

17 February 2022

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

RECORD FIRST-HALF RESULT

Highlights

- Highest half-year profit in the company's history
- More balanced, diversified and stable revenues across the Codan group
- DTC secured the largest contract award in the company's history
- Recent acquisitions, DTC and Zetron both tracking ahead of first year profit targets
- Communications orderbook of \$163 million, \$71 million expected to ship H2 FY22
- Excellent results from Minelab given geo-political disruptions and a return to more normal levels of demand after the Covid impacted FY21
- The conscious decision to invest in increased levels of inventory across all business units places the group in a strong position as we enter the second half of FY22
- Net profit after tax of \$50.1 million, a 21% increase
- Group sales of \$257 million, a 32% increase against FY21 record first half
- Interim dividend of 13.0 cents, fully franked, a 24% increase
- Earnings per share of 27.6 cents, up 21%

Australian-based technology company, Codan Limited (ASX:CDA), today announced statutory net profit after tax of \$50.1 million for the half year ended 31 December 2021.

Directors announced an interim dividend of 13.0 cents per share, fully franked. This dividend has a record date of 24 February 2022 and will be paid on 10 March 2022.

Chief Executive, Alf Ianniello, said, "I am excited to join an exceptional business with strong culture and foundations. Our vision at Codan is to achieve consistent growth through the delivery of world class technology and innovation. We will do this by implementing the strategic growth plan and looking for opportunities to further strengthen the business via acquisitions."

"In my first 3 months with Codan, my key observations are:

- Our products are world class. Our on-going investment in product development will underpin our growth and will allow us to deliver great products and solutions to our customers
- We operate in a number of harsh and difficult environments where we service our critically important customers in a manner that differentiates us from our competitors
- We have exceptional people that live our core values. This is the foundation of our successful culture.

The business has great foundations and is in a strong position to deliver sustainable growth over the next three years."

"In relation to the half year ended 31 December 2021, it was most pleasing to see the newly acquired businesses, DTC and Zetron, both outperform our expectations. Over time, the successful integration and growth of these businesses will deliver a more balanced sales portfolio across the Codan group. Sensible diversification is an important risk mitigation strategy which I strongly support. The business today is a much stronger and robust business than it was 12 months ago."

Codan Summary Financial Performance				
	Half Year ended			
	Dec-21 \$m % of Sales		Dec-20 \$m % of Sales	
Revenue				
Communications products	117.7	46%	33.6	17%
Metal detection products	137.7	53%	155.1	80%
Other	1.4	1%	5.8	3%
Total revenue	256.8	100%	194.5	100%
Business performance				
EBITDA	83.1	33%	69.3	36%
EBIT	69.9	27%	60.7	31%
Interest	(0.7)		(0.2)	
Net profit before tax	69.2	27%	60.5	31%
Taxation	(19.1)		(19.2)	
Net profit after tax	50.1	20%	41.3	21%
Earnings per share, fully diluted	27.6 cents		22.8 cents	
Interim ordinary dividend per share	13.0 cents		10.5 cents	

While the business incurred additional integration and restructuring costs in the first half, these were largely offset by the profit on the sale of Minetec which settled in July 2021.

In early calendar 2021, we took the conscious decision to invest in production capacity and inventory across all business units. This has enabled us to maintain supply to our customers and position ourselves to satisfy future demand. In the case of Minelab, our investment in additional inventory has had two key benefits. We reduced freight costs (as we were able to freight a proportion of our products by sea rather than air) and most importantly, the additional inventory has mitigated the supply chain risks from the current global shortage of electronic components.

This build-up of inventory over the first half has impacted cash generation. As supply chains normalise and component availability improves, we will manage our inventory levels down. We believe the investment in inventory places the group in a strong position as we enter the second half of FY22.

