

2008 CHAIRMAN'S ADDRESS

COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 21st, 2008
GRAND BALLROOM
FOUR POINTS BY SHERATON
161 SUSSEX STREET, SYDNEY

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

2008 WAS ANOTHER SUCCESSFUL YEAR OF GROWTH FOR COCHLEAR WITH RECORD FINANCIAL RESULTS AND A FURTHER STRENGTHENING OF THE COMPANY'S GLOBAL ORGANISATIONAL CAPABILITIES.

THESE RESULTS WERE ACHIEVED IN THE CONTEXT OF A DIFFICULT GLOBAL BUSINESS ENVIRONMENT.

THE AUSTRALIAN DOLLAR ROSE RAPIDLY DURING THE YEAR AND THE ECONOMIC CONDITIONS IN MANY OF THE COUNTRIES WHERE COCHLEAR DOES BUSINESS WERE UNSETTLED.

FIRST, SOME COMMENTS ON THE FINANCIAL PERFORMANCE.

FINANCIAL RESULTS

REVENUE CONTINUED TO GROW AND OVERALL REVENUE OF \$601.7 MILLION WAS UP 8% ON THE PRIOR YEAR. HOWEVER, IN CONSTANT CURRENCY TERMS, REVENUE WAS UP 18%. THIS REFLECTS THE EXTENT TO WHICH THE RISING AUSTRALIAN DOLLAR ADVERSELY IMPACTED OUR RESULTS IN 2008. IN DOLLAR TERMS OUR SALES RESULTS WOULD HAVE BEEN \$47 MILLION HIGHER THAN REPORTED IF THE EXCHANGE RATES OF F07 HAD HELD CONSTANT INTO F08!

A FURTHER POINT TO NOTE WITH OUR RESULT IS THE PORTFOLIO EFFECT OF SELLING INTO OVER ONE HUNDRED COUNTRIES. INEVITABLY THERE WERE VARIATIONS IN INDIVIDUAL COUNTRY AND REGIONS' RESULTS, BUT OVERALL A SATISFACTORY OUTCOME WAS ACHIEVED.

LAST YEAR I REPORTED THAT ALL THREE REGIONS HAD ACHIEVED ABOVE AVERAGE SALES GROWTH AND THAT THIS WAS NOT OUR USUAL EXPERIENCE. THIS YEAR, THE RESULT MIX WAS MORE TYPICAL.

EUROPE WAS THE STANDOUT REGION IN 2008 WITH REVENUE UP 30% IN CONSTANT CURRENCY. THE HIGHER SALES CAME FROM A COMBINATION OF IMPROVED SALES IN DEVELOPED COUNTRIES SUCH AS GREAT BRITAIN, AND A CONTINUING EXPANSION INTO THE NEWER DEVELOPING REGIONS OF EASTERN EUROPE AND THE MIDDLE EAST.

THE AMERICAS REGION GREW 6% IN CONSTANT CURRENCY, DOWN FROM TWO YEARS OF VERY STRONG GROWTH, WHILST SALES IN SOUTH AMERICA AND CANADA WERE FLAT. AS ANTICIPATED, THE UPGRADE EXTERNAL PROCESSOR SALES FELL AFTER THE RAPID UPTAKE LAST YEAR.

ASIA AGAIN GREW STRONGLY, UP 20% IN 2008. THIS WAS AUGMENTED BY STRONG SALES INTO CHINA BOTH AS PART DELIVERY OF THE LARGE DONATION ORDER RECEIVED IN 2006 AND ALSO NON-DONATION SALES. THE POTENTIAL FOR COCHLEAR IN THIS REGION REMAINS VERY POSITIVE.

THE BUSINESS AREA FOR CONDUCTIVE HEARING LOSS, INCLUDING SINGLE-SIDED DEAFNESS, OUR BAHA RANGE OF PRODUCTS CONTINUED TO GROW STRONGLY. SALES REVENUE GREW 27% IN CONSTANT CURRENCY TO \$75.6 MILLION. BAHA SALES NOW REPRESENT OVER 15% OF OUR GROUP SALES.

