Cochlear

2004 CHAIRMAN'S ADDRESS

COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 19, 2004
EXCHANGE SQUARE AUDITORIUM
18 BRIDGE STREET, SYDNEY

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

RESULTS

WHILST COCHLEAR FINISHED THE YEAR TO 30 JUNE 2004 AS WORLD-WIDE MARKET LEADER IN THE FIELD OF COCHLEAR IMPLANTS, WITH STRONG BUSINESS FUNDAMENTALS, ROBUST CASH FLOW AND A POSITIVE DEMAND OUTLOOK, THE YEAR PROVED TO BE MORE CHALLENGING THAN ANTICIPATED.

COCHLEAR'S SALES OF 9,306 UNITS WERE FLAT COMPARED TO LAST YEAR'S RECORD SALES OF 9,342 UNITS. REVENUE OF $286M WAS DOWN 7% ON LAST YEAR'S $308M REFLECTING THE HIGHER AUSTRALIAN DOLLAR AND LOWER PROCESSOR SALES.

THE FLAT SALES AND INCREASED COSTS ASSOCIATED WITH REFOCUSING THE COMPANY AND PROVIDING FOR THE LEGAL COSTS ASSOCIATED WITH

THE DEPARTMENT OF JUSTICE INQUIRY IN THE USA MEANT THAT PROFIT AFTER TAX OF $36.7M WAS BELOW LAST YEAR'S RECORD $58.1M.

CASH GENERATION WAS HOWEVER STRONG AND WE FINISHED THE YEAR WITH NEARLY $50M IN THE BANK.

NONETHELESS, THE RESULTS WERE DISAPPOINTING AND CLEARLY NOT ACCEPTABLE FOR COCHLEAR LIMITED, A COMPANY THAT HAS ACHIEVED SOLID GROWTH ON A YEARLY BASIS SINCE LISTING ON THE ASX IN DECEMBER 1995.

CONSEQUENTLY, A COMPANY WIDE ACTION PROGRAMME HAS BEEN INITIATED TO IMPROVE PERFORMANCE. A FEW ACTIONS ARE WORTH MENTIONING.

ACTIONS TO ADDRESS POOR RESULTS

OUR NEW CEO, DR CHRIS ROBERTS, WAS APPOINTED ON 1ST FEBRUARY 2004. CHRIS COMES WITH IMPRESSIVE CREDENTIALS IN GROWING AND DEVELOPING AUSTRALIAN MEDICAL DEVICE BUSINESSES GLOBALLY FOR THE LAST 25 YEARS. HIS CONTRIBUTION TO DATE HAS BEEN AT THE HIGH LEVEL EXPECTED. CHRIS WILL OUTLINE THE ACTIONS HE HAS TAKEN AND THE PROGRESS TO DATE IN HIS ADDRESS LATER THIS AFTERNOON.

THE COMPANY HAS REFOCUSED ON ITS CORE BUSINESS. OUR INVOLVEMENT IN PERIPHERAL AREAS OF RESEARCH HAS BEEN STOPPED AND RESOURCES REDIRECTED TO THE COCHLEAR IMPLANT BUSINESS AND THE DEVELOPMENT OF NEW PRODUCTS AND APPLICATIONS IN THE HEARING IMPAIRED MARKET.

IT BECAME CLEAR THAT WHILE OUR PRODUCTS AND THEIR RELIABILITY WERE SECOND TO NONE, THE MARKETING STRATEGY NEEDED TO BE MODIFIED IF WE WERE TO ACHIEVE ACCEPTABLE GROWTH RATES IN THE FUTURE.

THE MARKETING TEAMS HAVE NOW BEEN STRENGTHENED IN ALL REGIONS WITH THE APPOINTMENTS OF KEY EXECUTIVES. DETAILED MARKET RESEARCH IN THE USA AND OTHER KEY MARKETS HAS NOW BEEN CONCLUDED. MARKETING STRATEGIES AND PROGRAMMES FOR OUR NEXT GENERATION PRODUCTS TO BE RELEASED IN THE CURRENT FINANCIAL YEAR HAVE BEEN DRAWN UP FROM THIS RESEARCH.

