

20 February 2019

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

CONTINUING GROWTH ACROSS ALL BUSINESS UNITS

- Net profit after tax of \$22.2 million, up 40%
- Interim dividend of 4.0 cents, fully franked
- Interim special dividend of 2.5 cents, fully franked
- Earnings per share of 12.4 cents, up 39%
- Metal Detection sales increased 29% over the prior first half due to growth in the consumer business and continuing strong demand for gold detectors
- Communications sales increased 41% over the prior first half as a number of large Tactical Communications projects were delivered in the first quarter and LMR sales were also strong
- Minetec completed the first phase of software integration with Caterpillar Minestar® and continues to install its underground Fleet Management System at BHP's Olympic Dam mine in South Australia
- Historically, our results for the second half have exceeded those for the first half. We do not expect that this will be the case in FY19

Australian-based technology company, Codan Limited, today announced statutory and underlying net profit after tax of \$22.2 million for the half year ended 31 December 2018.

Directors announced an interim dividend of 4.0 cents per share, fully franked and an interim special dividend of 2.5 cents per share. The dividends have a record date of 27 February 2019 and will be paid on 13 March 2019. The Board expects to continue its policy of paying out approximately 50% of profits as dividends, and shareholders will continue to be rewarded for outperformance of the company by way of a special dividend.

While special dividends are normally declared and paid annually along with the final dividend, given the strength of the balance sheet and the fact that the company is celebrating its 60th year in business the decision was made to pay a special dividend at the half year.

Chief Executive Donald McGurk said, "The results for the first half have been strong across the business, with both Codan Communications and Minelab significantly increasing sales.

“Performance was driven by three factors - continued strength of gold detector sales, growth of our Minelab recreational products, particularly the new EQUINOX® coin and treasure detector, and a strong recovery in Tactical HF and LMR Communications sales.

“We are pleased that our strategic focus to broaden our addressable markets is continuing to develop well.”

Codan Summary Financial Performance				
	Half Year ended			
	Dec-18		Dec-17	
	\$m	% to Sales	\$m	% to Sales
Revenue				
Communications products	40.7		29.0	
Metal detection products	82.0		63.4	
Mining technology	5.7		2.3	
Total Revenue	128.4		94.7	
Business performance				
EBITDA	38.0	30%	27.4	29%
EBIT	30.4	24%	20.9	22%
Interest	-		(0.2)	
Net profit before tax	30.4	24%	20.7	22%
Taxation	(8.2)		(4.9)	
Net profit after tax	22.2	17%	15.8	17%
Earnings per share, fully diluted	12.3 cents		8.8 cents	
Interim ordinary dividend per share	4.0 cents		4.0 cents	
Interim special dividend per share	2.5 cents		-	

Consistent with previous guidance, the business delivered a first-half result that exceeded the half-year base-level sales and profit range.

Net profit after tax was 40% higher than the prior first half as a result of 41% higher sales in Communications and strong demand for Minelab’s gold and recreational detectors.

Following payment of the FY18 tax liability (\$5.3 million) and the FY18 final dividend (\$15.2 million) in this period, the company has a net cash position of \$13 million.

Inventory increased during the period due to a conscious decision to increase our stock holding across the Minelab product range. We experienced a number of stock shortages during the second half of FY18, and we now expect to be in a better position to service the market.

Performance by business unit:

Communications – Tactical Communications (formerly High Frequency (HF)) 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.

Our strategy is to grow the Tactical Communications business by further penetrating the global military market as a full communications solutions provider. The division's name was changed in January, eliminating the reference to 'radio' in order to better reflect our full communications offering.

Codan Communications had an excellent first half. Sales increased 41% to \$41 million and segment profit increased 85% to \$10.3 million. A portion of this growth was due to a number of Tactical Communications orders that shipped early in FY19. Combined with strong new orders for the half, these shipments pushed Communications sales above base business levels.

We are experiencing strong interest in our expanded tactical military offering and are confident that this strategy will broaden our addressable market in the mid to long term. In January, we announced our new Sentry® Military Manpack to the market. This product complements our existing Sentry H™ and Sentry V™ tactical military radios and significantly broadens our offering in the global military market. Combined with an interoperability platform, these three core products allow us to offer rugged and reliable communications solutions in mixed and legacy networks.

