

ASX RELEASE

16 February 2023

CODAN H1 FY23 RESULTS

H1 FY23 HIGHLIGHTS:

- **Group revenue of \$211.8 million, towards the upper end of guidance range, -18% versus prior corresponding period (“pcp”)**
- **Net profit after tax of \$30.8 million, exceeding guidance range**
- **Result reflects ongoing disruptions in Minelab’s African market, partially offset by strong organic growth in Communications businesses**
- **Performance by Communications businesses helped achieve a more predictable and stable revenue base, notably:**
 - **Communications revenue + 16% versus pcp to \$136.6 million, exceeding guidance range, with segment profit margins increasing to 25%**
 - **Communications orderbook of \$173.0 million, +16% versus 30 June 2022**
- **Net debt of \$61.0 million as at 31 December 2022, better than guidance**
- **Earnings per share of 17.1 cents**
- **Interim dividend of 9.0 cents, fully franked**
- **Results briefing to be held at 11:00am AEDT Thursday 16 February 2023 ([Click here to register](#))**

Codan Limited (“ASX:CDA”, “Codan”, “Group” or “the Company”), the Australian-based technology company today announced its half year results for the period ending 31 December 2022 (“H1 FY23”).

Chief Executive, Alf Ianniello, said:

“Codan has delivered a result slightly above our guidance range provided at the AGM in a challenging macro and geopolitical environment.

Our metal detection business experienced a challenging first half within the African market, however with continuing investment into new product releases, e-commerce initiatives and geographic expansion, Minelab will continue to be a great business for Codan.

It was extremely pleasing to see the Communications division deliver 16% revenue growth, while simultaneously growing its forward orderbook 16% since June 2022. The orderbook is a lead indicator of future revenues and will contribute to more predictable and stable revenues.

Both DTC and Zetron have been highly accretive acquisitions for Codan and are integral to our strategy of diversifying revenue sources and providing sustainable and profitable growth for shareholders. Today’s result is evidence that we are successfully executing on our strategy.”

| Codan Summary Financial Performance | | | | |
|--------------------------------------|-----------------|-------------|--------------|-------------|
| | Half Year ended | | | |
| | Dec-22 | | Dec-21 | |
| | \$m | % of Sales | \$m | % of Sales |
| Revenue | | | | |
| Communications | 136.6 | 64% | 117.7 | 46% |
| Metal Detection | 73.8 | 35% | 137.7 | 53% |
| Other | 1.4 | 1% | 1.4 | 1% |
| Total revenue | 211.8 | 100% | 256.8 | 100% |
| Business performance | | | | |
| EBITDA | 55.2 | 26% | 83.1 | 33% |
| EBIT | 41.5 | 20% | 69.9 | 27% |
| Interest | (2.0) | | (0.7) | |
| Net profit before tax | 39.5 | 19% | 69.2 | 27% |
| Taxation | (8.7) | | (19.1) | |
| Net profit after tax | 30.8 | 15% | 50.1 | 20% |
| Earnings per share, fully diluted | 17.1 cents | | 27.6 cents | |
| Interim ordinary dividend per share* | 9.0 cents | | 13.0 cents | |

*The interim ordinary fully franked dividend has a record date of 24 February 2023 and will be paid on 10 March 2023.

At group level revenue was down -18% versus pcp and net profit after tax was down -38% on pcp. This result reflects ongoing disruptions in Minelab's African market, partially offset by strong organic growth in the Communications business.

Positively impacting the net profit after tax during H1 FY23 was the Group's consolidated effective tax rate of 22% (versus 28% pcp). This was largely a result of an increased proportion of the Group's profit coming from the United Kingdom, with a company tax rate of 19%.

Balance Sheet

As announced at the AGM, the Group expected net debt of ~\$70 million at 31 December 2022. Pleasingly, the Company achieved a greater reduction in net debt than anticipated to \$61 million at 31 December, a direct result of an ongoing focus on working capital management. Both debtors and creditors continue to be well-managed.

The Group invested \$11.8 million in additional inventory in the period as a result of new product launches and commitments for incoming inventory coinciding with the ongoing difficult business conditions in Minelab's African market. The Company has scaled-back production of overstocked gold detectors, and therefore expects this inventory to decline during the remainder of FY23 and FY24. The Group expects to continue positive cash generation and further reduce net debt in the second half.

