



CODAN

**ASX ANNOUNCEMENT**  
**2015 ANNUAL GENERAL MEETING**  
**28 OCTOBER 2015**  
**CHAIRMAN'S ADDRESS TO SHAREHOLDERS**

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When I wrote to you in the Annual Report, I said that it was pleasing to report improved results for Codan in FY15 and that the improvement was both welcome and necessary given the poor results in FY14. The Board and the management team clearly understand that further improvement in profit is required in the future. Today Donald will explain in some detail the performance of our three operating divisions in FY15 and will share with you some of the plans we have for FY16.

Since joining the Board of Codan in 2008, two things have really stuck in my mind. On the positive side is the ability of our company to transact profitable business in some of the most challenging countries and markets around the world. On the negative side is the difficulty our company has in forecasting earnings, even 6 months out. It is this latter issue that I would like to spend some time on today.

A significant part of our business can be categorised as being reliant on government and NGO funding, normally being the purchase of capital equipment and typically project based. This is certainly true in the case of HF radios, particularly for humanitarian applications, but is also true for our mine detection business, Countermine. Project-based sales of capital equipment reliant on discretionary funding decisions are extremely difficult to plan for and accurately forecast. Further forecasting complexity arises as our Minetec business consists of productivity and collision-avoidance solutions sold into underground mines where investment decisions are significantly influenced by commodity prices. And then we have gold detector sales into Africa, which have been almost impossible to predict since we entered that market.

In my letter in the annual report I said that we are very much focused on consistent improvement, year on year. For this to be achieved, we need to review and reshape significant parts of our business so that we increase our market reach and reduce our fixed cost base whilst maintaining capability. A good example of this is the use of a third party manufacturing partner for our higher-volume, mature products. Right now we are questioning and reviewing all parts of our operations with the clear understanding that we need to achieve satisfactory results as we reshape the business. We must do this without damaging the fabric of our company and whilst maintaining our commitment to developing our own intellectual property. By preference, we will invest in new initiatives and new product ranges that are less dependent on major project awards and target larger addressable markets. The development of the entry level GO-FIND<sup>®</sup> detector, which is our first true consumer product, is a good example of this strategy.

FY16 will be the third year of an accelerated R&D programme that allowed us to fast-track the release of a number of new products last year and will see further releases this year. This underlines our commitment to developing our own intellectual property, but these programmes do consume a lot of cash. We believe this is the correct strategy as we are building platforms for the future that will allow us to improve sales and profitability leading to increased dividends, and logically, share-price appreciation. A number of shareholders

have approached the company recently suggesting that we should consider a share buy-back programme given the current share price. The Board has decided that this is not appropriate at this time given the commitment we have made to investing cash in the accelerated R&D programme.

In its current configuration, Codan is, from time to time, likely to disappoint on the downside and also, from time to time, likely to surprise on the upside. Many of you understand this, but I suspect some do not. As one major shareholder recently said to me, "I only ever look at Codan's results over a five-year period; to do otherwise would not be sensible". It is, in my view, better to acknowledge an issue and plan to address it over time rather than to leave it unsaid.

For many reasons, including some of those discussed above, it is our policy that we do not forecast our full-year results. That said, our objective is to improve on the results achieved in FY15 notwithstanding a slow start to this year, primarily due to an unexpected lack of project work in our HF radio business.

Donald will now talk in some detail on the performance of, and plans for, our three operating businesses. Most importantly, he will explain some of the steps we are taking to reduce the variability in our earnings. This won't happen overnight, but as a Board, we are committed to this process.

Thank you for your interest in Codan.

David Simmons  
Chairman

## CHIEF EXECUTIVE OFFICER'S ADDRESS TO SHAREHOLDERS

Following on from David's comments, I would like to talk about the company in more detail and update you on the progress made in each of our three businesses.

Although we are pleased to report some progress in FY15, we know there is still a lot of work to be done to return the business to a level of profitability that provides our shareholders with an acceptable return on their investment. As a management team, we are committed to driving the actions required to grow the business and reduce the variability in earnings that we have experienced throughout our history due to the projects nature of our HF business and the spikes in revenue caused by recent gold rushes. It is important to note, however, that we have nothing against gold rushes and large projects, but we need to generate more project orders and grow the other parts of our business.

At the core of our strategy is a pursuit of product excellence underpinned by our own intellectual property, as we seek to continually improve and broaden our offerings to the market and ensure our value propositions remain relevant, well communicated and leading-edge.

Our Radio Communications business had an excellent year, driven by our success in transitioning customers to the new High Frequency (HF) software-defined Envoy radio platform and, in turn, winning some unusually large contracts in the first half of the year. We are working hard to reduce the earnings volatility associated with this part of our business, by capitalising on our technology and increasing our sales coverage in key markets like Africa, the Middle East and Asia, while ensuring that the quality of our messaging and engagement with the customer is at the highest level. By adopting a more hands-on approach to the market, we will get even closer to our customers and position ourselves to better meet their needs.