With the impending retirement of Charlie Stuff, we have appointed a new leader for our LMR business in Canada. Charlie has successfully managed the business through a major transformation and we wish him well in retirement. We continue to develop the Cascade™ Land Mobile Radio platform, which will deliver a fully interoperable first-responder communications solution with excellent performance at a competitive price point.

The Communications division has base-level sales in the range of \$65 million to \$75 million per annum, with large Tactical Communications contracts sometimes taking sales above this range. Assuming normalised sales over the second half, we expect full-year FY19 sales to fall within this range.

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 technology than any of its competitors and taken the metal detection industry to new levels of technological excellence.

As previously announced, Minelab started FY19 with a strong first quarter, largely due to success in opening new markets with high initial demand for gold detectors. During the second quarter, both gold and recreational detectors continued to sell well. Total Minelab sales increased 29% over the prior first half to \$82 million, and segment profit increased 29% to \$30 million.

Sales of gold detectors continued to perform above base level during the half. Demand was strong across our full range of gold detectors, which includes the SDC 2300®, Gold Monster® and GPZ 7000®.

The recreational part of the Minelab business also showed strong growth in the half. Our new EQUINOX® coin and treasure detector continues to sell well, and we are working to take market share from our competitors.

After two years of development, Minelab's new countermine dual-sensing detector is in final testing and will be released in this half. This detector was partially funded by the Australian government and combines ground-penetrating radar with simultaneous multi-frequency metal detection in a compact, lightweight, high-performance dual-technology detector. It will be the best dual-sensing detector on the market.

Minelab has base-level sales of around \$110 million, however periods of stronger demand for gold detectors and new product introductions can push these revenues significantly higher.

Traditionally, Minelab has had stronger sales in the second half as cooler weather in Africa typically results in higher demand for gold detectors. However, in the first quarter of FY19, we successfully opened a new gold detector market and experienced a period of high initial demand. Sales into this new market have now normalised.

While we are confident of continuing success in the second half of FY19, it is too early to determine the extent to which Minelab sales will exceed base level during this period.

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.

Revenue increased and the division broke even in the first-half as we continued our strategic investment in the business.

Since signing a technology development and marketing agreement with Caterpillar Inc. in February 2018, Minetec has been focused on integrating its technology with Caterpillar's Minestar® system and launching the improved solution through Caterpillar's global dealer network. The first phase of this integration is now complete and a trial of the combined technology is underway at Newmont's Tanami mine in the Northern Territory.

As previously announced, in May 2018 Minetec won a \$9.5 million contract to supply its Fleet Management System to BHP's Olympic Dam mine in South Australia, validating the superiority of our solution for underground mining. Minetec continues to install the equipment associated with this contract and expects commissioning and operational deployment to occur before the end of the financial year. As an extension to this project, in December Minetec was awarded the contract to supply the underground communications and tracking infrastructure (Wi-Fi WASP) at Olympic Dam.

Management is still targeting revenues of \$15 million for Minetec in FY19, with the objective of doubling the size of this business over the next few years.

Outlook

Codan's base business has revenue of \$180 million to \$200 million per annum and, at this level of sales, we expect to generate NPAT in the range of \$25 million to \$30 million. We are pleased to report that our first-half results have exceeded this range.

Historically, our results for the second half have exceeded those for the first half. We do not expect this to be the case in FY19 due to higher than expected sales in the first quarter as Tactical Communications delivered several large contracts and Minelab opened a new gold detector market with a resulting period of high initial demand.

At this point in time, we do expect to exceed base-level sales and profitability for the full year, but it is too early 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 to long term.

On behalf of the Board



Michael Barton
Company Secretary

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

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 2018

ABN 77 007 590 605	Previous corresponding period 31 December 2017
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Results for announcement to the market				\$A'000
Revenue from ordinary activities	Increased	36%	to	128,403
Profit from ordinary activities after tax attributable to members	Increased	40%	to	22,146
Profit after tax	Increased	40%	to	22,152
Dividends	Amount per security	Franked amount per security at 30% tax		
Interim ordinary dividend	4.0 cents	4.0 cents		
Interim special dividend	2.5 cents	2.5 cents		
Record date for determining entitlements to dividends:	27 February 2019			
<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 2018 Financial Report and the Market Announcement dated 19 February 2019 form part of, and should be read in conjunction with, this Preliminary Final Report (Appendix 4D).</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 2018.</p>				

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

**Interim Financial Report
for the half year ended
31 December 2018**

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 2018 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; resigned August 2018
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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Dividends

Directors announced an interim dividend of 4.0 cents per share, fully franked and an interim special dividend of 2.5 cents per share. The dividends have a record date of 27 February 2019 and will be paid on 13 March 2019. The Board expects to continue its policy of paying out approximately 50% of profits as dividends, and shareholders will continue to be rewarded for outperformance of the company by way of a special dividend.

