

23 September 2020

Company Announcements Office  
Australian Securities Exchange  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir

**FY20 Annual Report**

Please find attached a copy of Codan Limited's FY20 annual report for release to the market.

Yours faithfully



Michael Barton  
Company Secretary  
On behalf of the Board

This announcement was authorised for release to the market 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:-**

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Company Secretary & CFO  
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Codan Limited  
(08) 8305 0392

# Annual Report **2020**

**Innovation**  
wherever you are



*At Codan, our purpose is to create long-term shareholder value through the design, development and manufacture of innovative technology solutions.*

*We work with customers in over 150 countries, providing metal detecting, communications, security and productivity solutions for some of the harshest environments on earth.*



**Innovation**  
wherever you are

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## **Codan Limited**

ABN 77 007 590 605

## **Annual General Meeting**

The Annual General Meeting of Codan Limited will be held at 11:00 am on Wednesday, 28 October 2020.

The meeting will be held virtually via an online platform at <https://web.lumiagm.com> with meeting ID 384-150-475.

# FY20 SUMMARY

Highest full-year sales in the company's history

**\$348.0 million**

Record statutory net profit after tax

**\$64.0 million**

An increase of **40%**

**Record sales**

achieved in both Metal Detection and Communications

Annual dividend

**18.5 cents**

fully franked (interim 7.5, final 11.0)

Earnings per share

**35.5 cents up 39%**

Strong balance sheet continues

**\$92.8 million**

net cash

## CODAN LIMITED

Founded in 1959 and headquartered in South Australia, Codan Limited (ASX:CDA) is an international company that develops rugged and reliable electronics solutions for government, corporate, NGO and consumer markets across the globe.

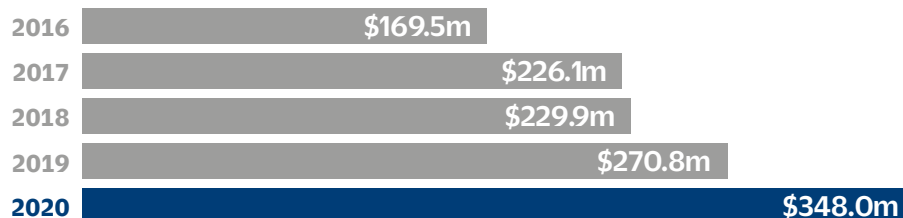
Codan's technologies include metal detection, communications and tracking solutions.

We have approximately 450 employees located in Australia, Canada, the USA, Ireland, the UAE and Brazil. Our marketing reach embraces activity in over 150 countries, with exports accounting for more than 85% of our sales.