IN ADDITION, WITH THE STRENGTHENING OF THE AUSTRALIAN DOLLAR AND LOWER THAN EXPECTED SALES GROWTH, COCHLEAR WILL BE ADJUSTING ITS COST BASE OVER THE NEXT THREE YEARS TO MORE SUSTAINABLE LEVELS. THIS WILL INVOLVE ACHIEVING COST SAVINGS THROUGH PRODUCTIVITY IMPROVEMENTS THROUGHOUT THE COMPANY. GOOD PROGRESS IS BEING MADE AND THIS PROFIT IMPROVEMENT PROGRAMME WILL CONTINUE TO BE A TOP PRIORITY FOR MANAGEMENT.

CONTEXT GOING FORWARD

LOOKING FORWARD, IT MAY BE USEFUL TO MENTION SOME OF THE MARKET CHARACTERISTICS AFFECTING COCHLEAR'S BUSINESS.

COCHLEAR OPERATES IN A GLOBAL NICHE MARKET WITH ONLY 3% OF SALES IN AUSTRALIA. THE REMAINING 97% ARE BEING SOLD IN THE REGIONS OF THE AMERICAS, EUROPE AND ASIA, COMPRISING MORE THAN 1,000 CLINICS IN SOME 80 COUNTRIES.

IT IS A RELATIVELY SMALL MARKET WITH A HIGH SENSITIVITY TO VOLUME CHANGES. FOR EXAMPLE, A SHIFT OF A HOSPITAL TENDER TO ANOTHER ACCOUNTING PERIOD OR GAIN OR LOSS OF AN ANNUAL TENDER CAN HAVE A MATERIAL IMPACT ON A REGION'S RESULT.

WHILST THE ACCESSIBLE MARKET IS CURRENTLY RELATIVELY SMALL, IT HAS A HUGE POTENTIAL DUE TO THE ENORMOUS UNMET CLINICAL DEMAND FOR OUR PRODUCTS. IT IS A MATTER OF HOW QUICKLY WE CAN CONQUER THE BARRIERS OF AWARENESS, REIMBURSEMENT AND CLINIC CAPACITY THAT WILL DETERMINE MARKET SIZE AND FUTURE GROWTH RATES.

WITHIN THIS MARKET WE RETAIN A DOMINANT POSITION WITH A WORLDWIDE MARKET SHARE OF APPROXIMATELY 60%.

OUR PRODUCTS ARE WELL ACCEPTED AND AN EXCELLENT RELIABILITY HISTORY PUTS US IN AN ENVIABLE POSITION. WE ALSO HAVE AN EXCITING PRODUCT PIPELINE OF INNOVATIVE PRODUCTS FOR THE FUTURE THAT WILL FURTHER ENHANCE OUR GROWTH PROSPECTS.

DIVIDEND

A FINAL DIVIDEND OF 44C WAS PAID TO SHAREHOLDERS ON 23RD SEPTEMBER 2004 BRINGING THE FULL YEAR'S DIVIDEND TO 79C, SLIGHTLY HIGHER THAN LAST YEAR DESPITE THE LOWER EARNINGS.

I WOULD LIKE TO EXPLAIN THE BOARD'S THINKING BEHIND THE DIVIDEND DECISION.

FIRST, THE BOARD REVIEWED THE COMPANY'S CAPACITY TO PAY THE DIVIDEND AND CONCLUDED THAT A FINAL DIVIDEND OF 44C WAS WELL WITHIN

COCHLEAR'S CAPACITY WHILE RETAINING SUFFICIENT CASH AND RETAINED EARNINGS TO SUPPORT FUTURE GROWTH OF THE BUSINESS.

THE LEVEL OF DIVIDEND PAID IS VERY MUCH PART OF COCHLEAR'S CAPITAL MANAGEMENT ACTIVITY AND THE FULLY FRANKED DIVIDEND PROVIDES SHAREHOLDERS WITH A REASONABLE RETURN.

IT ALSO DEMONSTRATES THE BOARD'S CONFIDENCE IN COCHLEAR'S FUTURE BY MAINTAINING THE DIVIDEND AT LAST YEAR'S LEVEL.