Capital Management

Capital management options continue to be evaluated by the Board. The Company is very focused on maintaining the balance sheet in a strong position and there is an ongoing focus on improving operating cashflow. Cash will be used to enhance and optimise the existing

businesses and their product development pipelines and to retire debt when appropriate. Cash will also be utilised to invest in growth opportunities if that is determined to be the best use of capital. As mentioned at the AGM in October 2022 an on-market share buyback remains under consideration. There is no intention to change the Company's dividend policy.

Metal Detection (Minelab)

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

Minelab's revenue of \$74 million for H1 FY23 was slightly below the AGM guidance range (\$75 million - \$80 million). Minelab's segment profit margin of 31% was consistent with the AGM guidance.

As previously announced, Sudan, Codan's largest market in Africa has been materially impacted by a military coup. The previous democratically elected government actively encouraged artisanal gold mining as a means of driving employment and building wealth within regional communities. Now, under military rule, many gold mining regions are being controlled by military forces and remain off limits to artisanal miners. The resulting fall in demand, coupled with an unprecedented level of demand for Minelab detectors in the last 2 years, has contributed to an oversupply of detectors in this market resulting in a reduction in revenues from Africa in H1 FY23.

While Minelab's personnel are actively going into new African mining areas to promote and educate artisanal miners on Minelab detectors, the Company believes the market represents a medium term rebuild opportunity. Therefore, the African market is likely to remain soft for the balance of FY23.

Our Rest of World (RoW) revenue was \$61 million, representing a decrease of \$8 million on the pcp, after adjusting for the ceased Russian market. Most of the reduction relates to the timing of project wins in Countermine. The sales of metal detectors into Minelab's recreational markets have remained remarkably resilient, performing at a run-rate consistent with prior periods which had been fuelled by government stimulus and unprecedented COVID-related demand.

The newly released Manticore, Equinox 700 and 900 detectors have been well received and, at this point in the release cycle, feedback and demand has been excellent. The Manticore is the first high-end coin and treasure machine released by Minelab in ten years and is more accurate in target separation and discrimination at depth. The Company believes it is the best coin and treasure detector on the market.

As a result of the strong interest in our newly released detectors, H2 FY23 Minelab's ROW revenues are expected to exceed the first half. The business will continue to closely monitor global geopolitical and macroeconomic conditions.

In summary, through Minelab's continued focus on expanding its technologically superior product range and through further geographic expansion, the Company expects Minelab to return to growth over the medium to long term.

Communications

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

Codan Communications delivered a strong first half, with revenues increasing 16% to \$136.6 million, with both Tactical and Zetron contributing to this growth. First half revenues not only exceeded the guidance range that was provided at the AGM, they also exceeded internal expectations. The key reason for the guidance revenue range of \$123 to \$135 million was the lack of certainty regarding the timing of shipment of product for the large communications project announced in October 2021. Pleasingly, despite only partially shipping product for this specific project in H1 FY23, Codan Communications still managed to exceed this range.

Codan has succeeded in its strategy to diversify revenues across different adjacent markets and transition to a full solutions provider in both Tactical and Zetron.

Tactical Communications delivered a strong first half driven by growth in revenue, orders and opportunities across the unmanned systems, military, law enforcement and broadcast markets. Specifically, the ongoing Ukraine conflict has increased demand for radios in the unmanned systems market, while broadcast was successful securing orders for several large international sporting events.

Tactical Communications' Software Defined Radio platform is a key differentiator. The size, weight and power of this radio allows the company to penetrate adjacent markets, such as unmanned systems. The business will continue to invest in its product and technology roadmap with a focus on key growth markets, and new radios currently under development will provide future growth opportunities.

Zetron continues to realise revenue synergies from its expanded business, with several system contracts secured for both communications infrastructure and command and control solutions in the period. With an increasing installation base, Zetron is focussed on increasing long-term support contract annuity revenues, that will provide greater predictability of future revenues. Support contracts accounted for ~30% of Zetron's H1 FY23 revenues.

