

2009 CHAIRMAN'S ADDRESS

COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 20TH, 2009

**IBIS ROOM
SYDNEY MARRIOTT HOTEL
36 COLLEGE STREET
SYDNEY**

LADIES AND GENTLEMEN, IT'S NOW MY PLEASURE TO DELIVER THE CHAIRMAN'S ADDRESS.

I AM PLEASED TO REPORT THAT DESPITE THE UNPRECEDENTED GLOBAL ECONOMIC TURMOIL AND EXTREME VOLATILITY IN FOREIGN EXCHANGE MARKETS IN 2009, COCHLEAR WAS STILL ABLE TO ACHIEVE RECORD REVENUE, PROFIT AND CASH FLOW. IN ADDITION COCHLEAR WAS ON TARGET TO LAUNCH AN EXCITING RANGE OF NEW PRODUCTS BY THE YEAR END.

REVENUE GREW 15% TO \$694.7 MILLION, NET PROFIT AFTER TAX GREW 13% TO \$130.5 MILLION AND \$146.6 MILLION OF CASH WAS GENERATED FROM OPERATING ACTIVITIES.

TOTAL SHAREHOLDER RETURNS OF 17.5% FOR THE THREE YEARS ENDED 30TH JUNE 2009 PLACED COCHLEAR IN THE TOP 25% OF THE ASX 100 COMPANIES IN TERMS OF TSR FOR THE THIRD YEAR IN A ROW.

THE COCHLEAR NUCLEUS SYSTEM 5 WAS READY FOR LAUNCH BY YEAR END, AS WAS THE NEW BAHA BONE ANCHORED SOUND PROCESSOR, THE BP 100.

FINANCIAL RESULTS

REVENUE IN AUSTRALIAN DOLLARS GREW IN ALL THREE REGIONS WITH THE EUROPEAN REGION AGAIN GROWING FASTEST. THE GROWTH IN REVENUE WAS ENCOURAGING IN LIGHT OF THE ECONOMIC CLIMATE PREVAILING IN F'09.

INVESTMENT IN R&D EXPENDITURE REACHED A RECORD \$96.7 MILLION. THIS WAS UP 21% ON THE PRIOR YEAR AND ENSURED THAT OUR NEW PRODUCTS WERE READY FOR COMMERCIAL RELEASE BY YEAR END AND FUTURE PRODUCT DEVELOPMENTS WERE ADVANCED.

DIVIDENDS

DIVIDENDS ARE INCREASINGLY IMPORTANT TO INVESTORS IN TODAY'S DIFFICULT MARKETS. COCHLEAR HAS ALWAYS MAINTAINED A COMMITMENT TO DISTRIBUTING A HIGH PROPORTION OF PROFITS BACK TO THE SHAREHOLDERS.

THE BOARD DECLARED A 95C FINAL DIVIDEND FOR 2009 AND THIS WAS PAID TO SHAREHOLDERS ON 24 SEPTEMBER. THE TOTAL DIVIDEND FOR THE YEAR WAS 175 CENTS, UP 17% ON THE PRIOR YEAR.

THE DIVIDEND AGAIN REPRESENTS A PAYOUT OF OVER 70% OF PROFITS AND WAS FULLY FRANKED.

CAPITAL

DURING THE YEAR UNDER REVIEW, ACCESS TO CAPITAL WAS A CRITICAL ISSUE FOR MANY COMPANIES. COCHLEAR WENT INTO THE GLOBAL FINANCIAL CRISIS WELL PLACED IN THIS RESPECT AND COCHLEAR'S CONSERVATIVE APPROACH TO DEBT PROVED TO BE APPROPRIATE IN THE 2009 FINANCIAL CLIMATE.

COCHLEAR'S NET DEBT AT 30 JUNE 2009, WAS \$108.6 MILLION AND THE GEARING RATIO IMPROVED FOR THE FOURTH YEAR IN A ROW TO 23%. THE HIGH INTEREST EXPENSE COVER OF 26 TIMES IS ALSO A FEATURE OF OUR CAPITAL MANAGEMENT.

DURING 2009, THE CORPORATE DEBT FACILITY WAS RENEGOTIATED TO \$300 MILLION AT A FAVOURABLE RATE AND FOR A THREE YEAR TERM TO JUNE 2012. THIS FACILITY PROVIDES HEADROOM ABOVE THE CURRENT USAGE LEVELS AND IMPROVES THE FLEXIBILITY IN OUR ABILITY TO EFFICIENTLY DEPLOY DEBT WITHIN OUR GROUP STRUCTURE. THERE WERE NO CHANGES TO THE BANK COVENANTS FACILITY.