CORPORATE GOVERNANCE

I NOW WANT TO TURN TO THE AREA OF CORPORATE GOVERNANCE WHICH HAS OCCUPIED MUCH ATTENTION FROM SHAREHOLDERS, REGULATORS AND OTHER STAKEHOLDERS.

YOU WILL HAVE NOTICED AN INCREASE IN COCHLEAR'S LEVEL OF DISCLOSURE OF OUR GOVERNANCE PRACTICES IN THE ANNUAL REPORT AND ON THE WEB SITE.

THIS DISCLOSURE REFLECTS YOUR BOARD'S COMMITMENT TO TRANSPARENCY AND BEST PRACTICE IN CORPORATE GOVERNANCE AND BUSINESS CONDUCT INCLUDING FULFILLING THE RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL'S "PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS".

COCHLEAR MEETS ALL THE MAJOR RECOMMENDATIONS OF THE ASX'S PRINCIPLES.

SINCE WE LAST MET WE HAVE:

- ESTABLISHED A NOMINATIONS COMMITTEE RESPONSIBLE FOR BOARD PERFORMANCE PROCESSES, BOARD COMPOSITION AND BOARD SUCCESSION PLANNING. THIS COMMITTEE COMPRISES ONLY INDEPENDENT NON-EXECUTIVE DIRECTORS AND IS CHAIRED BY THE CHAIRMAN OF THE BOARD.

- WE CONTINUED TO REVIEW AND WHERE APPROPRIATE UPDATE OUR BOARD COMMITTEE CHARTERS.

  THE BOARD WORK AT COCHLEAR IS COMPLEX AND THE BOARD OPERATES WITH A BROAD COMMITTEE STRUCTURE. BESIDES THE NOMINATIONS COMMITTEE, WE HAVE AN AUDIT COMMITTEE, A REMUNERATION COMMITTEE, AS WELL AS COMMITTEES TO COVER THE IMPORTANT AREAS OF TECHNOLOGY & INNOVATION AND MEDICAL SCIENCE. THE COMMITTEE CHARTERS ARE SET OUT IN FULL ON OUR WEB SITE.

- IN ADDITION A MORE EXTENSIVE AND RIGOROUS INTERNAL AUDIT PROGRAMME WAS IMPLEMENTED DURING THE YEAR WITH THE ASSISTANCE OF PRICEWATERHOUSECOOPERS INCLUDING A REVIEW OF THE COMPLIANCE OF FOREIGN EXCHANGE TRANSACTIONS TO POLICY.

- COCHLEAR WAS ONE OF ONLY A HANDFUL OF COMPANIES THAT RELEASED A FULL SET OF FINANCIAL STATEMENTS AND THE REMUNERATION REPORT TO THE ASX AT THE TIME OF THE PRELIMINARY FINAL RESULTS ANNOUNCEMENT ON 17TH AUGUST. WE BELIEVE THIS TRANSPARENCY AND ADDITIONAL INFORMATION BEING AVAILABLE TO SHAREHOLDERS AS SOON AS POSSIBLE AFTER YEAR END IS IMPORTANT.

EXECUTIVE AND BOARD REMUNERATION

THERE HAS BEEN MUCH DISCUSSION ON EXECUTIVE REMUNERATION IN THE PUBLIC ARENA IN RECENT TIMES AND THIS IS AN AREA WHERE YOUR REMUNERATION COMMITTEE AND BOARD HAS SPENT A CONSIDERABLE AMOUNT OF TIME.

THE REMUNERATION REPORT WILL BE DISCUSSED AND VOTED ON AS A FORMAL AGENDA ITEM THIS YEAR. THIS REPORT PROVIDES YOU WITH BOTH THE DETAILS AND PHILOSOPHY BEHIND THE REMUNERATION POLICY WE HAVE ADOPTED. THE NOTES TO THE ACCOUNTS ALSO OUTLINE CONSIDERABLE DETAIL REGARDING SENIOR EXECUTIVE REMUNERATION.

I BELIEVE THAT COCHLEAR NOW 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 AND LONG TERM INCENTIVES DESIGNED IN ACCORDANCE WITH BEST PRACTICE BASED ON EXTERNAL ADVICE.

