

**Codan Limited**

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ASX ANNOUNCEMENT**2012 ANNUAL GENERAL MEETING****CHAIRMAN'S ADDRESS TO SHAREHOLDERS****17 OCTOBER 2012**

Ladies & Gentlemen,

I am very pleased to report that your company performed well in Financial Year 2012. Our underlying net profit after tax was \$27.9 million, up 19% on the previous year and our second highest on record. Our statutory profit of \$23.1 million was the highest we have ever achieved.

This enabled your Board to pay an increased dividend for the year of 9.5 cents fully franked, an increase of more than 5% over Financial Year 2011.

Codan has demonstrated time and time again our ability to offer best value-for-money solutions to customers in our defined markets, particularly in the emerging world. We have been successful over many years by being the best designer and manufacturer of elaborately transformed electronic solutions in our chosen fields.

In order to survive and prosper in a high-wage, high-dollar economy, our manufacturing processes and systems have had to become ever more cost-effective, responsive and market-focussed. Despite the relatively tough economic times, our company has continued to perform well because of our focus on those aspects of business that we must do well to be successful, on the early identification of market-driven trends affecting our business and on our readiness to take decisive action when we find we must.

In reflection of the last point, we took the decision in the course of the year to divest our satellite communications assets. The combination of a highly competitive, large and rapidly consolidating US-centric industry and the strong Australian dollar had led to declining profitability and became compelling reasons to exit the business.

The metal detection division has continued to perform very well. Strong demand for our gold detection products, supplemented by the growth in our coin and treasure machines, has reinforced Minelab's position as the global market leader for handheld metal detectors.

We are now seeing the benefits from the business development work carried out by our people during the past 18 months. As a result, sales are now more evenly distributed between a number of countries and are no longer dominated by Sudan. Some of these new markets are now experiencing a rush in demand for gold detectors, which resulted in this September just passed being a record sales and profit month for the Group.

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Our radio communications division also had a good year, with increased sales and profitability despite frustrating delays with the awarding of some major government projects in Africa and Central Asia. The increase in sales of 9% and profitability of 32% compared to last year was a reflection of the work put in by our team in the areas of marketing and business development.

We spent some time in 2012 further refining our strategy for growth, which consists of three major initiatives: invest in ourselves, expand our business and make further acquisitions. I am pleased to be able to report that we made significant progress in all three initiatives during the course of the year.

The foundation of our growth strategy is to ensure that we continue to invest heavily in new product development and, to that end, we released three new product platforms in 2012.

The all-new Codan software-defined radio was released to the market in June, and was very well received by our dealers and customers. The product is aimed at delivering first-world features and benefits to the emerging world at the right price, and gives us a brand-new HF technology platform from which to continue to grow this division.

Our metal detection division released a new, innovative, feature-packed coin and treasure detector that has redefined the market standard, and a new land mine detector which has taken our world's-best metal detection technology and packaged it in a smaller, more transportable form.

In respect to expanding our existing businesses with complementary products and technologies, Codan entered a software licensing agreement that has allowed us to offer an expanded capability to our radio communications customers, by providing them with an embedded high-speed data modem solution.

Even more important and exciting was the acquisition of Canadian-based Daniels Electronics, which took place after FY 2012 year-end. The focus of the Radio Communications division for some time has been to spread our offering beyond our current HF products and to position ourselves to supply a more comprehensive and complete radio communications solution. Daniels Electronics is a leading supplier of the infrastructure required for land mobile radio and represents a major step into this important and growing segment of radio communications.

Finally, our focus on identifying and reviewing acquisition opportunities that fit our strategy of further diversification led to the acquisition of Minetec, a mining communications and technology company specialising in whole-of-mine safety and productivity solutions. This will provide another strong area for medium to long-term growth, focussed on the resource sector.

The excellent year we enjoyed in 2012 enabled us to reduce net debt from \$26 million to \$16 million during the year and this, complemented by significantly lower levels of working capital, enabled us to further strengthen our balance sheet.

The acquisition of Daniels Electronics post year-end, the uncertainty surrounding global markets, and the determination of the Board to see that Codan is well-placed to grow no matter what happens in the world, led to the decision to undertake an institutional equity

placement combined with a share purchase plan for existing shareholders, to enable the company to continue to operate a conservative balance sheet.

The 12.5 million dollar equity placement was very well supported by the market and was significantly over-subscribed, resulting in a scale back to the number of shares issued against the requests we received. As a result of the placement, the Board is pleased to welcome a number of new institutional investors to our register. A number of these institutional investors have continued to buy shares in Codan after the placement, as some of our major shareholders reduced their holding.

The share purchase plan was also very well supported by our existing shareholders, and we were able to raise close to 5 million dollars.

An additional benefit of these equity offerings has been to increase the free float of the company's shares and to thus improve the trading liquidity of our stock.

The first quarter of FY13 has seen the continuation of the strong business conditions experienced by Codan in the second half of FY12, with the metal detection division and gold detector sales in particular, performing strongly. Given the continued strength of our business, it's likely that we will post a very strong net profit after tax result for the first half. The Board is of the view that net profit after tax should reach \$25 million dollars for the first half, which will be more than double that of the first half last year and will be the highest half year profit number in the company's history.

For the full year we remind ourselves that we are living in uncertain and cautious economic times which can continue to delay purchasing decisions. We also have competitors, including counterfeiters, whose actions could put pressure on revenue and margins. Although it is early in the year, based on current momentum and a detailed consideration of management's full year forecast at this morning's Board meeting, we would expect to substantially exceed the company's previous record underlying profit of \$31.1 million and expect it to be in the region of \$40 million, which would represent an increase of more than 40% over the result achieved in 2012.

In closing, I would like to pay tribute to Codan's people at all levels in the organisation. They continue to be a source of strength to the organisation and, on behalf of the Board, I thank them for their contribution to our success.

David Klingner
Chairman