



22 February 2017

Codan Limited
ABN 77 007 590 605
Technology Park
2 Second Avenue
Mawson Lakes SA 5095
Australia

PO Box 35
Salisbury South SA 5106
Australia

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

**CODAN STRONG FIRST HALF:
SALES, PROFIT AND DIVIDEND UP**

- Underlying net profit after tax of \$22.2 million, up 219% on 60% higher sales
- Statutory net profit after tax of \$22.2 million, up 265%
- Increased interim dividend to 3.0 cents, up 50%, fully franked
- Declared special dividend of 3.0 cents, fully franked
- Underlying earnings per share of 12 cents, up 218%
- Strong balance sheet – positive net cash position
- Radio Communications contribution increased 24% over the prior half, driven by delivery of a large HF project in the first half. LMR sales softened in the lead up to the US election
- Metal Detection contribution increased 256% due to continued success of the GPZ 7000® gold detector in Africa
- Minetec successfully deployed tracking solutions for key customers and generated a small positive contribution for the first half.

Australian-based technology company, Codan Limited (ASX:CDA), today announced a 265% increase in statutory net profit after tax to \$22.2 million for the half year ended 31 December 2016. Underlying net profit after tax for the period was \$22.2 million, a 219% increase over the prior corresponding half-year period.

Directors announced an interim dividend of 3.0 cents per share, up 50%, fully franked. The dividend has a record date of 15 March 2017 and will be paid on 3 April 2017.

In recognition of the out-performance of the company in the first half, the Directors have also announced a special dividend of 3.0 cents per share, fully franked. The special dividend will be paid with the interim dividend.

Chief Executive Donald McGurk said, “The half year reflected the results of our investment in new product development, success in international markets and our ongoing drive for

productivity. We have unique, innovative and proven technology which is increasingly seeing our business units recognised as global leaders in their area.

“As previously stated by our Chairman, our number one priority is to broaden and enhance our product range to grow our addressable markets and thereby reduce the company’s earnings volatility. The volatility of our current markets means that Codan may disappoint on the downside from time-to-time and occasionally surprise on the upside.

“The recently completed half year was certainly a period where Codan has surprised on the upside, and the special dividend has been declared to reward shareholders for the improved trading performance driven by very strong sales of GPZ 7000® gold detectors into the African market.”

Codan Summary Financial Performance				
	Half Year ended			
	Dec-16		Dec-15	
	\$m	%	\$m	%
Revenue				
Communications products	35.0	34%	29.0	44%
Metal detection products	64.8	62%	33.6	52%
Mining technology	4.1	4%	2.3	4%
Total revenue	103.9	100%	65.0	100%
Underlying business performance				
EBITDA	37.1	36%	14.7	23%
EBIT	30.3	29%	9.0	14%
Interest	(0.5)		(0.8)	
Net profit before tax	29.8	29%	8.2	13%
Taxation	(7.6)		(1.2)	
Underlying net profit after tax	22.2	21%	7.0	11%
Non-recurring (income)/expenses after tax:				
Restructuring expenses	-		(0.9)	
Net profit after tax	22.2		6.1	
Underlying earnings per share, fully diluted	12.4 cents		3.9 cents	
Interim ordinary dividend per share	3.0 cents		2.0 cents	
Interim special dividend per share	3.0 cents		-	

**Non-underlying income/(expenses) are considered to be outside of normal business activities of the group and for comparability reasons have been separately identified. The methodology of identifying and quantifying these items is consistently applied from year to year. Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit.*

EBITDA and EBIT margins increased as a result of strong gross margins across the business and improved expense ratios on higher sales.

Performance by business unit:

Radio Communications – High Frequency (HF) Radios and Land Mobile Radios (LMR)

Radio Communications revenue increased 20% to \$35 million, and segment contribution of \$9.8 million increased 24% over the prior first half. The improved first-half result was boosted by the delivery of a large High Frequency Radio contract into the Middle East.

After delivering record-high Land Mobile Radio sales in FY16, LMR demand softened in the first half of FY17. This resulted from lower spending on communications infrastructure in North America in the lead up to the US presidential election. Looking forward, we expect that demand will increase as a result of the new Administration's stated intent to increase homeland security and associated infrastructure spending.

Radio Communications is a leading international innovator in the design and manufacture of premium communications equipment for HF and LMR applications. It provides communications solutions that allow customers to save lives, enhance security and support peacekeeping activities worldwide.