While special dividends are normally declared and paid annually along with the final dividend, given the strength of the balance sheet and the fact that the company is celebrating its 60th year in business the decision was made to pay a special dividend at the half year.

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 2018.

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 several loops and a vertical line, positioned above a horizontal line.

D Simmons

Director

Dated this 19th day of February 2019.

A handwritten signature in black ink, appearing as a series of connected loops, positioned above a horizontal line.

D S McGurk

Director



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 2018 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 2019

**Consolidated interim income statement
for the half year ended 31 December 2018**

Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half Year Ended 31 December 2018 \$'000	Half Year Ended 31 December 2017 \$'000
Continuing operations			
Revenue		128,403	94,734
Cost of sales		<u>(54,563)</u>	<u>(40,094)</u>
Gross profit		73,840	54,640
Other (expenses)/income		5	(12)
Administrative expenses		(10,204)	(7,755)
Sales and marketing expenses		(22,993)	(18,247)
Engineering expenses		(10,213)	(7,411)
Net financing costs	3	<u>(30)</u>	<u>(548)</u>
Profit before tax		30,405	20,667
Income tax expense	5	<u>(8,253)</u>	<u>(4,877)</u>
Profit for the period		22,152	15,790
Attributable to:			
Equity holders of the company		22,146	15,778
Non-controlling interests		<u>6</u>	<u>12</u>
		22,152	15,790
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share		12.4 cents	8.9 cents
Diluted earnings per share		12.3 cents	8.8 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 2018**

Codan Limited and its Controlled Entities

	Consolidated	
	Half Year Ended 31 December 2018 \$'000	Half Year Ended 31 December 2017 \$'000
Profit for the period	22,152	15,790
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of cash flow hedges	(258)	(110)
less tax effect	77	33
Changes in fair value of cash flow hedges, net of income tax	(181)	(77)
Exchange differences on translation of foreign operations	928	546
Other comprehensive income for the period, net of income tax	747	469
Total comprehensive income for the period	22,899	16,259
Attributable to:		
Equity holders of the company	22,893	16,247
Non-controlling interests	6	12
	22,899	16,259

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 2018

Codan Limited and its Controlled Entities

	Consolidated	
	31 December 2018 \$'000	30 June 2018 \$'000
CURRENT ASSETS		
Cash and cash equivalents	12,983	27,711
Trade and other receivables	21,100	29,784
Inventory	43,711	31,588
Current tax assets	485	91
Assets held for sale	3,750	3,750
Other assets	2,748	2,474
Total current assets	84,777	95,398
NON-CURRENT ASSETS		
Property, plant and equipment	13,566	12,489
Product development	63,957	59,830
Intangible assets	86,396	86,585
Total non-current assets	163,919	158,904
Total Assets	248,696	254,302
CURRENT LIABILITIES		
Trade and other payables	36,264	46,346
Current tax payable	1,226	6,057
Provisions	7,635	7,299
Total current liabilities	45,125	59,702
NON-CURRENT LIABILITIES		
Deferred tax liabilities	6,653	5,994
Provisions	774	541
Total non-current liabilities	7,427	6,535
Total liabilities	52,552	66,237
Net assets	196,144	188,065
EQUITY		
Share capital	43,515	42,721
Reserves	64,687	64,326
Retained earnings	87,942	81,018
Total equity	196,144	188,065
Total equity attributable to the equity holders of the company	196,257	188,184
Non-controlling interests	(113)	(119)
	196,144	188,065

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 2018**

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	
Half year ended 31 December 2018							
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
Transactions with owners of the company	42,721	4,516	(611)	2,595	58,981	103,170	211,372
Dividends recognised during the period	-	-	-	-	-	(15,228)	(15,228)
Issue of share capital through performance rights	794	-	-	(794)	-	-	-
Balance at 31 December 2018	43,515	4,516	(611)	1,801	58,981	87,942	196,144