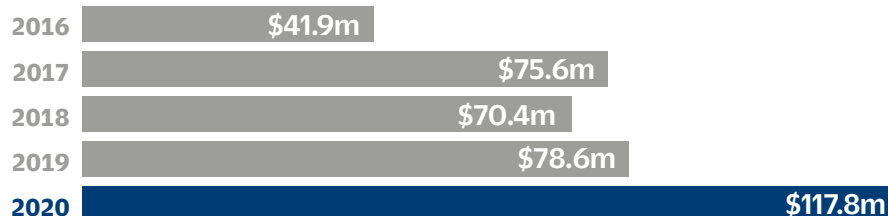
## Operating revenue

**\$348.0m**



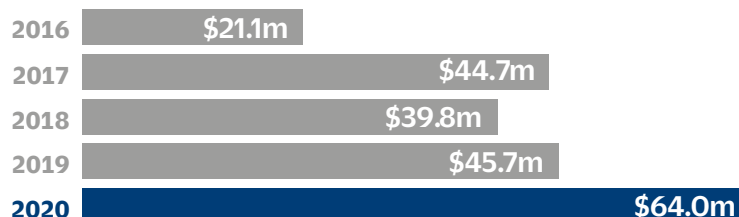
## EBITDA

**\$117.8m**



## NPAT

**\$64.0m**



Results for the year ended 30 June	2020	% of sales	2019	% of sales	2018	% of sales	2017	% of sales	2016	% of sales
<b>Revenue</b>										
Communications	\$104.0m	30%	\$77.6m	29%	\$56.5m	25%	\$70.9m	31%	\$65.0m	38%
Metal Detection	\$236.4m	68%	\$182.1m	67%	\$164.0m	71%	\$148.0m	66%	\$99.2m	59%
Tracking Solutions	\$7.6m	2%	\$11.1m	4%	\$9.4m	4%	\$7.2m	3%	\$5.3m	3%
Other										
<b>Total revenue</b>	<b>\$348.0m</b>	<b>100%</b>	<b>\$270.8m</b>	<b>100%</b>	<b>\$229.9m</b>	<b>100%</b>	<b>\$226.1m</b>	<b>100%</b>	<b>\$169.5m</b>	<b>100%</b>
<b>EBITDA</b>	<b>\$117.8m</b>	<b>34%</b>	<b>\$78.6m</b>	<b>29%</b>	<b>\$70.4m</b>	<b>31%</b>	<b>\$75.6m</b>	<b>33%</b>	<b>\$41.9m</b>	<b>25%</b>
<b>EBIT</b>	<b>\$89.6m</b>	<b>26%</b>	<b>\$63.4m</b>	<b>23%</b>	<b>\$53.7m</b>	<b>23%</b>	<b>\$61.5m</b>	<b>27%</b>	<b>\$29.2m</b>	<b>17%</b>
Interest	(\$0.6)m		(\$0.1)m		(\$0.5)m		(\$0.8)m		(\$1.7)m	
<b>Net profit before tax</b>	<b>\$89.0m</b>	<b>26%</b>	<b>\$63.3m</b>	<b>23%</b>	<b>\$53.2m</b>	<b>23%</b>	<b>\$60.7m</b>	<b>27%</b>	<b>\$27.5m</b>	<b>16%</b>
Taxation	(\$25.0)m		(\$17.6)m		(\$13.4)m		(\$16.0)m		(\$6.4)m	
<b>Net profit after tax</b>	<b>\$64.0m</b>	<b>18%</b>	<b>\$45.7m</b>	<b>17%</b>	<b>\$39.8m</b>	<b>17%</b>	<b>\$44.7m</b>	<b>20%</b>	<b>\$21.1m</b>	<b>12%</b>
Earnings per share, fully diluted	35.3c		25.3c		22.1c		24.9c		11.9c	
Ordinary dividend per share	18.5c		9.0c		8.5c		7.0c		6.0c	
Special dividend per share	- c		5.0c		4.0c		6.0c		- c	
Return on equity	1	28%	23%		23%		29%		16%	
Gearing	2	0%	0%		0%		0%		8%	

### Notes:

1. Return on equity is calculated as net profit after tax divided by average equity
2. Gearing is calculated as net debt divided by the sum of net debt and equity

# CHAIRMAN'S LETTER TO SHAREHOLDERS



**It is pleasing to be able to comment on another very successful year for your company. The profit achieved in FY20 was an all-time record by some margin. Cash flow was strong and we ended the year with net cash of \$93 million. Some may think that our balance sheet is too conservative. I disagree. Our combination of cash on hand and access to additional funding provides us with real optionality and supports our investment in innovation.**

COVID-19 has impacted our business in many ways but I don't intend to dwell on this issue. Rather, we are focussing on adjusting our business to ensure that we continue to deliver strong results. We will have a much better view on the year ahead by the time the AGM comes around.

Donald has provided some real insights into each of our business units in his report. From the board's perspective, the most pleasing aspect of our result is that it was the most balanced that we have ever achieved.

Within Minelab, Recreation and Countermine are making steady progress towards achieving \$100 million in turnover in these two markets alone. The days of our Minelab business being completely dominated by Gold Mining sales are now distant. That said, the Minelab Gold Mining business had another outstanding year as we again extended our product offering. Product range and geographic market extensions will continue to be the cornerstones of success for Minelab. High levels of investment in R&D and new product development to ensure that Minelab remains the global market leader in metal detection products is an easy decision.

It was really pleasing to see that the hard work put into reshaping our Tactical Communications business paid off during the year. We are now very much a communications solutions provider with a strong focus on interoperability. The record sales achieved in this division meant that Tactical Communications was a strong contributor to our results. Next year we fully expect that our LMR division will further deliver on its systems sales strategy, so that it too will become an important part of a balanced portfolio of businesses that is Codan today.