"The additional engineering investment to accelerate the development of our new expanded LMR product range announced last year is on track to launch to the market in early FY18. These products are expected to drive growth in Radio Communications," Mr McGurk said.

"Radio Communications delivered its best profit result for seven years in FY16, and while we have had a strong first half, it will be a challenge to repeat that result in FY17 due to the softening of our LMR markets in North America and the uncertain timing around a number of large HF projects.

"We remain focused on our strategy to continually broaden our revenue base by expanding our current technology platforms to enter larger adjacent markets and make the transition to a communications solutions provider," he said.

Metal Detection – Consumer, Gold Mining and Countermine

Minelab revenue increased 93% to \$65 million in the first half, and segment contribution increased 256% to \$28 million. While all parts of the Minelab business performed well, gold detector sales into Africa drove the high growth.

Metal Detection has produced sales in the range of \$70 million to \$100 million in the past three full financial years, with the underlying metal detection business expected to achieve sustainable annual revenues of at least \$70 million. Periods of strong demand for gold detectors in Africa, as experienced this half, have the potential to push metal detection sales to the top end of this range and beyond.

Minelab is the world leader in handheld metal detecting technologies for the consumer, gold mining, demining and military markets. Over the past 30 years, Minelab has introduced more innovative technology, including robust intellectual property protection, than any of its competitors and has taken the metal detection industry to new levels of technological excellence.

"Although our metal detection business can be difficult to forecast and we want to provide shareholders with realistic expectations, the world-leading nature of our products and technology drives excitement among our customers and provides us with the opportunity to surprise on the upside.

“While sales of our top-of-the-range gold detector, the GPZ 7000®, were strong in the developed world, the most significant growth in our gold detector sales has come from the successful launch of this product into our African markets. The GPZ 7000® was launched in Africa in October 2015, and demand has continued to exceed our expectations as the market recognises its superior performance.

“Demand for the GPZ 7000® is being driven by its superior performance rather than gold surges in isolated markets, giving us confidence that this is driving replacement sales as customers upgrade their existing GPX® equipment,” Mr McGurk said.

Sales of metal detectors into our established consumer markets in the first half were up on last year. The highlight for the Countermine mine detection business in the first half was the award of a \$6.7 million contract from the Australian Department of Defence to further develop a dual-sensor metal detector which incorporates ground penetrating radar. The revenue under this contract will be offset by the development costs, and the project will be completed in FY19.

Tracking Solutions - Minetec

Minetec delivered a small operating profit in the first half of FY17, compared to a loss of \$1.3 million in the first half of FY16. With a steadily increasing customer base and a number of successful installations, this business is well placed to take advantage of opportunities for further growth.

Minetec is a mining solutions provider which offers unique high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec’s solutions enable real-time monitoring and control of mine operations which allow miners to see the whole mine and manage issues, bottlenecks and constraints as they arise.

A number of mines are now successfully using Minetec’s suite of products and form critical reference sites for further sales.

In August 2016, Minetec secured a multi-million dollar contract to deploy its full range of high-precision tracking, safety and task-management systems for an underground gold mine in Western Australia. This technology has now been installed, and the customer went live on the system in January 2017. In a world first, the customer is now using the continuous high-precision, 3-dimensional tracking system in an underground operational mine.

Minetec is focused on capitalising on its early successes and is targeting underground hard-rock gold, copper and diamond mines in Australia and South Africa.

Corporate

Strong cash generation over the first half has resulted in a net cash position at 31 December 2016. As a result, the Board elected to reduce the company’s debt facility from \$85 million to \$55 million.

This undrawn facility remains available to fund further organic growth or a strategic acquisition that meets the company’s strict criteria.

Outlook

The Board and management remain committed to delivering more stable results for shareholders and profit improvement over the long term. This will be achieved by continuing to develop innovative product platforms, broadening our customer base and seeking further investment opportunities aligned with our core business.

In November 2016, the Board provided profit guidance in the range of \$30 million to \$32 million NPAT on the assumption that demand for GPZ 7000® detectors in Africa returned to more normal levels in the second half of FY17. The business has had a good start to the second half, and the Board has updated its guidance for the full-year underlying profit after tax to be in the region of \$35 million.