COCHLEAR'S LONG TERM INCENTIVE PLAN WAS APPROVED BY SHAREHOLDERS AT LAST YEAR'S AGM. THE PLAN HAS HIGH 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% OF THE ALLOCATED PERFORMANCE SHARES AND OPTIONS. THESE HURDLES ARE HIGHER THAN MOST COMPANIES AND WILL NOT BE EASILY MET, BUT NEVERTHELESS, I BELIEVE THEY REWARD AMBITIOUS GROWTH WHICH IS WHAT WE ARE STRIVING FOR AT COCHLEAR.

AS YOU WILL BE AWARE FROM THE NOTICE OF MEETING, THERE IS A RESOLUTION PROPOSING THAT THE MAXIMUM DIRECTORS' REMUNERATION POOL BE INCREASED FROM $600,000 A YEAR TO $1.0 MILLION PER YEAR.

THE REASON FOR THIS IS THAT THERE HAS ONLY BEEN ONE OTHER ADJUSTMENT TO NON-EXECUTIVE DIRECTORS REMUNERATION SINCE THE COMPANY LISTED IN 1995 AND IT IS NOW NECESSARY FOR AN ADJUSTMENT TO BE MADE SINCE THE CURRENT LIMIT HAS BEEN REACHED.

THE EXTRA AMOUNT WILL PROVIDE FOR INCREASES IN THE YEARS AHEAD AND ANY ADDITIONAL APPOINTMENTS TO THE BOARD IN THE FUTURE. AS ADVISED LAST YEAR, THERE WILL BE NO RETIREMENT BENEFITS FOR NEW DIRECTORS APPOINTED AFTER 2003. THIS WILL REQUIRE AN ADJUSTMENT TO THE BASE FEE FOR NEW DIRECTORS WHICH WILL NEED TO BE COVERED FROM THE TOTAL REMUNERATION POOL.

BOARD RENEWAL

AN IMPORTANT PART OF ANY CHAIRMAN'S ROLE IS TO ENSURE AN APPROPRIATE MIX OF SKILLS AT THE BOARD LEVEL. AT COCHLEAR, WE HAVE BEEN WELL SERVED BY A DEDICATED BOARD OF NON-EXECUTIVE DIRECTORS. THIS YEAR, I WOULD LIKE TO SPECIALLY MENTION MRS CAROL HOLLEY WHO HAS VERY CAPABLY CHAIRED OUR AUDIT COMMITTEE SINCE THE COMPANY WAS LISTED IN DECEMBER 1995.

CAROL HAS SERVED FOR NEARLY NINE YEARS AND HAS INDICATED SHE WILL NOT BE STANDING FOR RE-ELECTION WHEN SHE RETIRES BY ROTATION LATER IN THE MEETING. I WOULD LIKE ON BEHALF OF THE BOARD TO WISH CAROL ALL THE VERY BEST AND THANK HER FOR HER CONSCIENTIOUS AND CONSIDERABLE CONTRIBUTION TO COCHLEAR'S POSITIVE DEVELOPMENT.

I EXPECT TO ANNOUNCE THE APPOINTMENT OF A NEW DIRECTOR TO REPLACE CAROL WITHIN THREE MONTHS.

WHILST ON THIS SUBJECT, AND BASED ON DISCUSSIONS WITH INDIVIDUAL DIRECTORS DURING THE RECENTLY COMPLETED ANNUAL BOARD ASSESSMENT AND SUCCESSION SESSIONS, I UNDERSTAND THAT SOME OF OUR LONG SERVING BOARD MEMBERS MAY ALSO WISH TO RETIRE WITHIN THE NEXT ONE TO TWO YEAR PERIOD. THE REPLACEMENT OF THEIR EXPERIENCE WILL OBVIOUSLY NOT BE EASY.

HOWEVER, BOARD RENEWAL AND SUCCESSION PLANNING IS A HEALTHY AND ESSENTIAL PART OF ENSURING THAT THE KNOWLEDGE AND EXPERIENCE OF THE DIRECTORS AND MANAGEMENT IS OPTIMISED RELATIVE TO THE ORGANISATIONAL DEVELOPMENT OF THE COMPANY.

DEPARTMENT OF JUSTICE ENQUIRY IN THE USA

NOW TO A VERY DIFFERENT SUBJECT.