You will note that we have revised the content of our Remuneration Report this year. Hopefully this will help shareholders to better understand this important but complex area of our business. Given that the FY21 year will present a number of unique challenges, we will be taking a slightly different approach to short-term incentives for the executive team this year. I will provide further details at the AGM.

We are committed to ongoing education across the entire business, including your board. This year we have invested significant time and money to better understand the vagaries of the Anti Bribery and Corruption regimes around the world, with a particular focus on the USA legislation. We also spent time working with the executive team so that the value drivers in M&A are fully understood and that M&A is seen as a tactic to create value via growth, rather than a strategy in itself.

Last year I mentioned the rise and rise of litigation funders and class actions. Our Directors and Officers Insurance premiums have increased from under \$100,000 in FY18 to a likely cost of \$1 million on renewal this year. We believe that urgent federal government intervention is required as Australia is largely out of step with the rest of the world.

As a board, we are very clear that for Codan, the primary sources of wealth creation are innovation and capability development. Over the last three years we have invested \$83 million or 10% of sales in R&D and new product development. This has driven the growth across our business and has been the primary driver of wealth creation. We remain committed to this strategy.

We really appreciate your support of Codan and look forward to providing an update on our current year trading at the AGM in October.

**David Simmons**  
Chairman

Over the last three years we have invested \$83 million or 10% of sales in R&D and new product development. This has driven the growth across our business and has been the primary driver of wealth creation.







**I am very pleased to report that despite the challenges presented by the global COVID-19 pandemic, Codan has once again achieved its highest ever sales and profitability, as we continued to successfully implement our strategic growth plan.**

This was driven by the strength of gold detector sales into the artisanal gold mining market, continued growth in sales of our recreational metal detectors and several major contracts delivered by the Communications business.

During FY20, we increased our investment to \$31 million in engineering in order to further diversify our revenues through new product introductions. We continued to make the transition to a full solutions provider in our Communications business and further broadened our geographic footprint in Minelab. As a result, demand across all of our international markets was more evenly distributed.

Net profit after tax was \$64 million for the year on group sales of \$348 million. The company declared a fully franked final dividend of 11 cents per share, following on from the 7.5 cent per share fully franked interim dividend. This resulted in a total dividend of 18.5 cents for the full year, an increase of 32% over FY19.

Strong cash generation again during FY20 resulted in a net cash position of \$93 million at 30 June 2020, up from \$38 million at the same time last year.

## Metal Detection

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

Minelab delivered a record performance during the last 12 months, with sales increasing 30% to \$236 million. The key driver was our commitment to ongoing investment into new products and business development in new geographic territories, creating a strong demand for our full range of metal detectors across both the artisanal gold mining and recreational markets. We are particularly pleased with the growth we have achieved over recent years in the recreational market as we continue to introduce new technology to our customers and significantly expand our retail distribution footprint.

In artisanal gold mining, Minelab continues to dominate, with the GPZ 7000®, SDC 2300® and Gold Monster®. Gold Monster® was designed specifically for our African customers and has become the machine-of-choice for entry level artisanal miners.

