

2010 CHAIRMAN'S ADDRESS

COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 19TH, 2010

**AUSTRALIA BALLROOM
THE MENZIES SYDNEY
14 CARRINGTON STREET
SYDNEY**

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

I AM PLEASED TO REPORT THAT 2010 WAS AGAIN A SUCCESSFUL YEAR OF GROWTH FOR COCHLEAR. WE ACHIEVED RECORD REVENUE, UNIT SALES, PROFIT AND CASH FLOW. THESE RESULTS WERE ACHIEVED IN A CLIMATE OF CONTINUED WORLD ECONOMIC UNCERTAINTY AND EXTREME VOLATILITY IN FOREIGN EXCHANGE MARKETS.

I WANT TO HIGHLIGHT OUR FINANCIAL RESULTS AS THEY PROVIDE CONTEXT TO THE YEAR AND TO OUR COMMITMENT TO SUSTAINABLE GROWTH. OUR CEO, DR CHRIS ROBERTS, WILL EXPLAIN IN MORE DETAIL HOW THESE RECORD RESULTS WERE ACHIEVED WHEN HE ADDRESSES YOU.

FINANCIAL RESULTS

FOR THE FINANCIAL YEAR TO JUNE 2010 REVENUE GREW 6% TO \$734.8 MILLION. THIS REVENUE WAS NEGATIVELY IMPACTED, WHEN COMPARED TO THE PRIOR YEAR, BY A STRENGTHENING AUSTRALIAN DOLLAR THAT WAS IN TURN OFFSET BY THE APPLICATION OF OUR CONTINUOUS NEAR TERM HEDGING APPROACH. OF NOTE IS THE LEVEL OF THE AUSTRALIAN DOLLAR APPRECIATION THAT WAS AROUND 15% AGAINST MAJOR CURRENCIES THROUGH THE PERIOD.

CLEARLY WE, AS AN EXPORTER, DO NOT BENEFIT FROM AN APPRECIATING AUSTRALIAN DOLLAR OVER THE MEDIUM TERM.

IN CONSTANT CURRENCY, REVENUE WAS UP 12% WHICH CLOSELY REFLECTED THE COCHLEAR IMPLANT UNIT GROWTH OF 13% TO 21,013 UNITS.

THE SECOND HALF OF FINANCIAL 2010 REFLECTED THE STRENGTH OF THE NEW NUCLEUS 5 PRODUCT RELEASE OFFERING WITH UNIT SALES UP 20% PERIOD ON PERIOD.

NET PROFIT AFTER TAX FOR THE YEAR TO JUNE 2010 WAS \$155.2 MILLION UP 19% ON 2009. IN ALL WAYS THIS WAS A VERY GOOD PERFORMANCE AND ESPECIALLY REFLECTED A CONTINUED DISCIPLINED APPROACH TO EXPENDITURE.

DIVIDENDS

IN THE CURRENT GLOBAL ECONOMIC ENVIRONMENT DIVIDEND PAYMENTS BY COMPANIES NOW RECEIVE INCREASED ATTENTION BY SHAREHOLDERS.

AT COCHLEAR, WE HAVE A RECORD OF CONTINUED INCREASES IN DIVIDENDS EACH YEAR SINCE OUR LISTING IN 1995.

OUR GENERAL APPROACH IS TO PAY OUT APPROXIMATELY 70% OF EARNINGS BY WAY OF DIVIDENDS TO SHAREHOLDERS.

IN 2010, THE INCREASE IN NET PROFIT AFTER TAX, ONGOING CONFIDENCE IN FUTURE GROWTH, TOGETHER WITH STRONG CASH FLOWS, ENABLED THE BOARD TO INCREASE ITS FINAL DIVIDEND TO 105 CENTS PER SHARE, UP FROM 95 CENTS IN 2009.

YOU WOULD HAVE BY NOW RECEIVED THIS DIVIDEND PAYMENT MADE ON 23RD SEPTEMBER.

THE TOTAL DIVIDEND FOR THE YEAR OF 200 CENTS PER SHARE WAS UP 14% ON THE PREVIOUS YEAR AND THE DIVIDEND PAYOUT RATIO REMAINED AT AROUND 70% OF NET PROFIT AFTER TAX.

