



21 February 2018

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

STRONG FIRST-HALF RESULT: WELL POSITIONED FOR THE SECOND HALF

- Net profit after tax of \$15.8 million
- Interim dividend of 4.0 cents, fully franked
- Earnings per share of 8.8 cents
- Metal Detection sales remained above base level with continuing strong demand for gold detectors in Africa
- Radio Communications sales were below expectation but will improve in the second half
- Minetec positioned for profitable growth with global distribution through Caterpillar Inc and a number of significant near-term projects
- Historically, our results for the second half have exceeded those for the first half. We expect that this will be the case again this year

Australian-based technology company, Codan Limited, today announced statutory and underlying net profit after tax of \$15.8 million for the half year ended 31 December 2017.

Directors announced an interim dividend of 4.0 cents per share, fully franked. The dividend has a record date of 15 March 2018 and will be paid on 3 April 2018. The Board expects to continue with its policy of paying out approximately 50% of base-level profits as dividends. Shareholders will continue to be rewarded for any outperformance of the company by way of special dividends, with these special dividends being declared annually along with the final dividend.

Chief Executive Donald McGurk said, "The results for the half year have again been strong.

"The strong performance was driven by the continued strength of gold detector sales in Africa, and it is pleasing to see that the diversification of product sales into this market has reduced the reliance on our top-of-the-range GPZ 7000® detector.

"We continue to broaden our addressable markets by investing in new products and collaborating with new partners. As a result, we are expecting a stronger second half in our Radio Communications and Minetec businesses."



Codan Radio Communications, Minelab, Minetec and Codan Defence Electronics are members of Codan Limited.

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www.codan.com.au

Codan Summary Financial Performance				
	Half Year ended			
	Dec-17		Dec-16	
	\$m	% to Sales	\$m	% to Sales
Revenue				
Communications products	29.0		35.0	
Metal detection products	63.4		64.8	
Mining technology	2.3		4.1	
Total Revenue	94.7		103.9	
Business performance				
EBITDA	27.4	29%	37.1	36%
EBIT	20.9	22%	30.3	29%
Interest	(0.2)		(0.5)	
Net profit before tax	20.7	22%	29.8	29%
Taxation	(4.9)		(7.6)	
Net profit after tax	15.8	17%	22.2	21%
Earnings per share, fully diluted	8.8 cents		12.4 cents	
Interim ordinary dividend per share	4.0 cents		3.0 cents	
Interim special dividend per share			3.0 cents	

Consistent with previous guidance, the first-half result did not reach the heights that we experienced in the first half of FY17, however the business continues to exceed base-level sales and profitability.

Profits were lower than the prior first half as a result of lower sales volumes for Radio Communications and a change in the sales mix for Minelab, with increased sales of the SDC 2300® and the newly released Gold Monster® detectors into Africa.

Following payment of the FY17 tax liability (\$15.3 million) and the FY17 final dividend (\$12.5 million), the company ended the first half with a small net debt position of \$4.4 million.

We have also made a strategic investment in inventory for our recently released products.

Performance by business unit:

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

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

Radio Communications delivered its first milestone order for the Sentry-H® radio (ruggedised HF radio) to a key military customer in Africa. We remain confident in our ability to further penetrate this new market segment for Codan and continue to collaborate with other technology companies in order to bring our customers a broader range of communications-based solutions.

As previously announced, the initial Cascade™ LMR product platform was released in July 2017, and further product platforms will be released over the course of FY18 and FY19. The sales team continues to actively market this innovative and cost-effective LMR solution. Given the long sales cycles in this market, we expect Cascade™ to drive LMR sales growth in FY19.

As was the case last year, first-half LMR sales were impacted by a slowdown in US government spending, however management expects purchasing levels to recover, delivering a stronger result in the second half.

Radio Communications did not benefit from any large contracts during the first half in contrast to the prior year when a \$7 million contract was delivered. As a result, revenue decreased \$6 million to \$29 million, and segment profit also decreased.

