



## **CHAIRMAN'S ADDRESS**

**22<sup>ND</sup> October 2008**

In recent years, Codan has experienced difficult business conditions due to two main factors: a downturn in demand for our HF products in our traditional markets and the strength of the Australian dollar. We have referred to these matters in many announcements over the last two or so years and I do not propose commenting further on them.

Recent global economic events have now also given rise to unprecedented uncertainty. In the current environment it is very difficult to predict trading conditions from day to day, let alone what the economic landscape is likely to look like in one to two years time. All businesses, including Codan, must therefore be awake to the significant risks and opportunities that these conditions create. Parts of our business can actually benefit from times of economic and general global uncertainty. This can be seen, in particular, in our HF business, where increased global security concerns are creating new markets for our products. In Minelab, our consumer market seems relatively robust given the customer demographics and product application and the Countermine market is driven by much the same fundamentals as the HF market. The Minelab acquisition has in fact given us, a broader spread of products and markets. Overall we believe Codan is well placed to weather and remain strong through the current global turmoil.

We also believe that it is important for our shareholders to know that we are continuing with our initiatives to strengthen Codan and better place it to deal with the challenges it can expect to face in the future.

As foreshadowed in my address last year, we have taken action in three ways and I am delighted to say that these actions have been implemented and they are having the desired effect of improving and growing Codan.

Firstly, we have been successful in penetrating new markets for our HF products. We have successfully targeted the military and security sectors with an extensive marketing campaign and are now making significantly increased sales into this sector.

Secondly, we have moved some of our more routine manufacturing offshore to Malaysia and this is having the desired effect of reducing our cost base and transferring costs into US dollars which helps buffer our exposure to the US / Australian dollar exchange rate.

Thirdly, after looking at quite a number of acquisition opportunities, we have made a very significant acquisition in Minelab, located right here in Adelaide. The clever products manufactured by Minelab make a very good fit with Codan's business while at the same time, diversifying our product range.

These three initiatives, combined with the ongoing, never-ending drive to reduce costs in our business, have put Codan on track for renewed growth. Based on results to date and our forecasts to the end of December, we have a reasonably high level of confidence in our first half result. I am very pleased to be able to say that we expect our Net Profit after tax to be at least 40% greater than the previous corresponding period.

Given current global economic conditions however, we believe it is very difficult to predict likely trading conditions and results for the second half. As a result, it would not be sensible for us to provide guidance on this, other than to say it would seem likely we will honour our earlier guidance of an underlying EPS that is at least 20% greater than the previous financial year.

In the current economic environment it is imperative that Codan maintains focus on productivity and cost control. This will continue to be one of our major priorities for the current financial year.

I also wish to speak briefly about two areas, already mentioned in our Annual Report, where we have not been successful, despite our best efforts, and what we have done about this. The first is the Links business. This is a digital microwave application for the transmission of signals for general telecommunication carriers, cellular operators and private networks. We have been developing products for this application over quite a number of years. As with everything Codan does, our links products are very good, but try as we might, we have not been able to find a niche where we can successfully compete with the giants of the communication world that occupy this space, and grow our business. After much deliberation, we have decided our efforts are best directed elsewhere and while we will continue offering our products, we will no longer develop new ones.

The second area is Broadcast Products. We have been working hard to develop this area of our business for some years. Again, although our products are well accepted, we have found that we just do not have a wide enough range of products to grow this activity into a significantly larger business. Therefore, we will continue to serve our customers with an excellent range of core products, but without efforts to broaden the business. Again we have decided to focus our efforts for growth on our very successful HF, satellite communications and metal and mine detection products.

The decision to refocus resources away from Links and Broadcast has led us to making a prudent, non-cash write-down in these businesses.

The Board believes that the acquisition of Minelab during the year has added significant value to the Codan group. The results from that business in the financial year just gone were strong and indeed better than originally anticipated. This strong performance has continued on into the new financial year across the business. The launches of the new high end coin and treasure machine, "ETRAC", and our top of the range gold machine, the GPX-4500, have also been very positively received by the market. We continue to push forward with our integration initiatives, particularly in view of global economic conditions, with synergies being achieved by streamlining systems and support functions and leveraging Codan's existing manufacturing and distribution capabilities.

It has been a difficult time for our satellite communication business where there has been reduced demand for our products across the industry; particularly in our North American market. Our response to this has been to invest in the development of important new products; the first of these is being released as we speak. We expect to see a good response from our customers.

HF Sales have been strong for the first 3 months, driven in part by demand for our newly released products for the security, protection and military markets. These new products have been very well received by the market, and on this basis, we expect to deliver an improved 1st half performance compared to the corresponding period last year. In addition to strong initial sales, significant cost reductions are now being realised across the HF product group as a result of the outsourcing program, which is now in full swing. With the combination of a reduced product cost and new HF products that have been very well received by our customers, confidence is high that an improved sales and profit result will be delivered in the current financial year.

The Board was delighted to be able to announce the appointments, during the year, of two new directors, Mr David Simmons and Lieutenant General Peter Leahy. Both gentlemen are very experienced operators in their fields of endeavour and add significant relevant competence to the Codan Board. David Simmons had a long and successful career with Hills Industries, retiring as

Managing Director with the company in May this year. He is also the former Chairman of the South Australian Economic Development Board. Peter Leahy had a distinguished military career and was most recently Chief of Army until his retirement in the middle of this year. I will talk more about Mr Simmons and General Leahy in a moment.

Turning to the longer term, your company remains ambitious for further growth and development. We intend to continue to do this both by the continuing effort to develop new products in-house through our extensive research activities and also by continuing to look for acquisition opportunities. We are particularly keen to develop our satellite communication business while of course remaining alert for opportunistic prospects in HF and metal detection. Shareholders will understand that obtaining funding for large acquisitions could prove challenging in the current environment. However, it is also possible that current conditions will mean that attractive opportunities could well arise that could add significant shareholder value and we must be alert to those opportunities.

Ladies and gentlemen, despite these difficult times, the situation of your company is both sound and improving and I feel confident that Codan will produce a solid result for the year ended 30 June 2009.