AS FORESHADOWED AT THE HALF YEAR RESULTS ANNOUNCEMENT IN FEBRUARY, THE FINAL 2010 DIVIDEND WAS PARTIALLY FRANKED TO 60%. THIS REFLECTS THE GROWING OVERSEAS PROPORTION OF PROFITS AND NET CASH FLOWS.

COCHLEAR HAS DECLARED THE UNFRANKED PORTION OF THE DIVIDEND AS CONDUIT FOREIGN INCOME THAT WILL ASSIST OUR NON-RESIDENT SHAREHOLDERS AS DIVIDEND WITHHOLDING TAX ON THE UNFRANKED AMOUNT WILL NOT APPLY.

WE ANTICIPATE THAT COCHLEAR'S 2011 DIVIDEND PAYMENTS WILL AGAIN BE PARTIALLY FRANKED AND THE UNFRANKED AMOUNT WILL ALSO BE DECLARED CONDUIT FOREIGN INCOME.

CAPITAL MANAGEMENT

I NOW WISH TO SPEAK TO OUR CAPITAL MANAGEMENT.

THE CONTINUED UNCERTAINTY IN THE GLOBAL CAPITAL MARKETS HAS REQUIRED CONTINUED FOCUS ON THE COMPANY'S CAPITAL POSITION BY BOTH MANAGEMENT AND THE BOARD.

AT 30 JUNE 2010, COCHLEAR HAD \$300 MILLION OF CORPORATE DEBT FACILITIES AVAILABLE, MATURING IN JUNE 2012.

THIS WAS PART OF A CONSERVATIVE APPROACH ADOPTED DURING THE RECENT GLOBAL FINANCIAL MARKET DIFFICULTIES. DURING THIS TIME WE FELT IT PRUDENT TO HAVE SUBSTANTIAL LIQUIDITY ESPECIALLY DURING THE EARLY STAGES OF OUR NEW HEADQUARTER PROJECT. THIS PROJECT WAS FINANCED BY ANOTHER SPECIAL PURPOSE FACILITY AND WE FELT IT SENSIBLE TO HAVE EXTRA RESOURCES AVAILABLE IN CASE THERE WERE ANY UNEXPECTED ISSUES OR CHALLENGES THAT MAY HAVE ARISEN.

EXCLUDING THIS SPECIAL FINANCING FOR THE HEADQUARTER PROJECT, OUR CORPORATE NET DEBT WAS ONLY \$41 MILLION AT YEAR END.

OUR CORPORATE FACILITIES ARE UNDER REGULAR REVIEW AND WITH THE HEADQUARTER PROJECT NEARING SUCCESSFUL COMPLETION WE DECIDED TO REDUCE OUR CORPORATE FACILITIES BY \$100 MILLION TO A NEW LEVEL OF \$200 MILLION AND THIS WAS DONE IN AUGUST 2010. THE NEW BALANCE OF FACILITIES STILL PROVIDES SUFFICIENT FLEXIBILITY FOR ALL OUR FORECAST CASH REQUIREMENTS. THE FACILITY UTILISED FOR THE NEW HEADQUARTERS PROJECT STOOD AT NET \$73 MILLION AT 30 JUNE 2010.

THIS PROJECT IS VERY CLOSE TO COMPLETION - ON TIME AND ON BUDGET. IN FACT WE NOW EXPECT MACQUARIE UNIVERSITY TO PAY COCHLEAR \$130.3 MILLION ON PRACTICAL COMPLETION OF THE BUILDING WHICH IS SCHEDULED FOR LATER THIS WEEK.

THESE NEW HEADQUARTERS WILL THEN BE LEASED BY COCHLEAR FROM MACQUARIE UNIVERSITY ON COMMERCIAL TERMS ALREADY AGREED.

THIS HAS BEEN A WELL MANAGED AND SUCCESSFUL PROJECT AND WE ARE EXCITED ABOUT MOVING INTO THIS PURPOSE BUILT BUILDING THAT SHOULD OFFER MANY BENEFITS TO US FOR YEARS TO COME.

INFLUENCES ON COCHLEAR FROM GLOBAL ECONOMIC CONDITIONS

COCHLEAR SELLS INTO OVER ONE HUNDRED COUNTRIES AND HAS A DIRECT PRESENCE IN OVER TWENTY.