	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	
Half year ended 31 December 2017							
Balance as at 1 July 2017	43,928	2,634	389	-	58,981	59,063	164,995
Profit for the period	-	-	-	-	-	15,790	15,790
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)
Issue of share capital through performance rights	-	-	-	-	-	-	-
Balance at 31 December 2017	44,260	3,180	312	-	58,981	62,385	169,118

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 2018
Codan Limited and its Controlled Entities

	Note	Consolidated	
		Half Year Ended 31 December 2018 \$'000	Half Year Ended 31 December 2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		140,389	98,208
Cash paid to suppliers and employees		(115,229)	(82,922)
Interest received		(104)	64
Interest paid		119	(234)
Income taxes (paid)/refunded		(12,706)	(16,169)
Net cash from operating activities		12,469	(1,053)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		-	6
Payments for capitalised product development		(9,797)	(8,572)
Payments for intellectual property		-	(1,938)
Acquisition of property, plant and equipment		(2,365)	(1,740)
Acquisition of intangibles (computer software and licences)		(2)	(102)
Net cash used in investing activities		(12,164)	(12,346)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings		-	15,000
Dividends paid	4	(15,228)	(12,468)
Net cash from financing activities		(15,228)	2,532
Net increase/(decrease) in cash held		(14,923)	(10,867)
Cash and cash equivalents at the beginning of the financial year		27,711	21,421
Effects of exchange rate fluctuations on cash held		195	38
Cash and cash equivalents at the end of the half year		12,983	10,592

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 2018

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 half year ended 31 December 2018 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 2018.

The consolidated annual financial report of the group as at and for the year ended 30 June 2018 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 19 February 2019.

(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 2018.

(d) Standards and interpretations issued, but not yet effective

AASB 16 Leases - The company has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 July 2019, the composition of the company's lease portfolio at that date, the company's latest assessment of whether it will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions. An impact from this standard is that the company will recognise new assets and liabilities from its operating leases and the impact on the company's net profit after tax is not expected to be material.

(e) 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 2018. 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 2019.

AASB 15 – Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue* and related interpretations.

The group adopted AASB 15 on 1 July 2018. The majority of the group's sales, being sale of goods, have only one performance obligation, resulting in AASB 15 not having a material impact on recognition of revenue compared to the Group's accounting policies applied prior to implementation. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under AASB 118 and related interpretations.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2018**

Codan Limited and its Controlled Entities

NOTE 1: STATEMENT OF ACCOUNTING POLICY (CONTINUED)

(e) Significant accounting policies (continued)

AASB 15 – Revenue from Contracts with Customers (continued)

AASB 15 applies a five-step model to account for revenue arising from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when a customer obtains control of the goods or services. The key judgements in applying AASB 15 include the amount of variable consideration to be recognised, determining whether multiple distinct performance obligations are provided in a single contract, and the timing of transfer of control.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's various goods and services are set out below:

Type of product or service	Nature, timing of satisfaction of performance obligations	Nature of change in accounting policy
Sale of goods	<p>The majority of revenue recognised by the communications and metal detection segments is for the sale of goods.</p> <p>Most customers obtain control when the goods are dispatched from the group's warehouse. Invoices are generated and revenue is recognised at that point in time.</p>	AASB 15 did not have a significant impact on the group's accounting policies.
Construction contracts	<p>The group's construction contracts largely occur within the tracking solutions segment.</p> <p>The business recognises revenue over time, adopting the input method, which looks at the resources used to date to create the asset being transferred.</p> <p>Customers are invoiced in accordance with established contractual terms, and consideration is payable in line with agreed payment terms. In most cases, the measurement of revenue (when recognised over time) will not be the same as amounts invoiced to a customer. In these circumstances, the business will recognise either a contract asset (accrued income) or a contract liability (deferred income) for the difference between cumulative revenue recognised and cumulative amounts billed for that contract.</p>	AASB 15 did not have a significant impact on the group's accounting policies.

The group also provides services to its customers, however the aggregate amount of service revenue is not material to the group.

AASB 9 – Financial Instruments

The group has adopted AASB 9 *Financial Instruments* from 1 July 2018. AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It replaced AASB 139 *Financial Instruments: Recognition and Measurement*. The group has no complex financial instruments and the application of the AASB 9 principles relating to hedge accounting and expected credit loss impairment does not result in a material impact to the financial statements compared to the group's previous accounting policies.

