



Announcements

Australian Stock Exchange

RE: Codan Limited (CDA)

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The board of Codan Limited today announced that it expected net profit after tax for the second half ending 30 June 2007 to be approximately \$4.4 million, \$200K greater than for the equivalent period last year but \$2.1 million less than for the first half of FY07. Second half revenue is expected to be \$57.9 million compared to \$60.7 million for the equivalent period last year and \$62.2 million in the first half of FY07. This second half result still relies on some orders being taken and shipped in June 2007.

The full year NPAT would then be \$10.9 million, \$2.4 million (28%) greater than last year on revenue of \$120.1 million, \$2.8 million greater than last year. Revenue from satellite communications sales grew significantly year on year, but revenue from HF radio sales fell. HF radio sales were particularly low in the fourth quarter. The revenue and profit run rate for the first three quarters had indicated a better full year result.

The following factors also reduced second half profit:

- Costs associated with acquisition activity - impact on EBIT \$0.5 million
- The stronger Australian dollar - impact on EBIT \$0.6 million. The company mitigated this factor by ongoing activity to reduce exposure to the USD, and by hedging.

Cash flow was strong in the period and the company will have minimal debt at balance date. At this time directors anticipate a final dividend of 3.5 cents per share, the same as last year, giving a full year dividend of 6.5 cents compared to 6.0 cents for last year.

The near term outlook for the HF market is uncertain. Whilst the weakness in the fourth quarter is probably in part due to the timing of customer projects, there are signs of an overall contraction in that market. The security situations in Iraq and Afghanistan have resulted in deferral of reconstruction activity. Communications upgrades for homeland security in the first world have not yet eventuated. At the same time, demand from aid and humanitarian organisations is flat.

However, sales of satellite communications and microwave links products are expected to grow in 07/08.

The current strength of the Australian dollar creates another strong headwind for the business arising from its exposure to the US dollar. Whilst in recent years the planned growth in sales volume has been achieved, the strengthening Australian dollar over that period has significantly reduced Australian dollar revenue and therefore profitability. A year ago the company made significant adjustments to its operations in order to ensure good profitability at an exchange rate of 76 US cents to the Australian dollar. Profit margins improved markedly in FY07. The company must now respond to an exchange rate well in excess of 80 US cents.

During FY07 the board and management conducted a detailed review of the company's ten-year strategic plan. The exercise confirmed the opportunity for significant growth in the medium to long term via a combination of organic growth and acquisition in selected global communications products market segments. The plan requires appropriate investment in new product and market development, and in acquisitions.

The company will respond to the probable contraction in its HF market and greater strength in the Australian dollar by making these investments in FY08 and beyond.

The company continues to be very active with respect to acquisitions. This activity could increase or reduce profitability in 07/08 depending on success, timing, implementation expenses and the early performance of acquisitions.

Thus many variables will influence performance in FY08. At this time guidance from the board is that NPAT for the full year ending 30 June 2008 could decline, though at this stage it is not possible to make an accurate forecast. The board will of course advise the market immediately the outlook becomes clearer. In addition, the board will comment from time to time during the year about developments affecting performance in FY08.

The expected exposure to the USD is hedged for the first quarter of FY08 at an average rate of 81.9 US cents to the AUD. The board will continuously monitor the situation and take further hedge contracts as it considers appropriate.

The company continues to respond to variations in market demand arising from world events, and to the relentless pressure of the strong Australian currency. Directors and management are dedicated to achieving growth in the medium term both organically and via appropriate acquisitions.

On Behalf of the Board



David Hughes
Company Secretary

6 June 2007