

2006 CHAIRMAN'S ADDRESS

COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 24TH, 2006

**BALLROOM 1
FOUR SEASONS HOTEL
199 GEORGE STREET, SYDNEY**

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

THE PAST YEAR HAS BEEN A SUCCESSFUL YEAR FOR COCHLEAR BOTH FINANCIALLY AND FROM AN OPERATIONAL ASPECT. THE COMPANY HAS CONTINUED ITS STRONG GROWTH, SIMULTANEOUSLY INVESTING SUBSTANTIALLY IN COCHLEAR'S INTERNAL AND EXTERNAL CAPABILITIES TO SUPPORT FUTURE GROWTH.

I WILL COVER SOME ASPECTS OF COCHLEAR'S AMBITIOUS BUSINESS DEVELOPMENT PLANS LATER IN MY ADDRESS, AS WILL CHRIS ROBERTS IN HIS PRESENTATION, BUT FIRST I WOULD LIKE TO DISCUSS THE FINANCIAL RESULTS.

FINANCIAL RESULTS

REVENUE CONTINUED TO GROW STRONGLY AND INCREASED 30% TO A RECORD REVENUE OF \$452.3 MILLION.

COCHLEAR OPERATES IN MORE THAN 90 COUNTRIES WITH DIFFERENT GROWTH RATES. THE AMERICAS AND EUROPEAN REGIONS' REVENUE GREW VERY STRONGLY, 51% AND 31% RESPECTIVELY, WHILE ASIA INCREASED BY 5%.

THE ASIAN REGION IS CONTINUING TO DEVELOP STRONGLY WITH RECORD SALES IN INDIA, JAPAN AND AUSTRALIA. SALES IN CHINA WERE ADVERSELY IMPACTED DUE TO A NUMBER OF FACTORS INCLUDING THE TIMING OF THE FIRST DELIVERY OF AN OVERALL ORDER FOR NEARLY 15,000 IMPLANTS OVER SIX YEARS. THIS IS THE BIGGEST ORDER EVER RECEIVED BY THE COCHLEAR IMPLANT INDUSTRY, AND THE FIRST DELIVERY WAS MADE IN JULY 2006.

NET PROFIT AFTER TAX OF \$80.0 MILLION WAS 34% AHEAD OF LAST YEAR REFLECTING THE STRONG REVENUE GROWTH.

TO UNDERPIN THIS RAPID GROWTH, ONGOING INVESTMENTS IN GROWTH INITIATIVES AND INFRASTRUCTURE MUST BE MADE. IN R&D SOME \$56.7 MILLION WAS INVESTED, AND ONGOING INVESTMENTS IN MARKETING AND INFRASTRUCTURE PROGRAMMES IN OUR REGIONS WERE ALSO MADE. THESE PROGRAMMES ARE AIMED AT SUPPORTING LONG TERM GROWTH IN THE INDUSTRY.

WORKING CAPITAL INCREASED BY \$35 MILLION, LARGELY DUE TO HIGHER DEBTORS, FOLLOWING THE INCREASED SALES THIS YEAR AND OUR STRATEGIC DECISION TO GO DIRECT IN SOME COUNTRIES PREVIOUSLY SERVED BY DISTRIBUTORS. INVENTORIES INCREASED BY \$27.3 MILLION TO FURTHER IMPROVE SERVICE LEVELS TO OUR CUSTOMERS AND TO PROVIDE FOR THE BUILD UP OF INVENTORIES TO SUPPORT THE BACKWARDS COMPATIBILITY LAUNCH OF FREEDOM PROCESSORS.

TOTAL SHAREHOLDER RETURN FOR THE YEAR, WHICH INCLUDES SHARE PRICE GROWTH AND DIVIDENDS PAID WAS A VERY HEALTHY 42% WHILE EARNINGS PER SHARE OF 146 CENTS PER SHARE WAS UP 33%.

THE STRONG RESULT ENABLED THE BOARD TO INCREASE THE TOTAL DIVIDEND FOR THE YEAR TO 100 CENTS A SHARE, A 25% INCREASE ON THE PRIOR YEAR. I HAVE MENTIONED ON PREVIOUS OCCASIONS THAT THE BOARD HAS A DIVIDEND PAYOUT POLICY OF APPROXIMATELY 70%. THIS POLICY IS BASED ON THE ABILITY TO FULLY FRANK OUR DIVIDENDS AND TO PROVIDE FOR THE CAPITAL MANAGEMENT NEEDS OF THE COMPANY.

