

19 February 2020

**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**

**RECORD FIRST-HALF RESULT**

- Highest half-year profit in the company's history
- Net profit after tax of \$30.4 million, up 37%
- Interim dividend of 7.5 cents, fully franked
- Earnings per share of 16.8 cents, up 37%
- Communications sales increased 65% over the prior first half, with record sales being achieved by both Tactical Communications and LMR
- Metal Detection sales in the first half exceeded \$100 million for the first time, due to continuing strong demand for gold detectors
- \$51 million net cash position at 31 December 2019

Australian-based technology company, Codan Limited, today announced statutory and underlying net profit after tax of \$30.4 million for the half year ended 31 December 2019.

**Directors announced an interim dividend of 7.5 cents per share, fully franked. The dividend has a record date of 27 February 2020 and will be paid on 12 March 2020.** The Board expects to continue its policy of paying shareholders in the order of 50% of our full year profits as dividends, and shareholders will continue to be rewarded for the strong performance of the company.

Chief Executive, Donald McGurk, said, "The results for the first half have been outstanding across the business, with both Codan Communications and Minelab achieving record first-half results.

"The strong performance was driven by the continued strength of gold detector sales in Africa across multiple products, coupled with several major contracts delivered in the Communications business.

"We are pleased that our strategy to diversify our revenues and broaden our addressable markets is continuing to deliver results."

Codan Summary Financial Performance				
	Half Year ended			
	Dec-19 \$m % to Sales		Dec-18 \$m % to Sales	
<b>Revenue</b>				
Communications products	67.0		40.7	
Metal detection products	100.1		82.0	
Mining technology	3.9		5.7	
<b>Total revenue</b>	<b>171.0</b>		<b>128.4</b>	
<b>Business performance</b>				
<b>EBITDA*</b>	54.0	32%	38.0	30%
<b>EBIT*</b>	43.7	26%	30.4	24%
Interest*	(0.3)		-	
<b>Net profit before tax</b>	<b>43.4</b>	<b>25%</b>	<b>30.4</b>	<b>24%</b>
<b>Taxation</b>	(13.0)		(8.2)	
<b>Net profit after tax</b>	<b>30.4</b>	<b>18%</b>	<b>22.2</b>	<b>17%</b>
Earnings per share, fully diluted	16.8 cents		12.3 cents	
Interim ordinary dividend per share	7.5 cents		4.0 cents	
Interim special dividend per share			2.5 cents	

\* The group adopted AASB 16 *Leases* from 1 July 2019. The previous operating lease expenses have been replaced by depreciation and interest expense on leases. Refer to note 1(d) in the financial report for more information.

Strong cash generation over the first half has resulted in a \$51 million net cash position at 31 December 2019. The Newton property is contracted to settle in February 2020, which will contribute an additional \$4 million cash. The strength of our balance sheet, coupled with an ability to borrow funds, allows the business to strategically assess opportunities to diversify and grow. We have recently established a Technology Council comprised of our engineering leads in order to leverage our existing core competencies and identify future technology acquisitions or collaborations.

We continue to heavily invest in our businesses and have increased the number of engineering product development projects undertaken at one time. The group estimates engineering investment will exceed \$30 million this financial year, which will ensure our products remain leading-edge, allowing us to further broaden our addressable markets and drive future growth in the business.

## **Performance by business unit:**

### **Metal Detection – Recreational, Gold Mining and Countermine**

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

Minelab had an exceptional first half, surpassing previous records. Minelab sales increased 22% to \$100 million and segment profit increased 32%. The key driver of this increase relates to the continuing strength of our gold detector sales into the artisanal gold mining markets. Demand was strong across our full range of gold detectors, which includes the SDC 2300®, Gold Monster® and GPZ 7000®. In particular, the Gold Monster® has become the machine-of-choice for artisanal miners entering gold mining.

The recreational part of the Minelab business has also continued to be strong. Our EQUINOX® coin and treasure detector continues to sell well, and we have recently launched the Vanquish™, which is built using the same Multi-IQ® technology as the EQUINOX®. This detector has been designed to address the lower-priced, higher-volume segment of the recreational market. The Vanquish™ is now available for sale and we have a strong order book, which will be delivered in the second half. Management is confident that this product will drive growth in the recreational market for the Minelab business.