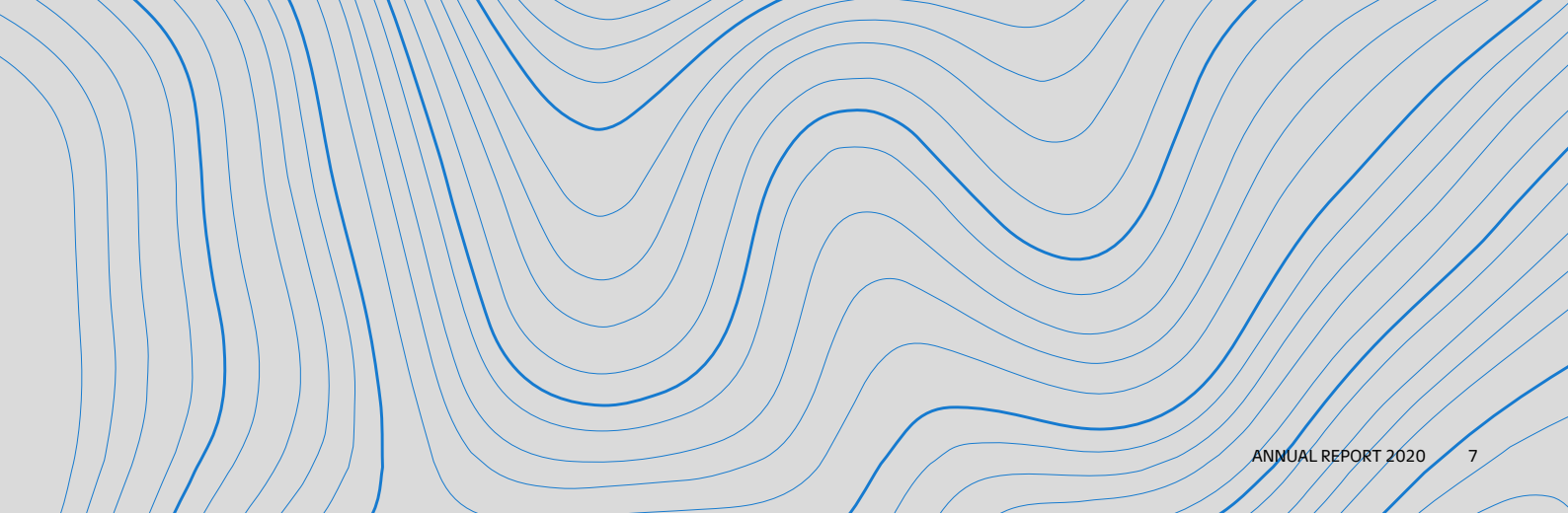
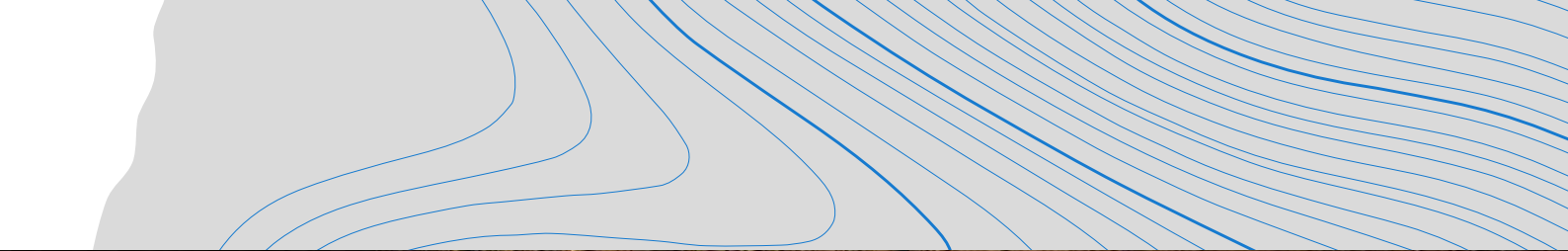
The SDC 2300® is exceptionally good at discovering fine-particle gold in highly mineralised soils, and existing customers are upgrading to the top of line GPZ 7000® detection performance as they become more successful. Minelab will soon release an exciting new GPX® gold detector which will draw upon the best features of the GPX 5000™ and SDC 2300®.

Despite the challenges presented by COVID-19, Minelab's recreational business achieved a record result. The demand for our recreational detectors has been remarkably resilient right through the pandemic, which we attribute to metal detecting being a remote outdoor hobby that has the potential to find items of value. The successful release of our second simultaneous multi-frequency (Multi-IQ®) detector, VANQUISH®, and the sustained strong demand for our Multi-IQ® EQUINOX® detector positioned us to take additional market share.

In FY21, Minelab will benefit from a full year of VANQUISH® sales, the release of a new gold detector and an expanding geographic sales footprint.









*During FY20, we increased our investment to \$31 million in engineering in order to further diversify our revenues through new product introductions.*





## 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.

The division had an excellent year in FY20, with both Tactical Communications and LMR achieving record sales levels, resulting in a sales increase of 34% to \$104 million. This growth was largely attributed to a number of major contracts being delivered in Tactical Communications, including the \$15 million East African contract and several larger systems sales by LMR.