THIS IS THE FIRST FULL YEAR REPORTING UNDER THE AUSTRALIAN INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS).

THE NEW ACCOUNTING STANDARDS PRIMARILY AFFECT COCHLEAR'S POLICIES IN THE AREA OF R&D CAPITALISATION, SHARE BASED COMPENSATION AND ACQUIRED INTANGIBLE ASSETS. THE FULL IMPACT OF ADOPTING AIFRS IS DETAILED IN NOTE 31 OF THE ACCOUNTS ON PAGE 96 OF THE ANNUAL REPORT.

IN GENERAL THERE ARE SEVERAL AREAS ARISING FROM THIS TRANSITION THAT I BELIEVE ARE OF INTEREST TO SHAREHOLDERS. FIRST THERE HAVE BEEN NO SIGNIFICANT ASSET WRITE-DOWNS AT COCHLEAR AS A RESULT OF THE CHANGE. IN ADDITION AIFRS ACCOUNTING HAS NOT IMPACTED OUR ABILITY TO PAY DIVIDENDS NOR HAVE WE NEEDED TO ALTER ANY OF OUR BANKING COVENANTS AS A RESULT OF THE CHANGE. NO COMPANY STRUCTURE OR STRATEGY HAS BEEN AMENDED AS A RESULT OF THE MOVE TO AIFRS.

ORGANISATION

I SPOKE EARLIER OF COCHLEAR HAVING BOTH A SUCCESSFUL FINANCIAL AND ORGANISATIONAL YEAR. FROM THE OPERATIONAL PERSPECTIVE, A MAJOR AREA OF FOCUS HAS BEEN THE MANUFACTURING AND SUPPLY CHAIN.

MANUFACTURING AND SUPPLY CHAIN

IT HAS BEEN RECOGNISED THAT IN ORDER TO MEET OUR GROWTH OBJECTIVES MANUFACTURING AND THE SUPPLY CHAIN WOULD NEED TO BE UPGRADED. A THREE YEAR UPGRADE PROGRAMME COMMENCED DURING THE YEAR. THIS PROGRAMME IS ESSENTIAL TO PROVIDE THE COMPANY WITH THE RESOURCES AND SYSTEMS REQUIRED TO OPTIMISE SAVINGS AND PRODUCTIVITY GAINS AVAILABLE FROM GREATER SCALE. SIGNIFICANT PROGRESS HAS BEEN MADE AND CONSIDERABLE MANAGEMENT TIME IS BEING DIRECTED TO THIS HIGH PRIORITY PROGRAMME.

INTEGRATION OF ENTIFIC

ANOTHER AREA OF IMPORTANCE DURING THE YEAR WAS THE INTEGRATION OF THE ENTIFIC BUSINESS ACQUIRED IN MARCH 2005. THE INTEGRATION WAS SUCCESSFULLY COMPLETED DURING THE YEAR.

IN THE AMERICAS, THE TWO ORGANISATIONS WERE MERGED INTO COCHLEAR'S AMERICAN HEAD OFFICE IN DENVER, COLORADO. THIS RESULTED IN A NEARLY DOUBLING OF THE US SALES FORCE WITH CLEAR BENEFITS IN CUSTOMER SERVICE FOR BOTH COCHLEAR AND ENTIFIC CUSTOMERS.

IN EUROPE, A COUNTRY BY COUNTRY APPROACH WAS ADOPTED AFTER CAREFUL REVIEW OF THE SPECIFIC REQUIREMENTS OF EACH MARKET. FRANCE FOR EXAMPLE, HAS MAINTAINED TWO OFFICES WHEREAS THE UK AND THE MAJORITY OF THE OTHER COUNTRIES HAVE BEEN CONSOLIDATED INTO A SINGLE LOCAL OFFICE. THIS PROCESS IS NOW COMPLETE.

THE HEAD OFFICE OF THE ENTIFIC DIVISION, NOW RENAMED BONE ANCHORED SOLUTIONS, AND ITS CORPORATE FUNCTIONS REMAIN IN GOTHENBURG, SWEDEN.