Traditionally, Minelab has had stronger sales in the second half, as cooler weather in key markets typically results in higher demand for gold detectors. However, given the strength of gold detector sales in the first half of FY20, it is too early to determine if our traditional second-half weighting of sales will occur this year.

### **Communications – Tactical Communications and Land Mobile Radio (LMR)**

Codan Communications designs and manufactures critical communications equipment for Tactical HF and LMR applications. Its solutions allow customers to save lives, enhance security and support peacekeeping activities worldwide.

Codan Communications had a record first half. Sales increased 65% to \$67 million and segment profit increased 62% to \$16.7 million. This growth is largely attributed to two major contracts delivered by Tactical Communications and several systems contracts delivered in LMR. The major contracts include the previously announced \$15 million Kenyan contract and the award of a \$6 million Philippines contract, which was also delivered in the period.

We continue to see strong interest in our expanded tactical military offering, with a 135% increase in sales over the same period last year. With the Sentry® Military Manpack now available for sale, complementing our existing Sentry H™ and Sentry V™ tactical military radios, and our interoperability platform, we are able to offer the best rugged and reliable communications solutions. Our strategy to penetrate the global military sector is showing results, and management is confident that this strategy to grow our addressable market will be successful. As a result, we believe this business continues to be well placed for growth into the future.

LMR also achieved a record first-half result, with several systems sales being delivered. This underlines the success of our strategy of transitioning from a traditional products business into a systems-solutions business. We continue to develop the Cascade™ Land Mobile Radio platform, a fully interoperable first-responder communications solution to be introduced to the market in FY21.

The Communications division had an excellent first half, with several major contracts being delivered. The business entered FY20 with a record order book and, while the sales opportunity pipeline continues to be strong, our challenge, as always, is to secure and deliver new orders over the balance of the year.

### **Tracking Solutions - Minetec**

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations in order to optimise productivity and enhance safety.

As previously announced, in 2018 Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. The collaborative effort and technology of the partnership saw the successful product release of the new "Minestar® for Underground system". The partnership has been slower to gain momentum than we had expected given the expertise that has been needed to be built within the Caterpillar organisation and their dealers.

We are working collaboratively with Caterpillar to gain market traction. A dedicated sales team has been established to identify and close near-term sales opportunities as well as train the Caterpillar dealer network. As a result of this team's efforts and the successful proof-of-value pilot carried out last year, we have been awarded a purchase order from Caterpillar to supply hardware for the implementation of the Minestar® system at Newmont's Tanami mine in the Northern Territory. Whilst this project will not be material in the first instance, it represents a significant strategic milestone.

Separate to the Caterpillar agreement, Minetec secured a contract to supply its Fleet Management System to BHP's Olympic Dam mine in South Australia. Minetec has completed the installation of the vehicle equipment, and we are working with BHP to integrate the software solution into their unique operating environment. We would expect BHP to start to realise the benefits of this technology in FY21.

The strategy for Minetec continues to be working closely with Caterpillar in order to leverage their global distribution capability, thereby increasing Minetec's sales and profitability to a level that is significant to the Codan group.

## **Outlook**

The recent release of Vanquish™ has Minelab well positioned for the second half. We have experienced a good start across our gold detecting business, with run-rates consistent with the first half.

Our Communications business delivered circa \$21 million of large contracts, which may not be repeated in the second half and, although we have a strong sales-opportunities pipeline, the long lead times associated with contract approvals might result in Communications sales for the second half being lower than the first half.

The Board and management remain committed to maximising the performance of the business and continuing to grow the company's sales and profitability over the medium to long term.

The Board is not in a position to give profit guidance at this point, however we will continue to keep shareholders updated as the year progresses.

## **Live Webcast – FY20 Interim Financial Results Announcement**

A results briefing will be hosted by Managing Director, Donald McGurk, at 11:00am (Australian Eastern Daylight Time) on 20 February 2020. This briefing will be available via the following link – [2020 Interim Results Announcement](#).

On behalf of the Board



Michael Barton  
Company Secretary

This announcement was authorised for release to the market by the Board of Directors.