On behalf of the Board



Michael Barton
Company Secretary

Codan is a technology company that provides robust technology solutions that solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world. Our customers include United Nations organisations, mining companies, security and military groups, government departments, major corporates as well as individual consumers and small-scale miners.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-

Donald McGurk
Managing Director & CEO
Codan Limited
(08) 8305 0392

Michael Barton
Company Secretary & CFO
Codan Limited
(08) 8305 0392

**Codan Limited
and its controlled entities**

**Appendix 4D
Half Year Report under ASX Listing Rule 4.2A.3**

Period ended on 31 December 2016

ABN	Previous corresponding period
77 007 590 605	31 December 2015

Results for announcement to the market				\$A'000
Revenue from ordinary activities	Increased	60%	to	103,877
Profit from ordinary activities after tax attributable to members	Increased	265%	to	22,189
Underlying profit after tax	Increased	219%	to	22,187
Dividends	Amount per security		Franked amount per security at 30% tax	
Interim ordinary dividend	3.0 cents		3.0 cents	
Interim special dividend	3.0 cents		3.0 cents	
Record date for determining entitlements to dividends:	15 March 2017			
<p><i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i></p> <p>The 31 December 2016 Financial Report and the Market Announcement dated 22 February 2017 form part of, and should be read in conjunction with, this Preliminary Final Report (Appendix 4D).</p> <p>Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to review or audit.</p> <p>This report is based on half-year financial statements that have been externally reviewed. The auditor's review report is included in the Interim Financial Report for the half year ended 31 December 2016.</p>				

**Codan Limited
ABN 77 007 590 605
and its Controlled Entities**

**Interim Financial Report
for the half year ended
31 December 2016**

Directors' report

Codan Limited and its Controlled Entities

The directors present their report together with the consolidated interim financial report for the half year ended 31 December 2016 and the auditor's review report thereon.

Directors

The directors of the company at any time during or since the end of the half year are:

Name	Period of Directorship
David Simmons (Chairman)	Director since May 2008
Donald McGurk (Managing Director and Chief Executive Officer)	Director since May 2010
Peter Leahy	Director since September 2008
Jim McDowell	Director since September 2014
Graeme Barclay	Director since February 2015
Kathy Gramp	Director since November 2015

Principal activities

The principal activities of the consolidated entity during the course of the half year were the design, development, manufacture and sale of communications equipment and solutions, metal detection equipment and tracking solutions.

Review and results of operations

Summary:

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Our number one priority is to broaden and enhance our product range to grow our addressable markets and thereby reduce the company's earnings volatility. The volatility of our current markets means that Codan may disappoint on the downside from time-to-time and occasionally surprise on the upside.

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Dividends

Directors announced an interim dividend of 3.0 cents per share, up 50%, fully franked. The dividend has a record date of 15 March 2017 and will be paid on 3 April 2017.

In recognition of the out-performance of the company in the first half, the directors have also announced a special dividend of 3.0 cents per share, fully franked. The special dividend will be paid with the interim dividend.

State of Affairs

There were no significant changes in the state of affairs of the group other than those referred to in the financial statements and notes thereto.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half year ended 31 December 2016.

Rounding Off

The company is of a kind referred to in ASIC Legislative Instrument 2016/191 dated 1 April 2016 and, in accordance with that Legislative Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:



D Simmons

Director



D S McGurk

Director

Dated at Mawson Lakes this 22nd day of February 2017.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



KPMG



Scott Fleming
Partner

Adelaide

22 February 2016

**Consolidated interim income statement
for the half year ended 31 December 2016**

Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half Year Ended 31 December 2016 \$'000	Half Year Ended 31 December 2015 \$'000
Continuing operations			
Revenue		103,877	64,978
Cost of sales		<u>(39,940)</u>	<u>(29,585)</u>
Gross profit		63,937	35,393
Other (expenses)/income	3	(81)	9
Administrative expenses		(9,406)	(7,049)
Sales and marketing expenses		(16,588)	(14,801)
Engineering expenses		(7,751)	(5,873)
Net financing costs	4	<u>(319)</u>	<u>(774)</u>
Profit before tax		29,792	6,905
Income tax expense	7	<u>(7,605)</u>	<u>(820)</u>
Profit for the period		22,187	6,085
Attributable to:			
Equity holders of the company		22,189	6,081
Non-controlling interests		<u>(2)</u>	<u>4</u>
		22,187	6,085
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	6	12.5 cents	3.4 cents
Diluted earnings per share		12.4 cents	3.4 cents

The consolidated interim income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 16.