Cash Flow

As mentioned above, the conscious decision to increase inventory levels across the business did impact on cash flows. In addition, we entered FY22 with negative working capital due to prepayments from a number of large customers last year to secure supply. These factors, coupled with a near record sales month in December 2021 and positioning DTC and Zetron for growth, meant that we invested an additional \$65 million in working capital in the first half. This will gradually normalise over the next 6 months and positive cash flows will follow. Net debt dropped from \$48 million to \$38 million in January 2022.

Performance by business unit:

Metal Detection

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

First half metal detection sales over the last 3 years have been FY20 \$100 million, FY21 \$155 million (+55%) and FY22 \$138 million. Despite the reduction in sales this year, the business delivered a near record first half profit result with a clear focus on improving margins and on cost efficiency. As the market leader in the sector, we were able to pass on price increases as required and the management of our supply chain meant that we reduced freight costs against global trends. For these reasons, we were pleased with the performance of the business.

In our gold markets we have seen geo-political disruptions to key markets in Africa and a return to more normal levels of demand compared to those experienced in the record, Covid impacted, FY21. In combination, these issues largely account for the decrease in Minelab sales in this half year compared to the prior corresponding period.

We are hopeful that stability will return to the African region during the second half as it is a significant driver of our global gold detector sales.

In our recreational markets, sales have held at the record levels of FY21, which were fuelled by government stimulus. Our ability to maintain our sales at this level has been due in part to the success of the GPX6000® gold detector launch. We expect future growth in these markets as we release a number of new detector platforms in FY23 and we continue to broaden our markets through geographic expansion. What is also clear is that we have managed to

increase market share plus expand the detector category as sales through retail chains in the USA and Australia continue to increase from a low base.

Countermine experienced significant growth with sales in the first half of FY22 doubling what was achieved in the prior corresponding period. The new products we have brought to the market in recent years to find unexploded land mines have been very well accepted by our customer base, particularly by a number of humanitarian agencies.

Historically Minelab has had a weighting of sales to the second half due largely to the seasonality of sales into Africa and the fact that new product releases have typically occurred in the second half of the year. As Minelab's sales continue to diversify we do not expect this second half weighting to occur to the same extent in the future. Through our continued focus on expanding our technologically superior product range and through further geographic expansion, we expect this business to continue to grow over the long term.

Communications

Codan Communications designs and manufactures mission-critical communications equipment for global military and public safety applications. Its solutions allow customers to save lives, enhance security and support peacekeeping activities worldwide.

Codan Communications sales increased by \$84 million on FY21, with this increase driven by our newly acquired businesses. Both DTC and Zetron are tracking ahead of integration plans and we have seen some real success with significant customer orders across both businesses.

In October 2021, DTC was awarded the largest ever order in Codan's history for the supply of software defined mesh radios to a large multi-national business. This first order for approximately \$38 million is part of a multi-year framework agreement. We are contracted to deliver \$16 million of this order in FY22, with our first shipment of product valued at around \$3 million made in December 2021.

DTC's technology accesses a number of market segments outside of video, namely broadcast, command and control and covert surveillance. The recent announcement of the acquisition of Broadcast Wireless Systems (BWS) is consistent with our strategy of entering adjacent markets and accessing new distribution channels.

BWS' technology portfolio consists primarily of wireless video camera links and a newly developed range of high-quality remote video broadcast products. While this \$8 million acquisition is relatively small for Codan, it is strategically important as it broadens DTC's technology offering and will allow us access to the growing remote broadcast industry much quicker than developing the technology internally.

The DTC business had a very strong first half in FY22 with sales of \$47 million and an EBITDA of \$10 million. This exceeded our first half plan for this business and we are on track to exceed our first year EBITDA target of \$14 million. With a current order book of \$78 million, \$36 million of which is expected to ship in H2 FY22, we are confident of delivering a strong full year result.

Our Tactical Communications business, which is much more dependent on developing world economies, continues to be impacted by Covid. Budget stress caused by Covid has meant that many government communications projects have been deferred and our inability to travel freely has meant that progressing those projects that are available has been difficult.