The recent announcement of the acquisition of GeoConex is consistent with Codan's strategy to diversify and grow the Zetron business with bolt-on acquisitions of capability and technology that enhance the solutions offered to the public safety sector. GeoConex's technology consists of Computer Aided Dispatch (CAD) and Mapping solutions that are utilised by dispatchers, call-takers and phone operators in emergency call centres to prioritise and record incident calls, identify the status and location of responders in the field and effectively dispatch responder personnel.

Importantly GeoConex and Zetron already have a long-standing partnership spanning over 13 years. The combined business is well positioned to capitalise on the future US Government NG911 funding that will be made available to upgrade emergency response communications.

H1 FY23 Communications segment profit margin was 25% (versus 21% in H1 FY22). The Company continues to target long-term Communications segment profit margins of at least 30%.

Communications orderbook grew to \$173 million as at 31 December 2022 (+16% versus 30 June 2022), which is a lead indicator of future revenues and of the Company's objective to continue to grow revenues with greater predictability.

The project nature of the Communications business can impact the timing of revenue recognition from half to half. The Company expects full year Communications revenues to grow between 10 to 15% on FY22.

Outlook

There are a number of factors that are relevant when considering the outlook for the balance of FY23:

- Minelab's RoW H2 revenues are expected to exceed H1;
- The African gold detector market is likely to remain soft;
- The Company expects full year Communications revenues to grow between 10 to 15% on FY22; and
- Global geopolitical and macroeconomic conditions remain uncertain.

In light of these considerations, 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 H2 FY23 progresses.

H1 FY23 Results Briefing

A briefing with Managing Director, Alf Ianniello, at 11:00am (Australian Eastern Daylight Time) on 16 February 2022. This briefing will be available via the following link – [2023 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 2022

| | |
|-----------------------|---|
| ABN 77 007 590 605 | Previous corresponding period 31 December 2021 |
|-----------------------|---|

| Results for announcement to the market | | | | \$A'000 |
|--|---------------------|-----|--|---------|
| Revenue from ordinary activities | Decreased | 18% | to | 211,816 |
| Profit after tax | Decreased | 38% | to | 30,837 |
| Profit from ordinary activities after tax attributable to members | Decreased | 38% | to | 30,916 |
| Net profit for the period attributable to members | Decreased | 38% | to | 30,916 |
| Dividends | Amount per security | | Franked amount per security at 30% tax | |
| Interim dividend | 9.0 cents | | 9.0 cents | |
| Record date for determining entitlements to dividends: | 24 February 2023 | | | |
| <i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i> | | | | |
| The 31 December 2022 Financial Report and the Market Announcement dated 16 February 2023 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 2022. | | | | |

Codan Limited
ABN 77 007 590 605
and its Controlled Entities

Interim Financial Report
for the half year ended
31 December 2022

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 2022 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 |
|---|---|
| Graeme Barclay (Chairman) | Director since February 2015 |
| Alf Ianniello (Managing Director and CEO) | Director since January 2022 |
| Peter Leahy | Director since September 2008, retired October 2022 |
| David Simmons | Director since May 2008, retired January 2023 |
| Kathy Gramp | Director since November 2015 |
| Sarah Adam-Gedge | Director since February 2023 |

Daniel Widera was appointed as joint Company Secretary of Codan, effective 1 September 2022.

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:

- Group revenue of \$211.8 million, towards the upper end of guidance range, -18% versus prior corresponding period ("pcp")
- Net profit after tax of \$30.8 million, exceeding guidance range
- Result reflects ongoing disruptions in Minelab's African market, partially offset by strong organic growth in Communications businesses
- Performance by Communications businesses helped achieve a more predictable and stable revenue base, notably:
 - Communications revenue + 16% versus pcp to \$136.6 million, exceeding guidance range, with segment profit margins increasing to 25%
 - Communications orderbook of \$173.0 million, +16% versus 30 June 2022
- Net debt of \$61.0 million as at 31 December 2022, better than guidance
- Earnings per share of 17.1 cents
- Interim dividend of 9.0 cents, fully franked

The company has delivered a result slightly above our guidance range provided at the AGM in a challenging macro and geopolitical environment.