**Consolidated interim statement of comprehensive income
for the half year ended 31 December 2016**

Codan Limited and its Controlled Entities

	Half Year Ended 31 December 2016 \$'000	Consolidated Half Year Ended 31 December 2015 \$'000
Profit for the period	22,187	6,085
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of cash flow hedges less tax effect	(197) <u>59</u>	(63) <u>19</u>
Changes in fair value of cash flow hedges, net of income tax	<u>(138)</u>	<u>(44)</u>
Exchange differences on translation of foreign operations	<u>(397)</u>	<u>900</u>
Other comprehensive income for the period, net of income tax	(535)	856
Total comprehensive income for the period	<u>21,652</u>	<u>6,941</u>
Attributable to:		
Equity holders of the company	21,654	6,937
Non-controlling interests	<u>(2)</u>	<u>4</u>
	<u>21,652</u>	<u>6,941</u>

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 16.

Consolidated interim balance sheet as at 31 December 2016

Codan Limited and its Controlled Entities

	31 December	Consolidated
	2016	30 June
	\$'000	2016
		\$'000
CURRENT ASSETS		
Cash and cash equivalents	9,612	14,333
Trade and other receivables	15,531	19,099
Inventory	33,696	28,478
Current tax assets	323	279
Assets held for sale	5,003	5,003
Other assets	1,386	1,500
Total current assets	65,551	68,692
NON-CURRENT ASSETS		
Property, plant and equipment	11,077	10,799
Product development	50,006	45,336
Intangible assets	87,216	87,639
Total non-current assets	148,299	143,774
Total Assets	213,850	212,466
CURRENT LIABILITIES		
Trade and other payables	28,055	30,438
Loans and borrowings	-	13
Current tax payable	7,733	2,177
Provisions	6,912	6,577
Total current liabilities	42,700	39,205
NON-CURRENT LIABILITIES		
Loans and borrowings	9,227	26,922
Deferred tax liabilities	7,243	6,808
Provisions	504	609
Total non-current liabilities	16,974	34,339
Total liabilities	59,674	73,544
Net assets	154,176	138,922
EQUITY		
Share capital	43,295	42,605
Reserves	62,508	63,043
Retained earnings	48,373	33,274
Total equity	154,176	138,922
Total equity attributable to the equity holders of the company	154,268	139,012
Non-controlling interests	(92)	(90)
	154,176	138,922

The consolidated interim balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 16.

**Consolidated interim statement of changes in equity
for the half year ended 31 December 2016**

Codan Limited and its Controlled Entities

	Consolidated					Total
	Share Capital	Translation Reserve	Hedging Reserve	Profit Reserve	Retained Earnings	
For the six months ended 31 December 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2016	42,605	4,176	(114)	58,981	33,274	138,922
Profit for the period attributable to:						
Equity holders of the company	-	-	-	-	22,189	22,189
Non-controlling interests	-	-	-	-	(2)	(2)
Performance rights expensed	690	-	-	-	-	690
Change in fair value of cash flow hedges	-	-	(138)	-	-	(138)
Exchange differences on translation of foreign operations	-	(397)	-	-	-	(397)
Transactions with owners of the company	43,295	3,779	(252)	58,981	55,461	161,264
Dividends recognised during the period	-	-	-	-	(7,088)	(7,088)
Balance at 31 December 2016	43,295	3,779	(252)	58,981	48,373	154,176

	Consolidated					Total
	Share Capital	Translation Reserve	Hedging Reserve	Profit Reserve	Retained Earnings	
For the six months ended 31 December 2015	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2015	41,856	2,732	(68)	58,981	24,853	128,354
Profit for the period attributable to:						
Equity holders of the company	-	-	-	-	6,081	6,081
Non-controlling interests	-	-	-	-	4	4
Performance rights expensed	-	-	-	-	-	-
Change in fair value of cash flow hedges	-	-	(44)	-	-	(44)
Exchange differences on translation of foreign operations	-	900	-	-	-	900
Transactions with owners of the company	41,856	3,632	(112)	58,981	30,938	135,295
Dividends recognised during the period	-	-	-	-	(3,541)	(3,541)
Balance at 31 December 2015	41,856	3,632	(112)	58,981	27,397	131,754

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 16.