OVERALL, THE INTEGRATION HAS PROGRESSED WELL. REVENUE GROWTH FOR THE ENTIFIC BUSINESS DURING THE YEAR WAS 30% WHICH IS AHEAD OF OUR ACQUISITION TARGETS.

CHINA

A SUBJECT I SPECIFICALLY WANTED TO TALK OF WAS THE ORDER RECEIVED DURING THE YEAR FROM A TAIWANESE PHILANTHROPIST WHO WILL DONATE NEARLY 15,000 IMPLANTS WORTH \$270 MILLION OVER A SIX YEAR PERIOD FOCUSED ON CHILDREN UNDER THREE YEARS OF AGE. FOR AN INDUSTRY OF OUR SIZE, THIS IS AN IMPORTANT DEVELOPMENT, NOT ONLY FROM A FINANCIAL POINT OF VIEW, BUT ALSO FROM AN OPERATIONAL PERSPECTIVE. THE QUANTITIES INVOLVED WILL REQUIRE A NEW BUSINESS APPROACH.

TO GIVE YOU SOME IDEA OF THE SCALE OF THIS ORDER, COCHLEAR ESTIMATES SOME FOUR HUNDRED HEALTHCARE PROFESSIONALS WILL BE INVOLVED IN THE PROGRAMME IN FIVE YEARS' TIME, UP FROM JUST OVER FIFTY TODAY. THE INSTALLED BASE WILL RISE FROM THREE THOUSAND PATIENTS TO OVER EIGHTEEN THOUSAND IN THE SAME PERIOD!

THERE IS THE POTENTIAL TO USE THESE LEARNINGS IN OTHER MARKETS AROUND THE WORLD AS VOLUMES INCREASE.

PHONAK JOINT DEVELOPMENT PROJECT

WE HAVE PREVIOUSLY MENTIONED OUR JOINT DEVELOPMENT WORK WITH PHONAK AG OF SWITZERLAND. I CAN REPORT THAT THIS PROJECT CONTINUES TO PROGRESS WELL.

THE PROGRAMME IS DEVELOPING A NEW PRODUCT LINE OF IMPLANTABLE ACOUSTIC HEARING SYSTEMS TO ASSIST PEOPLE WITH MIXED CONDUCTIVE AND SENSORY-NEURAL HEARING LOSS AND INCORPORATES KEY ELEMENTS OF EACH OF THE PARENT COMPANIES' CORE TECHNOLOGIES.

THIS DEVELOPMENT FITS WELL WITH OUR VISION OF SUPPLYING PRODUCTS TO THE IMPLANTABLE HEARING SOLUTION SEGMENT.

PROGRESS HAS CONTINUED AND WE NOW HAVE FOUR PATIENTS IN EUROPE WHO HAVE RECEIVED THE INITIAL DEVICE AND THE RESULTS CONFIRM PROOF OF CONCEPT.

THE NEXT STAGE IS TO DEVELOP A COMMERCIAL PRODUCT FOR CLINICAL TRIALS AND WE ANTICIPATE THIS WILL COMMENCE WITHIN TWELVE MONTHS.

FREEDOM LAUNCH

OUR CEO, CHRIS ROBERTS WILL REPORT IN DETAIL ON OTHER OPERATIONAL MATTERS DURING THE YEAR, BUT CLEARLY, THE VERY SUCCESSFUL LAUNCH AND CUSTOMER ACCEPTANCE OF THE NUCLEUS FREEDOM SYSTEM WAS A MAJOR HIGHLIGHT OF THE YEAR. CLINICAL RESULTS AFTER ITS FIRST YEAR IN COMMERCIAL USE SHOW SIGNIFICANT

PERFORMANCE IMPROVEMENTS AND THIS IS REFLECTED IN OUR ONGOING HIGH GLOBAL MARKET SHARE OF APPROXIMATELY 70%.

DEPARTMENT OF JUSTICE

AS ADVISED IN MARCH 2004, THE COMPANY WAS INFORMED BY THE US DEPARTMENT OF JUSTICE THAT COCHLEAR AMERICAS, A WHOLLY OWNED SUBSIDIARY WAS SUBJECT TO AN ENQUIRY UNDER FEDERAL HEALTHCARE LAWS IN THE US THAT DEAL WITH MEDICARE AND MEDICAID PROGRAMMES.