Radio Communications has base-level sales in the range of \$65 million to \$75 million per annum, with large HF contracts sometimes taking sales to the top of this range. Management are confident of delivering a second half that will bring full-year sales in line with our base level due to a strengthening sales pipeline and an increased order book.

Metal Detection – Recreational, Gold Mining and Countermine

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

Minelab revenue has again exceeded our base-level expectations as a result of continuing strong demand for gold detectors in Africa. While sales were broadly in line with the prior first half, we saw a trend towards increased demand for the SDC 2300® and the newly released Gold Monster®. While this affected profit margins, it is consistent with our strategy to aggressively challenge competitors at lower price points and reduce dependence on the GPZ 7000®.

The recreational part of the Minelab business has also performed well and the upcoming release of the EQUINOX® metal detector will be our most significant coin and treasure product release ever. The EQUINOX® uses simultaneous multi-frequency technology and will therefore find more treasure in all ground conditions. Dealer interest has been strong

with significant pre-orders received. Sales from the EQUINOX® launch will be included in Minelab's second-half result.

Periods of strong demand for metal detectors in Africa have pushed sales beyond our historical base-level sales range and we are confident of continued success in the second half of FY18.

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, which in turn allows miners to visualise the whole mine to optimise productivity and enhance safety.

Minetec incurred a small operating loss in the first half as we continued to invest in preparation for scaling this business.

As announced earlier today, we have entered into a global licensing, technology development and marketing agreement with Caterpillar Inc. (NYSE:CAT). This is an important milestone in our strategy to grow the Minetec business.

Outlook

Codan's base business currently has revenues of \$160 million to \$180 million per annum and, at this level of sales, is expected to generate net profit after tax in the range of \$20 million to \$25 million. We are pleased to report that our first-half results have exceeded this range.

Radio Communications and Minetec are expected to deliver a stronger performance in the second half, and Minelab will benefit from a significant new product launch and favourable seasonality factors.

Given the above, we expect to exceed base-level profitability for the full year, however, at this point in time, it remains difficult to forecast by how much.

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

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.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-

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

Sarah Emms
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 2017

ABN 77 007 590 605	Previous corresponding period 31 December 2016
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Results for announcement to the market				\$A'000
Revenue from ordinary activities	Decreased	9%	to	94,734
Profit from ordinary activities after tax attributable to members	Decreased	29%	to	15,778
Underlying profit after tax	Decreased	29%	to	15,790
Dividends	Amount per security		Franked amount per security at 30% tax	
Interim dividend	4.0 cents		4.0 cents	
Record date for determining entitlements to dividends:	15 March 2018			
<i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i>				
The 31 December 2017 Financial Report and the Market Announcement dated 21 February 2018 form part of, and should be read in conjunction with, this Preliminary Final Report (Appendix 4D).				
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.				
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 2017.				

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

**Interim Financial Report
for the half year ended
31 December 2017**

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 2017 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:

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

- Net profit after tax of \$15.8 million
- Interim dividend of 4.0 cents, fully franked
- Earnings per share of 8.8 cents
- Metal Detection sales remained above base level with continuing strong demand for gold detectors in Africa
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Dividends

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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 5 and forms part of the directors' report for the half year ended 31 December 2017.

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 21st day of February 2018.



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 of Codan Limited for the half-year ended 31 December 2017 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.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'S. Fleming'.