We are also now starting to see improving performance from our Land Mobile Radio (LMR) business in Canada, which was acquired three years ago to complement and leverage off our success in radio communications and to grow the business.

Since owning this business, we have invested in a new suite of products that will appeal to a larger part of the market and enable us to be more relevant when competing for more complex, higher-value projects to further drive sales growth, primarily in North America. These products will be progressively released to the market over the next two years.

The first of these new products, the STRATUS™, was released in May of this year and has generated a high level of interest within a number of US-government agencies, resulting in an initial order of around \$1m from one high-profile agency.

Although still early in the new financial year, initial order intake for our LMR products has been strong. We therefore expect to see good growth in FY16 from that business which, if achieved, will offset a softer year in sales of our traditional HF products, maintaining a strong overall result in line with FY15 from our Radio Communications business.

In our Metal Detecting business, we saw the benefits from releasing new products to the market during the second half of FY15.

The new GPZ 7000® gold detector has been well received by our customers, and during the first four months of the launch, sales of around \$20m were achieved in Australia, the US and Europe, which served to strengthen our second-half results in Minelab and helped reduce the level of debt on our balance sheet.

Our focus is now turning to the release of this product in Africa.

Our newly established retail and distribution centre in Dubai has proven to be very successful since its opening in January of this year. We are now better placed to service the African market by ensuring that distribution is maximised and the flow of information from the field is captured at its source and used to make decisions in real time.

The new entry level GO-FIND® detector series was also released to the market in May 2015 and was very well received by our retail distribution network. This product sells into a market segment that is new to Minelab and is estimated to be around \$35m per annum in size. While we remain very encouraged by the initial success of this product, it is still too early to predict how much market share we can achieve in our first year, but of course this product is a long-term play for us, and we are confident that we will gain significant market share over time. This year's sales will largely be determined by the level of sell-through that our distribution channels can achieve over the next few months in the lead up to the lucrative Christmas period in the US, Europe and Australia. We have appointed an experienced sales professional to lead our retail distribution channel strategy and performance.

Our Countermine or landmine clearance products do not attract as much attention as our gold detectors due to the very specific nature of their application; however I am pleased to report that momentum is building in this segment of our business. We have received significant government funding which has enabled us to fast-track research and development into dual-sensing detector technology in partnership with NIITEK, a leader in the field of ground penetrating radar, located in the US.

In the last 12 months, we have released a dual-sensor detector that incorporates ground penetrating radar with metal detecting. These new products have enabled Minelab to significantly increase the sales pipeline and win a number of orders with customers who are buying from us for the first time.

All of this has resulted in management having a high degree of confidence that Minelab will grow its revenue and profits in FY16.

The much-publicised difficulties in the mining and resources sectors have certainly made progress in our mining technology business more difficult than expected. Despite having what we believe is the best tracking technology in the world and a number of very successful installed sites, buying cycles have extended and our customers have severely reduced capital spending.

During FY15, Minetec won a number of high-profile tenders, under competition, to conduct site engineering surveys, a critical prerequisite ahead of being awarded an order to roll out our technology solutions. These successes, in mine sites as far afield as Canada, Greece, South Africa and the US serve to endorse the value we bring to the international mining market.

Despite the customer's endorsement of the value we deliver and our confidence that Minetec will become a growing, profitable business in the future, we simply cannot continue to lose money in this business. To that end, we are very focused on ensuring that Minetec's cost base is closely aligned to its revenues as we win business and grow scale.

On a positive note, recent discussions with major mining companies have reinforced Minetec's highly differentiated value proposition in the areas of high-precision tracking and collision avoidance, and both technologies are considered critical enablers of an autonomous mining strategy, which industry leaders are expected to implement over the next few years.

In closing, I would like to summarise as follows:

Our performance as a business in FY15, while an improvement over the previous year, is not yet considered to be at an acceptable level, and to that end, management is focused on reducing the reliance the business has on a limited number of large, one-off projects.

Our strategy to reduce the variability in earnings is primarily based on developing new products that give us access to larger and more diverse markets, increasing the size and number of projects we can bid for and positioning us to enter new consumer markets with more stable monthly revenues.

With respect to the outlook in FY16, we expect to see growth in Minelab as a result of new product releases and a greater presence across all market segments.

The strength in our LMR business is expected to compensate for a softening in HF demand, maintaining the combined result achieved in FY15 by the Radio Communications business.

While we expect Minetec to generate a loss in the first half of this year, the business will move closer to a break-even run rate during the second half.

Finally, I would like to acknowledge the significant contribution of our people, without whom none of this would be possible. I continue to be amazed and humbled by the numerous acts of selfless dedication and examples of true team spirit, where people just simply get on with things and support each other right across the business. I believe Codan is a company with a truly special culture and a can-do attitude that will drive success despite the inevitable setbacks and challenges faced by a diverse international company such as ours.

Thank you.

Donald McGurk  
Chief Executive Officer