YOU MAY RECALL THAT COCHLEAR BOUGHT THE SWEDISH HEADQUARTERED BAHA BUSINESS IN MARCH 2005. SALES AND RETURNS TO DATE HAVE FAR EXCEEDED OUR PURCHASE ASSUMPTIONS. WE HAVE INVESTED HEAVILY IN RESEARCH AND DEVELOPMENT AS WE BELIEVE THERE IS SUBSTANTIAL POTENTIAL FOR GROWTH IN THIS SEGMENT OF OUR BUSINESS. IN 2008 WE SPENT OVER \$7 MILLION ON RESEARCH AND DEVELOPMENT ON BAHA PRODUCTS; UP FROM \$2 MILLION PER ANNUM WHEN WE PURCHASED IT. IN ADDITION, MANY OF THE ELEMENTS OF COCHLEAR IMPLANTS AND OUR GENERAL RESEARCH PROGRAMMES ALSO HAVE SYNERGISTIC APPLICATIONS FOR THE BAHA PRODUCT RANGE.

FLOWING FROM THE INCREASED SALES, COCHLEAR DELIVERED NET PROFIT AFTER TAX OF \$115.2 MILLION, UP 15% ON LAST YEAR.

THIS RESULT WAS ACHIEVED THROUGH DISCIPLINED EXPENSE GROWTH WITH TARGETED EXPENDITURE INCREASES IN SPECIFIC AREAS, FOR EXAMPLE, R&D EXPENDITURE GREW 21% TO \$80 MILLION WHILE ADMINISTRATIVE EXPENSES WERE REDUCED BELOW THE PRIOR YEAR'S LEVELS.

LOW DEBT LEVELS

THERE HAS BEEN MUCH GENERAL DISCUSSION IN THE MARKET OF DEBT LEVELS AND I WANTED TO UPDATE YOU ON COCHLEAR'S STRONG POSITION IN THIS AREA.

COCHLEAR HAS ALWAYS HAD LOW LEVELS OF DEBT. OUR NET DEBT AT 30TH JUNE 2008 WAS \$133 MILLION – THIS IS LOW IN RELATION TO OUR MARKET CAP OF APPROXIMATELY \$2.4 BILLION AND NET ASSETS OF \$319 MILLION AS AT 30TH JUNE 2008. IMPORTANTLY OUR INTEREST COVER, THAT IS THE LEVEL OF EARNINGS THAT COULD PAY THE INTEREST ON OUR DEBT IN 2008 WAS EIGHT TIMES. THIS IS A ROBUST RESULT DESPITE THE RISE IN INTEREST RATES IN 2008

OUR GEARING, MEASURED AS NET DEBT OVER NET DEBT PLUS SHAREHOLDER FUNDS WAS REDUCED TO 29%, A VERY CONSERVATIVE LEVEL OF DEBT.

IN THE FIRST HALF OF 2008 WE RENEGOTIATED OUR DEBT FACILITIES. THE COMPOSITION OF THE DEBT WAS ALTERED TO INCREASE THE LONG TERM PROPORTION AND NOW SOME 90% OF OUR DEBT IS CLASSIFIED AS LONG TERM, RANGING FROM 12 MONTHS TO 20 MONTHS.

WE BELIEVE THIS CONSERVATIVE APPROACH TO DEBT HAS SERVED YOUR COMPANY WELL IN THE CURRENT ECONOMIC CLIMATE AND THE BOARD AND MANAGEMENT CONTINUE TO MONITOR OUR DEBT LEVELS ON A REGULAR BASIS TO OPTIMISE COCHLEAR'S POSITION.

INCREASED SHAREHOLDER VALUE

COCHLEAR HAS A PHILOSOPHY OF LONG-TERM SUSTAINABLE GROWTH. TO HELP MEASURE THIS, WE MEASURE TOTAL SHAREHOLDER RETURN ON A ROLLING THREE YEAR BASIS. FOR THE THREE YEARS ENDED 30TH JUNE 2008, COCHLEAR'S TSR OF 35.2% WAS RANKED IN THE TOP 25% OF THE ASX 100 COMPANIES IN TERMS OF TOTAL SHAREHOLDER RETURN. THIS IS THE SECOND YEAR IN A ROW THAT COCHLEAR HAS BEEN IN THE TOP 25% AND THE RESULT WAS ACHIEVED DESPITE A FALL IN THE SHARE PRICE IN THE SECOND HALF OF THE YEAR.

SINCE THE END OF THE FINANCIAL YEAR, COCHLEAR'S SHARE PRICE HAS RECOVERED SOME 32% TO FRIDAY'S CLOSE OF \$57.68.