DISCUSSIONS WITH THE DOJ ARE ONGOING AND WE CONTINUE TO COOPERATE FULLY WITH THE INQUIRY.

WE WILL CONTINUE TO UPDATE YOU IF ANY MATERIAL EVENTS SHOULD OCCUR.

EXECUTIVE AND BOARD REMUNERATION

EXECUTIVE AND BOARD REMUNERATION REMAINS A FREQUENTLY DEBATED TOPIC IN THE PUBLIC ARENA.

THIS IS AN AREA WHERE YOUR REMUNERATION COMMITTEE AND BOARD CONTINUED TO FOCUS DURING THIS LAST YEAR.

THE REMUNERATION REPORT WILL BE DISCUSSED AND VOTED ON AS A FORMAL AGENDA ITEM AGAIN THIS YEAR. THIS EXTENSIVE REPORT PROVIDES YOU WITH BOTH THE DETAILS AND PHILOSOPHY BEHIND THE REMUNERATION POLICY WE HAVE ADOPTED. TOGETHER WITH THE NOTES TO THE ACCOUNTS, SHAREHOLDERS NOW HAVE AVAILABLE A CONSIDERABLE AMOUNT OF INFORMATION REGARDING SENIOR EXECUTIVE AND BOARD REMUNERATION AT COCHLEAR.

I BELIEVE THAT COCHLEAR HAS A REMUNERATION SYSTEM FOR ITS SENIOR EXECUTIVES THAT IS ALIGNED WITH SHAREHOLDER INTERESTS AND COMMUNITY VIEWS IN GENERAL. THE TOTAL REMUNERATION IS MADE UP OF A BASE SALARY, PERFORMANCE BASED SHORT TERM AND LONG TERM INCENTIVES DESIGNED IN ACCORDANCE WITH BEST PRACTICE ON EXTERNAL ADVICE.

COCHLEAR'S LONG TERM INCENTIVE PLAN WAS APPROVED BY SHAREHOLDERS AT THE 2003 AGM. THE PLAN HAS AMBITIOUS HURDLES OF 20% COMPOUND AVERAGE ANNUAL GROWTH IN EPS OVER THREE YEARS AND A REQUIREMENT TO BE WITHIN THE TOP 25% OF ASX 100 LISTED COMPANIES FOR TOTAL SHAREHOLDER RETURN OVER THE THREE YEAR PERIOD TO ACHIEVE 100% ALLOCATION OF PERFORMANCE SHARES AND OPTIONS.

THE FIRST OF THE OPTIONS AND PERFORMANCE SHARES ISSUED UNDER CELTIP HAVE NOW VESTED BASED ON THE EARNINGS PER SHARE AND THE TSR RETURN OVER THE THREE YEAR PERIOD TO 30 JUNE 2006.

OVERALL PARTICIPANTS RECEIVED 58% OF THEIR ORIGINAL ALLOCATIONS, NOT WITHSTANDING COCHLEAR'S STRONG PERFORMANCE IN RECENT YEARS.

WHILE THIS UNDERSCORES THAT THE HURDLES ARE AMBITIOUS AND THAT EXECUTIVES WILL NOT EASILY REACH 100%, I CONTINUE TO BELIEVE THEY ARE APPROPRIATE FOR A GROWTH COMPANY.

THIS YEAR WE PROVIDED A CHOICE TO CELTIP PARTICIPANTS AS TO THE PROPORTION OF THE ALLOCATION THEY RECEIVE AS PERFORMANCE SHARES AND OPTIONS.

YOU WILL SEE FROM THE NOTICE OF MEETING THAT BOTH THE EXECUTIVE DIRECTORS HAVE OPTED FOR 100% OPTIONS ALLOCATION, AS INDEED HAVE MOST SENIOR MANAGEMENT. THIS DEMONSTRATES A COMMITMENT TO GROWTH WHICH THE BOARD SUPPORTS.

CORPORATE GOVERNANCE

TURNING NOW TO CORPORATE GOVERNANCE.