The priority for Codan's first year of ownership of Zetron, has been to restructure and integrate the business to create the foundations for future growth. The restructuring and integration activities are ahead of schedule and we are already starting to see a positive response from

the market and our customers. A number of significant orders received in our first 6 months of ownership has validated our view that Zetron has world class technology and an excellent market reputation.

Zetron had a very strong first half in FY22 with sales of \$36 million and an EBITDA of \$6 million. With a current order book of \$66 million, \$22 million of which is expected to ship in H2 FY22 and a growing sales opportunity pipeline, we are confident of exceeding our first year EBITDA target of \$8 million and then significantly growing profitability in future years.

We continue to transition the Communications division from a product-centric business to a complete solutions provider by investing in and strengthening our core businesses through new product development, entering new geographies, and leveraging our IP into adjacent markets. The Communications business is now a much more significant, robust and diversified business in larger higher growth markets than it was 12 months ago.

Outlook

There are a number of factors that are relevant when considering the outlook for FY22:

- The successful uptake of GPX6000® gold detectors into the developing world
- Resolution of the on-going civil unrest in Sudan
- The extent to which DTC and Zetron will exceed their initial full year profit targets
- The challenges that Covid and variants continue to pose

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

Live Webcast – FY22 Half-Year Financial Results Announcement

A results briefing will be hosted by Managing Director, Alf Ianniello, at 11:00am (Australian Eastern Standard Time) on 17 February 2022. This briefing will be available via the following link – [2022 Half Year Results Announcement](#).

On behalf of the Board



Michael Barton
Company Secretary

This announcement was authorised 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:

Alf Ianniello
Managing Director & CEO
Codan Limited
(08) 8305 0392

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

**Codan Limited
and its controlled entities**

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

Period ended on 31 December 2021

ABN		Previous corresponding period		
77 007 590 605		31 December 2020		
Results for announcement to the market				\$A'000
Revenue from ordinary activities	Increased	32%	to	256,754
Profit after tax	Increased	21%	to	50,089
Profit from ordinary activities after tax attributable to members	Increased	21%	to	50,013
Net profit for the period attributable to members	Increased	21%	to	50,013
Dividends		Amount per security		Franked amount per security at 30% tax
Interim dividend		13.0 cents		13.0 cents
Record date for determining entitlements to dividends:		24 February 2022		
<i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i>				
The 31 December 2021 Financial Report and the Market Announcement dated 16 February 2022 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 2021.				

Codan Limited
ABN 77 007 590 605
and its Controlled Entities

Interim Financial Report
for the half year ended
31 December 2021

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 2021 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
Alf Ianniello (Managing Director and CEO)	Director since January 2022
Donald McGurk	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 and metal detection equipment.

Review and results of operations

Summary:

- Highest half-year profit in the company's history
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- DTC secured the largest contract award in the company's history
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Historically Minelab has had a weighting of sales to the second half due largely to the seasonality of sales into Africa and the fact that new product releases have typically occurred in the second half of the year. As Minelab's sales continue to diversify we do not expect this second half weighting to occur to the same extent in the future. Through our continued focus on expanding our technologically superior product range and through further geographic expansion, we expect this business to continue to grow over the long term.

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In October 2021, DTC was awarded the largest ever order in Codan's history for the supply of software defined mesh radios to a large multi-national business. This first order for approximately \$38 million is part of a multi-year framework agreement. We are contracted to deliver \$16 million of this order in FY22, with our first shipment of product valued at around \$3 million made in December 2021.

DTC's technology accesses a number of market segments outside of video, namely broadcast, command and control and covert surveillance. The recent announcement of the acquisition of Broadcast Wireless Systems (BWS) is consistent with our strategy of entering adjacent markets and accessing new distribution channels.

BWS' technology portfolio consists primarily of wireless video camera links and a newly developed range of high-quality remote video broadcast products. While this \$8 million acquisition is relatively small for Codan, it is strategically important as it broadens DTC's technology offering and will allow us access to the growing remote broadcast industry much quicker than developing the technology internally.

