

1 March 2006

Codan Limited
ABN 77 007 590 605
81 Graves Street
Newton SA 5074
Australia

PO Box 96
Campbelltown SA 5074
Australia

Dear Shareholder

I am writing to you in my capacity as chairman of the board of directors of Codan in order to keep you informed of the company's progress. A copy of the formal announcement of results for the half year ended December 2005 is enclosed. Also available on the company's website www.codan.com.au are details of a presentation about the results being given by management during the course of this week to financial advisors and institutional investors.

At the time of the Annual General Meeting on 28th October 2005 and again on 14th December through an announcement to the stock exchange the board indicated that, contrary to earlier expectations, earnings in the first half would be significantly lower than for the previous corresponding period. Not surprisingly, publication of this information has been followed by share price decline.

It seems to me to be important that shareholders be reassured that Codan continues to be the same very professionally managed company, extremely well regarded by its global customer base, competitively supplying around 90% of its output to mostly professional users in 150 countries around the world.

There have been other short term profit setbacks during the company's more than forty year history prior to its listing in 2003. Obviously there will be others in the future.

This one is primarily due to Codan's exposure to direct effects arising from the strength of the Australian dollar in its relationship with the US dollar. Much, although not nearly all of our product is sold in US dollars and the offsetting influence of our purchase of US dollar inputs is not sufficient to cancel the foreign currency effect on our revenue and therefore profitability.

We have no reason to believe that this position has caused any loss of market share. However, there is considerable pressure on the company to reduce the cost associated with its products and operations. This, of course, is being vigorously addressed in a number of ways. It is unfortunate that such a program always takes longer than one would like if damage to the organisation and its customer reputation is to be avoided.

The company has recently completed significant steps to build a platform for continued profitable growth. It has increased capacity and improved efficiency by expanding the Adelaide factory and implementing a new IT business system, and it has released to market important new products in all product groups. Substantial market uptake of new products can take some time as customers trial them and factor them in to upcoming projects. The early signs are encouraging.

It will, no doubt, be clear to shareholders that the major focus of the company's operations must now be on the need to bring about a state of affairs in which it can deal with a continuing strong Australian currency. We have every reason to believe this can be achieved. A strong Australian currency will be likely to flow from further improvements in the efficiency of the Australian economy itself which is, after all, desirable in the broad community interest.

Those shareholders who acquired their shares at the time of Codan's original listing or shortly after will probably be aware that a program of growth partly through incremental acquisitions was envisaged at that time. It is important that you know that since then potential candidates for purchase have constantly been under consideration. Two small acquisitions, one adding complimentary products to our TV Broadcasting division and the other delivering a new digital microwave radio product family have been effected. No others that would make good economic sense in terms of creating shareholder value have reached the stage of finalisation. This is an area in which patience is definitely a virtue and we will continue to exercise that characteristic. I have no doubt that, in the fullness of time, this activity will have its desired result. It is an important strategic imperative for Codan.

The company's longer term business outlook is for profitable growth from sales of its own existing products and from increased penetration of key target markets like China and North America coupled with a broadening of its base through incremental acquisitions.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'J. A. Uhrig', written in a cursive style.

John A Uhrig AC
Chairman

CODAN LIMITED

ANNOUNCEMENT – FY06 HALF YEAR RESULTS

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FINANCIAL PERFORMANCE AND DIVIDEND

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Campbelltown SA 5074
Australia

The Board of Codan Limited has announced an After Tax Profit of \$4.3 million for the half year ended 31 December 2005. The profit reported for the same period last year was \$8.2 million.

Directors declared an interim dividend of 2.5 cents per share, unchanged from the same period last year. This dividend has a record date of 20 March 2006 and will be paid on 3 April 2006.

The profit result is in line with the announcement made on 14 December 2005 in which the Board advised that the earnings for the period would be at least 50% lower than for the same period last year.

Codan's average hedged exchange rate for its net exposure to the US dollar in the period was 76 cents, up from 62 cents for the same period last year. The effect of the higher average exchange rate was to reduce revenue by \$6.5 million, EBIT by \$4.8 million and NPAT by \$3.4 million.

Results of the Operations

	6 months ended 31 December 2005	6 months ended 31 December 2004	Change %
Total Revenue (\$000)	56,553	61,094	-7.4%
EBIT (\$'000)	5,839	11,777	-50.4%
% to Revenue	10.3%	19.3%	
Net Profit After Tax (\$000)	4,318	8,945 **	-51.7%
% to Revenue	7.6%	14.6%	
Earnings per Share (cents)	2.7	5.5	-50.9%

** Prior year comparison adjusted for adoption of AIFRS. Last year's reported result prior to adoption of AIFRS was \$8,195k

During this period, \$2.2 million was spent completing the two major capital programs being the new factory floor space and the new business system. The level of capital expenditure is expected to be less in the second half.

OUTLOOK

The market outlook is unchanged, with demand for communications products being driven by world security concerns and some global recovery in telecommunications.

A particular factor is the technology driven shift to lower cost products in some segments of the satellite communications market, which is ongoing. Codan has addressed this shift with its new high quality and lower cost satellite communications product family. Although the market acceptance of this new product family is strong and units of satellite communications product sales are growing, the decline in revenue arising from lower unit prices has not yet been offset by the growth in unit sales.

The business is now unhedged with respect to its net exposure to the US dollar.

The Company is continuing with specific measures to reduce the direct costs of products and the level of overhead expense relative to revenue. The Board expects these steps, and volume growth arising from the Company's successful new product releases, to deliver improved profitability.

The level of orders on hand early in the second half is appreciably higher than was the case early in the first half. This is a good platform for an improvement in revenue and profit in the second half, but performance in that half will still depend on order intakes later in the period. From this position the Board believes that second half performance is unlikely to reach that of the same period last year. The Board remains confident in the Company's longer term outlook



David Hughes
COMPANY SECRETARY
BY ORDER OF THE BOARD

24 February 2006