We continue to execute our strategy of transitioning the Communications division from a product-centric business to a full solutions provider. Ongoing product development is being complemented by strategic partnerships with key suppliers in order to further broaden our solutions offering.

Tactical Communications continues to target the global military market, with a focus on developing world militaries in Africa, the Middle East, Asia and Latin America.

Our Tactical Communications portfolio includes a highly advanced software defined radio platform and interoperability solutions which are further supplemented by our in-country service, training and customer support. The strength in our existing partner network will allow us to continue to offer the same level of in-country service and support, despite the current travel restrictions imposed by COVID-19. We are also investing in our digital footprint to increase remote support to our partners and end users, now and into the future.

In LMR, our strategy is to grow the business by transitioning into larger systems projects and offering ongoing service and support. This will be enabled by the release of our new Cascade™ software defined solution, an interoperable first-responder radio with excellent performance at a competitive price point. Cascade™ is scheduled for full release in FY21.

## Tracking Solutions

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology allows real-time monitoring and control of mining operations in order to optimise productivity and enhance safety. It is an enabling technology required for mining automation.

As previously announced, in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. We have since integrated Minetec's high-precision tracking capability into the Caterpillar MineStar® solution which is providing marketing leverage into Caterpillar's global dealer network.

During FY20, the board conducted a strategic review of our Tracking Solutions business. The global agreement with Caterpillar Inc. has resulted in Minetec transitioning into a pure software and development support business. This coupled with the fact that Minetec did not meet Codan's expectations in FY20, has resulted in a decision to write down capitalised product development by \$7.5 million this year.


Our strategy for Minetec continues to focus on working with Caterpillar in order to leverage their global distribution network. As we continue to transition the business to being a technology provider to Caterpillar, we have reduced our cost structure and as a result, we expect the business to return to profitability in FY21.

## Our People

The record results this year could not have been achieved without the dedication and flexibility of our people, who worked tirelessly under very difficult circumstances in the second half of the year. Global supply chains and new business development were all decimated by the lockdowns and travel bans imposed as a result of the recent COVID-19 pandemic.

Despite all of these challenges, which came with the added pressure of personal uncertainty, people right across the business continued to seek solutions and did what it took to ensure that we continued to operate and meet the requirements of our customers.

On behalf of the board, I would like to give a heartfelt thanks to our people for their outstanding response to this situation. Without them and their exceptional efforts, none of this would be possible.



**Donald McGurk**  
*Managing Director and CEO*



# Selling into 150 countries *with operations across the globe*



Operating from

9

locations worldwide

Employing

450

staff

- CODAN OFFICES
- MANUFACTURING OPERATIONS
- ENGINEERING TEAMS

## METAL DETECTION



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## COMMUNICATIONS



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## TRACKING SOLUTIONS





## FY20 Summary

- Another record year with highest sales in the history of Minelab
- VANQUISH® coin and treasure detector released and sold through hundreds of retail outlets across North America
- Sales growth in Latin America driven by Brazil office expansion
- Maintained stronghold on the African artisanal gold mining market

## FY21 Objectives

- New gold detector to be released
- New Countermine metal detector, the MF5™, to be released
- Build on VANQUISH® launch success to maximise our foothold into the North American retail outlets
- Continue expansion of our retail distribution channels in Europe

**Minelab is the world leader in providing metal detection technologies for coin and treasure, gold prospecting and military requirements. Through our dedication to research and development, innovative design and production quality, Minelab is the world-leading manufacturer of handheld metal detection products. Over more than 30 years, Minelab has introduced more innovative and practical technology than any of our competitors and has taken metal detection technology to new levels of excellence.**

Minelab employs the largest and world's best metal detection research and development team, developing technologies that are consistently superior to those of our competitors. Our new products, including the latest coin and treasure detector to join the Minelab portfolio, the VANQUISH®, with Multi-IQ technology, are a reflection of the world-leading engineering development that is undertaken at Minelab.

The decision to establish a sales and distribution hub in Brazil is continuing to prove successful. In 2020 we further invested in our Brazil office with additional staff employed and the establishment of a large dealer network. Sales into Latin America have primarily been driven by the gold market, however we have also recently added the coin and treasure detector range to the portfolio with initial success.