IN MARCH 2004 COCHLEAR AMERICAS RECEIVED A REQUEST FOR INFORMATION FROM THE UNITED STATES DEPARTMENT OF JUSTICE ("DOJ").

THE INQUIRY RELATES TO FEDERAL HEALTH CARE LAWS IN THE USA THAT DEAL WITH MEDICARE AND MEDICAID PROGRAMMES. COCHLEAR HAS TAKEN THE INQUIRY VERY SERIOUSLY. WE HAVE ENGAGED A NATIONALLY RECOGNISED LAW FIRM WITH SPECIALISED EXPERTISE IN US HEALTHCARE LAW TO ASSIST.

WE HAVE COOPERATED FULLY WITH THE AUTHORITIES AND ARE CURRENTLY STILL IN THE DOCUMENT COLLECTION PHASE. THERE ARE LITERALLY MILLIONS OF DOCUMENTS TO BE COLLATED AND HANDED OVER.

AT THIS POINT THE DOJ HAS NOT MADE ANY ALLEGATIONS.

LEGAL FEES ASSOCIATED WITH THE INQUIRY HAVE BEEN ACCRUED IN THE LAST FINANCIAL YEAR.

THIS COULD BE A LENGTHY PROCESS BEYOND THE CONTROL OF COCHLEAR AND WITH LITTLE TRANSPARENCY ON TIMING. WE WILL OBVIOUSLY KEEP YOU UP TO DATE AS MATTERS PROGRESS.

OUTLOOK

CHRIS ROBERTS WILL DEAL IN DETAIL WITH THE OUTLOOK IN HIS ADDRESS, BUT I WANTED TO SAY SOMETHING ON THIS SUBJECT.

THERE HAS BEEN CONSIDERABLE CHANGE AT COCHLEAR OVER THE LAST SIX TO TWELVE MONTHS. MOST OF THIS CHANGE HAS BEEN DIFFICULT AND COMPLEX, ESPECIALLY FOR A COMPANY WITH A STRONG HISTORY OF PERFORMANCE.

HOWEVER, I BELIEVE THAT THE CHANGE PROGRAMME NOW IN PROGRESS WILL DELIVER CONSIDERABLE BENEFITS TO THE COMPANY AND ITS SHAREHOLDERS.

IN THIS CURRENT YEAR WE MUST;

- SETTLE IN THE NEW MANAGEMENT TEAM;
- BED DOWN THE ACQUISITION OF THE DISTRIBUTOR BUSINESSES IN JAPAN, BELGIUM, THE NETHERLANDS AND FRANCE;

- LAUNCH OUR NEXT GENERATION OF PRODUCTS ON TIME AND WITHIN BUDGET AND

- SUCCESSFULLY EXECUTE OUR GROWTH STRATEGIES.

THESE REQUIRE PRECISE EXECUTION ON A NUMBER OF FRONTS, BUT WHEN ACHIEVED, WILL PROVIDE THE COMPANY WITH A STRENGTHENED PLATFORM FOR FUTURE GROWTH.

IN THIS INDUSTRY WHERE LEAD TIMES ARE LONG, THE IMPACT OF THESE IMPROVEMENTS ARE EXPECTED TO BEGIN TO TRANSLATE INTO HIGHER PROFITS IN THE SECOND HALF OF THIS YEAR.

FINALLY, ON BEHALF OF THE BOARD, I WOULD LIKE TO CONGRATULATE CHRIS ON THE THOUGHTFUL AND ENTHUSIASTIC WAY HE HAS MANAGED A VERY DEMANDING START TO HIS CAREER AT COCHLEAR. I WOULD ALSO LIKE TO THANK THE OVER 800 COCHLEAR EMPLOYEES AROUND THE WORLD FOR THEIR DEDICATION AND HARD WORK DURING A DIFFICULT YEAR AND FOR THEIR ENTHUSIASTIC COMMITMENT TO THE AMBITIOUS GROWTH TARGETS SET FOR THE COMPANY.

I WOULD NOW LIKE TO INVITE DR CHRIS ROBERTS TO GIVE HIS CEO'S ADDRESS.

THANK YOU.

TOMMIE BERGMAN

19 OCTOBER 2004