Consolidated interim statement of cash flows
for the half year ended 31 December 2016
Codan Limited and its Controlled Entities

	Note	Consolidated	
		Half Year Ended 31 December 2016 \$'000	Half Year Ended 31 December 2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		105,999	69,979
Cash paid to suppliers and employees		(72,984)	(65,071)
Interest received		37	14
Interest paid		(475)	(907)
Income taxes (paid)/refunded		(1,658)	272
Net cash from operating activities		<u>30,919</u>	<u>4,287</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		12	121
Payments for capitalised product development		(8,107)	(4,818)
Payments for intellectual property		(1,496)	(750)
Acquisition of property, plant and equipment		(1,207)	(1,549)
Acquisition of intangibles (computer software and licences)		(132)	(30)
Net cash used in investing activities		<u>(10,930)</u>	<u>(7,026)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings		(17,591)	8,878
Dividends paid	5	(7,088)	(3,541)
Net cash from financing activities		<u>(24,679)</u>	<u>5,337</u>
Net increase/(decrease) in cash held		(4,690)	2,598
Cash and cash equivalents at the beginning of the financial year		14,333	7,156
Effects of exchange rate fluctuations on cash held		(31)	(263)
Cash and cash equivalents at the end of the half year		<u>9,612</u>	<u>9,491</u>

The consolidated interim statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 16.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2016

Codan Limited and its Controlled Entities

NOTE 1: STATEMENT OF ACCOUNTING POLICY

(a) Reporting entity

Codan Limited (the "company") is a company domiciled in Australia. The consolidated interim financial report of the company for the six months ended 31 December 2016 comprises the company and its subsidiaries (together referred to as the "group").

(b) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the group as at and for the year ended 30 June 2016.

The consolidated annual financial report of the group as at and for the year ended 30 June 2016 is available on request from the company's registered office at 2 Second Avenue, Mawson Lakes, South Australia and is also available on the company's website (www.codan.com.au).

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Legislative Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated interim financial report was authorised for issue by the directors on 22 February 2017.

(c) Significant accounting policies

The accounting policies applied by the group in this consolidated interim financial report are the same as those applied by the group in its consolidated financial report as at and for the year ended 30 June 2016.

(d) Estimates

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2016.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2016**

Codan Limited and its Controlled Entities

GROUP PERFORMANCE

NOTE 2: SEGMENT REPORTING

The group comprises three business segments. The communications segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The tracking solutions segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector.

	Consolidated	
	Half Year Ended 31 December 2016 \$'000	Half Year Ended 31 December 2015 \$'000
Segment revenue		
Communications	34,973	29,044
Metal detection	64,774	33,617
Tracking solutions	4,130	2,317
	103,877	64,978
Segment result		
Communications	9,789	7,909
Metal detection	28,448	7,984
Tracking solutions	370	(1,299)
	38,607	14,594
Net financing costs	(319)	(774)
Restructuring expenses	-	(1,249)
Unallocated corporate expenses and other income	(8,496)	(5,666)
Profit for the period before income tax expense	29,792	6,905
	31 December 2016 \$'000	30 June 2016 \$'000
Segment assets		
Communications	70,296	72,098
Metal detection	108,758	98,099
Tracking solutions	15,750	15,343
Unallocated corporate assets	19,046	26,926
	213,850	212,466

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2016**

Codan Limited and its Controlled Entities

Consolidated Half Year Ended 31 December 2016 \$'000	Consolidated Half Year Ended 31 December 2015 \$'000
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GROUP PERFORMANCE (continued)

NOTE 3: OTHER (EXPENSES)/INCOME

Gain/(loss) on sale of property, plant and equipment	(117)	70
Other income/(expenses)	36	(61)
	(81)	9

NOTE 4: NET FINANCING COSTS

Interest income	(37)	(14)
Net foreign exchange gain	(165)	(93)
Interest expense	521	881
	319	774

NOTE 5: DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

- final fully-franked dividend of 4.0 cent per share on ordinary shares paid on 4 October 2016	7,088	
- final fully-franked dividend of 2.0 cent per share on ordinary shares paid on 1 October 2015		3,541

Subsequent Events

Since the end of the half year, the directors declared an interim ordinary fully-franked dividend of 3.0 cents per share and a fully franked special dividend of 3.0 cents per share bringing total interim dividends to 6.0 cents fully franked payable on 1 April 2017 (2016 2.0 cents). The financial impact of this interim dividend \$10,632,738 has not been brought to account in the group financial statements for the half year ended 31 December 2016 and will be recognised in subsequent financial reports.