Codan is a technology company that develops robust technology solutions to solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world.

## **FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-**

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

Kayi Li  
Manager, Investor Relations  
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 2019**

ABN		Previous corresponding period	
77 007 590 605		31 December 2018	
<b>Results for announcement to the market</b>			
			\$A'000
Revenue from ordinary activities	Increased	33%	to 170,975
Profit from ordinary activities after tax attributable to members	Increased	37%	to 30,403
Profit after tax	Increased	37%	to 30,404
<b>Dividends</b>	Amount per security		Franked amount per security at 30% tax
Interim dividend	7.5 cents		7.5 cents
Record date for determining entitlements to dividends:	27 February 2020		
<i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i>			
The 31 December 2019 Financial Report and the Market Announcement dated 19 February 2020 form part of, and should be read in conjunction with, this Preliminary Final Report (Appendix 4D).			
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 2019.			

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

**Interim Financial Report  
for the half year ended  
31 December 2019**

## 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 2019 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:

<b><i>Name</i></b>	<b><i>Period of Directorship</i></b>
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
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:

- Highest half-year profit in the company's history
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- Communications sales increased 65% over the prior first half, with record sales being achieved by both Tactical Communications and LMR
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## **Dividends**

Directors announced an interim dividend of 7.5 cents per share, fully franked. The dividend has a record date of 27 February 2020 and will be paid on 12 March 2020. The Board expects to continue its policy of paying shareholders in the order of 50% of our full year profits as dividends, and shareholders will continue to be rewarded for the strong performance of the company.

## **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 2019.

## **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:

A handwritten signature in black ink, consisting of a large loop followed by several vertical strokes, positioned above a horizontal line.

D Simmons  
*Director*

A handwritten signature in black ink, featuring a series of connected loops and curves, positioned above a horizontal line.

D S McGurk  
*Director*

Dated this 19<sup>th</sup> day of February 2020.



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

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To the Directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Codan Limited for the half-year ended 31 December 2019 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

Paul Cenko  
Partner

Adelaide

19 February 2020

# Consolidated interim income statement for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

		Consolidated Half Year Ended 31 December 2019 \$'000	Half Year Ended 31 December 2018 \$'000
	Note		
<b>Continuing operations</b>			
Revenue		170,975	128,403
Cost of sales		<u>(76,483)</u>	<u>(54,563)</u>
<b>Gross profit</b>		94,492	73,840
Other (expenses)/income		32	5
Administrative expenses		(10,648)	(10,204)
Sales and marketing expenses		(27,911)	(22,993)
Engineering expenses		(11,969)	(10,213)
Net financing costs	3	<u>(585)</u>	<u>(30)</u>
<b>Profit before tax</b>		43,411	30,405
Income tax expense	5	<u>(13,007)</u>	<u>(8,253)</u>
<b>Profit for the period</b>		30,404	22,152
<b>Attributable to:</b>			
Equity holders of the company		30,403	22,146
Non-controlling interests		<u>1</u>	<u>6</u>
		30,404	22,152
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share		16.9 cents	12.4 cents
Diluted earnings per share		16.8 cents	12.3 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 18.

# Consolidated interim statement of comprehensive income for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

	Consolidated Half Year Ended 31 December 2019 \$'000	Half Year Ended 31 December 2018 \$'000
<b>Profit for the period</b>	<b>30,404</b>	22,152
<b>Items that may be reclassified subsequently to profit or loss</b>		
Changes in fair value of cash flow hedges	167	(258)
less tax effect	<u>(50)</u>	<u>77</u>
Changes in fair value of cash flow hedges, net of income tax	117	(181)
Exchange differences on translation of foreign operations	<u>45</u>	<u>928</u>
<b>Other comprehensive income for the period, net of income tax</b>	<b>162</b>	747
<b>Total comprehensive income for the period</b>	<u><b>30,566</b></u>	<u>22,899</u>
<b>Attributable to:</b>		
Equity holders of the company	30,565	22,893
Non-controlling interests	<u>1</u>	<u>6</u>
	<u><b>30,566</b></u>	<u>22,899</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 18.

