

2015 CHAIRMAN'S ADDRESS COCHLEAR LIMITED ANNUAL GENERAL MEETING

OCTOBER 20TH, 2015

**EXCHANGE SQUARE AUDITORIUM
AUSTRALIAN SECURITIES EXCHANGE
20 BRIDGE STREET, SYDNEY NSW 2000**

Good morning ladies and gentlemen and welcome to the 2015 Annual General Meeting of Cochlear Limited.

I am Rick Holliday-Smith, Chairman of Cochlear and it is my pleasure to welcome you to today's meeting.

I also welcome those observing the meeting through our internet broadcast. A recording of today's proceedings will be available on Cochlear's website.

The Notice of Meeting has been sent to all shareholders and I will take it as read.

I have signed the minutes of the last Annual General Meeting and a copy is available at the registration desk.

There being a quorum of members present, I now declare the meeting open.

I will now provide an outline of the order of proceedings. After I have introduced the board, I will give my address. Following that, our new CEO/President, Mr Chris Smith, will deliver his address.

At the end of our addresses we will hear from a recipient who will explain how her Cochlear Implant has positively impacted her life.

After that we will discuss the formal items of business. I think a good time for your questions, comments and a broader discussion should be when we consider the financial statements and I will ensure all your reasonable questions are covered at that time.

Once the meeting has concluded there will be refreshments available in the reception area.

This year we have a number of display stations open in the reception area to showcase our products and the work we are doing to promote our products. This includes social media and other marketing activities.

At the conclusion of the formal meeting, we will explain this further.

We felt it was important you had a first-hand experience of these awareness activities that are so important in promoting our products.

Senior management and the Board will be available at that time to discuss matters of interest.

Transparency and openness with shareholders is important and we continue to strive to improve in this area.

You would have noted the improvements in our Annual Report format and disclosures.

We now publish the complete Annual Report at the time of the full year results announcements in early August. We are one of a handful of companies to do this, but we believe this assists your understanding of the Company early in the reporting cycle.

In addition, we streamlined our financial statements to make them more logical and readable. You may be interested to note that our Remuneration Report is now 25 pages long, only 10 pages shorter than the entire financial statements. We are now actively looking at ways to improve our Remuneration Reports.

We are also early adopters of the 'Enhanced Audit Report' which highlights areas of focus by the auditors. Again we believe this assists shareholders' understanding.

We are aware that tax transparency has been of heightened interest to many parties. In December, the ATO will publish the turnover and tax paid for the largest companies. Cochlear supports improvements to voluntary tax transparency reporting.

Our Tax Note 3.1 in the Financial Statements provides comprehensive reconciliation data about our Australian tax expense. This disclosure is beyond that required under IFRS and we believe this reconciliation should be useful in better understanding the data to be published by the ATO in December - which on its own could be confusing or misleading.

In line with the Corporations Act, our auditors, KPMG, are present and are represented by the engagement partners,

Mr Bruce Phillips and Mr Cameron Slapp. They are available to take questions on the audit report later in the meeting, if so required.

The availability of the auditors to answer questions at the AGM is uniquely Australian and I believe this is an important part of auditor accountability.

I would now like to move to my address.

All shareholders should have received my letter to shareholders with the Annual Report, but I want to reiterate some of the important points that I made.

The financial year to 30 June 2015 (FY15) was one of steady progress and in my view places the Company in a strong position moving forward. This is consistent with the general comments made in February with the half year results.

I am extremely pleased we now have a full set of products in all significant markets, together with a pipeline of new solutions on the way.

Financial results

Revenue for FY15 was \$925.6 million, up 15% on last year; with Net Profit After Tax of \$145.8 million up 56%.

Cash flow for the year was strong with Net Cash generated from operating and investing activities of \$160.3m, up from \$79.5m in last year.

All regions performed to expectation with the Americas region being the standout, growing sales 15% in constant currency.

R&D expenditure was maintained at around \$128 million which is consistent with the prior year. We remain committed to a significant R&D spend and will continue to review how we can improve effectiveness.

Our goal is to ensure this is focused on maintaining our global leadership position into the long term.

Incremental targeted expenditure was made in FY15 into front line sales and marketing programs as well as to support functions that augment our customer growth initiatives. This is part of an ongoing program focussed on outcomes beyond the current year.

I note our Net Debt fell by \$40.8 million to \$140.5 million at 30 June 2015; this was after the payment of \$123.8 million in dividends.

Dividend

In line with our FY15 results the Board declared a final dividend of \$1.00 per share, franked to 100%. This brings the full year dividend to \$1.90 which is consistent with our broad payout guidance of approximately 70% of net profit after tax. Although franking levels depend on the level of taxable income generated in Australia we strive to optimise this as much as possible.

I will now turn to Board matters.

The Board

In line with my comments last year, we have implemented a board renewal process.

Paul Bell retired in October 2014 after nine years on the Board. We thank him again for his years of support and effort, and in particular his wise counsel and we wish him well in his retirement.

In December we announced the appointment of two new directors, Alison Deans and Glen Boreham, AM.

