Codan Limited

2006 AGM

20th October 2006

CHAIRMAN'S ADDRESS

I suppose the best way to begin my comments is to acknowledge the 2006 financial year as being one which we all wish we hadn't had. However, we did have it and the most important need is that we, that is the Board and management, learn from it. It is also important that shareholders are aware of and confident about what has been done, and is still being done, to get the company back on track.

Since the last Annual General Meeting there have been a number of formal and informal statements to keep shareholders up to date and I won't repeat them in detail here. On the other hand, it might benefit new shareholders if I summarise them quickly to make sure you are all in the same picture, so to speak.

During the 2006 year major product development and in some cases product redevelopment was completed. The resulting products were introduced to the marketplace. But as sometimes happens with capital equipment sales the customer take up was not instantaneous. In addition, in some cases, the product redevelopment was in answer to a market shift towards lower unit price segments which required the sale of more units to achieve the same dollar volume as before. All of this occurred at a time when a higher Australian dollar value was causing difficulties for most exporters of manufactured goods.

Essentially, to deal with these issues, the company has built on the platform provided by an investment program which was already underway. This program involved major changes to and enlargement of its principal factory installation at Newton, South Australia and the implementation of a new information technology based business system. This subsequently allowed the closure of two other operating sites and significant reductions in operating costs to take place. Inevitably, non-recurring costs which could not be recouped by savings within the 2006 financial year were necessary. Those savings, of course, now continue in the current year.

In addition and more recently, the company's approach to foreign exchange management has been under review and some changes are likely. In fact the first steps have already been undertaken.

Overall, there is good reason for our belief that Codan is emerging from last year's setback.

Of course, that was then and this is now, so it is important to give you some insight into the present position and what can be said about the immediate future at least.

A strong order book in July and reduced expense levels have been converted to good sales and profits for the first quarter of this financial year. Even more pleasing, order inflow has remained strong giving the business an equally good start to the second quarter.

Of particular note is the continuing strength of demand for Codan's new family of satellite communications products. The company has certainly grown its market share and reasserted its leadership in this segment. Further growth is predicted in an improving market. Sales of high frequency radios have also exceeded the company's expectations in the first quarter.

Whilst it should be noted that order intake levels for the company's products can vary from quarter to quarter based on the timing of large customer requirements, expectations are for much improved business performance in FY07.

As most of you will already know, the Board has seen board membership succession as an important issue for Codan. At the time of listing as a public company it was in its fifth decade as a privately owned operating entity. For much, if not most, of that time it had been supervised by a formal governance structure which included a Board of Directors. Around half of the Board members had already served for periods between around twenty years to around forty years. As you can imagine that half of the membership was pushing up the average age of the members. Now you have to be careful about drawing conclusions based on averages without thinking about the quality of the values, as well as the numbers. However, by any stretch of the imagination and whether the company is owned privately or publicly, one can't ignore the importance of bringing in new thinking whenever it is practical to do so. I have to report, though, that we have made no progress in this regard during the year on which we are reporting today. As you can imagine, for a company which is towards the smaller end of the size spectrum for public companies, the worst year in about fifteen years is not the best time to be trying to recruit boardroom talent.

Nonetheless, I have decided that it's my turn to retire from the board and I intend to take this step during the course of the current financial year. At present, however, the Board and senior management are deeply engaged in a strategic review which will not be finished until some time in the second half. The Board and I agree, therefore, that my retirement should not take place before that review is complete. Board members have decided that my successor should be Dr Klingner and he has agreed to accept that responsibility.

To remind shareholders of Dr Klingner's background allow me to read his resume as presented in this year's annual report.

> Dr Klingner was appointed to the board in December 2004. Dr Klingner, a geologist, was previously employed by Rio Tinto where he was engaged in a number of senior roles involving business leadership, project development and worldwide exploration activities, and where he gained a great deal of experience in the establishment and management of overseas operations. He is a former chairman of Coal & Allied Industries Ltd, Bougainville Copper Limited and the World Coal Institute. He was appointed as a director of Energy Resources of Australia Limited in July 2004 and is presently chairman.

Meanwhile, you may recall that it was Mr Wall's intention to retire around the middle of calendar year 2006. Bearing in mind my own intentions in terms of retirement, we have asked Mr Wall to continue his membership of the Board and he has agreed. Perhaps you will recall that Mr Wall was one of the founders of Codan and constitutes a very important part of the corporate technical memory.

The search for appropriate new members of the Board can now be resumed in a more positive business climate which it is confidently believed will now exist, following the important work which has been done and is continuing.

It has been decided by the Board that the Performance Rights Plan for senior executives which shareholders approved at the AGM in 2004 should now be activated. Subject to what I, personally, believe are rigorous performance conditions this plan enables a series of issues of shares in the company to be made to the most senior executives. It provides long term incentive to the recipients and each issue of shares can only follow above hurdle performance over a three year period.

In the case of the Managing Director, his inclusion in the plan will require approval by the shareholders before any issue of performance rights is made. It has not been practical to have the matter of his inclusion on the agenda in the notice paper for this meeting. Therefore the Board will, at the next AGM, seek agreement to the issue of performance rights for the Managing Director made on the same basis as the issue of rights to other executives.

In conclusion, I would like to make the point that, with one exception, the senior executives have not received nor will receive any bonuses or other payments in excess of base salary in relation to the 2005/2006 financial year. At the same time I want shareholders to know that the effort and commitment put in by each of them to get the business back on track has been outstanding. In some cases this has involved unusually heavy travel loads and absences from home and family. On your behalf, I thank them for that contribution.

John Uhrig, AC
Chairman