# Consolidated interim balance sheet as at 31 December 2019

Codan Limited and its Controlled Entities

	Note	Consolidated 31 December 2019 \$'000	30 June 2019 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		50,974	37,521
Trade and other receivables		20,598	19,007
Inventory		35,402	36,703
Current tax assets		682	337
Assets held for sale		3,750	3,750
Other assets		7,672	5,189
<b>Total current assets</b>		<b>119,078</b>	<b>102,507</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		13,974	14,126
Right-of-use assets	1(d)	26,957	-
Product development		74,419	69,857
Intangible assets		87,529	87,827
<b>Total non-current assets</b>		<b>202,879</b>	<b>171,810</b>
<b>Total Assets</b>		<b>321,957</b>	<b>274,317</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		39,102	44,161
Lease liabilities	1(d)	3,735	-
Current tax payable		5,331	1,635
Provisions		7,546	8,033
<b>Total current liabilities</b>		<b>55,714</b>	<b>53,829</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	1(d)	28,338	-
Deferred tax liabilities		8,024	8,082
Provisions		1,548	1,192
<b>Total non-current liabilities</b>		<b>37,910</b>	<b>9,274</b>
<b>Total liabilities</b>		<b>93,624</b>	<b>63,103</b>
<b>Net assets</b>		<b>228,333</b>	<b>211,214</b>
<b>EQUITY</b>			
Share capital		44,746	43,761
Reserves		67,744	67,652
Retained earnings		115,843	99,801
<b>Total equity</b>		<b>228,333</b>	<b>211,214</b>
Total equity attributable to the equity holders of the company		228,460	211,342
Non-controlling interests		(127)	(128)
		<b>228,333</b>	<b>211,214</b>

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 18.



# Consolidated interim statement of changes in equity for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

	Consolidated						Total \$'000
	Share capital \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Equity based payment reserve \$'000	Profit reserve \$'000	Retained earnings \$'000	
<b>Half year ended 31 December 2019</b>							
Balance as at 30 June 2019	43,761	6,712	(146)	2,105	58,981	99,801	211,214
Adoption of AASB 16 (net of tax)*	-	-	-	-	-	(863)	(863)
<b>Adjusted balance at 1 July 2019</b>	<b>43,761</b>	<b>6,712</b>	<b>(146)</b>	<b>2,105</b>	<b>58,981</b>	<b>98,938</b>	<b>210,351</b>
Profit for the period	-	-	-	-	-	30,404	30,404
Performance rights expensed	-	-	-	915	-	-	915
Change in fair value of cash flow hedges	-	-	117	-	-	-	117
Exchange differences on translation of foreign operations	-	45	-	-	-	-	45
<b>Transactions with owners of the company</b>	<b>43,761</b>	<b>6,757</b>	<b>(29)</b>	<b>3,020</b>	<b>58,981</b>	<b>129,342</b>	<b>241,832</b>
Dividends recognised during the period	-	-	-	-	-	(13,499)	(13,499)
Issue of share capital via performance rights	985	-	-	(985)	-	-	-
<b>Balance at 31 December 2019</b>	<b>44,746</b>	<b>6,757</b>	<b>(29)</b>	<b>2,035</b>	<b>58,981</b>	<b>115,843</b>	<b>228,333</b>

	Consolidated						Total \$'000
	Share capital \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Equity based payment reserve \$'000	Profit reserve \$'000	Retained earnings \$'000	
<b>Half year ended 31 December 2018</b>							
Balance as at 1 July 2018	42,721	3,588	(430)	2,187	58,981	81,018	188,065
Profit for the period	-	-	-	-	-	22,152	22,152
Performance rights expensed	-	-	-	408	-	-	408
Change in fair value of cash flow hedges	-	-	(181)	-	-	-	(181)
Exchange differences on translation of foreign operations	-	928	-	-	-	-	928
<b>Transactions with owners of the company</b>	<b>42,721</b>	<b>4,516</b>	<b>(611)</b>	<b>2,595</b>	<b>58,981</b>	<b>103,170</b>	<b>211,372</b>
Dividends recognised during the period	-	-	-	-	-	(15,228)	(15,228)
Issue of share capital via performance rights	794	-	-	(794)	-	-	-
<b>Balance at 31 December 2018</b>	<b>43,515</b>	<b>4,516</b>	<b>(611)</b>	<b>1,801</b>	<b>58,981</b>	<b>87,942</b>	<b>196,144</b>

\* refer to note 1(d) for more information

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 18.

