



18 November 2010

Codan Limited
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ASX ANNOUNCEMENT

**CHAIRMAN'S ADDRESS
AND CHANGE OF DIRECTOR AND CHIEF EXECUTIVE OFFICER**

We attach a copy of the Chairman's Address to be delivered today to the Codan 2010 Annual General Meeting.

In accordance with Listing Rule 3.16.1, we advise that Mr Mike Heard will cease to be a Director and Chief Executive Officer at the conclusion of the Annual General Meeting. He will be replaced as Chief Executive Officer at that time by Mr Donald McGurk.

Michael Barton
Company Secretary

CHAIRMAN'S ADDRESS
ANNUAL GENERAL MEETING
18th November 2010

Codan had an excellent year in 2010 with record sales of \$189 million and a record underlying profit of \$31 million. This result enabled the Board to increase the total dividend for the year to 8 cents per share, an increase of 23% over 2009.

The principal reason for the outstanding result in 2010 was the performance of our Minelab business, a business acquired by Codan in 2008. Minelab makes metal detectors for a wide range of purposes including gold prospecting, artisanal mining, coin and treasure hunting and land mine detection.

While all areas of application experienced good demand, the performance in artisanal mining and land mine detection was particularly strong.

The application of Minelab metal detectors to the search for gold nuggets by artisanal miners really took off in financial year 2010 to the extent that our factory was stretched to the limits in keeping up with demand. Fortunately the important and detailed work that our manufacturing team had done in integrating Minelab into the Codan system and in streamlining the manufacturing process stood us in good stead. We were able to dramatically increase production and therefore sales.

When the boom in demand for the artisanal mining sector began, we did not know how long it might last but in the event, demand continued for most of the year at exceptional levels.

We also had our best year ever in the sales of our mine detectors. While demand was spread over many areas of the world, the order we took for the supply of mine detectors to the Indian Army of \$USD5.5 million was our largest order ever.

Turning to other areas of our business, our results were significantly less strong. Sales of our high frequency radios to the military and security markets had experienced good growth in financial year 2009 as our new range of products targeted to this market received wide acceptance. While

sales in 2010 more or less maintained the levels in 2009, they did not further grow which was, frankly, disappointing. As our familiarity with this military and security market has grown, we see clearly that it is very project-orientated and that to maintain and grow market share, a much larger pipeline of sales opportunities must be generated. I am pleased to report that our sales opportunities list today is considerably stronger than it was at the start of financial year 2010.

Our satellite communications business which was noticeably affected by the Global Financial Crisis continued to experience difficult business conditions in 2010 and sales continued at a subdued level. This business is very much affected by what happens in the USA, and the financial recovery there, whilst underway, is nowhere near as strong as we have experienced in Australia.

I reported last year that we had acquired Locus Microwave, a USA based company which had satellite communications products operating in X band. This part of the radio spectrum is reserved for the government and military sectors and a new group of satellites, the WGS series, was being launched to provide coverage. The microwave radio products offered by Locus have been undergoing extensive testing by the US government for the past months to ensure they meet the stringent specifications required, and I am pleased to be able to say that this testing is now at the end for a number of our integration partners, which we consider will lead to a significant increase in sales.

Turning to financial year 2011, the first four months have seen a continuation of strong business conditions for Minelab, although, as expected, below the peak levels of last year, and there has also been a modest pickup in some of Codan's satellite communications products. Thus the guidance of a 2011 financial year underlying profit of the order of \$20 million which we gave at the start of the year looks achievable. The Australian dollar has of course strengthened greatly in recent months with serious impacts on many exporters. Codan can be exposed to this risk because we achieve most of our sales in export markets and in US dollars. However in financial year 2011, Codan is well protected from effects of the strong Australian dollar because we have in place hedge contracts for most of our exposure. These contracts are in place at an average exchange rate of 87 US cents to the Australian dollar, far better than the current parity situation.

What then might the situation be in FY12? Importantly, we have over several years very substantially reduced the percentage of our net US dollar exposure to overall revenue, meaning our business is proportionally much less impacted by a strong Australian dollar. We have achieved this by creating natural hedge, that is costs in US dollars to partly offset our US dollar revenue. Most of this has been achieved by outsourcing a substantial proportion of our manufacturing to Malaysia. There we enjoy appreciably lower product costs, and in addition we pay for the products in US dollars.

We are extremely well served by our relationship with our Malaysian outsourcing partner, and that relationship will continue to grow. Thus we will progressively further increase the natural hedge.

Codan will always have some exposure to a strengthening Australian dollar, but we will continue to mitigate that risk and its impact is far less today in relative terms than it was four years ago.

We continue to look for other “clever products’ to add to our range by in-house development and also by acquisition. With respect to the latter, we have set up a small task force to examine multiple opportunities.

We sold our Broadcast business in the first quarter. Despite our best endeavours, we found that we could not grow this business to a size appropriate for Codan and we took the decision to exit.

Shareholders may also have noted the benefit of over \$4 million arising from the sale of Codan’s small shareholding in GroundProbe Pty Ltd in Brisbane. Codan contributed its shares to the sale of the business to a new owner. This is of course a one-off benefit that will enhance our reported profit for the financial year but not affect our underlying profit.

We say farewell at this meeting to Mike Heard, the Managing Director of Codan for the past 19 years. Mike has overseen and led an enormous change in our company during his tenure. The company has grown from annual sales of \$22 million when he joined in 1991 to our record of \$189.3 million sales and \$31.1 million profit this year.

Mike has also nurtured Codan’s unique culture and developed a strong management team. We will greatly miss his energy and wisdom. Fortunately he has agreed to make himself available to us in a consulting capacity for a period post retirement.

In my 6 years at Codan, I have found Mike a pleasure to work with. He is driven to succeed and as I said when introducing directors at the start of the meeting, Codan has come a long way under his leadership. I have found him to be unfailingly responsive and courteous and I can say he is going to be missed. On behalf of the Board I wish Mike and his wife Mary, every success for the future.

I look forward to working with Donald McGurk, our new Managing Director. Donald is very well qualified to build on our past successes and lead Codan on into the future.

David Klingner
Chairman
CODAN LIMITED