Our metal detection business experienced a challenging first half within the African market, however with continuing investment into new product releases, e-commerce initiatives and geographic expansion, Minelab will continue to be a great business for Codan.

It was extremely pleasing to see the Communications division deliver 16% revenue growth, while simultaneously growing its forward orderbook 16% since June 2022. The orderbook is a lead indicator of future revenues and will contribute to more predictable and stable revenues.

Both DTC and Zetron have been highly accretive acquisitions for Codan and are integral to our strategy of diversifying revenue sources and providing sustainable and profitable growth for shareholders. The announced result is evidence that we are successfully executing on our strategy.

| Codan Summary Financial Performance | | | | |
|--|------------------------|-------------------|---------------|-------------------|
| | Half Year ended | | | |
| | Dec-22 | | Dec-21 | |
| | \$m | % of Sales | \$m | % of Sales |
| Revenue | | | | |
| Communications | 136.6 | 64% | 117.7 | 46% |
| Metal Detection | 73.8 | 35% | 137.7 | 53% |
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| Total revenue | 211.8 | 100% | 256.8 | 100% |
| Business performance | | | | |
| EBITDA | 55.2 | 26% | 83.1 | 33% |
| EBIT | 41.5 | 20% | 69.9 | 27% |
| Interest | (2.0) | | (0.7) | |
| Net profit before tax | 39.5 | 19% | 69.2 | 27% |
| Taxation | (8.7) | | (19.1) | |
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continue to invest in its product and technology roadmap with a focus on key growth markets, and new radios currently under development will provide future growth opportunities.

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Communications orderbook grew to \$173 million as at 31 December 2022 (+16% versus 30 June 2022), which is a lead indicator of future revenues and of the Company's objective to continue to grow revenues with greater predictability.

The project nature of the Communications business can impact the timing of revenue recognition from half to half. The Company expects full year Communications revenues to grow between 10 to 15% on FY22.

Outlook

There are a number of factors that are relevant when considering the outlook for the balance of FY23:

- Minelab's RoW H2 revenues are expected to exceed H1;
- The African gold detector market is likely to remain soft;
- The Company expects full year Communications revenues to grow between 10 to 15% on FY22; and
- Global geopolitical and macroeconomic conditions remain uncertain.

In light of these considerations, 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 H2 FY23 progresses.

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 2022.

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, appearing to read 'G Barclay', written over a horizontal line.

G Barclay
Director

A handwritten signature in black ink, appearing to read 'A Ianniello', written over a horizontal line.

A Ianniello
Director

Dated this 16th day of February 2023.



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 2022 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


Sheenagh Edwards
Partner

Adelaide

16 February 2023

Consolidated interim income statement for the half year ended 31 December 2022

Codan Limited and its Controlled Entities

| | | Consolidated | |
|--|------|---|---|
| | Note | Half Year Ended 31 December 2022 \$'000 | Half Year Ended 31 December 2021 \$'000 |
| Continuing operations | | | |
| Revenue | 2 | 211,816 | 256,754 |
| Cost of sales | | <u>(94,143)</u> | <u>(109,770)</u> |
| Gross profit | | 117,673 | 146,984 |
| Other income | | 739 | 1,591 |
| Administrative expenses | | (16,413) | (17,595) |
| Sales and marketing expenses | | (42,701) | (40,658) |
| Engineering expenses | | (15,624) | (17,981) |
| Net financing costs | 3 | (4,177) | (1,437) |
| Other expenses | | <u>-</u> | <u>(1,702)</u> |
| Profit before tax | | 39,497 | 69,202 |
| Income tax expense | 5 | <u>(8,660)</u> | <u>(19,113)</u> |
| Profit for the period | | 30,837 | 50,089 |
| Attributable to: | | | |
| Equity holders of the company | | 30,916 | 50,013 |
| Non-controlling interests | | <u>(79)</u> | <u>76</u> |
| | | 30,837 | 50,089 |
| Earnings per share for profit attributable to the ordinary equity holders of the company: | | | |
| Basic earnings per share | | 17.1 cents | 27.7 cents |
| Diluted earnings per share | | 17.1 cents | 27.6 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 15.