APPROXIMATELY 95% OF OUR SALES ARE OVERSEAS. WORLD EVENTS ARE THEREFORE IMPORTANT TO OUR CONTINUED GROWTH AND COCHLEAR WILL CONTINUE TO BE INFLUENCED BY EVENTS IN THE GLOBAL ECONOMY AND BY CURRENCY FLUCTUATIONS.

AS WE EXPLAIN IN OUR ANNUAL REPORTS WE ADOPT A CONSERVATIVE HEDGING APPROACH COVERING VARYING AMOUNTS OF OUR EXPECTED NET FOREIGN CURRENCY CASH FLOWS IN THE NEAR TERM, BUT WE MUST ALWAYS RECOGNISE THAT BEYOND THE EARLY YEARS WE ARE EXPOSED TO THE FLUCTUATIONS IN FOREIGN CURRENCIES.

TURNING NOW TO OUR PRODUCTS, COCHLEAR HAS A COMPREHENSIVE RANGE OF HEARING SOLUTION PRODUCTS THAT WE CONTINUALLY SEEK TO IMPROVE. WE BELIEVE THE RECIPIENT BENEFITS AND THE POSITIVE HEALTH ECONOMICS RESULTING FROM THESE PRODUCTS ARE IMPORTANT FOR OUR CONTINUED GROWTH IN F10.

COCHLEAR ALSO BENEFITS FROM A BROAD GEOGRAPHICAL SPREAD OF COUNTRIES THAT WE SELL INTO. TO DATE THIS HAS HELPED NEUTRALISE DEMAND VARIATIONS THAT OFTEN ARISE IN INDIVIDUAL COUNTRIES.

A PARTICULAR QUESTION THAT HAS BEEN ASKED MANY TIMES RECENTLY IS HOW THE EUROPEAN DEBT CRISIS MAY IMPACT COCHLEAR'S PERFORMANCE. OUR ANSWER IS THAT TO DATE WE HAVE NOT SEEN A MATERIAL IMPACT BUT WE RECOGNISE THIS IS AN ISSUE THAT NEEDS CONTINUAL ATTENTION.

WE BELIEVE WE BENEFIT FROM THE FACT THAT COCHLEAR'S PRODUCTS ARE HIGHLY COST EFFECTIVE IN TERMS OF HEALTH ECONOMICS. THIS VIEW WAS AGAIN HIGHLIGHTED IN THE RECENT "NATIONAL INSTITUTE FOR HEALTH AND CLINICAL EXCELLENCE" (NICE) REPORT IN THE UK. FURTHERMORE THE PRODUCT BENEFITS HAVE STRONG EMOTIONAL APPEAL, ESPECIALLY AMONGST PARENTS.

OF FURTHER IMPORTANCE IS THE OBSERVATION THAT THE TOTAL IMPACT OF THE COCHLEAR IMPLANT PROGRAMME ON ANY ONE COUNTRY'S HEALTH BUDGETS IS SMALL.

HAVING SAID THAT, THE BOARD AND MANAGEMENT CONTINUE TO CLOSELY MONITOR THE INDIVIDUAL COUNTRY SITUATIONS.

DIRECTOR AND BOARD ACTIVITIES

AS YOU KNOW, MR TOMMIE BERGMAN RETIRED AS YOUR CHAIRMAN ON 30 JUNE 2010 AFTER NEARLY NINE YEARS AS A DIRECTOR. HIS POSITIVE CONTRIBUTION TO THE GROWTH AND DEVELOPMENT OF COCHLEAR'S BUSINESS IS WELL RECOGNISED.

PERSONALLY, AND ON BEHALF OF THE WHOLE BOARD, I CONGRATULATE HIM ON HIS ACHIEVEMENTS AND HIS YEARS OF EXCEPTIONAL SERVICE. WE WISH HIM WELL FOR HIS RETIREMENT.

I WAS VERY PLEASED TO BE SELECTED TO REPLACE MR BERGMAN AS YOUR CHAIRMAN. I NOTE TOMMIE HAD FOLLOWED AFTER THE FOUNDING CHAIRMAN OF THE BOARD, PROFESSOR DAVID PENINGTON.

COCHLEAR IS A GREAT COMPANY AND I WILL DO ALL I CAN TO WORK WITH THE MANAGEMENT TEAM AND THE BOARD TO MOVE US FORWARD AND CONTINUE TO ENSURE WE ARE STRONG AND SUCCESSFUL.

