives to the full.

The Board and senior management thank all our staff for their tireless efforts in supporting candidates, recipients, hearing professionals, and the Cochlear community.

Conclusion

Your Board looks toward F15 with confidence, anticipating further regulatory approvals and a continuation of the sales momentum evident in the second half of F14.

Cochlear remains the market leader in a competitive and volatile global market.

In this first quarter (Q1, F15) continuing progress was made in delivering new products to the market.

We received regulatory approval for our wireless accessories in the United States and Australia, with product launches to follow later this financial year.

We have continued to roll out the Nucleus Profile Series with additional approvals received in Canada and Australia.

And we are progressing regulatory submissions for further electrodes on the Nucleus Profile implant.

Effort is continuing on customer experience initiatives, including the launch of new websites in the United States and Germany as part of our Direct-to-Customer program.

Throughout F15, we must continue to monitor many variables including the shift in economic power from west to east, slow economic growth in the developed world and the new worlds of wireless and digitisation. I believe we are well placed to meet these and other challenges.

The Board and senior management will continue their focus on current as well as long-term growth, on optimising sustainable value for shareholders, and on supporting the Cochlear community.

The Cochlear Mission defines our operations:

“We help people hear and be heard.”

“We empower people to connect with others and live a full life.”

“We transform the way people understand and treat hearing loss.”

“We innovate and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.”

Cochlear delivered strongly on this Mission in F14. With your support, we will continue to do so.

Thank you.

Ladies and gentlemen, that concludes my address.

A copy of my address has been lodged with the Australian Securities Exchange and is available from a table in the foyer. A copy is also available on the web site.

Rick Holliday-Smith
14 October 2014