GROWTH STRATEGY

DESPITE THE ECONOMIC UNCERTAINTY THAT STILL PREVAILS, I BELIEVE COCHLEAR IS WELL POSITIONED TO ACHIEVE OUR LONG TERM GROWTH OBJECTIVES.

THE INDUSTRY STRUCTURE REMAINS ROBUST AND THE CLINICAL OUTCOMES OF OUR PRODUCTS CONTINUE TO IMPROVE.

IMPORTANTLY IN THIS ENVIRONMENT THE HEALTH ECONOMICS OF THE INDUSTRY ARE VERY POSITIVE. THIS DYNAMIC WAS CRITICAL IN ACHIEVING IMPROVED REIMBURSEMENT LEVELS IN CERTAIN KEY COUNTRIES IN 2009, AS THE ECONOMIC RATIONALE OF INVESTING IN COCHLEAR IMPLANTS BY HEALTH AUTHORITIES IS COMPELLING.

IN 2009, COCHLEAR MAINTAINED ITS STRONG MARKET LEADERSHIP WITH MARKET SHARE OF BETWEEN 65 - 70%.

IN ADDITION, THE LAUNCH OF OUR NEW PRODUCTS, BOTH IN THE COCHLEAR AND BAHA FIELDS AUGERS WELL FOR FURTHER GROWTH. YOUR CEO WILL UPDATE YOU ON THE SPECIFICS AND PROGRESS TO-DATE ON THE LAUNCH, BUT YOUR BOARD SEES THESE LAUNCHES AS IMPORTANT IN MAINTAINING GROWTH MOMENTUM AND IS SATISFIED WITH THE PROGRESS TO DATE FOR THEIR DEPLOYMENT INTO THE MARKET.

IN TIMES OF UNCERTAINTY, IT CAN BE TEMPTING TO ADOPT SHORT TERM INITIATIVES THAT ARE NOT ALWAYS IN STEP WITH THE LONG TERM STRATEGY OF THE COMPANY. THIS HAS NOT OCCURRED AT COCHLEAR AND THE LONG TERM GROWTH STRATEGY [ADOPTED IN 2006] REMAINED UNCHANGED IN 2009. WE WERE, AND ARE, FOCUSED ON ACHIEVING SUSTAINABLE GROWTH THROUGH THE FOLLOWING AREAS:

- COCHLEAR IMPLANTS
- ELECTRO-ACOUSTIC STIMULATION (THE HYBRID PRODUCT)
- BONE CONDUCTION IMPLANTS – THE BAHA, AND
- DIRECT ACOUSTIC COCHLEAR (DACs).

THIS IMPRESSIVE PRODUCT PORTFOLIO IN CONJUNCTION WITH THE GROWING SERVICE AND CUSTOMER SUPPORT AREA COMBINES SHORT-TERM INNOVATIONS AND PRODUCT RELEASES WITH THE PROSPECT OF ENTERING NEW MARKET SEGMENTS (EG, DACs), IN THE FUTURE.

SINCE YEAR END, WE HAVE ANNOUNCED A PURCHASE OF INTELLECTUAL PROPERTY AND KNOW-HOW FROM THE US BASED FIRM OTOLOGICS FOR \$25 MILLION US DOLLARS. THIS PROVIDES ACCESS TO IMPLANTABLE MICROPHONE TECHNOLOGY WHICH IS IMPORTANT IN THE DEVELOPMENT OF A TOTALLY IMPLANTABLE COCHLEAR IMPLANT. THE DEVELOPMENT OF A TOTALLY IMPLANTABLE COCHLEAR IMPLANT IS A LONG TERM GOAL OF COCHLEAR AND THIS PURCHASE ADVANCES THIS OBJECTIVE WHILE FURTHER CEMENTING OUR TECHNOLOGY LEADERSHIP IN THE COCHLEAR IMPLANT FIELD.

STABILITY OF BOARD & SENIOR EXECUTIVE TEAM

IN TIMES OF EXTENDED UNCERTAINTY, STABILITY AT THE BOARD AND SENIOR EXECUTIVE LEVEL IS IMPORTANT. THIS IS PARTICULARLY SO WHEN ENTERING A PERIOD OF INTERNAL GROWTH AND NEW PRODUCT RELEASES. DURING 2009 THERE WERE NO CHANGES TO THE BOARD OR SENIOR EXECUTIVE TEAM.

IN THIS CONTEXT, AS YOU WILL SEE FROM THE AGENDA, TWO OF OUR EXPERIENCED BOARD MEMBERS, RICK HOLLIDAY-SMITH AND ANDY DENVER ARE RETIRING BY ROTATION AND THE BOARD'S RECOMMENDATION IS FOR THEIR RE-ELECTION.