I HAVE BEEN ON THE BOARD FOR FIVE YEARS NOW AND BELIEVE I HAVE A DEEP UNDERSTANDING OF COCHLEAR'S ACTIVITIES. I SUPPORT THE CURRENT GROWTH STRATEGY, OUR CONTINUING FOCUS ON TECHNOLOGICAL DEVELOPMENT AND INNOVATION AND OUR MANUFACTURING INITIATIVES AND BELIEVE THEY ARE ALL APPROPRIATE FOR COCHLEAR.

THE BOARD AND I WILL CONTINUE TO SUPPORT THE CEO/PRESIDENT AND THE SENIOR EXECUTIVES TO ENSURE WE HAVE WELL FOUNDED STRATEGIES AND DEVELOPMENT PLANS, AND THEN DO ALL WE CAN TO ENSURE THEIR SUCCESSFUL EXECUTION.

I AM DELIGHTED THAT MRS YASMIN ALLEN JOINED THE BOARD ON 2ND AUGUST 2010. MRS ALLEN HAS A STRONG BACKGROUND IN FINANCE AND BUSINESS AND IS AN EXPERIENCED INDEPENDENT DIRECTOR. SHE WILL COMPLEMENT THE SKILL SET OF THE BOARD AND I LOOK FORWARD TO WORKING WITH HER.

AFTER A SUCCESSFUL INDUCTION INTO THE COMPANY, AND AS WAS ENVISAGED WHEN SHE JOINED, I AM PLEASED TO ANNOUNCE SHE HAS BEEN APPOINTED CHAIRPERSON OF THE AUDIT COMMITTEE, EFFECTIVE TODAY.

I WOULD LIKE TO THANK MR ANDY DENVER FOR ACTING AS CHAIRMAN OF THE AUDIT COMMITTEE FOLLOWING MY APPOINTMENT AS CHAIRMAN OF THE BOARD, HE DID AN EXCELLENT JOB AND I APPRECIATED HIS WILLINGNESS TO ASSIST A TRANSITION PROCESS THAT IS NOW COMPLETE.

EXECUTIVE TEAM

WE ARE VERY LUCKY TO HAVE A STRONG EXECUTIVE TEAM CAPABLY LED BY THE CEO/PRESIDENT, DR CHRIS ROBERTS.

THIS TEAM HAS BEEN TOGETHER FOR SOME TIME AND ITS STABILITY, COMMITMENT, KNOWLEDGE AND HARD WORK HAVE HELPED US TO CONTINUALLY IMPROVE. THEY ARE SUPPORTED BY A BROAD TEAM OF PROFESSIONALS WHO ARE ALL A VITAL PART OF MEETING THE CHALLENGING TASKS OF NEW PRODUCT DEVELOPMENT, MANUFACTURING IMPROVEMENTS AND VOLUME ACHIEVEMENTS.

THE RECENT SUCCESSFUL LAUNCH OF THE NEW PRODUCTS NUCLEUS 5 AND BP100 WAS CAPABLY EXECUTED. THIS RESULTED FROM SUPERIOR EFFORT BY OUR MANY SALES ORIENTED MEMBERS AND THEY TOO ARE TO BE COMMENDED.

THE CEO WILL PROVIDE MORE DETAIL ON THESE ACTIVITIES SHORTLY.

THE BOARD SINCERELY THANKS ALL OF THE COCHLEAR TEAM FOR A SUCCESSFUL, BUT CHALLENGING YEAR.

DIVERSITY

DIVERSITY IS A MATTER WHICH HAS BEEN CENTRAL TO COCHLEAR'S DEVELOPMENT SINCE ITS INCEPTION AND SO, AS CHAIRMAN, I AM PLEASED THAT DIVERSITY IN ITS FULLEST SENSE IS ONCE AGAIN ON THE NATIONAL AND INTERNATIONAL AGENDA.

COCHLEAR MADE THE DECISION, AT THE START OF ITS DEVELOPMENT NEARLY 30 YEARS AGO, THAT IT MUST LOOK OUTSIDE THE DOMESTIC AUSTRALIAN MARKET TO ENABLE IT TO DEVELOP ITS FULL POTENTIAL. AS A RESULT, COCHLEAR WAS "BORN GLOBAL" AND HAS ALWAYS TRIED TO EMBRACE THE VIRTUES OF DIVERSITY AND TOLERANCE THAT COMES WITH THE DECISION FOR A SMALL AUSTRALIAN COMPANY TO ENTER WORLD MARKETS.