Scott Fleming
Partner

Adelaide

21 February 2018

**Consolidated interim income statement
for the half year ended 31 December 2017**
Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half Year Ended 31 December 2017 \$'000	Half Year Ended 31 December 2016 \$'000
Continuing operations			
Revenue		94,734	103,877
Cost of sales		<u>(40,094)</u>	<u>(39,940)</u>
Gross profit		54,640	63,937
Other (expenses)/income	3	(12)	(81)
Administrative expenses		(7,755)	(9,406)
Sales and marketing expenses		(18,247)	(16,588)
Engineering expenses		(7,411)	(7,751)
Net financing costs	4	<u>(548)</u>	<u>(319)</u>
Profit before tax		20,667	29,792
Income tax expense	7	<u>(4,877)</u>	<u>(7,605)</u>
Profit for the period		15,790	22,187
Attributable to:			
Equity holders of the company		15,778	22,189
Non-controlling interests		<u>12</u>	<u>(2)</u>
		15,790	22,187
Earnings per share for profit attributable to the ordinary equity holders of the company:			
	6		
Basic earnings per share		8.9 cents	12.5 cents
Diluted earnings per share		8.8 cents	12.4 cents

The consolidated interim income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 15.

Consolidated interim statement of comprehensive income
for the half year ended 31 December 2017
 Codan Limited and its Controlled Entities

	Half Year Ended 31 December 2017 \$'000	Consolidated Half Year Ended 31 December 2016 \$'000
Profit for the period	15,790	22,187
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of cash flow hedges less tax effect	(110) <u>33</u>	(197) <u>59</u>
Changes in fair value of cash flow hedges, net of income tax	<u>(77)</u>	<u>(138)</u>
Exchange differences on translation of foreign operations	<u>546</u>	<u>(397)</u>
Other comprehensive income for the period, net of income tax	469	(535)
Total comprehensive income for the period	16,259	21,652
Attributable to:		
Equity holders of the company	16,247	21,654
Non-controlling interests	<u>12</u>	<u>(2)</u>
	16,259	21,652

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 11 to 15.

Consolidated interim balance sheet as at 31 December 2017

Codan Limited and its Controlled Entities

	31 December	Consolidated
	2017	30 June
	\$'000	2017
		\$'000
CURRENT ASSETS		
Cash and cash equivalents	10,592	21,421
Trade and other receivables	20,472	20,557
Inventory	34,461	31,027
Current tax assets	213	47
Assets held for sale	3,750	3,750
Other assets	3,430	3,493
Total current assets	72,918	80,295
NON-CURRENT ASSETS		
Property, plant and equipment	12,756	11,985
Product development	58,811	54,189
Intangible assets	86,571	86,206
Total non-current assets	158,138	152,380
Total Assets	231,056	232,675
CURRENT LIABILITIES		
Trade and other payables	26,948	36,619
Current tax payable	4,862	16,136
Provisions	7,317	7,167
Total current liabilities	39,127	59,922
NON-CURRENT LIABILITIES		
Loans and borrowings	15,000	-
Deferred tax liabilities	7,298	7,237
Provisions	513	521
Total non-current liabilities	22,811	7,758
Total liabilities	61,938	67,680
Net assets	169,118	164,995
EQUITY		
Share capital	44,260	43,928
Reserves	62,473	62,004
Retained earnings	62,385	59,063
Total equity	169,118	164,995
Total equity attributable to the equity holders of the company	169,198	165,087
Non-controlling interests	(80)	(92)
	169,118	164,995

The consolidated interim balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 15.

**Consolidated interim statement of changes in equity
for the half year ended 31 December 2017**
Codan Limited and its Controlled Entities

For the six months ended 31 December 2017	Consolidated					Total
	Share Capital	Translation Reserve	Hedging Reserve	Profit Reserve	Retained Earnings	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2017	43,928	2,634	389	58,981	59,063	164,995
Profit for the period attributable to:						
Equity holders of the company	-	-	-	-	15,778	15,778
Non-controlling interests	-	-	-	-	12	12
Performance rights expensed	332	-	-	-	-	332
Change in fair value of cash flow hedges	-	-	(77)	-	-	(77)
Exchange differences on translation of foreign operations	-	546	-	-	-	546
Transactions with owners of the company	44,260	3,180	312	58,981	74,853	181,586
Dividends recognised during the period	-	-	-	-	(12,468)	(12,468)
Balance at 31 December 2017	44,260	3,180	312	58,981	62,385	169,118

For the six months ended 31 December 2016	Consolidated					Total
	Share Capital	Translation Reserve	Hedging Reserve	Profit Reserve	Retained Earnings	
	\$'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

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 11 to 15.