# Consolidated interim statement of cash flows for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half Year Ended 31 December 2019 \$'000	Half Year Ended 31 December 2018 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		172,090	140,389
Cash paid to suppliers and employees		(121,030)	(115,229)
Interest received		159	(104)
Interest paid		(143)	119
Interest on lease liabilities	1(d)	(358)	-
Income taxes (paid)/refunded		(9,350)	(12,706)
<b>Net cash from operating activities</b>		<b>41,368</b>	<b>12,469</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for capitalised product development		(10,652)	(9,797)
Acquisition of property, plant and equipment		(1,983)	(2,365)
Acquisition of intangibles (computer software and licences)		(277)	(2)
<b>Net cash used in investing activities</b>		<b>(12,912)</b>	<b>(12,164)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of lease liabilities	1(d)	(1,481)	-
Dividends paid	4	(13,499)	(15,228)
<b>Net cash from financing activities</b>		<b>(14,980)</b>	<b>(15,228)</b>
<b>Net increase/(decrease) in cash held</b>		<b>13,476</b>	<b>(14,923)</b>
Cash and cash equivalents at the beginning of the financial year		37,521	27,711
Effects of exchange rate fluctuations on cash held		(23)	195
<b>Cash and cash equivalents at the end of the half year</b>		<b>50,974</b>	<b>12,983</b>

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 18.

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

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## 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 half year ended 31 December 2019 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 2019.

The consolidated annual financial report of the group as at and for the year ended 30 June 2019 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](http://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 19 February 2020.

### (c) 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 2019.

### (d) Significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 30 June 2019. The changes in accounting policies are also expected to be reflected in the group's consolidated financial statements as at and for the year ending 30 June 2020.

Effective from 1 July 2019 the group adopted AASB 16 Leases, requiring an amendment to its accounting policies. This note explains the impact to the group's financial statements from adopting AASB 16 and discloses the new accounting policies that have been applied.

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

## NOTE 1: STATEMENT OF ACCOUNTING POLICY (CONTINUED)

### (d) Significant accounting policies (continued)

#### Transition approach

The group has adopted AASB 16 using the simplified transition approach and has not restated comparative amounts. The group has measured its lease liabilities at the present value of the remaining lease payments, discounted using the appropriate incremental borrowing rates as of 1 July 2019. The associated right-of-use assets were measured on transition as if the new Standard had been applied since the commencement date of the lease. The main type of leases of the group impacted by AASB 16 are leases for offices, warehouses and manufacturing factory facilities. The adjustments arising from the new leasing rules are recognised in the opening balance of retained earnings on 1 July 2019.

The previous operating lease expenses under AASB 117 have been replaced by depreciation expense of right-of-use assets and interest expense on lease liabilities. For the half year ended 31 December 2019, the depreciation expense of right-of-use assets recognised was \$1,589,000 and the interest expense on lease liabilities was \$358,000, replacing operating lease expense of \$1,839,000 if the previous accounting standard, AASB 117 was applied. The net impact on the group's consolidated income statement is immaterial.

The group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### Adjustments recognised on adoption of AASB 16

##### Adjustments to the Statement of Financial Position at 1 July 2019

	\$'000
Right-of-use assets recognised	28,527
Lease liabilities recognised	(33,537)
Deferred tax assets (net) recognised	364
Derecognition of accrued lease payments	3,783
Retained earnings reduction	(863)

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

## NOTE 1: STATEMENT OF ACCOUNTING POLICY (CONTINUED)

### (d) Significant accounting policies (continued)

#### Change in accounting policy from 1 July 2019

#### Reconciliation of non-cancellable operating lease commitments to lease liabilities at 1 July 2019

	<b>\$'000</b>
Operating lease obligation 30 June 2019	41,184
<i>less:</i>	
Short-term and low-value leases	(307)
Commitments reassessed as having no leasing arrangements	(3,709)
<i>add:</i>	
Reasonably certain extension clauses	509
<b>Undiscounted lease liabilities at 1 July 2019</b>	<b>37,677</b>
<b>Discounted lease liabilities at 1 July 2019 *</b>	<b>33,537</b>
Comprising:	
Current lease liabilities	3,668
Non-current lease liabilities	29,869

\* The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 July 2019 was 2.27%

### Leases

A lease arrangement is one that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group does not recognise lease arrangements in respect of intangible assets. The payments associated with short-term lease arrangements and leases of low-value assets are recognised on a straight-line basis in the Income Statement. Short-term leases are leases with a lease term of 12 months or less. The group applies the requirements of the leasing standard on a lease-by-lease basis.