COCHLEAR'S LONG TERM STRATEGY IN PLACE

THE BOARD CLOSELY MONITORS AND OVERSEES COCHLEAR'S LONG TERM STRATEGY. THE STRATEGY REMAINS FOCUSED ON SUSTAINABLE GROWTH THROUGH THE FOUR AREAS WE HAVE IDENTIFIED IN THE IMPLANTABLE HEARING SPACE. THESE ARE:

- COCHLEAR IMPLANTS
- ELECTRO-ACOUSTIC STIMULATION (EAS)

- BONE CONDUCTION IMPLANTS – THE BAHA
- DIRECT ACOUSTIC COCHLEAR STIMULATION (DACS)

THIS IMPRESSIVE PRODUCT PORTFOLIO COMBINES SHORT TERM INNOVATIONS AND PRODUCT RELEASES WITH THE PROSPECT OF ENTERING NEW MARKET SEGMENTS IN THE FUTURE. THE STRATEGY SHOULD BE VIEWED IN THE CONTEXT OF A PRESENCE IN OVER ONE HUNDRED COUNTRIES. THIS CREATES A PORTFOLIO EFFECT OF BOTH GEOGRAPHY AND PRODUCT, THEREBY REDUCING THE OVERALL RISK OF THE COMPANY.

SUPPORTING LONG-TERM GROWTH, INTERNAL PROJECTS AIMED AT PRODUCTIVITY GAINS IN THE SUPPLY CHAIN AND SALES AND ADMINISTRATION AREAS CONTINUED TO RECEIVE FOCUS AND DELIVER RESULTS.

SUSTAINABILITY

WHILE COCHLEAR IS COMMITTED TO LONG-TERM SUSTAINABLE FINANCIAL GROWTH, IT IS ALSO COMMITTED TO SUSTAINABILITY IN THE OTHER IMPORTANT AREAS OF THE ENVIRONMENT AND SOCIETY IN GENERAL.

AN INDEPENDENT STUDY COMMISSIONED BY COCHLEAR SHOWS THAT OUR CARBON FOOTPRINT IS VERY LOW AND MAINLY RELATED TO THE USE OF ELECTRICITY. INTERNAL TEAMS ARE WORKING ON FURTHER REDUCING OUR CARBON FOOTPRINT. IN VIEW OF OUR LOW LEVEL OF CARBON EMISSIONS, COCHLEAR IS NOT INCLUDED IN THE GOVERNMENT'S REPORTING REQUIREMENTS WHICH COMMENCED ON 1 JULY 2008. COCHLEAR WILL CONTINUE TO CLOSELY MONITOR NEW REGULATORY COMPLIANCE OBLIGATIONS IN THIS FIELD.

COCHLEAR HAS A LONG HISTORY OF SUPPORT TO THE SOCIETY AND COMMUNITIES WITH WHICH IT WORKS THROUGH SPONSORSHIPS, CHARITY DONATIONS AND THE TIME OUR EMPLOYEES FREELY GIVE TO PROVIDE EXPERTISE WHERE IT IS MOST NEEDED. THIS CONTINUES TO BE ENCOURAGED AND IN ADDITION, COCHLEAR ALSO CONTINUES TO SUPPORT THE COCHLEAR FOUNDATION WHICH PROVIDES FURTHER SUPPORT IN COCHLEAR'S FIELD.

OFFICE OF INSPECTOR GENERAL UPDATE

AS I ADVISED IN MARCH 2004, OUR AMERICAN SUBSIDIARY COCHLEAR AMERICAS RECEIVED A REQUEST FOR INFORMATION FROM THE UNITED STATES DEPARTMENT OF JUSTICE. THE REQUEST SOUGHT A VARIETY OF DOCUMENTS INCLUDING THOSE CONCERNING COCHLEAR AMERICAS' RELATIONSHIPS WITH HEALTHCARE PROFESSIONALS.

LAST YEAR THE DEPARTMENT OF JUSTICE PASSED THE INVESTIGATION ON TO THE OFFICE OF THE INSPECTOR GENERAL FOR ADMINISTRATIVE PROCESSING.

DURING 2008 WE HAVE CONTINUED TO COOPERATE FULLY WITH THE OFFICE OF THE INSPECTOR GENERAL. HOWEVER, THERE IS NOTHING FURTHER TO REPORT TO YOU AT THIS STAGE ON THE INVESTIGATION WHICH HAS NOW BEEN ONGOING FOR OVER FOUR YEARS.

REGULATORY ENVIRONMENT

IN FEBRUARY 2008 COCHLEAR ADVISED THAT IT HAD RECEIVED A WARNING LETTER FROM THE UNITED STATES' FOOD AND DRUG ADMINISTRATION IN RELATION TO AN INSPECTION OF OUR BAHÁ MANUFACTURING FACILITY IN GOTHENBURG, SWEDEN.