The DTC business had a very strong first half in FY22 with sales of \$47 million and an EBITDA of \$10 million. This exceeded our first half plan for this business and we are on track to exceed our first year EBITDA target of \$14 million. With a current order book of \$78 million, \$36 million of which is expected to ship in H2 FY22, we are confident of delivering a strong full year result.

Our Tactical Communications business, which is much more dependent on developing world economies, continues to be impacted by Covid. Budget stress caused by Covid has meant that many government communications projects have been deferred and our inability to travel freely has meant that progressing

those projects that are available has been difficult.

The priority for Codan's first year of ownership of Zetron, has been to restructure and integrate the business to create the foundations for future growth. The restructuring and integration activities are ahead of schedule and we are already starting to see a positive response from the market and our customers. A number of significant orders received in our first 6 months of ownership has validated our view that Zetron has world class technology and an excellent market reputation.

Zetron had a very strong first half in FY22 with sales of \$36 million and an EBITDA of \$6 million. With a current order book of \$66 million, \$22 million of which is expected to ship in H2 FY22 and a growing sales opportunity pipeline, we are confident of exceeding our first year EBITDA target of \$8 million and then significantly growing profitability in future years.

We continue to transition the Communications division from a product-centric business to a complete solutions provider by investing in and strengthening our core businesses through new product development, entering new geographies, and leveraging our IP into adjacent markets. The Communications business is now a much more significant, robust and diversified business in larger higher growth markets than it was 12 months ago.

Outlook

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- The successful uptake of GPX6000® gold detectors into the developing world
- Resolution of the on-going civil unrest in Sudan
- The extent to which DTC and Zetron will exceed their initial full year profit targets
- The challenges that Covid and variants continue to pose

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

Dividends

Directors announced an interim dividend of 13.0 cents per share, fully franked. The dividend has a record date of 24 February 2022 and will be paid on 10 March 2022.

State of Affairs

There were no significant changes in the state of affairs of the group other than those referred to in this financial report.

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 2021.

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 blue ink, consisting of a large loop on the left and several vertical strokes on the right.

D Simmons
Director

A handwritten signature in blue ink, featuring a series of connected loops and a trailing flourish.

A Ianniello
Director

Dated this 16th day of February 2022.

For personal use only



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 2021 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 'Paul Cenko', written over the printed name and title.

Paul Cenko
Partner

Adelaide

16 February 2022

Consolidated interim income statement for the half year ended 31 December 2021

Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half Year Ended 31 December 2021 \$'000	Half Year Ended 31 December 2020 \$'000
Continuing operations			
Revenue	2	256,754	194,473
Cost of sales		(109,770)	(89,833)
Gross profit		146,984	104,640
Other (expenses)/income	3	(111)	29
Administrative expenses		(17,595)	(11,067)
Sales and marketing expenses		(40,658)	(21,480)
Engineering expenses		(17,981)	(10,934)
Net financing costs	4	(1,437)	(672)
Profit before tax		69,202	60,516
Income tax expense	6	(19,113)	(19,204)
Profit for the period		50,089	41,312
Attributable to:			
Equity holders of the company		50,013	41,288
Non-controlling interests		76	24
		50,089	41,312
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share		27.7 cents	22.9 cents
Diluted earnings per share		27.6 cents	22.8 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 2021

Codan Limited and its Controlled Entities

	Consolidated Half Year Ended 31 December 2021 \$'000	Half Year Ended 31 December 2020 \$'000
Profit for the period	50,089	41,312
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of cash flow hedges	194	1,241
less tax effect	(58)	(372)
Changes in fair value of cash flow hedges, net of income tax	136	869
Exchange differences on translation of foreign operations	6,106	(3,393)
Other comprehensive income for the period, net of income tax	6,242	(2,524)
Total comprehensive income for the period	56,331	38,788
Attributable to:		
Equity holders of the company	56,255	38,764
Non-controlling interests	76	24
	56,331	38,788