Consolidated interim statement of cash flows
for the half year ended 31 December 2017
Codan Limited and its Controlled Entities

	Note	Consolidated	
		Half Year Ended 31 December 2017 \$'000	Half Year Ended 31 December 2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		98,208	105,999
Cash paid to suppliers and employees		(82,922)	(72,984)
Interest received		64	37
Interest paid		(234)	(475)
Income taxes (paid)/refunded		(16,169)	(1,658)
Net cash from operating activities		(1,053)	30,919
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		6	12
Payments for capitalised product development		(8,572)	(8,107)
Payments for intellectual property		(1,938)	(1,496)
Acquisition of property, plant and equipment		(1,740)	(1,207)
Acquisition of intangibles (computer software and licences)		(102)	(132)
Net cash used in investing activities		(12,346)	(10,930)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings		15,000	(17,591)
Dividends paid	5	(12,468)	(7,088)
Net cash from financing activities		2,532	(24,679)
Net increase/(decrease) in cash held		(10,867)	(4,690)
Cash and cash equivalents at the beginning of the financial year		21,421	14,333
Effects of exchange rate fluctuations on cash held		38	(31)
Cash and cash equivalents at the end of the half year		10,592	9,612

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 11 to 15.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2017**
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 2017 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 2017.

The consolidated annual financial report of the group as at and for the year ended 30 June 2017 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 21 February 2018.

(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 2017.

(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 2017.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2017**
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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 2017 \$'000	Half Year Ended 31 December 2016 \$'000
Segment revenue		
Communications	28,953	34,973
Metal detection	63,451	64,774
Tracking solutions	2,330	4,130
	<u>94,734</u>	<u>103,877</u>
Segment result		
Communications	5,580	9,789
Metal detection	22,994	28,448
Tracking solutions	(256)	370
	<u>28,318</u>	<u>38,607</u>
Net financing costs	(548)	(319)
Unallocated corporate expenses and other income	<u>(7,103)</u>	<u>(8,496)</u>
Profit for the period before income tax expense	<u>20,667</u>	<u>29,792</u>
	31 December 2017 \$'000	30 June 2017 \$'000
Segment assets		
Communications	78,833	77,107
Metal detection	116,650	110,317
Tracking solutions	18,241	16,706
Unallocated corporate assets	<u>17,332</u>	<u>28,545</u>
	<u>231,056</u>	<u>232,675</u>

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2017**

Codan Limited and its Controlled Entities

	Consolidated Half Year Ended 31 December 2017 \$'000	Consolidated Half Year Ended 31 December 2016 \$'000
GROUP PERFORMANCE (continued)		
NOTE 3: OTHER EXPENSES/(INCOME)		
(Gain)/loss on sale of property, plant and equipment	19	117
Other expenses/(income)	<u>(7)</u>	<u>(36)</u>
	12	81
NOTE 4: NET FINANCING COSTS		
Interest income	(64)	(37)
Net foreign exchange (gain)/loss	364	(165)
Interest expense	<u>248</u>	<u>521</u>
	548	319
NOTE 5: DIVIDENDS		
Codan Limited has provided or paid for dividends as follows:		
- ordinary final fully-franked dividend of 4.0 cent per ordinary share paid on 3 October 2017	7,125	
- special final fully-franked dividend of 3.0 cent per ordinary share paid on 3 October 2017	5,343	
- ordinary final fully-franked dividend of 4.0 cent per ordinary share paid on 4 October 2016		7,088
Subsequent Events		
Since the end of the half year, the directors declared an interim fully-franked dividend of 4.0 cents per share payable on 3 April 2018. The financial impact of this interim dividend \$7,124,798 has not been brought to account in the group financial statements for the half year ended 31 December 2017 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 2017 was based on the profit attributable to ordinary shareholders of \$15,778,000 (six months ended 31 December 2016 \$22,189,000) and the issued capital of the company outstanding during the period. The weighted average number of shares outstanding was 177,779,699 for the half-year period ended 31 December 2017 (2016: 177,212,302).		
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 1,884,878 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	6,200	8,938
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	34	48
Additional deduction for research and development expenditure	(658)	(461)
(Over)/under provision for taxation in previous years	(722)	(918)
Other	<u>23</u>	<u>(2)</u>
Income tax expense	4,877	7,605