THE WARNING LETTER ADVISED THAT AN IMPORT ALERT HAD BEEN ISSUED RELATING TO THE IMPORT OF BAHÁ PRODUCTS FROM SWEDEN INTO THE UNITED STATES. THE FDA HAS NOW ADVISED IT IS LIFTING THE IMPORT ALERT. THIS MATTER HIGHLIGHTS THE INCREASED REGULATION THAT ALL IMPLANTABLE DEVICE COMPANIES FACE AND I WANTED TO EXPAND ON THIS IMPORTANT PART OF YOUR COMPANY'S ENVIRONMENT.

COCHLEAR'S PRODUCTS ARE COVERED BY OVER TWENTY REGULATORY BODIES WHOSE RULES AND REGULATIONS WE MUST COMPLY WITH. THESE RULES AND REGULATIONS COVER APPROVALS TO SELL OUR PRODUCTS IN THE OVER ONE HUNDRED COUNTRIES WE SELL IN AND IN MANY INSTANCES, THE MANNER IN WHICH WE CAN PROMOTE OUR PRODUCTS.

A FEATURE OF THIS REGULATORY LANDSCAPE IS THE GROWING NUMBER OF REGULATORY BODIES AND NEW REGULATIONS.

DURING 2008 ALONE, COCHLEAR HAD FIVE REGULATORY INSPECTIONS FROM SOME FOUR AUTHORITIES INCLUDING THE USA'S FDA, THE BELARUS AUTHORITIES AND AUSTRALIA'S OWN TGA. EACH OF THE AUTHORITIES THAT WE DEAL WITH HAVE THEIR OWN SET OF PRIORITIES AND REGULATIONS AND COCHLEAR MUST COMPLY WITH ALL.

FORTUNATELY, AFTER 25 YEARS OF EXPERIENCE IN THE FIELD, WE ARE WELL PLACED TO COPE WITH THIS EVER EXPANDING AREA, BUT IT IS USEFUL FOR OUR SHAREHOLDERS TO UNDERSTAND SOMETHING OF THE ENVIRONMENT IN WHICH WE OPERATE.

COCHLEAR ACTIVELY PARTICIPATES IN THE GLOBAL HARMONISATION TASK FORCE WHOSE AIM IS TO HARMONISE THE MANY REGULATORY REQUIREMENTS OF AUTHORITIES AROUND THE WORLD SO THAT FOR EXAMPLE, AUSTRALIA'S TGA AND THE EUROPEAN TUV REGULATORS MAY SHARE COMMON CRITERIA FOR EVALUATION AND REGULATION.

WHILE WE ARE EVER HOPEFUL AND ACTIVE ON THIS FRONT, WE HAVE NOT SEEN MUCH PROGRESS IN A PRACTICAL SENSE TO DATE.

BOARD AND MANAGEMENT

BOTH THE BOARD AND THE SENIOR MANAGEMENT TEAM WERE UNCHANGED DURING THE YEAR. THIS STABILITY HAS BEEN IMPORTANT IN DEALING WITH THE COMPLEX GLOBAL CHALLENGES THAT ARE SO MUCH PART OF COCHLEAR'S ENVIRONMENT.

COCHLEAR NOW HAS OVER 1,900 EMPLOYEES BASED IN TWENTY COUNTRIES AROUND THE WORLD. MANY OF THESE EMPLOYEES PARTICIPATE IN COCHLEAR'S BROAD BASED SHORT TERM AND LONG TERM INCENTIVE PLANS.

OVER 150 EMPLOYEES WHO INFLUENCE AND IMPLEMENT OUR STRATEGIES HAVE COCHLEAR OPTIONS OR PERFORMANCE SHARES AND APPROXIMATELY 1,000 EMPLOYEES ARE CURRENTLY SHAREHOLDERS! SINCE THE INCEPTION OF THE EMPLOYEE SHARE PLAN IN 1999, COCHLEAR HAS ISSUED FREE SHARES VALUED BETWEEN \$1,000 AND \$2,000 PER ANNUM TO EMPLOYEES. THE TOTAL VALUE OF THE ISSUES AT TODAY'S VALUE WOULD BE APPROXIMATELY \$16 MILLION. BROAD EMPLOYEE SHARE OWNERSHIP IS IMPORTANT IN ALIGNING EMPLOYEE AND SHAREHOLDER INTERESTS.

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

OUTLOOK

COCHLEAR IS WELL POSITIONED TO CONTINUE WITH ITS HISTORY OF GROWTH AND MARKET LEADERSHIP. RECORD INVESTMENTS IN R&D AND ONGOING INVESTMENTS IN GROWTH INITIATIVES AND INTERNAL CAPABILITIES WILL SUPPORT COCHLEAR'S CONTINUED 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
21 OCTOBER 2008