### Right-of-use assets

The group recognises a right-of-use asset and a lease liability at the commencement date of the lease arrangement. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to dismantle or remediate the underlying asset, less any lease incentives received. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. In addition, the right-of-use asset may be adjusted periodically due to remeasurements of the lease liability.

### Lease liabilities

The lease liability is initially measured at the present value of the outstanding lease payments at the commencement date of the arrangement, discounted using the borrowing rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate.

The lease liability is subsequently measured through increasing the carrying amount to reflect interest on the lease liability, less lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019

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.

In presenting information on the basis of geographical segments, segment revenue has been based on the geographic location of the invoiced customer.

	<b>Consolidated</b>	
	<b>Half Year Ended 31 December 2019 \$'000</b>	<b>Half Year Ended 31 December 2018 \$'000</b>
<b>Segment revenue</b>		
Communications	67,025	40,699
Metal detection	100,116	82,006
Tracking solutions	3,834	5,698
	<u>170,975</u>	<u>128,403</u>
<b>Segment result</b>		
Communications	16,724	10,320
Metal detection	39,141	29,572
Tracking solutions	(1,890)	3
	<u>53,975</u>	<u>39,895</u>
Unallocated net financing costs	(227)	(30)
Unallocated corporate expenses and other income	<u>(10,337)</u>	<u>(9,460)</u>
<b>Profit for the period before income tax expense</b>	<b>43,411</b>	<b>30,405</b>
	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
<b>Segment assets</b>		
Communications	90,546	88,574
Metal detection	116,136	112,655
Tracking solutions	29,531	26,646
Unallocated corporate assets	<u>85,744</u>	<u>46,442</u>
	<u>321,957</u>	<u>274,317</u>

The group derived its revenues from a number of countries. The two significant countries where revenue was 10% or more of total revenue were United Arab Emirates totalling \$56.3 million (2019: \$24.0 million) and the United States of America totalling \$41.4 million (2019: \$34.9 million).

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

	Consolidated Half Year Ended 31 December 2019 \$'000	Consolidated Half Year Ended 31 December 2018 \$'000
<b>GROUP PERFORMANCE (CONTINUED)</b>		
<b>NOTE 3: NET FINANCING COSTS</b>		
Interest income	(159)	(104)
Net foreign exchange (gain)/loss	243	3
Interest expense	143	131
Finance charge on lease liabilities	358	-
	<b>585</b>	<b>30</b>

## NOTE 4: DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

- ordinary final fully-franked dividend of 5.0 cent per share paid on 13 September 2019	8,999	
- special final fully-franked dividend of 2.5 cent per share paid on 13 September 2019	4,500	
- ordinary final fully-franked dividend of 4.5 cent per share paid on 14 September 2018		8,062
- special final fully-franked dividend of 4.0 cent per share paid on 14 September 2018		7,166

## Subsequent Events

Since the end of the half year, the directors declared an interim fully franked dividend of 7.5 cents per share payable on 12 March 2020. The financial impact of this interim dividend \$13,499,000 has not been brought to account in the group financial statements for the half year ended 31 December 2019 and will be recognised in subsequent financial reports.

## TAXATION

### NOTE 5: INCOME TAX EXPENSE

Income tax expense is recognised at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by an estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the effect of certain items recognised in the interim reporting period. The group's consolidated effective tax rate of 30% for the half year ended 31 December 2019 is not materially different from the effective tax rate for the half year ended 31 December 2018 (27%).

# **Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019**

Codan Limited and its Controlled Entities

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## **OPERATING ASSETS AND LIABILITIES**

### **NOTE 6: TRACKING SOLUTIONS - CARRYING AMOUNT**

The carrying amount of this cash generating unit of \$26 million has been assessed for impairment.