COCHLEAR NOW EMPLOYS OVER 2,000 EMPLOYEES IN NEARLY 50 COUNTRIES. IN OUR SYDNEY OFFICE ALONE, WE ARE REPRESENTED BY OVER 60 NATIONALITIES. THESE COMBINED ENERGIES AND TALENTS HAVE MADE COCHLEAR THE GLOBAL SUCCESS IT IS TODAY.

COCHLEAR'S DIVERSITY INCLUDES GENDER DIVERSITY. AS SUCH I'M PARTICULARLY PLEASED TO HAVE MRS ALLEN JOIN US ON THE BOARD.

I ALSO NOTE THAT COCHLEAR IS AHEAD OF THE ASX AVERAGES FOR WOMEN IN MANAGERIAL ROLES.

WE HAVE IN PLACE AND SUPPORT AN ONGOING PROGRAMME TO ENSURE APPROPRIATE ENCOURAGEMENT AND SUPPORT FOR WOMEN IN OUR WORKFORCE.

BROAD BASED DIVERSITY, AND THE UNDERSTANDINGS AND INSIGHTS IT HAS BROUGHT US, HAVE BEEN A CRITICAL ELEMENT IN OUR SUCCESS IN THE GLOBAL MARKET. I WILL CONTINUE TO STRONGLY ENCOURAGE DIVERSITY OF OPINION IN OUR ACTIVITIES.

EXECUTIVE REMUNERATION AND EXECUTIVE SHARE OPTION PLANS

THERE HAS BEEN CONSIDERABLE DISCUSSION DURING 2010 ABOUT EXECUTIVE PAY AND IN PARTICULAR, SHARE OPTION PLANS. EXISTING AUSTRALIAN LEGISLATION WAS DEBATED AND FINALLY AMENDED DURING THE YEAR.

COCHLEAR CONTINUES TO ENCOURAGE EMPLOYEE OWNERSHIP OF THE COMPANY AND AFTER CAREFUL REVIEW AND CONSIDERATION WE DID NOT CANCEL ANY OF OUR OPTION AND SHARE PLANS AS A RESULT OF CHANGES TO LEGISLATION.

OVER 150 EXECUTIVES AT COCHLEAR OWN OPTIONS OR PERFORMANCE SHARES. THE EMPLOYEE SHARE PLAN IS A BROAD BASED SCHEME AND OVER 1,000 EMPLOYEES ARE CURRENTLY SHAREHOLDERS UNDER THE SCHEME.

IN AUSTRALIA, EXECUTIVE REMUNERATION WAS THE SUBJECT OF A NUMBER OF REVIEWS WHICH AGAIN RESULTED IN LEGISLATIVE CHANGES.

THE REMUNERATION COMMITTEE HAS CONSIDERED THESE MATTERS AND IS SATISFIED THAT COCHLEAR'S PHILOSOPHY AND PRACTICES REGARDING EXECUTIVE REMUNERATION FULLY MEET THE STANDARDS REQUIRED. WE BELIEVE THIS AREA WILL NEED TO BE CONTINUALLY REVIEWED BY US AND OUR APPROACH WILL BE TO STAY ATTUNED WITH BEST PRACTICE OVER THE LONGER TERM. AT THE SAME TIME WE NEED TO BE CAREFUL TO NOT LOSE THE BENEFITS OF THE APPROACHES THAT HAVE SERVED US WELL TO DATE.

YOU WILL HAVE AN OPPORTUNITY TO COMMENT AND VOTE ON THE REMUNERATION REPORT LATER IN THE PROCEEDINGS.

OUTLOOK

YOUR BOARD BELIEVES THE LONG TERM OUTLOOK FOR COCHLEAR IS POSITIVE. THIS IS SUPPORTED BY THE COMPANY'S CONTINUED INVESTMENT IN RESEARCH AND DEVELOPMENT, AND IN OUR MARKETING AND SALES GROWTH INITIATIVES. CONTINUED IMPROVEMENT IN INTERNAL CAPABILITIES THAT ARE NECESSARY TO SUPPORT THIS GROWTH ARE ALSO BEING EXECUTED.

LADIES AND GENTLEMEN THAT NOW CONCLUDES MY COMMENTS.

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.

RICK HOLLIDAY-SMITH
19 OCTOBER 2010