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

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

CODAN LIMITED BUSINESS UPDATE

Summary

- Strong start to the second half has continued for Metal Detection.
- Demand for Radio Communications products has increased.
- Sales for the nine months to 31 March were \$118 million, 19% higher than the same period last year, with Q3 sales up 54% on the prior year.
- The carrying value of capitalised product development for Minetec is being reviewed.
- Carrying value of our Newton property to be re-assessed.
- Full year underlying net profit after tax now expected to be in the region of \$20 million, an increase of 57% over FY15.

Overview

We reported in our half-year announcement that the business was well positioned to deliver an improved underlying and statutory net profit compared to last year. We are now beginning to see the benefits of the many initiatives put in place during the past two years aimed at broadening our revenue streams and increasing our sales pipelines across all of our business units. More detailed updates are provided below.

Radio Communications

Our Land Mobile Radio (LMR) business is performing well due to strong demand from US government departments. The board has recently approved an additional engineering investment of approximately \$5 million, to be spent over FY17, to accelerate the development of an expanded LMR product range. This decision is consistent with our strategy to invest in product development that will broaden the addressable market for our communications products and solutions.

The High Frequency (HF) radio business has seen strong demand from the UN and humanitarian customers. We have recently announced to the market a contract for US\$ 7.9 million to supply HF radio equipment to a longstanding military customer. This contract is an example of the urgent demand for our communication products that can arise from instability and conflict in the regions we serve.

As a result of the above, Radio Communications sales for the nine months ended 31 March 2016 were around \$50 million. Whilst this is broadly in line with sales for the same period in FY15, we do expect to have a strong last quarter given orders on hand.

Metal Detection

The demand from Africa for Minelab's gold detectors has been strong in Q3. Sales of GPX® products into Africa have remained high on the back of surges in demand from two of our key regions. There has also been an excellent uptake of the new GPZ 7000® gold detector, which is fast becoming accepted in our African markets.

Minelab has actioned two key initiatives in the past 12 months that are currently driving the improved performance of this business.

Firstly, we have taken control of our routes to market in Africa by establishing our own trading hub in Dubai. As a result we are now better connected into the African market. This has proven to be invaluable in broadening our customer base, improving market intelligence and opening up new gold detecting regions.

Secondly, the success we have achieved in first world markets with the GPZ 7000® gold detector is now being replicated in Africa.

Minelab metal detection sales were \$65 million in the nine months ending 31 March 2016, 47% higher than sales for the same period in FY15.

While some of this revenue has come from unpredictable surges in demand in African gold markets which are difficult to forecast, the business is well placed to maximise sales from these opportunities when they arise.

Mining Technology

Minetec continues to build orders for its safety and productivity solutions from key customers in gold, platinum and diamond mining. While not material financially, these orders are critical to expand the number of reference sites and further promote customer confidence in our leading-edge solutions.

Minetec's revenue for the three months ended 31 March 2016 was adequate to cover its expense base and maintain the division at break-even, which was our objective when the business was restructured in January this year.

Commodity markets remain volatile and most major mining companies have now implemented capital expenditure reductions or freezes; in addition, Minetec is now very much focused on a core range of highly differentiated core technologies that are starting to gain good momentum in the market.

For all of these reasons the Board has asked the management team to critically re-assess the carrying value of all Minetec capitalised product development to ensure that the values are consistent with changing market opportunities. Although this work is incomplete, early

indications are that we are likely to write down the value of capitalised product development by around \$3m after tax in the full year results.

Newton Property

Our Newton property in Adelaide's eastern suburbs has been on the market since mid 2015. We are confident that the property will be sold, but with the currently flat commercial property market in Adelaide, we are having to review our marketing approach for this property. In light of the current market conditions, the carrying value of the property will be re-assessed at year-end, and it is possible that we will write down the value by around \$1m in the full year accounts.

Outlook

The Board has previously commented on the difficulty of forecasting some of the markets we sell into; however, with the year-to-date profitability that has been achieved and with orders in hand, we will exceed consensus forecasts for FY16 of around \$15 million underlying NPAT.

The Board now expects full year underlying net profit after tax to be in the order of \$20 million, a 57% increase over FY15, and full year statutory net profit after tax to be in the order of \$15 million. Any non-cash accounting charges resulting from the re-assessment of the carrying values of Minetec capitalised product development and the Newton property (estimates of which we have included in the forecast statutory net profit after tax) will not impact on the full year dividend, which will continue to be based on underlying net profit and cash generation.

On behalf of the Board



Michael Barton
Company Secretary

Codan is an industrial technology company that provides robust technology solutions to 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