The Tracking Solutions cash generating unit was acquired by Codan in 2012 and has developed unique high-precision, productivity and safety solutions for underground hard-rock mines.

The strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability that will make a significant contribution to the Codan group. As previously announced in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. From a technology perspective, Minetec's technology platform has been successfully integrated with Caterpillar Minestar® solution for underground.

As a result of this agreement, the division is now leveraging Caterpillar's global dealer network to expand sales. As previously reported, there have been delays in securing contracts for the operational deployment of Minestar®, and therefore Minetec has not met its revenue targets. To rectify these issues, Minetec and Caterpillar have jointly established a dedicated team to fast track sales activities and, as a result, we have been successfully awarded a contract to deploy Minestar® for Underground system into Newmont Goldcorp's Tanami mine based in Northern Territory. Management is confident that the relationship will be successful, and an appropriate sales structure is now in place to leverage Caterpillar's dealer network.

In performing the value-in-use calculations for the Minetec business, the first year of the cash flow forecast is based on the current year's forecast. Cash flows are forecast for a five-year period. As the business is in the early stages of its development, historical data is not reflective of the possible future outcomes. The key assumption to the valuation scenarios is the level of sales achieved by this business. The commercial strategy for Minestar® underground has been developed and approved by Caterpillar, therefore the impairment model is based on the Caterpillar sales forecast. Other assumptions relate to the level of expense to run the business and working capital requirements, and these assumptions are reflective of Codan's past experience with technology-based businesses. A terminal value has been determined at the conclusion of five years assuming a long-term growth rate of 3%. A pre-tax discount rate of 14% (FY19: 14%) has been applied to the forecast cash flows.

The key risk to the value-in-use calculations is that the mining industry does not adopt Minetec's technology. If, from the FY19 sales, Minetec were to grow at 13% over the forecast period, the recoverable amount of the Minetec cash-generating unit would be approximately equal to its carrying amount. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating unit.

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# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2019

Codan Limited and its Controlled Entities

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## **OTHER NOTES**

### **NOTE 7: FINANCIAL INSTRUMENTS**

At the end of the half year, financial instruments valued at fair value were limited to a net foreign currency hedge payable of \$41,757, for which a valuation was obtained from the relevant banking institution.

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### **NOTE 8: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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

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### **NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE**

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.

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### **NOTE 10: RELATED PARTIES**

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2019 annual financial report.

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	<b>31 December 2019</b>	<b>30 June 2019</b>
<b>NOTE 11: NET TANGIBLE ASSET / LIABILITY PER SHARE</b>		
Net tangible asset per share	<b>41.2 cents</b>	34.1 cents

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### **NOTE 12: Employee Benefits**

The company issued 349,991 performance rights in November 2019 to certain employees. The fair value of the rights was on average \$5.22 based on the Black-Scholes formula. The model inputs were: the share price of \$6.31, no exercise price, expected volatility 31%, dividend yield 2.2%, a term of three years and a risk-free rate of 1.2%.

The total expense recognised as employee costs in the half year in relation to performance rights issued was \$915,000.

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## Directors' declaration

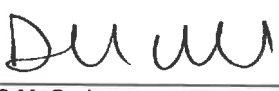
Codan Limited and controlled entities

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

- (a) the financial statements and notes, set out on pages 7 to 18, 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 2019 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 19<sup>th</sup> day of February 2020.

Signed in accordance with a resolution of the directors:

  
\_\_\_\_\_  
D Simmons  
Director  
\_\_\_\_\_  
D S McGurk  
Director

# Independent Auditor's Review Report

To the shareholders of Codan Limited

## Report on the Interim Financial Report

### Conclusion

We have reviewed the accompanying **Interim Financial Report** of Codan Limited.

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:

- giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated interim balance sheet as at 31 December 2019;
- 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 half-year ended on that date;
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Codan Limited (the company) and the entities it controlled at the half year's end or from time to time during the half-year.

### Responsibilities 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
- 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 2019 and its performance for the half-year 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 an 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.

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

KPMG

Paul Cenko  
Partner

Adelaide

19 February 2020