NOTE 6: EARNINGS PER SHARE

The calculation of basic earnings per share (EPS) for the six months ended 31 December 2016 was based on the profit attributable to ordinary shareholders of \$22,189,000 (six months ended 31 December 2015 \$6,081,000) and the issued capital of the company outstanding during the period. The weighted average number of shares outstanding was 177,212,302 for the half-year period ended 31 December 2016 (2015: 177,063,244).

Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise 1,975,467 performance rights granted to employees.

TAXATION

NOTE 7: INCOME TAX EXPENSE

Reconciliation between tax expense and pre-tax net profit:

The prima facie income tax expense calculated at 30% on the profit from ordinary activities	8,938	2,071
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	48	137
Additional deduction for research and development expenditure	(461)	(428)
(Over)/under provision for taxation in previous years	(918)	(922)
Other	(2)	(38)
Income tax expense	7,605	820

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2016

Codan Limited and its Controlled Entities

OPERATING ASSETS AND LIABILITIES

NOTE 8: TRACKING SOLUTIONS - CARRYING AMOUNT

The carrying amount of the Minetec cash generating unit of \$15 million was assessed for impairment at 30 June 2016; refer to the consolidated annual financial report for details on this assessment. Minetec's financial performance continues to improve, with a small operating profit of \$0.4 million being delivered in the first half of FY17 which compares to losses of \$1.3 million in the first half of FY16. The directors believe that with a steadily increasing customer base and a number of successful implementations, this business is well placed to take advantage of opportunities for further growth.

OTHER NOTES

NOTE 9: FINANCIAL INSTRUMENTS

The net fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of the contractual future cash flows on amounts due from customers (reduced for expected credit losses), or due to suppliers. The carrying amount of financial assets and financial liabilities approximates their net fair values.

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the half year, financial instruments valued at fair value were limited to net foreign currency hedge payables of \$358,947, for which a valuation was obtained from the relevant banking institution.

	31 December	30 June
	2016	2016
	\$'000	\$'000

NOTE 10: CAPITAL COMMITMENTS

The aggregate amount of contracts for capital expenditure on property, plant and equipment, and intangibles.

1,156	1,353
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NOTE 11: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The group enters into performance bonds with customers to support its delivery obligations as a supplier of electronic equipment.

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

Codan Radio Communications, a division of Codan Limited, recently released the Sentry-V™ and Sentry-H™ tactical radios for the global Military market. In support of this product line expansion, subsequent to reporting date Codan has entered into an agreement to acquire the 9300 range of military tactical antennas from Stealth Telecom FZC of Sharjah, UAE, for total consideration of approximately US\$700,000. Codan will acquire proprietary intellectual property and tooling in return for the consideration paid.

Other than the above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2016**

Codan Limited and its Controlled Entities

NOTE 13: RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2016 annual financial report.

	31 December 2016	30 June 2016
NOTE 14: NET TANGIBLE ASSET / LIABILITY PER SHARE		
Net tangible asset/(liability) per share	13.5 cents	7.2 cents

NOTE 15: Employee Benefits

The company issued 816,772 performance rights in November 2016 to certain employees. The fair value of the rights was on average \$1.29 based on the Black-Scholes formula. The model inputs were: the share price of \$1.57, no exercise price, expected volatility 52%, dividend yield 3.82%, a term of three years and a risk-free rate of 2.7%.

The total expense recognised as employee costs in 2016 in relation to performance rights issued was \$690,000.

Directors' declaration

Codan Limited and controlled entities

In the opinion of the directors of Codan Limited ("the company"):

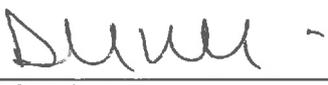
- (a) the financial statements and notes, set out on pages 7 to 16, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2016 and of its performance, as represented by the results of its operations and cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Mawson Lakes this 22nd day of February 2017.

Signed in accordance with a resolution of the directors:



D Simmons
Director



D S McGurk
Director

Independent auditor's review report to the members of Codan Limited

We have reviewed the accompanying interim financial report of Codan Limited, which comprises the consolidated interim balance sheet as at 31 December 2016, consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

Responsibility of the Directors for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Codan Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a consolidated interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Codan Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



KPMG



Scott Fleming
Partner

Adelaide

22 February 2016