Both bring valuable skills, and related experience, in a range of digital, software and innovation technologies that will be relevant and valuable in the future.

They have international experience and have blended into the board structure very well since their appointments.

You will shortly hear from both of them and I encourage you to support their re-election.

I also note that Professor Ed Byrne is now standing for re-election.

Ed, with his medical background and experience, is a valuable member of our Board. He plays an important role chairing the Medical Committee and working with our new CEO. In addition the insights he gains from his role as Principal, Kings College, London, are of enormous value to us.

Over his next term I will work closely with him to consider his future involvement and possible succession strategies.

When we decide that renewal is appropriate it will require a reasonable period of overlap with any new Board member, or members, who will bring to us the necessary replacement expertise.

This matter will be carefully considered as part of our next Board Review process.

As a significant proportion of our activities are overseas we hold one Board meeting in one of our global regions.

This year we travelled to South America and gained a much better understanding of the region generally, and the issues facing emerging markets, in particular.

In addition, I made a number of trips to the US and Europe to stay in touch with these areas of operation, to meet with their senior executive teams, and as part of the process of preparing for executive succession.

Last year, I noted that non-executive director remuneration has remained unchanged for several years.

A current market review indicated we are out of step, on the low side, with both base director fees and committee fees.

We decided to bring the committee fees into better alignment in FY16 and to deal with base director fee levels next year.

At this meeting we are asking for an increase in the non-executive director fee cap from \$2.0 million to \$2.5 million.

The current limit is sufficient for the next two years of expected change but does not give flexibility to easily add new directors, if that is deemed appropriate by the Board.

I personally believe the Board is now at a sensible size, but I think periods of overlap and knowledge transfer are valuable options to consider. It is therefore useful to have this option available to the Board, and the proposed higher fee cap would allow that flexibility.

I believe the Board has functioned well over the last few years, and especially over the last year. I have carried out a series of review discussions and there are two way interactions. As a group there is consensus that we are satisfied and positive about our roles and performance.

We will do a detailed board review this year and to that end we have engaged an external consultant who will carry out an independent board review and evaluation.

Succession

One of the most important roles for any board is the appointment of a new CEO.

The Board had discussed this matter every six months for some time now. In May, we announced the appointment of Chris Smith as incoming CEO/President with effect from 1st September 2015.

Chris Smith has been with the Company for over 11 years as President, Cochlear Americas Region, together with similar roles with our Baha and Global Recipient Services Divisions.

He has a deep understanding of our business, our customers and our hearing healthcare professionals.

He is also well aligned with our strategic plans, particularly as they relate to customer focus and service.

The succession process involved many stages. It included external consultants to help the Board carefully understand and evaluate the skills and characteristics for the role, and to help us evaluate internal and external candidate considerations.

It was our strong desire to have an internal candidate, and we are pleased with the process and the final outcome.

The Board acknowledges Chris Roberts' incredible contribution to the Company over a period of more than 11 years.

We recognise and appreciate his significant contribution to our business success over that time, the resulting substantial growth in share price, and his efforts to strengthen our standing in the healthcare community.

We also acknowledge his personal commitment to every person who has a hearing need that we can help. We wish him every success in his new future.

I am pleased that your new CEO/President, Chris Smith, will address you shortly. He has only been in this new role since the beginning of September, so that is for some 6 weeks, but he has been actively involved with the global business in recent months and has accepted full responsibility for delivering our FY16 results.

He is still in the process of relocating his family to Australia and settling into a new environment, so he has many short term challenges.

I am sure over the next year you will hear more about his thoughts and areas of emphasis.

Fortunately we have a level of management depth that has allowed us to fill all his previous roles from internal resources; these changes are seen as positive renewals, but obviously involve executives stepping into more senior roles.

The Board is conscious that renewal creates both opportunities and challenges. It goes beyond one individual and covers a range of interlinking changes. How these other role considerations would play out was part of the overall CEO renewal process.

We are pleased with the changes that have been made and how these executives are taking on their new roles. We will continue to monitor and support them through their journey and we expect them to all do well.

Employees

We all recognise Cochlear has a diverse global workforce focused on our business and on transforming the lives of people with hearing loss. We employ some 2,800 people from over 75 nationalities, and we operate in 20 different countries. Their knowledge, expertise and passion are key to our future as is their focus on delivering excellence for our customers. There is no doubt they are an important part of our success and our market leadership position.

The Board thanks all our employees for their outstanding efforts.

Australian Advanced Manufacturing Industry

Cochlear has long been seen as an example of an Australian invention that has successfully transitioned to a global advanced manufacturing success story.

The genesis of Cochlear, over 30 years ago, involved a mix of innovative academic research, government funding and strong commercial partnering.

The question today is: How can Australia continue to encourage new similar success stories while at the same time ensuring that companies like Cochlear continue to be Australian based.

Cochlear's experience shows what an effective interplay between commerce, academia and government can achieve.

To this end, Cochlear is encouraged by the Federal Government's new conversation around the importance of innovation in order to drive long term growth for Australia and support Australian jobs.