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2018**
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.

	Consolidated	
	Half Year Ended 31 December 2018 \$'000	Half Year Ended 31 December 2017 \$'000
Segment revenue		
Communications	40,699	28,953
Metal detection	82,006	63,451
Tracking solutions	5,698	2,330
	<u>128,403</u>	<u>94,734</u>
Segment result		
Communications	10,320	5,580
Metal detection	29,572	22,994
Tracking solutions	3	(256)
	<u>39,895</u>	<u>28,318</u>
Net financing costs	(30)	(548)
Unallocated corporate expenses and other income	<u>(9,460)</u>	<u>(7,103)</u>
Profit for the period before income tax expense	<u>30,405</u>	<u>20,667</u>
	31 December 2018 \$'000	30 June 2018 \$'000
Segment assets		
Communications	80,997	81,565
Metal detection	120,070	111,207
Tracking solutions	25,741	25,483
Unallocated corporate assets	<u>21,888</u>	<u>36,047</u>
	<u>248,696</u>	<u>254,302</u>

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were the United States of America totalling \$34.9 million (2018: \$17.6 million), United Arab Emirates totalling \$24.0 million (2018: \$19.5 million) and Australia totalling \$18.4 million (2018: \$18.6 million).

**Condensed notes to the consolidated interim financial statements
for the half year ended 31 December 2018**

Codan Limited and its Controlled Entities

Consolidated Half Year Ended 31 December 2018 \$'000	Consolidated Half Year Ended 31 December 2017 \$'000
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GROUP PERFORMANCE (continued)

NOTE 3: NET FINANCING COSTS

Interest income	(104)	(64)
Net foreign exchange (gain)/loss	3	364
Interest expense	131	248
	30	548

NOTE 4: DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

- ordinary final fully-franked dividend of 4.5 cent per ordinary share paid on 14 September 2018	8,062	
- special final fully-franked dividend of 4.0 cent per ordinary share paid on 14 September 2018	7,166	
- 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

Subsequent Events

Since the end of the half year, the directors declared an interim ordinary fully franked dividend of 4.0 cents per share and a fully franked special dividend of 2.5 cents per share bringing total interim dividends to 6.5 cents fully franked payable on 13 March 2019. The financial impact of this interim dividend \$11,644,857 has not been brought to account in the group financial statements for the half year ended 31 December 2018 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 27% for the half year ended 31 December 2018 is not materially different from the effective tax rate for the half year ended 31 December 2017 (24%).

OPERATING ASSETS AND LIABILITIES

NOTE 6: TRACKING SOLUTIONS - CARRYING AMOUNT

The carrying amount of the Minetec cash generating unit of \$17 million was assessed for impairment at 30 June 2018; refer to the consolidated annual report for details on this assessment. Minetec produced a break-even result in the first half as we continue to invest in preparation for scaling this business. As previously announced, a global licensing, 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, and the focus over the last 12 months has been on integrating Minetec's high-precision tracking technology into an expanded Caterpillar Minestar® solution for use in underground hard-rock mines.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2018

Codan Limited and its Controlled Entities

OTHER NOTES

NOTE 7: FINANCIAL INSTRUMENTS

At the end of the half year, financial instruments valued at fair value were limited to net foreign currency hedge payable of \$872,732, for which a valuation was obtained from the relevant banking institution.

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.

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.

NOTE 10: RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2018 annual financial report.

	31 December 2018	30 June 2018
NOTE 11: NET TANGIBLE ASSET / LIABILITY PER SHARE		
Net tangible asset per share	29.1 cents	17.3 cents

NOTE 12: Employee Benefits

The company issued 409,731 performance rights in November 2018 to certain employees. The fair value of the rights was on average \$2.54 based on the Black-Scholes formula. The model inputs were: the share price of \$3.14, no exercise price, expected volatility 30%, dividend yield 3.98%, a term of three years and a risk-free rate of 2.7%.

The total expense recognised as employee costs in the half year in relation to performance rights issued was \$408,000.

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 2018 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 this 19th day of February 2019.

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 2018 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 2018;
- 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 2018 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors of Codan Limited on 31 December 2018, would be in the same terms if given to the Directors as at the time of this Auditor's Report.

KPMG

Paul Cenko
Partner

Adelaide
19 February 2019