## Recreation – all targets, all soils, all the time

Minelab was built on the success of selling metal detectors into the developed economies of Australia, North America, Europe and Russia. Our customers' interests range from metal detecting as an interest, as a hobby and passion, as a sport, or in some cases, as a source of income.

Our comprehensive range includes gold detectors for prospectors and coin and treasure detectors used to find jewellery and artefacts. This part of the business represents a significant portion of the total Minelab business and has continued to grow from strength to strength as we release new and improved technology and products into this market.

Contributing to this growth was the launch of the VANQUISH® coin and treasure detector. Released in the first half of FY20, the VANQUISH® is an introductory simultaneous multi-frequency detector, (Multi-IQ technology), with a recommended retail price of US\$199 to US\$499. With this entry level price point we have expanded our presence into the North American retail segment with these detectors now available in over 900 "big box" retail stores across North America, driving solid brand awareness and increasing exposure to new consumers.

We have continued to experience growth with the EQUINOX® Multi-IQ simultaneous multi-frequency detector in its second full year of sales. EQUINOX® has become the machine of choice for detectorists around the world. As more detectors are used in the field and the true performance of the detector across various ground conditions is experienced, more demand has resulted, with flow on share gains in the segment.



## Small-scale gold mining – striking gold

Minelab's world-leading gold detection technology continues to revolutionise the way small-scale gold miners around the world prospect for gold. Artisanal mining areas around the world tend to have relatively young populations and, coupled with high unemployment rates, lends itself to the expansion of artisanal small-scale miners in gold bearing regions.

These small-scale gold miners have previously used traditional and often environmentally damaging mining techniques to find gold. Minelab's metal detectors are changing the way gold is found by these miners. Minelab's detectors add accuracy and efficiency to finding and extracting gold, and deliver a rapid return on investment to the user.

With direct presence now in Dubai and Brazil we are closer to many of our artisanal mining customers and markets which has allowed us to strengthen and support our distribution channels and broaden our customer base. Our team offer a high level of product training and support to our extensive dealer networks so they can in turn pass this onto their end users to help get the best performance from their detectors. This training also enables us to establish regional accredited service centres with trained technicians to provide maintenance and technical support for our end users.

Minelab will soon release a new GPX® detector which introduces an ease of use technology, GeoSense Pulse Induction, and will sit within the premium end of our gold detector product portfolio.





## Countermine – all mines, all soils, all conditions

Minelab's detectors are widely recognised for locating landmines and explosive remnants of war as well as the detection of improvised explosive devices (IEDs). The Countermine business is strategically important to Minelab, with the continual development of leading-edge technology and products to increase our global market share.

Since the successful launch of the dual sensor (metal detection and ground penetrating radar) MDS-10® in FY19, the product has undergone comprehensive accredited international trials, proving it is an exceptional dual sensor detector with sales made to allied international militaries.

Utilising the same metal detection technology as used by the metal detector sensor in the MDS-10®, the MF5™ will be released as our new dedicated Countermine detector in FY21. We have successfully tested MF5™ prototypes with international militaries and both products are now well placed to secure significant contracts against their competition.

Minelab's Countermine detectors are manufactured in Adelaide and are supplied to humanitarian demining non-government organisations, militaries and commercial demining companies across the globe.



**ALL MINES. ALL SOILS.  
ALL CONDITIONS.**





The trusted global leader in humanitarian demining, UXO clearance and countermine operations, Minelab mine detectors can be found in service in more than 55 countries around the world through partnerships with NGOs, commercial demining companies, the United Nations and individual nation state militaries. Minelab recently released their newest ground search detector, the MDS-10®.

The MDS-10® is a dual sensor detector with unique Metal Detection (MD) and Ground Penetrating Radar (GPR) technologies to provide superior results in the detection of metal and non-metal targets utilising Minelab's Simultaneous Multi-Frequency Digital technology and Chemring's proven Ultra WideBand Impulse Radar. This combination is engineered to detect all conductive and non-conductive targets of interest in varied soil conditions and operating environments.

The MDS-10® is easy to operate — even with one gloved hand. The 3.5 inch waterproof and shockproof QVGA display, compatible with night vision goggles, delivers optimal performance during tactical operations.

