



Codan Limited

2005 AGM

28th October 2005

CHAIRMAN'S ADDRESS

Ladies and Gentlemen,

I would like to make some comments on the company's strategy, activities, performance and outlook.

As you will be aware from our recent reporting, following our record result in financial year 2004, the company maintained the same level of profit from normal operations in financial year 2005. This was achieved in an environment of strong currency headwind and reduced demand for satellite communications products, offset by strong demand for HF radio products and through product cost reductions and strict control of expenses.

A dividend of 6.0 cents per share has been paid, which is a 9% increase on the 5.5 cents paid in the prior year.

In addition, to strengthen our platform for future growth, a substantial capital expenditure program was undertaken during

the year, totalling \$20.5m. This program covered additional infrastructure, including the doubling of factory floor space in Adelaide and the introduction of a new company wide business system, as well as the acquisition of both technology and operations to broaden our product range. It also involved the internal development of additions to the range of products for both HF radio and Satellite communications markets. All of these programs have now been concluded and all new products released to the market, so far, have delivered a very positive response and good orders.

We believe these new products and the new infrastructure will deliver substantial benefits to the company in the future. I will expand on this later in my address.

Codan is operating in an ever more dangerous world environment, particularly in some geographic areas in which the company's sales are made, and it has a very strong commitment to employee safety in every aspect of the operations globally. The company has achieved an outstanding performance in employee safety via specific Occupational Health Safety and Welfare policies and practices including the training and support of all staff with particular attention to our travellers.

I believe it is important to draw your attention to the fact that the company has again responded to all of the ASX Corporate Governance Council Best Practice Recommendations through its disclosures in the 2005 Annual Report which is already in your possession. Full disclosures of the impact on our reported results of the new International Financial Reporting Standards, which only became effective from 1st July this year has also been provided.

Succession planning is a very important factor in any successful company and Codan is no different. We maintain a strong commitment to this right across the company which has seen a number of internal appointments to senior roles during the year. We believe we have management capability within Codan which compares very favourably with our international peers.

The Board has also made some important progress throughout the year to maintain an appropriate mix of independent, experienced and highly qualified directors. Whilst we do not have any concern about the ability of the present board to provide shareholders with appropriate and objective governance of the company, a greater degree of independence and a lowering of the average age of the Board is clearly desirable. As a result, a number of changes have and are being made to the Board. As announced at last year's AGM, Mr. Leon Davis retired from the Board in December 2004 after four and a half

years of very valuable service. Whilst Leon is not here today, we thank him for his special contribution to the company and in assisting us to position Codan for future success. In addition, as you have seen in the Notice of Meeting, Mr. Jim Bettison and Mr. Alastair Wood, two of the founders of the company have indicated they will retire from the Board at the conclusion of this meeting. Both Jim and Alastair have made enormous contributions to the establishment and success of Codan and we owe both of them a great debt of gratitude. On behalf of the directors and staff I offer them our thanks and best wishes for their retirement.

Mr Ian Wall has also indicated his intention to retire from the board during the course of 2006.

We are delighted to have secured the services of both Dr David Klingner and Mr David Klingberg to serve on the Codan Board. You will see from the documents already mailed to you that both have the qualifications and experience necessary to play their part in guiding Codan in the future and we are very fortunate to have them with us.

I would now like to specifically address the immediate outlook for our business. In doing so I need to refer to the quite complex situation which exists in the market place for our products.

It is part of Codan's strategy to be the supplier of choice in those global market segments in which we decide to operate. This can only be achieved through having a balanced reputation for product design, reliable delivery times, quality, both pre and after sales customer support and, frankly, an ability and preparedness to listen to and hear what your customer is saying.

We are implementing an exciting strategy that will, we feel sure, maintain Codan's leadership of important global market niches and thereby deliver medium to long term growth in accordance with our stated objectives. However, right now, our business environment is challenging and complex. In order to ensure that shareholders are fully informed about the circumstances in which we operate I will take some time now to address these matters.

Considering the severe impact on our business of the strong Australian dollar and the time required to achieve market momentum with our important new products, the board had expected business performance in the first half to be relatively weak with a much stronger second half. This has been the case so far, but a combination of factors in the first half have made it even more difficult than was expected.

Our strategy required us to secure strong market positions for the new products released to the market last year, particularly for our new families of satellite communications and digital microwave radio products. I am pleased to report that this strategy is proving to be successful in terms of unit sales. In the first quarter the company sold substantially more units of satellite communications and digital microwave radio products than in the same period last year. Our HF radio sales remain solid, and we have also experienced good growth in our TV broadcast products.

The complexity in the market place at present arises partly from the impact of new technology. Our global satellite communications and digital microwave radio customers, in order to facilitate their own growth, are constantly looking for lower cost solutions to their needs. In a competitive environment Codan's new product families have met this challenge by delivering to our markets superior products at much lower cost. These are very important drivers of future growth for Codan. However, lower product unit prices depress our revenue temporarily, and it will take some months for sales volumes to grow sufficiently to counteract this effect. The challenge is compounded when the Australian dollar is strong because these new products are sold in US dollars.

I must make the point that as volume of these new products grows there will be further quite significant reductions in cost to produce.

It is important for me to repeat that Codan's new products are being very well received and unit sales are growing strongly. Feedback from the marketplace is that Codan is indeed the product of choice in these cases.

With the completion of our Adelaide factory expansion project, the company is exceptionally well positioned to deliver on short lead times substantially higher volumes of product with continuous improvement in productivity. We are confident that Codan is maintaining market leadership in its chosen niches and that in reasonable time, high market share and low product cost will deliver strong revenue and profit growth. This has been our strategy for some time, and this strategy is on track.

The current market uncertainties come at a time when even in the case of high frequency radio where the basic product position is well established in the market place new and additional products in the range add to the uncertainty and complexity of our position. These additions are also proving attractive to the market and quotes for supply are at a high level. Timing in terms of when these might turn into orders, however, is uncertain.

Unfortunately, under these circumstances it is very difficult to forecast our full year result or for that matter even the first half result. Whilst the board's expectation is for continued growth of unit sales and therefore for increased revenue and profit in the second half, our exposure to the US dollar during that period is currently unhedged and we cannot predict the exchange rate.

Taking all of these factors into account it has to be said that the company's result for the first half is likely to be significantly less than for the same period last year.

Of course over time the Australian dollar strengthens and weakens, and that is outside of our control. We do however control our own business strategy and its implementation as has been demonstrated now over many years. We are delivering value to our markets, and we remain confident of our ability to deliver exceptional shareholder value over the medium to long term.

John Uhrig, AC
Chairman