

2012 CHAIRMAN'S ADDRESS COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 16TH, 2012

**EXCHANGE SQUARE AUDITORIUM
AUSTRALIAN SECURITIES EXCHANGE
20 BRIDGE STREET
SYDNEY**

Ladies and gentlemen, let me now start my address.

Chairman's Overview

Since we last met Cochlear has confronted and successfully met the challenge of the voluntary recall initiated in September 2011. At the last AGM we talked about testing the strength, professionalism and maturity of the worldwide organisation and in my view we have passed the test.

While much has been achieved in the past 12 months, we remain mindful of the ongoing impact on our recipients and healthcare professionals. The welfare of all our recipients remains our guiding principle and we continue working to support them.

I also acknowledge the support of our other stakeholders, particularly our staff and shareholders. I thank you for your continued trust and confidence.

I now want to summarise the recall position before moving onto a broader review of the year at Cochlear.

Recall update

As reported last AGM, following an increase in failures of the CI500 series implant, the Company initiated a voluntary recall of unimplanted CI500 series devices on 11th September 2011.

Regulators covering our key markets such as the USA, Europe and Australia have advised Cochlear that necessary actions associated with the return of the unimplanted CI500 series devices have been completed.

Following the recall Cochlear switched the implant component of the Nucleus 5 System to the CI24RE implant. The external Nucleus 5 components were not impacted. These externals together with the CI24RE implant operated together such that functional performance was not impacted.

The switch of the implant required sensitive communication and explanation. In the end, open communication, and the understanding of healthcare professionals and recipients meant market share loss was minimal.

The switch was a complex logistical exercise and supply was initially constrained. However, the flexibility and agility that Cochlear had built into its supply chain meant that by the second half these constraints had been overcome.

As the year progressed a strategic decision was made to be careful and disciplined with spending, but not to suspend growth initiatives that could negatively impact longer term prospects.

R&D investments continued with advances made on products due for release in F13 and beyond.

Important clinical trials, such as Codacs were continued.

The CI500 series implant will be introduced back into the market in due course. It has been scheduled into our ongoing product development plan along with the introduction of other new products. Regulatory approvals will influence the timing and so the date of the reintroduction has not been announced.

A recall provision of between \$130 and \$150 million was indicated to you at this time last year and the final estimate was \$138.8 million as at December 2011. This number is continually reviewed and has not been amended since then.

Clearly this provision had a material impact on Cochlear's F12 result but our thinking was to fully provide for the consequences of the impact of the recall as soon as we could identify them.

As we noted at last year's AGM, the net cash impact of the recall was estimated at \$20 - \$30 million spread over a number of years.

Financial Overview

Chris will discuss the financial results in more detail but in summary, and in the context of the recall, I believe Cochlear achieved a credible result for F12.

Revenue of \$779 million was down 4%.

Net profit after tax was \$56.8 million after booking the after tax recall provision of \$101.3 million.

Importantly, operating cash flows were strong and Cochlear ended the year with net cash of \$3 million.

This was pleasing as we had increased our borrowing facilities in October 2011 by \$50 million to \$200 million to ensure we had capacity for unforeseen events.

Dividends

Last year, I advised you of the Board's intention to support shareholders through the recall process by at least maintaining the dividend at existing levels, providing we could do so prudently.

In March 2012, we paid an interim dividend of \$1.20 per share, unchanged from the previous payment in September 2011.

Further, in view of the strong cash flows for the full year and given a positive outlook over the longer term, the Board decided to increase the final dividend to \$1.25 a share, making a full year dividend of \$2.45, an increase for the year of 9%.

We will continue monitoring both free cash flow and earnings as we make future dividend decisions.

Global Economic Conditions

Cochlear, globally, has a direct presence in over 20 countries with sales into over 100 countries. These activities include interaction with many regulators, as well as multiple health authorities and related reimbursement programs. We have a truly global business.

It should be obvious that our broad portfolio of products and geographic spread are important to our overall performance in an uncertain world. Inevitably, some countries are better placed for growth than others, but together the mix makes us well placed to deliver sustainable long term growth.

The continued uncertainties in Europe during F12 impacted growth in some developed countries, but reimbursement levels in the major countries have been maintained. We observe similar issues in the USA. We are watching both regions closely.