COCHLEAR HAS ALWAYS MAINTAINED AN ONGOING COMMITMENT TO TRANSPARENCY AND GOOD CORPORATE GOVERNANCE.

WE FULFIL THE MAJOR RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL'S "PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS". WE CONTINUE TO REFINE AND DEVELOP OUR PRACTICES IN THIS AREA.

AS I MENTIONED EARLIER, MESSRS PETER NORTH AND JUSTUS VEENEKLAAS HAVE ANNOUNCED THEIR RETIREMENT EFFECTIVE AT THE CLOSE OF THIS AGM.

MR VEENEKLAAS' EXPERTISE IN INTERNATIONAL MARKETING AND STRATEGY HAVE BEEN MOST VALUABLE. HE HAS SERVED ON THE REMUNERATION, NOMINATION AND TECHNOLOGY COMMITTEES.

MR NORTH HAS BEEN ACTIVE IN THE TECHNOLOGY AREA AND WAS THE INAUGURAL CHAIR OF THE TECHNOLOGY AND INNOVATION COMMITTEE. HE HAS ALSO SERVED ON THE AUDIT AND NOMINATION COMMITTEES.

BOTH OF THESE LONG SERVING DIRECTORS HAVE CONTRIBUTED GREATLY TO COCHLEAR'S POSITIVE DEVELOPMENT AND WE WILL MISS THEIR WISE COUNSEL.

ON BEHALF OF THE BOARD I WISH TO THANK MR VEENEKLAAS AND MR NORTH FOR THEIR SERVICE AND COMMITMENT TO COCHLEAR AND ON BEHALF OF THE BOARD AND ALL SHAREHOLDERS, I WISH THEM BOTH WELL AND SUCCESS IN THEIR FUTURE ENDEAVOURS. AS A TOKEN OF OUR APPRECIATION, LET'S PUT OUR HANDS TOGETHER.

BOARD SUCCESSION PLANNING IS AN ONGOING PROCESS AND A VERY IMPORTANT PART OF THE CHAIRMAN'S RESPONSIBILITIES IS TO ENSURE THAT COCHLEAR LIMITED'S SHAREHOLDERS ARE SERVED BY A COMPETENT BOARD OF DIRECTORS WITH RELEVANT EXPERIENCE AND APPROPRIATE SKILL SETS.

THE BOARD RENEWAL PROCESS WILL CONTINUE AND A FURTHER APPOINTMENT CAN BE ANTICIPATED LATER IN THE YEAR.

A FURTHER AREA OF RESPONSIBILITY IS TO ENSURE THAT THE COMPANY IS WELL SERVED BY ITS CEO.

AS YOU WILL SEE FROM THE REMUNERATION REPORT, DR ROBERTS' INITIAL THREE YEAR CONTRACT EXPIRES ON 1ST FEBRUARY 2007 AND THE BOARD IS NOW IN THE PROCESS OF PREPARING A NEW CONTRACT TO COVER DR ROBERTS' SERVICE BEYOND THIS DATE.

DR ROBERTS HAS INDICATED HIS WILLINGNESS TO CONTINUE IN THE ROLE FOR THE FORESEEABLE FUTURE.

OUTLOOK

I BELIEVE COCHLEAR LIMITED IS WELL POSITIONED BASED ON ITS STRONG GLOBAL MARKET SHARE AND TECHNOLOGY LEADERSHIP.

THE COMPANY IS IN A GROWING INDUSTRY WITH POTENTIAL FOR FUTURE EXPANSION THROUGH ONGOING TECHNOLOGY LEADERSHIP AND INTERNATIONAL GROWTH.

FINALLY, ON BEHALF OF THE BOARD, I WOULD LIKE TO CONGRATULATE CHRIS ROBERTS AND HIS MANAGEMENT TEAM ON A SUCCESSFUL YEAR FOR COCHLEAR.

A KEY STRENGTH OF COCHLEAR IS ITS HIGHLY EDUCATED AND ENTHUSIASTIC EMPLOYEES AND I WOULD ALSO LIKE TO THANK THE OVER 1,000 COCHLEAR EMPLOYEES AROUND THE WORLD.

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



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

THANK YOU.

TOMMIE BERGMAN
24 OCTOBER 2006