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2017

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 \$17 million was assessed for impairment at 30 June 2017; refer to the consolidated annual report for details on this assessment. Minetec incurred a small operating loss in the first half as we continued to invest in preparation for scaling this business. As announced earlier today, a global licencing, technology development and marketing agreement has been entered into with Caterpillar Inc. This is an important milestone in our strategy to grow the Minetec business. Given the near-term project opportunities that the business is confident of winning, it is expected that Minetec will deliver a stronger result in the second half.

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 receivables of \$449,406, for which a valuation was obtained from the relevant banking institution.

31 December 2017 \$'000	30 June 2017 \$'000
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NOTE 10: CAPITAL COMMITMENTS

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

1,443	2,050
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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.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2017**
Codan Limited and its Controlled Entities

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

In February 2018, Minetec, a wholly owned subsidiary of Codan Limited, has entered into a global licensing, technology development and marketing agreement with Caterpillar Inc. (NYSE:CAT). Under the terms of this agreement, Caterpillar and Minetec will collaborate to expand and develop the Caterpillar Minestar® technology solution for underground mining operations.

Minetec's proprietary products, SMARTS™ task management, TRAX™ high-precision tracking and wireless communications, and SafeDetect™ proximity detection, will be integrated into an expanded Caterpillar Minestar® technology solution.

This agreement recognises the value of the technology developed by Minetec since its acquisition by Codan in 2012. While not expected to deliver material revenue in FY18, this is an important milestone in the strategy to scale the Minetec business.

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.

NOTE 13: RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2017 annual financial report.

NOTE 14: NET TANGIBLE ASSET / LIABILITY PER SHARE

	31 December 2017	30 June 2017
Net tangible asset/(liability) per share	17.3 cents	17.7 cents

NOTE 15: Employee Benefits

The company issued 124,524 performance rights in November 2017 to the chief executive officer. The fair value of the rights was on average \$1.80 based on the Black-Scholes formula. The model inputs were: the share price of \$2.26, no exercise price, expected volatility 39%, dividend yield 5.75%, a term of three years and a risk-free rate of 2.6%.

The company issued 416,536 performance rights in December 2017 to certain employees. The fair value of the rights was on average \$1.67 based on the Black-Scholes formula. The model inputs were: the share price of \$2.09, no exercise price, expected volatility 37%, dividend yield 6.22%, a term of three years and a risk-free rate of 2.6%.

The total expense recognised as employee costs in the half year in relation to performance rights issued was \$332,000.

Directors' declaration

Codan Limited and controlled entities

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

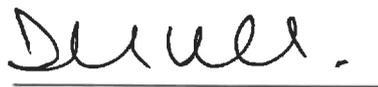
- (a) the financial statements and notes, set out on pages 6 to 15, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2017 and of its performance, as represented by the results of its 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 21st day of February 2018.

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 2017 and of 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*.

The Interim Financial Report comprises:

- Consolidated interim balance sheet as at 31 December 2017.
- 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 15 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The Group comprises Codan Limited (the Company) and the entities it controlled at the interim period's end or from time to time during the interim period.

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*.
- 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 2017 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 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

Scott Fleming
Partner

Adelaide
21 February 2018