



**COCHLEAR LIMITED ANNUAL GENERAL MEETING
PRE-SUBMITTED QUESTIONS**

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

THIS YEAR WITH THE AIM OF ENHANCING COMMUNICATIONS WITH OUR SHAREHOLDERS WE HAVE FOR THE FIRST TIME INVITED SHAREHOLDERS TO SUBMIT QUESTIONS PRIOR TO THE AGM.

WHILST IT IS NOT POSSIBLE TO RESPOND TO EACH QUESTION INDIVIDUALLY, I WOULD LIKE TO DEAL WITH THE MORE COMMON QUESTIONS RAISED.

QUESTION 1 - WHEN IS THE SHARE PRICE LIKELY TO RECOVER?

SHARE PRICE DEVELOPMENT IS A COMPLEX ISSUE ONLY PARTIALLY WITHIN THE CONTROL OF MANAGEMENT.

COCHLEAR HAS HAD A VOLATILE SHARE PRICE DEVELOPMENT FROM ITS LISTING IN 1995 AT \$2.50 REACHING A MAXIMUM OF \$52.40 DURING THE PEAK OF THE HIGH TECH BUBBLE.

DURING 2001 – 2003 THE SHARES TRADED IN THE RANGE OF \$21 – \$52 WITH AN AVERAGE PRICE OF \$35.

AS A RESULT OF THE PROFIT WARNINGS AT THE END OF 2003 AND EARLY 2004, THE SHARE PRICE THIS CALENDAR YEAR HAS TRADED IN THE RANGE OF \$21.70 IN JANUARY, WITH A LOW OF \$18.70 IN AUGUST, UP TO TODAY'S PRICE OF APPROXIMATELY \$24.

THE SHARE PRICE AS WE HAVE SEEN IS VERY SENSITIVE TO ANY POSITIVE OR NEGATIVE NEWS, BUT IS PRINCIPALLY DERIVED FROM THE COMPANY'S EARNINGS PERFORMANCE AND HOW THE MARKET VIEWS ITS OUTLOOK.

CHRIS ROBERTS AND I HAVE COVERED IN OUR ADDRESSES THE MARKET SITUATION AND THE ACTIONS TAKEN TO IMPROVE PERFORMANCE.

THE MARKET WILL CONTINUE TO CLOSELY EVALUATE OUR PERFORMANCE AND FUTURE POTENTIAL.

THE BEST WE CAN DO IS TO FOCUS ON EXECUTING OUR ACTION PLANS AND DELIVER THE BEST EARNINGS POSSIBLE.

QUESTION 2 - WHAT IS THE STATUS OF THE DEPARTMENT OF JUSTICE ENQUIRY IN THE USA.

THIS IS A QUESTION I HAVE ALREADY DEALT WITH IN MY ADDRESS TO THE EXTENT POSSIBLE. AS STATED, AS SOON AS WE HAVE A CLEAR UNDERSTANDING OF THIS MATTER WE WILL INFORM THE MARKET.

QUESTION 3 - HOW CAN AN INCREASE IN DIRECTOR REMUNERATION BE JUSTIFIED WHEN THE COMPANY IS PERFORMING SO POORLY?

LET ME FURTHER EXPAND ON THIS SUBJECT TO REMOVE ANY MISUNDERSTANDING WHAT THIS IS ALL ABOUT.

THE INCREASE OF \$400,000 IS TO COVER ANNUAL OR BIENNIAL INCREASES AND TO COVER INCREASES IN BASE FEES FOR NEW NON-EXECUTIVE DIRECTORS TO COMPENSATE FOR THE REMOVAL OF RETIREMENT BENEFITS AND ALSO TO PROVIDE FOR THE POSSIBILITY OF AN ADDITIONAL DIRECTOR.

I ESTIMATE THE INCREASE WILL BE SUFFICIENT FOR THE NEXT FOUR YEARS.

THE INCREASES PROPOSED FOR THE YEAR 2004 – 2005 HAVE AS YET NOT BEEN CONSIDERED BY THE REMUNERATION COMMITTEE.

HOWEVER, THE APPROXIMATE NUMBERS SHOWN ON THE SLIDE PROVIDE A GUIDANCE TO THE APPROXIMATE NEW LEVELS OF FEES FOR THE YEAR 2004/05 IF SHAREHOLDERS APPROVE THE INCREASE IN AGGREGATE FEES.

CONSIDERATION SHOULD ALSO BE GIVEN TO THE FACT THAT THERE HAVE BEEN NO INCREASES DURING THE PAST TWO YEARS IN DIRECTORS' FEES.

QUESTION 4 - WHY AREN'T DIRECTORS' FEES ADJUSTED ACCORDING TO COMPANY PERFORMANCE.