Consolidated interim statement of comprehensive income for the half year ended 31 December 2022

Codan Limited and its Controlled Entities

| | Half Year Ended 31 December 2022 \$'000 | Consolidated Half Year Ended 31 December 2021 \$'000 |
|--|--|---|
| Profit for the period | 30,837 | 50,089 |
| Items that may be reclassified subsequently to profit or loss | | |
| Changes in fair value of cash flow hedges | 171 | 194 |
| less tax effect | <u>(51)</u> | <u>(58)</u> |
| Changes in fair value of cash flow hedges, net of income tax | 120 | 136 |
| Exchange differences on translation of foreign operations | <u>3,355</u> | <u>6,106</u> |
| Other comprehensive income for the period, net of income tax | 3,475 | 6,242 |
| Total comprehensive income for the period | <u>34,312</u> | <u>56,331</u> |
| Attributable to: | | |
| Equity holders of the company | 34,391 | 56,255 |
| Non-controlling interests | <u>(79)</u> | <u>76</u> |
| | <u>34,312</u> | <u>56,331</u> |

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 15.

Consolidated interim balance sheet as at 31 December 2022

Codan Limited and its Controlled Entities

| | Note | 31 December 2022 \$'000 | Consolidated 30 June 2022 \$'000 |
|--|------|-------------------------------|---|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 20,508 | 22,613 |
| Trade and other receivables | | 68,364 | 59,775 |
| Inventory | | 114,303 | 102,488 |
| Current tax assets | | 933 | 767 |
| Other assets | | 17,192 | 17,852 |
| Total current assets | | 221,300 | 203,495 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 27,863 | 19,732 |
| Right-of-use assets | 14 | 30,474 | 25,067 |
| Product development | | 99,855 | 92,261 |
| Intangible assets | | 252,416 | 250,377 |
| Total non-current assets | | 410,608 | 387,437 |
| Total Assets | | 631,908 | 590,932 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 91,611 | 95,812 |
| Loans and borrowings | | 536 | - |
| Lease liabilities | 14 | 5,285 | 4,592 |
| Current tax payable | | 7,839 | 6,806 |
| Provisions | | 16,843 | 14,987 |
| Total current liabilities | | 122,114 | 122,197 |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | | 6,456 | 5,676 |
| Loans and borrowings | | 81,000 | 52,000 |
| Lease liabilities | 14 | 30,590 | 25,651 |
| Deferred tax liabilities | | 10,732 | 9,482 |
| Provisions | | 5,841 | 7,970 |
| Total non-current liabilities | | 134,619 | 100,779 |
| Total liabilities | | 256,733 | 222,976 |
| Net assets | | 375,175 | 367,956 |
| EQUITY | | | |
| Share capital | | 49,196 | 47,059 |
| Reserves | | 87,851 | 86,431 |
| Retained earnings | | 238,128 | 234,466 |
| Total equity | | 375,175 | 367,956 |
| Total equity attributable to the equity holders of the company | | 375,574 | 368,276 |
| Non-controlling interests | | (399) | (320) |
| | | 375,175 | 367,956 |

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 15.

Consolidated interim statement of changes in equity for the half year ended 31 December 2022

Codan Limited and its Controlled Entities

| | Consolidated | | | | | | |
|---|-------------------------|--|---------------------------|--|--------------------------|-----------------------------|-----------------|
| Half year ended 31 December 2022 | Share capital \$'000 | Foreign currency translation reserve \$'000 | Hedging reserve \$'000 | Equity based payment reserve \$'000 | Profit reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
| Balance as at 30 June 2022 | 47,059 | 26,486 | (2,292) | 3,256 | 58,981 | 234,466 | 367,956 |
| Profit for the period | - | - | - | - | - | 30,837 | 30,837 |
| Performance rights expensed | - | - | - | 82 | - | - | 82 |
| Change in fair value of cash flow hedges | - | - | 120 | - | - | - | 120 |
| Exchange differences on translation of foreign operations | - | 3,355 | - | - | - | - | 3,355 |
| | 47,059 | 29,841 | (2,172) | 3,338 | 58,981 | 265,303 | 402,350 |
| Transactions with owners of the company | | | | | | | |
| Dividends recognised during the period | - | - | - | - | - | (27,175) | (27,175) |
| Allocation of Treasury Shares | 2,137 | - | - | (2,137) | - | - | - |
| Issue of shares from performance rights | - | - | - | - | - | - | - |
| Employee share plan, net of issue costs | - | - | - | - | - | - | - |
| Balance at 31 December 2022 | 49,196 | 29,841 | (2,172) | 1,201 | 58,981 | 238,128 | 375,175 |