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 2021

Codan Limited and its Controlled Entities

	Note	Consolidated 31 December 2021 \$'000	30 June 2021 \$'000
CURRENT ASSETS			
Cash and cash equivalents		10,647	22,362
Trade and other receivables		64,059	34,959
Inventory		85,829	66,433
Current tax assets		405	122
Assets held for sale		-	17,762
Other assets		18,770	15,273
Total current assets		179,710	156,911
NON-CURRENT ASSETS			
Property, plant and equipment		19,169	17,763
Right-of-use assets		28,881	26,989
Product development		81,021	74,569
Intangible assets		238,126	227,327
Total non-current assets		367,197	346,648
Total Assets		546,907	503,559
CURRENT LIABILITIES			
Trade and other payables		84,712	106,515
Liabilities held for sale		-	1,043
Lease liabilities		6,270	6,950
Current tax payable		8,654	14,785
Provisions		14,480	13,214
Total current liabilities		114,116	142,507
NON-CURRENT LIABILITIES			
Loans and borrowings		58,500	24,000
Lease liabilities		27,598	25,170
Deferred tax liabilities		7,456	7,018
Provisions		8,279	1,254
Total non-current liabilities		101,833	57,442
Total liabilities		215,949	199,949
Net assets		330,958	303,610
EQUITY			
Share capital		47,059	45,842
Reserves		76,359	70,471
Retained earnings		207,540	187,297
Total equity		330,958	303,610
Total equity attributable to the equity holders of the company		330,996	303,724
Non-controlling interests		(38)	(114)
		330,958	303,610

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 2021

Codan Limited and its Controlled Entities

	Consolidated						
	Share capital	Foreign currency translation reserve	Hedging reserve	Equity based payment reserve	Profit reserve	Retained earnings	Total
Half year ended 31 December 2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2021	45,842	8,649	(655)	3,496	58,981	187,297	303,610
Profit for the period	-	-	-	-	-	50,089	50,089
Performance rights expensed	-	-	-	636	-	-	636
Change in fair value of cash flow hedges	-	-	136	-	-	-	136
Exchange differences on translation of foreign operations	-	6,106	-	-	-	-	6,106
Transactions with owners of the company	45,842	14,755	(519)	4,132	58,981	237,386	360,577
Dividends recognised during the period	-	-	-	-	-	(29,846)	(29,846)
Employee share plan, net of issue costs	227	-	-	-	-	-	227
Issue of share capital via performance rights	990	-	-	(990)	-	-	-
Balance at 31 December 2021	47,059	14,755	(519)	3,142	58,981	207,540	330,958

	Consolidated						
	Share capital	Foreign currency translation reserve	Hedging reserve	Equity based payment reserve	Profit reserve	Retained earnings	Total
Half year ended 31 December 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2020	44,746	4,552	353	2,802	58,981	135,909	247,343
Profit for the period	-	-	-	-	-	41,312	41,312
Performance rights expensed	-	-	-	1,108	-	-	1,108
Change in fair value of cash flow hedges	-	-	869	-	-	-	869
Exchange differences on translation of foreign operations	-	(3,393)	-	-	-	-	(3,393)
Transactions with owners of the company	44,746	1,159	1,222	3,910	58,981	177,221	287,239
Dividends recognised during the period	-	-	-	-	-	(19,856)	(19,856)
Employee share plan, net of issue costs	253	-	-	-	-	-	253
Issue of share capital via performance rights	843	-	-	(843)	-	-	-
Balance at 31 December 2020	45,842	1,159	1,222	3,067	58,981	157,365	267,636