SEVERAL REASONS. FIRSTLY, IT IS NOT GOOD CORPORATE GOVERNANCE FOR NON-EXECUTIVE DIRECTORS TO HAVE AN INCENTIVE TO INFLUENCE THE COMPANY'S FINANCIAL NUMBERS.

SECONDLY, THE ASX LISTING RULES REQUIRE NON-EXECUTIVE DIRECTORS TO BE REMUNERATED ON A FIXED FEE BASIS WHICH MUST NOT BE ALLOWED TO VARY IN LINE WITH REVENUE OR PROFITS.

QUESTION 5 - WHAT IS THE COMPANY'S CURRENT INTENT REGARDING CAPITAL MANAGEMENT?

IN RELATION TO THIS MATTER, I MENTIONED AT THE LAST AGM THAT THE BOARD WAS REVIEWING THE COMPANY'S CAPITAL MANAGEMENT STRUCTURE.

THE BOARD SUBSEQUENTLY CONCLUDED THAT IN VIEW OF THE COMPANY'S PERFORMANCE AND THE MODIFICATION OF THE BUSINESS STRATEGY INCLUDING THE CHANGE TO DIRECT DISTRIBUTION IN CERTAIN COUNTRIES, THE MAINTENANCE OF THE FINAL DIVIDEND AT THE PRIOR YEAR'S LEVEL, ETC, A DECISION WAS MADE TO DEFER THIS MATTER TO A MORE APPROPRIATE TIME.

QUESTION 6 - DOES THE COMPANY HAVE ANY PLANS FOR A SHARE SPLIT?

THIS IS AN ISSUE CONSIDERED ON A REGULAR BASIS, BUT WE HAVE NOT BEEN ABLE TO MAKE A CASE WHY THIS WOULD HAVE MERIT AT THIS POINT IN TIME.

QUESTION 7 - WHY DOES COCHLEAR NOT HAVE A DIVIDEND REINVESTMENT PLAN?

THE MATTER OF A DIVIDEND REINVESTMENT PLAN IS ALSO A SUBJECT THAT IS UNDER REGULAR CONSIDERATION, BUT THERE ARE CURRENTLY NO PLANS TO INTRODUCE ONE.

QUESTION 8 - HOW OFTEN DO YOU ROTATE YOUR AUDIT PARTNER AND WHEN WAS THE LAST ROTATION? HOW DO YOU ENSURE AUDIT INDEPENDENCE?

WE ROTATE AUDIT PARTNERS EVERY FIVE YEARS WITH THE LAST ROTATION OCCURRING IN 2003.

THE BOARD IS WELL SATISFIED WITH THE AUDITOR'S INDEPENDENCE. AT COCHLEAR, ALL NON-AUDIT FEES FOR WORK BY OUR AUDITORS KPMG MUST FIRST BE APPROVED BY THE AUDIT COMMITTEE CHAIRMAN AND THEN REPORTED ON AT EACH AUDIT COMMITTEE MEETING. THIS IS IN LINE WITH BEST CORPORATE GOVERNANCE PRACTICE.

NON-AUDIT FEES BY KPMG LARGELY RELATE TO TAX ADVICE, PRINCIPALLY ON INTERNATIONAL MATTERS.

QUESTION 9 - WHY WERE YOUR R&D EXPENSES UP FROM \$37M TO NEARLY \$45M?

THIS WAS DUE TO TWO REASONS.

FIRST WAS THE INCREASE IN SYSTEM 4 EXPENDITURE AS WE RAMPED UP R&D AHEAD OF CLINICAL TRIALS AND SECONDLY, NEARLY \$4M WAS SPENT ON ONE-OFF COSTS TO REFOCUS THE R&D ON THE CORE PRODUCTS.

WE HAVE INDICATED TO THE MARKET THAT F'05 EXPENDITURE IS ESTIMATED TO BE APPROXIMATELY \$40M.

AND FINALLY, A GENERAL SUGGESTION RECEIVED FROM ONE SHAREHOLDER:

“WHY FOR HEAVEN’S SAKE DON’T YOU PRINT YOUR NOTICE OF AGM IN BLACK INSTEAD OF THAT FANCY SILVER/GREY SO I CAN READ THE BLOODY THING!

“WE ARE NOT ALL GIMLET EYED 20/20 VISION YUPPIE TYPOGRAPHIC CONSULTANTS.”

LADIES AND GENTLEMEN, THAT CONCLUDES MY RESPONSE TO THE MOST COMMONLY RAISED QUESTIONS SENT IN BY SHAREHOLDERS. I APPRECIATE THE TIME TAKEN BY SHAREHOLDERS TO SUBMIT THESE QUESTIONS AND TRUST THE ANSWERS WILL CLARIFY OR ASSIST YOUR UNDERSTANDING OF THE COMPANY AND THE COMPLEX BUSINESS WE ARE IN.

TOMMIE BERGMAN

19 OCTOBER 2004