| | Consolidated | | | | | | |
|---|-------------------------|--|---------------------------|--|--------------------------|-----------------------------|-----------------|
| Half year ended 31 December 2021 | Share capital \$'000 | Foreign currency translation reserve \$'000 | Hedging reserve \$'000 | Equity based payment reserve \$'000 | Profit reserve \$'000 | Retained earnings \$'000 | Total \$'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 |
| | 45,842 | 14,755 | (519) | 4,132 | 58,981 | 237,386 | 360,577 |
| Transactions with owners of the company | | | | | | | |
| 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 |

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 15.

Consolidated interim statement of cash flows for the half year ended 31 December 2022

Codan Limited and its Controlled Entities

| | Note | Consolidated | |
|--|------|---|---|
| | | Half Year Ended 31 December 2022 \$'000 | Half Year Ended 31 December 2021 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | | 207,235 | 228,528 |
| Cash paid to suppliers and employees | | (178,672) | (215,546) |
| Interest received | | 27 | 6 |
| Interest paid | | (1,751) | (389) |
| Interest on lease liabilities | | (315) | (350) |
| Income taxes (paid)/refunded | | (6,594) | (25,147) |
| Net cash from operating activities | | 19,930 | (12,898) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of Broadcast Wireless Systems Limited (net of cash acquired) | | - | (2,749) |
| Proceeds from sale of Tracking Solutions business | | 1,921 | 17,773 |
| Payments for capitalised product development | | (14,862) | (12,556) |
| Acquisition of property, plant and equipment | | (9,103) | (2,667) |
| Acquisition of intangibles (computer software and licences) | | (484) | (424) |
| Net cash used in investing activities | | (22,528) | (623) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Drawdowns/(repayments) of borrowings | | 29,536 | 34,500 |
| Payment of lease liabilities | | (2,006) | (3,324) |
| Dividends paid | 4 | (27,175) | (29,846) |
| Net cash from financing activities | | 355 | 1,330 |
| Net increase/(decrease) in cash held | | (2,243) | (12,191) |
| Cash and cash equivalents at the beginning of the financial year | | 22,613 | 22,362 |
| Effects of exchange rate fluctuations on cash held | | 138 | 476 |
| Cash and cash equivalents at the end of the half year | | 20,508 | 10,647 |

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 15.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2022

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 2022 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 2022.

The consolidated annual financial report of the group as at and for the year ended 30 June 2022 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 2023.

(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 2022.

(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 2022.

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2022

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 relating to the Tracking Solutions business that was sold in FY22.

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 2022 \$'000 | Half Year Ended 31 December 2021 \$'000 |
| Segment revenue | | |
| Communications | 136,557 | 117,745 |
| Metal detection | 73,853 | 137,667 |
| Other | 1,406 | 1,342 |
| | 211,816 | 256,754 |
| Segment result | | |
| Communications | 34,803 | 24,894 |
| Metal detection | 22,572 | 62,000 |
| Other | 710 | 417 |
| | 58,085 | 87,311 |
| Unallocated net financing costs | (3,862) | (1,087) |
| Unallocated corporate expenses and other income | (14,726) | (17,022) |
| Profit for the period before income tax expense | 39,497 | 69,202 |
| | 31 December 2022 \$'000 | 30 June 2022 \$'000 |
| Segment assets | | |
| Communications | 388,405 | 351,409 |
| Metal detection | 196,653 | 190,558 |
| Unallocated corporate assets | 46,850 | 48,965 |
| | 631,908 | 590,932 |

The group derived its revenues from a number of countries. The two significant countries where revenue was 10% or more of total revenue were the United States of America totalling \$102.485 million (2022: \$94.604 million) and Australia totalling \$21.360 million (2022: \$28.227 million).