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 2021

Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half Year Ended 31 December 2021 \$'000	Half Year Ended 31 December 2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		228,528	205,860
Cash paid to suppliers and employees		(215,546)	(136,386)
Interest received		6	252
Interest paid		(389)	(126)
Interest on lease liabilities		(350)	(329)
Income taxes (paid)/refunded		(25,147)	(19,482)
Net cash from operating activities		(12,898)	49,789
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Broadcast Wireless Systems Limited (net of cash acquired)	13	(2,749)	-
Proceeds from sale of Tracking Solutions business	3	17,773	-
Payments for capitalised product development		(12,556)	(7,995)
Acquisition of property, plant and equipment		(2,667)	(1,370)
Acquisition of intangibles (computer software and licences)		(424)	(17)
Net cash used in investing activities		(623)	(9,382)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings		34,500	-
Payment of lease liabilities		(3,324)	(1,582)
Dividends paid	5	(29,846)	(19,856)
Net cash from financing activities		1,330	(21,438)
Net increase/(decrease) in cash held		(12,191)	18,969
Cash and cash equivalents at the beginning of the financial year		22,362	92,830
Effects of exchange rate fluctuations on cash held		476	(592)
Cash and cash equivalents at the end of the half year		10,647	111,207

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 2021

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 2021 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 2021.

The consolidated annual financial report of the group as at and for the year ended 30 June 2021 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 16 February 2022.

(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 2021.

(d) Significant accounting policies

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 2021.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2021

Codan Limited and its Controlled Entities

GROUP PERFORMANCE

NOTE 2: SEGMENT REPORTING

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 "Other" business segment relates to the manufacturing and sale of tracking products and also the Tracking Solutions business that was sold on 1 July 2021.

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 2021 \$'000	Half Year Ended 31 December 2020 \$'000
Segment revenue		
Communications	117,745	33,597
Metal detection	137,667	155,092
Other	1,342	5,784
	<u>256,754</u>	<u>194,473</u>
Segment result		
Communications	24,894	5,008
Metal detection	62,000	65,533
Other	417	297
	<u>87,311</u>	<u>70,838</u>
Unallocated net financing costs	(1,087)	(343)
Unallocated corporate expenses and other income	<u>(17,022)</u>	<u>(9,979)</u>
Profit for the period before income tax expense	<u>69,202</u>	<u>60,516</u>
	31 December 2021 \$'000	30 June 2021 \$'000
Segment assets		
Communications	343,924	294,043
Metal detection	164,266	130,879
Unallocated corporate assets	38,717	78,637
	<u>546,907</u>	<u>503,559</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 \$94.604 million (2021: \$39.364 million), United Arab Emirates totalling \$41.361 million (2021: \$65.005 million) and Australia totalling \$28.227 million (2021: \$34.046 million).

NOTE 3: OTHER EXPENSE/(INCOME)

As disclosed in the 30 June 2021 annual financial report, Codan Limited sold 100% of the shares in its wholly-owned subsidiary Minetec Pty Ltd to Caterpillar Holdings Australia Pty. Ltd on 1 July 2021. The consideration comprised cash received of \$17.773 million and a holdback amount of \$1.662 million, and the net assets disposed were \$17.853 million, which resulted in a profit on sale of \$1.582 million.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2021

Codan Limited and its Controlled Entities

	Consolidated	
	Half Year Ended 31 December 2021 \$'000	Half Year Ended 31 December 2020 \$'000

GROUP PERFORMANCE (CONTINUED)

NOTE 4: NET FINANCING COSTS

Interest income	(6)	(252)
Net foreign exchange (gain)/loss	704	469
Interest expense	389	126
Finance charge on lease liabilities	350	329
	<u>1,437</u>	<u>672</u>

NOTE 5: DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

- ordinary final dividend of 16.5 cent per share paid on 10 September 2021	29,846	
- ordinary final dividend of 11.0 cent per share paid on 11 September 2020		19,856

Subsequent Events

Since the end of the half year, the directors declared an interim fully franked dividend of 13.0 cents per share payable on 10 March 2022. The financial impact of this interim dividend \$23.525 million has not been brought to account in the group financial statements for the half year ended 31 December 2021 and will be recognised in subsequent financial reports.

