

CODAN LIMITED

CHAIRMAN'S ADDRESS

18 October 07

The 06/07 year

Codan's performance improved in 06/07. In overview, the company achieved significant improvement in profit and excellent cash generation brought about by continuous improvements in productivity, efficiency and working capital management. This facilitated an 8.3% increase in dividend over last year. However your Board and the Management are far from satisfied. Last year's profit was significantly below the profit level achieved in the years ending June 04 and 05 and we know that we still have much to do to get back to and exceed these levels.

Current Performance

Turning to the current year, we are pleased to report that our principal markets are quite active and we are on plan with order intake, revenue and profit.

As reported in the Annual Report the Board and management spent considerable time and effort last year devising a new ten year plan and now we are actively implementing it.

Good progress is being made with the global market launch activities that we are making into new markets for Codan and in some cases with new products. These activities include launches of high frequency radio into military markets, digital microwave radio into new countries and market segments, and broadcast products into Europe and North America.

We continue to make improvements in productivity and operating efficiency.

Management continues to be very active in identifying and evaluating acquisition opportunities. Whilst we would all like to achieve good acquisitions quickly, the reality is that the process takes time and care, and we will only accept the right opportunities at the right price.

Near Term Outlook

With respect to the near term outlook, the first half profit last year was quite strong because of a particular very large order delivered in that period. Whilst we expect a satisfactory profit performance in the first half this year, it will be somewhat less than for the same period last year. However, the maintenance of an interim dividend of 3.0 cents per share fully franked is expected.

All these factors lead the board to maintain the guidance that it has given previously with regard to full year performance in 07/08. In summary, and principally because of the continually strengthening Australian dollar, this year's full year profit may be less than last year's depending on circumstances as they unfold.

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Currency Impacts

Unfortunately, with the Australian dollar now worth around 90 US cents and the potential for it to be even stronger, I must devote some time in this address to the currency's impact on Codan and the steps that we must take to counteract it.

As previously advised, for the current financial year Codan's net exposure to the US dollar is hedged at what today appears an attractive rate of 83.8 US cents to the Australian dollar. Whilst only approximately 50% of Codan's revenue is received in US dollars, at 83.8 US cents the negative effect on our Australian dollar revenue and profit will still be very significant compared to last year when the equivalent rate for Codan was 77.4 US cents.

Of course the steps that we have already taken to improve productivity and efficiency and grow market share will go some way towards offsetting this impact and the guidance given above about this year's profitability already takes the currency factor into account. Thus the following comments pertain to the impact on Codan's business in 08/09 and beyond.

Strategic Direction

Shareholders know that your company is a proud exporter of its high quality and high technology electronic products. More than 90% of our revenues come from export to around one hundred and fifty countries. This results from Codan being a global market leader in its segments of the high frequency radio and satellite communications markets. It is a very significant achievement.

Shareholders also know that as the currency strengthens appreciably Australian exports either become more highly priced in our customer's currency than the products of our overseas competitors and our market share is threatened, or else we must accept lower prices and margins for our exports. In the four years since Codan released its IPO prospectus the Australian dollar has strengthened by around 30% against the US dollar. In common with all significant manufacturing exporters in Australia, Codan continues to battle this headwind.

Our response has been significant capital investment in new facilities and business systems, continued investment in new product innovation, and major improvements in efficiency and productivity, all leading to substantially lower costs and improved market share. Unfortunately it is not enough. We can do more.

I have already reminded you of our very significant global market launch activities to stimulate organic sales growth. Quite simply, in a global market where more than 90% of our revenues come from export to around 150 countries, we need further significant reductions in our product costs. This can only be achieved by manufacturing off-shore in low cost environments, and we are actively working on this. Progressively, and with great care to ensure our quality is not compromised, we will establish manufacturing of our higher volume modules in appropriate low cost off shore environments like Asia. We will retain Adelaide as our head office and centre for innovation, design and very high skill manufacturing operations.

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In this way, not only will we achieve lower product costs, but there is the potential to engineer more of our cost base in US dollars, thus increasing our natural hedge against revenue from sales in US dollars. Lower cost products will further stimulate growth.

A program to increase the flexibility and skills levels of our Adelaide manufacturing staff is well underway. Those that accept the retraining opportunity and are successful will move up to higher skill positions in our growing business.

I emphasise that this important step is necessary to maintain our global leadership and international competitiveness in the face of the strengthening Australian dollar. We have not taken this decision lightly, but competitive manufacturing costs are crucial for Codan's continued growth and leadership on the world communications stage. The step is not only critical to the company's success, but along with growth by acquisition it will provide exciting new opportunities for Codan's people.

Performance Rights Plan

Last year Mr. Uhrig advised that it was the board's intention to activate for senior executives the performance rights plan previously approved by shareholders. With the continued strengthening of the Australian dollar, and the extreme volatility caused by the US credit crisis, the board found it difficult to set longer term performance hurdles for executives that were both realistic and appropriate. Instead the board has retained the existing short term incentive program for executives while we together plan the off-shore manufacturing steps and implement the acquisition programs referred to above. The board is also taking further advice on executive remuneration.

Conclusion

Your company remains ambitious in striving to significantly expand the business. It is frustrating for all of us, shareholders, the board, management and indeed all staff that underlying growth and very significant productivity improvements continue to be offset by currency impacts. I wish to thank most sincerely Codan's management and staff. They do not yet see the benefits in improved profitability of their excellent work, and yet their efforts are untiring. We see the initiatives we are undertaking in 07/08 as laying the foundation for a new era of profit growth for your company. We appreciate the support of you, our shareholders, as we implement the necessary changes.