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2022

Codan Limited and its Controlled Entities

| | Half Year Ended 31 December 2022 \$'000 | Consolidated Half Year Ended 31 December 2021 \$'000 |
|--|--|---|
|--|--|---|

GROUP PERFORMANCE (CONTINUED)

NOTE 3: NET FINANCING COSTS

| | | |
|-------------------------------------|--------------|--------------|
| Interest income | (27) | (6) |
| Net foreign exchange (gain)/loss | 146 | 704 |
| Cash Flow Hedge (gain)/loss | 1,992 | - |
| Interest expense | 1,751 | 389 |
| Finance charge on lease liabilities | 315 | 350 |
| | 4,177 | 1,437 |

NOTE 4: DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

| | | |
|---|--------|--------|
| - ordinary final dividend of 15.0 cents per share paid on 7 September 2022 | 27,175 | |
| - ordinary final dividend of 16.5 cents per share paid on 10 September 2021 | | 29,846 |

Since the end of the half year, the directors declared an interim fully franked dividend of 9.0 cents per share payable on 10 March 2023. The financial impact of this interim dividend \$16.305 million has not been brought to account in the group financial statements for the half year ended 31 December 2022 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 21.9% for the half year ended 31 December 2022 is lower than the prior corresponding period (27.6%) as an increased proportion of the group's profit was from lower tax jurisdictions, particularly the UK.

OTHER NOTES

NOTE 6: 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 \$3.741 million for which an independent valuation was obtained from the relevant banking institution.

NOTE 7: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2022

Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE

An interim dividend was declared after the end of the half year as disclosed in note 4.

On 16 February 2023, Codan announced its subsidiary Zetron, Inc. (Zetron) has acquired 100% of GeoConex Corporation shares, a leading integrator of US Public Safety and Homeland Security systems. Consideration will consist of an upfront cash payment of \$6.0 million and three equal deferred payments aggregating to a total of a further \$2.4 million over the next three years, plus the possibility of additional earn out payments of up to a further \$14.3 million if significant growth targets are achieved over the next three years. The acquisition will be funded by Codan's existing debt facility. The impact of this transaction has not been brought to account in the group's financial report for the half year ended 31 December 2022 and will be recognised in subsequent financial reports.

NOTE 9: RELATED PARTIES

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2022 annual financial report.

| | 31 December 2022 | 30 June 2022 |
|--|-----------------------------|-------------------------|
| NOTE 10: NET TANGIBLE ASSET / LIABILITY PER SHARE | | |
| Net tangible asset per share (including right of use assets) | 18.6 cents | 19.2 cents |
| Net tangible asset per share (excluding right of use assets) | 1.7 cents | 5.4 cents |

NOTE 11: EMPLOYEE BENEFITS

The company issued 57,019 performance rights in November 2022 to the Chief Executive Officer. The total expense recognised as employee costs in the half year in relation to performance rights issued was \$0.082 million.

NOTE 12: BANK FACILITIES

The multi option facility has a number of components that are supported by interlocking guarantees between Codan Limited and its subsidiaries and are subject to compliance with certain financial covenants. The first multi-option facility is for \$80 million and has a term of three years expiring in April 2024. The second facility is for \$40 million and has a term of three years expiring in September 2025. The third multi-option facility for \$40 million may be available subject to our financial institution's approval.

NOTE 13: ACQUISITION OF JUST DETECT LIMITED

On 14 September 2022, the group acquired all of the shares in UK based company, Just Detect Limited for a consideration of \$0.119 million.

NOTE 14: LEASES AND COMMITMENTS

During the half year ended 31 December 2022, the group had a new significant property lease commencing and consequently, recognised \$7.637 million right of use asset and lease liability. The group has another significant property lease commencing in January 2023 with a total commitment of \$14.586 million.

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 15, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2022 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 2023.

Signed in accordance with a resolution of the directors:



G Barclay
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 2022 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 2022;
- 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 14 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 these requirements.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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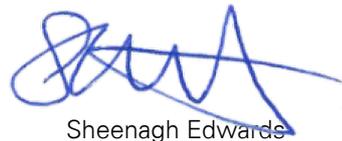
Auditor's Responsibilities for the Review of the Interim Financial Report

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 2022 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 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.



KPMG



Sheenagh Edwards
Partner

Adelaide

16 February 2023