This is a good start.

We would recommend the Government to reward appropriately defined innovative companies for their incremental R&D spend by increasing the R&D concession for additional R&D expenditure.

Specifically, we think the current \$100 million cap on R&D spend qualifying for the current incentive should be raised for advanced manufacturing companies.

As it now stands, Cochlear is bumping into this artificial cap and there is an incentive to perform additional R&D abroad where we qualify for similar or even enhanced incentives.

Collaboration with universities is also critical.

Cochlear is headquartered within the Hearing Hub located on the campus of Macquarie University. This is a unique alliance of over 2,500 academics, businesses and hearing health professionals.

It is world class and should be a competitive advantage for Australia.

Cochlear strongly urges all parties to continue to strengthen and develop these alliances. We need to ensure there is focussed and scaled effort.

It should mean Government oriented funding, including into tertiary education and research, should have a clear objective of creating collaborative centres of excellence. It should also have a clear objective of keeping as much of the ensuing value and work opportunity in Australia. This latter goal is very challenging but also important.

Cochlear believes the development of globally competitive advanced manufacturing capabilities is possible in Australia, but there needs to be continual focus and effort to create it, and then to make sure it stays in Australia into the longer term.

This must involve Government establishing and maintaining a sufficiently competitive framework from a global perspective, especially given the effort being made overseas to maintain, enhance, develop and attract these types of activities.

The Future

Cochlear operates in a complex global environment with growing competitive pressure. In FY15, we made steady progress and we now have a strong product portfolio across most geographies.

We are focused on improving our global marketing messages to drive improved sales performance in all aspects of the business, including cochlear implants and conduction/acoustic product sales, as well as upgrade sales and services generally.

Clearly the emerging wireless message will be important over the next three years. We are pleased with the progress in our Baha and Cochlear Implant business, and with our new Baha products becoming iPhone compatible.

This iPhone capability is important for our Cochlear Implant business and we are focused on our new Cochlear Implant products incorporating this capability to the full extent possible, as soon as is practical.

This involves many considerations including a strong and ongoing relationship with GN ReSound. We are committed to this relationship that should be positive for us both and for our customers. Chris will say more on this shortly.

Given our longer term objectives we will continue to invest to grow the market, we expended targeted funds in FY15, and will repeat that into FY16 and beyond, to support sustainable market growth.

We are committed to our level of expenditure in R&D. We see this as another long-term commitment to support our future.

This should reinforce our position as market leader, and that is our clear goal.

I would now like to turn to financial performance.

The guidance provided in August for FY16 was for continued steady progress with an NPAT range of \$165 million to \$175 million, at FX rates of US\$0.75 to AU\$1.

I would remind you that we have approximately 2,000 China tender units being sold in the first half, and we have recently observed a bias in upgrade sales into the first half. We also tend to focus future growth targeted expenditures into the second half. These factors in part lead us to expect a stronger first half than second half.

At the same time we note the continuing foreign exchange volatility, and that our consistent hedging program tends to minimise the FX fluctuation impact in the current year.

We continually review our performance and at this time we reiterate our full year guidance of NPAT of \$165 million - \$175 million at the FX rates already mentioned. We will comment again on this at the time of our half year results.

Ladies and gentlemen, that now concludes my address. A copy of my address has been lodged with the Australian Securities Exchange and it is also available on our web site.

I would now like to invite the Company's new CEO and President, Mr Chris Smith to address the meeting.

Thank you.

Chairman's reply to written questions from shareholders

Shareholders have raised a number of questions directly with the Company. I have addressed some of these in my speech, but others I have grouped and will now answer them:

A shareholder raised the question of animal research.

Cochlear Limited does not directly carry out research with animals. The Company does fund legitimate research institutions (typically universities) to study treatments for hearing loss. Sometimes this can include animal studies. As a Class III medical device company Cochlear is required by law to obtain animal data related to our devices.

Cochlear supports the highest standards of respectful and humane care of animals and the Company's research partners conduct animal studies only where there is no alternative.

Cochlear only engages research partners that comply with all local regulations. Any proposed study is judged on scientific merit, potential beneficial impact and the likelihood of success, by an approved Animal Research Ethics Committee, which includes veterinarians, animal welfare and community representatives as members.

Approved studies are conducted by specifically trained staff with the involvement of veterinarians and are performed in accordance with the approved study protocols.

Cochlear's R&D program produces innovative and reliable hearing solutions that enable people with moderate to profound hearing loss to 'Hear Now. And Always'. Over 400,000 people of all ages, across more than 100 countries, now hear because of Cochlear.

Another shareholder raised the question of Cochlear's position on Unions.

Cochlear has no issue with Union representation, however we are also insistent on having a direct relationship with all our employees as we are an agile company in a globally competitive industry who makes implantable medical devices that impacts our recipients for their natural life.

A further question was on a Dividend Reinvestment Plan.

Cochlear does not currently intend to implement one, but we continue to review our capital and cash requirements on a regular basis.

I hope that was useful in answering many of the common questions.

Thank you.

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
20 October 2015