The emerging markets continue growing and are increasingly important. In F12 they accounted for around one third of CI unit sales. We are excited by the medium term opportunities in these growing economies as they develop and mature.

Foreign exchange impacts were negative and significant in F12. As discussed before, Cochlear has a comprehensive hedging strategy that assists in smoothing currency fluctuations in the short term, but the continued relative strength of the Australian dollar against our major revenue generating currencies has been, and will continue to be, a headwind for as long as it continues.

Cochlear's net profit after tax would have been \$23.7 million higher in F12 if F11 foreign exchange rates had prevailed.

Directors' and Board activities

Medical Committee

During F12 the Medical Committee took on additional responsibilities monitoring the progress of the recall.

Under the experienced leadership of Prof Ed Byrne, The Medical Committee formally met 15 times during the year and its members frequently met with executives to better understand the detail of this complex and multifaceted issue.

International Visits

To further understand how our business units were performing I undertook a tour of our worldwide operations.

I spoke to as many of our people as I could and had meetings with most management teams across most activity areas. I was impressed by their commitment to keeping Cochlear the market leader and their awareness of the short and medium term commercial requirements to ensure our success.

I was made personally aware of how hard our employees have worked throughout the past year, how committed and knowledgeable they are, and how important they are to our future. We are very lucky to have them.

As usual, the whole board met overseas, this year visiting Europe to review our operations and to get a better understanding of the commercial opportunities and challenges confronting us in that important region.

I am also pleased that we continue to extend our commitment and orientation to recipient services and believe this is an important part of achieving our longer term objectives and success.

During my trip, I was made aware of new early stage, but credible research, concerning hearing loss and dementia. This research suggests the importance of ensuring good hearing as an integral component of healthy and active ageing.

Remuneration Report

The Board takes its remuneration responsibilities seriously and I am satisfied we make decisions that are commercial and in the interests of employees and shareholders.

We have followed a consistent approach over many years focused on attracting, retaining and motivating our employees.

For many years we have received strong shareholder support as we try to ensure fair and reasonable commercial decisions over a long period of time.

As such it is disappointing that some shareholders have voted against our remuneration related decisions as set out in this year's Notice of Meeting.

However, the Board and I recognise this is a complex field and there are a range of understandable views. We have always been willing to listen and engage with shareholders and be responsive, and that will be the case as we move on from here.

F12 was a difficult year and as a result we had to address decisions involving both short (STI) and long term incentive (LTI) programs.

At this time last year we considered what to do with these at risk remuneration components in the best interests of the company.

We had to consider the best way to retain, redirect and motivate our teams and whether that should involve STI, LTI or both.

We decided to use STI as an important tool but for LTI, that operates over a longer period of time, to leave it the same as it has been since its introduction in 2003. This decision was reconfirmed at the year end.

We also decided to conduct a more detailed review in 2012 of remuneration to ensure it continued to be a competitive tool to attract, retain and motivate the very best. That review started some time ago and is in train now.

Director Fees

I believe the Board has worked hard and diligently in difficult circumstances and I thank them for their teamwork and effort. I appreciate their understanding and support of the decision to not increase their fees for F12 and F13. We will review fees in terms of fair market levels in the future.

Our people

Cochlear employs approximately 2,500 people in over 20 countries. In our Australian operations alone, we are represented by over 60 nationalities.

This diversity has been a feature of Cochlear's workforce since the Company's inception. The global understanding that it brings has been an important element in Cochlear's success.

This is the first year that we have reported to shareholders on our diversity programs. These are covered in our Annual Report in compliance with the ASX Corporate Governance guidelines. While this report focuses on gender diversity, broader diversity matters are important and continue to be addressed.

I would like to thank all our employees for their dedication, passion and hard work over the last year.

Conclusion

F12 was a challenging year for the Company, but we have maintained an ongoing focus on retaining our long-term market leadership.

We cannot achieve our potential without our many team members and leadership team. They are as important now as ever before and I thank them again for their trust, commitment and effort.

I also thank my board colleagues for their insights and commercial judgement, the last year has been challenging and they have responded.

And finally I thank all shareholders for their support and understanding.

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
16 October 2012