TAXATION

NOTE 6: 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 27.6% for the half year ended 31 December 2021 is lower than the prior corresponding period (31.7%) as an increased proportion of the group's profit was from lower tax jurisdictions such as the USA and UK.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2021

Codan Limited and its Controlled Entities

OTHER NOTES

NOTE 7: FINANCIAL INSTRUMENTS

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 a net foreign currency hedge payable of \$0.742 million for which an independent 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 of these arrangements, refer to the 30 June 2021 annual financial report.

NOTE 11: NET TANGIBLE ASSET / LIABILITY PER SHARE

	31 December 2021	30 June 2021
Net tangible asset per share (including right of use assets)	10.6 cents	4.8 cents
Net tangible asset per share (excluding right of use assets)	(5.3 cents)	(10.1 cents)

NOTE 12: EMPLOYEE BENEFITS

The company issued 80,011 performance rights in December 2021 to certain employees. The fair value of the rights was on average \$8.20 based on the Black-Scholes formula. The model inputs were: the share price of \$9.11, no exercise price, expected volatility 45.3%, dividend yield 3.0%, a term of three years and a risk-free rate of 1.6%.

The total expense recognised as employee costs in the half year in relation to performance rights issued was \$0.636 million.

Under the Employee Share Plan, the company issued 13,908 shares to eligible employees in August 2021. The fair value of the shares was \$16.34 per share, based on the volume weighted average price at which Codan Limited shares were traded on the ASX for the five trading days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in the half year in relation to this was \$0.227 million.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2021

Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

NOTE 13: Acquisition of BROADCAST WIRELESS SYSTEMS LIMITED

On 1 December 2021, Codan Limited's subsidiary Domo Tactical Communications (DTC) acquired all of the shares in UK-based company, Broadcast Wireless Systems Limited (BWS) for an upfront cost of \$4.619 million inclusive of \$1.869 million in cash that was held by the business. If certain gross margin targets are achieved over the three-year period after completion, there is the possibility of additional earn-out payments of up to \$4.836 million. This potential earn-out (contingent consideration) is recognised as a non-current provision in the group's Consolidated Balance Sheet as at 31 December 2021.

From the acquisition date, BWS has been consolidated within the group's results and has been reported in the Communications segment in Note 2. The following summary provides current estimates of the major classes of consideration transferred, the expected recognised amounts of assets acquired and liabilities assumed and the estimated goodwill at the acquisition date.

	\$'000
Estimated fair value of consideration transferred	
Cash paid on completion	4,619
Holdback amount	856
Contingent consideration	4,836
Acquiree's cash balance at acquisition date	<u>(1,869)</u>
	<u>8,442</u>
 Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	
Total assets	1,120
Total liabilities	<u>(504)</u>
	<u>616</u>
 Estimated goodwill as a result of the acquisition	
Estimated fair value of consideration transferred	8,442
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	<u>(616)</u>
	<u>7,826</u>

The goodwill is mainly attributable to the synergies that will be realised by incorporating BWS into DTC's Broadcasting business. BWS's technology enables access to the growing remote broadcast industry more quickly than developing this technology internally.

The goodwill is not expected to be deductible for tax purposes.

Directors' declaration

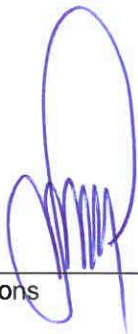
Codan Limited and controlled entities


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 2021 and of its performance for the six-month period 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 16th day of February 2022.

Signed in accordance with a resolution of the directors:



D Simmons
Director

A Ianniello
Director

Independent Auditor's Review Report

To the Shareholders of Codan Limited

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2021 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 2021;
- 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 13 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.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



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*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 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*.

A review of an Interim Period 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.



Paul Cenko
Partner

Adelaide

16 February 2022