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COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

Business Update

Summary

- The trading environment for gold detection products into our three main African markets has been depressed for much of calendar year 2013.
- The Board has revised its profit guidance to be in the range of \$4 million to \$5 million for the first half of FY14.
- Management has moved quickly to reduce the cost base of the organisation.
- We continue to see medium to long-term growth opportunities in each of our three business units.
- With a strong pipeline of new products and on-the-ground market development, Codan will deliver a stable and diversified revenue base in the medium term.

A detailed operational update for each business unit is set out below.

Metal Detection

Minelab's key markets in Africa for the sale of gold detectors has proven to be volatile. Over recent months our sales have been impacted by a number of factors, most notably civil unrest in Sudan over control of the gold fields, especially in the Jebel 'Amer area, which has made some key regions unsafe for artisanal mining. This civil unrest in Sudan, combined with extreme weather conditions and a general level of political instability in Western Africa, continue to impact the number of gold detectors sold into Codan's key African markets.

The volatility of gold detector sales into Africa has resulted in our sales in the half year ending 31 December 2013 being approximately \$50 million (or 80%) less than the prior year first-half period.

It remains difficult to predict gold strikes, subsequent gold rushes or, most importantly, when safety and stability will return to these key African gold mining markets. We remain very confident that our on-the-ground approach to business development in other artisanal mining regions of Africa, South America and Asia Pacific will continue to diversify the business and lift sales.

Codan's product development strategy will see a number of market-leading technology platforms released to the market. A Low Cost Metal Detector will be released in FY15, which will enable us to enter a new significant market space. Work on the next generation of gold and mine detecting technologies is also well underway. In addition, we have a new mid-priced, compact and fully waterproof gold detector due for release in April 2014.

The consumer market for metal detectors, comprised of gold prospectors and coin and treasure enthusiasts, largely in first-world countries, continues to be a good business, with coin and treasure sales up over 40% in the past two years, and is a much more predictable segment of our metal detection business. This, combined with the solid performance and new product releases in our mine detecting business, provides us with a significant and solid foundation for Minelab.

Radio Communications

Demand for our new Envoy HF radio continues to grow, and we are receiving very positive feedback about the digital voice quality and the simple user interface. The great audio quality and new multimedia handset enhancements make the radio user-friendly and easy to set up, with world-class voice clarity. Further product improvements are in development, including user interfaces in multiple languages, which we expect will enhance our position in emerging world markets and keep us ahead of the competition.

In the HF market we continue to see opportunities to grow our business by expanding into new geographic regions and taking market share from competitors. There are a number of large HF opportunities which have the potential to significantly improve the second-half result.

Our land mobile radio products are predominantly sold into the US government market. Our sales have been impacted by the US government budget sequestration, which introduced mandatory spending cuts. While sales are not yet back to expected levels, we have taken steps to reposition the business, including the appointment of new management and sales leaders, combined with an expanded customer offering. We have seen a positive improvement in land mobile radio sales in this half year.

The future development of our radio communications business will leverage our well-established HF and LMR platforms to enable us to follow global communications trends, which require resilient radio networks that have the ability to connect over multiple communications platforms.

Mining Technology

Minetec has made a number of breakthroughs in the last couple of months, working with five of the world's largest underground miners to establish key mine reference sites for its underground mine safety and productivity solutions.

Minetec recently won a competitive tender to install a fully operational proof of concept of its mine simulation software (SMARTS) with one of the world's largest mining groups. If successful, this will lead to a pilot mine installation and subsequent rollout to multiple mine sites over the next few years.

While taking longer than we had originally planned, Minetec is successfully commercialising its "game-changing" technology in a challenging industry environment, and remains well positioned to play a key role in assisting the mining industry to transition from conventional labour-intensive mining practices to more efficient mechanised mining, and then ultimately to autonomous mining techniques.

Expense Management

In response to lower sales performance in this first half, management has acted quickly to realign the expense base of the company. Great care has been taken to limit the impact on the company's ability to deliver on its growth strategy.

Expense reductions in the region of \$10 million per annum have been implemented progressively over the first half, across sales and marketing, manufacturing and corporate. These reductions are expected to strengthen our second-half profitability.

Outlook

Codan has demonstrated over many years an ability to leverage its key technologies to many markets and customers across the globe and to deliver excellent returns to shareholders. Our strategy and plan for the future is stronger than ever, with significant opportunities across all three business units.

While management and the Board are totally focussed on achieving a much stronger second half right across the business, the nature of some of the markets Codan operates in makes it very difficult to provide profit guidance for the second half at this time.

On behalf of the Board



Michael Barton
Company Secretary

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