ALSO ON THE AGENDA IS THE ANNUAL ALLOCATION OF OPTIONS TO THE CEO, DR CHRIS ROBERTS. CHRIS HAS SERVED THE COMPANY WELL OVER THE LAST FIVE YEARS AND WE ARE EXCITED BY THE GROWTH INITIATIVES THAT HE IS CHAMPIONING FOR THE NEXT SEVERAL YEARS. AS YOU WILL NOTE, THE ALLOCATION IS WELL WITHIN COMPARABLE AUSTRALIAN CORPORATE ALLOCATIONS AND AGAIN I RECOMMEND YOU TO VOTE FOR THE RESOLUTION.

EXECUTIVE REMUNERATION

EXECUTIVE REMUNERATION WAS ONCE MORE IN THE NEWS IN 2009 AND WAS THE SUBJECT OF MUCH POLITICAL DISCUSSION AS WELL AS A PRODUCTIVITY COMMISSION REVIEW.

AGAIN, COCHLEAR'S APPROACH IN PRIOR YEARS HAS BEEN MEASURED AND WITH STRONG EMPHASIS ON GOVERNANCE UNDER OUR INDEPENDENT REMUNERATION COMMITTEE. COCHLEAR'S ASSESSMENT IS THAT THE REGULATIONS PROPOSED BY GOVERNMENT ARE NOT EXPECTED TO HAVE A SIGNIFICANT IMPACT ON COCHLEAR.

COCHLEAR HAS ALWAYS MAINTAINED A HIGH LEVEL OF TRANSPARENCY IN ITS REMUNERATION DISCLOSURES. WHILST NOT REQUIRED OUT OF FINANCIAL NECESSITY, THE BOARD HAS TAKEN A CAUTIOUS APPROACH TO NON-EXECUTIVE DIRECTOR AND EXECUTIVE REMUNERATION BY DEFERRING ANY CHANGES TO REMUNERATION BY SIX MONTHS. THIS DECISION WILL BE REVIEWED IN EARLY 2010 IN THE CONTEXT OF THE GLOBAL ECONOMY AND THE PERFORMANCE OF THE COMPANY.

HOWEVER, ALL OTHER STAFF HAVE RECEIVED MARKET RELATED INCREASES AND IN ADDITION WE AGAIN AWARDED \$1,000 OF FREE SHARES TO ELIGIBLE EMPLOYEES IN AUGUST 2009. WE CONTINUE TO ASSERT THAT BROAD EMPLOYEE SHARE OWNERSHIP IS IMPORTANT IN ALIGNING EMPLOYEE AND SHAREHOLDER INTERESTS. OVER 1,000 EMPLOYEES ARE SHAREHOLDERS AND DIRECTORS AND SENIOR EXECUTIVES MUST HOLD THE EQUIVALENT OF ONE YEAR'S FEES OR BASE SALARY IN COCHLEAR SHARES.

ON BEHALF OF THE BOARD, I WOULD AGAIN LIKE TO THANK ALL OF OUR EMPLOYEES FOR THEIR VALUABLE CONTRIBUTION. COCHLEAR'S SUCCESS REFLECTS THEIR PASSION AND DEDICATION AND WE ARE ALL JUSTIFIABLY PROUD OF THE COMPANY'S RECORD.

OUTLOOK

ALTHOUGH THE WORLD ECONOMY MAY STILL BE CHARACTERISED BY UNCERTAINTY, IN THE FINANCIAL YEAR 2010, THE OUTLOOK FOR COCHLEAR'S BUSINESS IS POSITIVE.

WITH THE RELEASE OF A COMPREHENSIVE RANGE OF EXCITING NEW PRODUCTS, COCHLEAR IS WELL POSITIONED TO CONTINUE WITH ITS HISTORY OF GROWTH AND MARKET LEADERSHIP. RECORD INVESTMENTS IN RESEARCH AND DEVELOPMENT AND ONGOING INVESTMENT IN GROWTH INITIATIVES AND INTERNAL CAPABILITIES WILL SUPPORT COCHLEAR'S POSITIVE DEVELOPMENT.

LADIES AND GENTLEMEN THAT NOW CONCLUDES MY ADDRESS. A COPY OF MY ADDRESS HAS BEEN LODGED WITH THE AUSTRALIAN SECURITIES EXCHANGE AND IS AVAILABLE FROM THE TABLE IN THE FOYER. A COPY IS ALSO ON THE WEB SITE.

I WOULD NOW LIKE TO INVITE THE CEO AND PRESIDENT, DR CHRIS ROBERTS, TO ADDRESS THE MEETING.

THANK YOU.

TOMMIE BERGMAN
20 OCTOBER 2009