Minelab's engineering team were presented with the EIDA Electronics Industry Excellence Awards at the World Electronics Conference for New Product Design of the MDS-10® based on both the superior design as well as the significant technical innovation.

*This detector has an excellent metal detector and demonstrated superior detection of high/low metal and non-metal conductive targets and long wires... The MDS-10® provides an intuitive and easy-to-use interface providing graphical indications of both GPR and metal detection. The MDS-10® requires limited number of user settings for optimum operation and at 6.1 pounds, it is considered light and compact for the capability provided. The training burden for this system is expected to be low due to the systems ease of use.*

**Extract from the Sub-Surface Ordnance and Improvised Explosive Device Locator (SOIL) Assessment Report prepared by the US Naval Surface Warfare Center.**



**Codan Communications is a leading international provider of premium communications solutions for Tactical and Land Mobile Radio (LMR). Our mission is to provide communications solutions that allow our customers to be heard so that they can save lives, protect assets, ensure security and support their local needs. With more than 60 years in the business, Codan Communications has earned a reputation for quality, reliability and customer satisfaction, producing innovative and industry-leading technology solutions.**

With deployments in more than 150 countries, Codan Communications continues to enhance its world-class product and solutions design, development and implementation capability. Our focus is firmly on delivery to our customers as we enable them to be heard in the most testing conditions in the moments that matter.

**Tactical Communications** serves worldwide defence, peacekeeping, humanitarian, commercial, security and public safety markets.

**Land Mobile Radio** serves worldwide security, public safety, and commercial markets.

## FY20 Summary

As a result of record sales in both Tactical and Land Mobile Radio markets, the Communications division achieved unprecedented revenue of \$104 million, with both markets recording their largest contracts in the history of Codan.

### Tactical Communications

- Expanded market share in the defence market by the successful launch of Sentry® Software Defined Manpack
- Delivered multiple large scale system programs
- Successfully renewed NGO contracts
- Grew revenue and demand for our in-country services and training
- Diversified and grew sales by broadening our solution offering

### Land Mobile Radio

- Significantly progressed the Cascade™ LMR solution for planned release in FY21
- Introduced CodanCare service for LMR customers
- Record sales year; won a number of communication systems orders growing the business in this area

## FY21 Objectives

### Tactical Communications

- Continue to deliver on our strategy of diversifying and growing sales by broadening our solution offering
- Continue to expand market share in the defence sector, and security communication markets
- Expand our range of solutions, by addressing the real world challenges experienced by our customers in key areas of interoperability, situational awareness, and secure voice and data communications
- Focus on continuing to grow our in-country services, training and customer support

### Land Mobile Radio

- Continue transition to a systems provider in the public safety communications market
- Deliver on Cascade™ LMR solutions
- Explore strategic opportunities to diversify and grow sales in the public safety market

Tactical Communications experienced another year of strong growth in its core defence and security markets after successfully expanding into the US funded foreign aid communications market, and significant contract wins from its Asia Pacific, Middle East and African defence-based customers.

During FY20, we delivered our largest order on record to an African security and defence customer and won a significant US funded Security Assistance Program in the Middle East.



Our Tactical Communications strategy continues to focus on expansion into the defence and security markets, through the provision of complete communication solutions that leverage an agile and highly advanced software defined platform. Our software defined platform is a future-proven investment, allowing adaptation for upcoming tactical waveform requirements and providing sustainability and interoperability that is further strengthened by our in-country service, training and customer support.

LMR sales increased markedly in the state and local market with the successful deployment of systems into North Carolina, New York, Oregon and Washington. During FY20, we shipped our first release of Cascade™ to key customers in New Mexico. In June we signed our largest contract to date with Coos County, Oregon.

Our LMR strategy continues to be the pursuit of larger-project systems business while building a compelling services portfolio sustaining long-term growth. This is enabled by the FY21 release of our new Cascade™ software defined networked communications solution, an interoperable first-responder solution with excellent performance at a competitive price point in the North American market.





# A MOUNTAINOUS NEED FOR RELIABLE COMMUNICATIONS

Reliable communication network plays vital role in delivering one-of-a-kind adventures and supporting public safety.

## THE CHALLENGE

Sun Valley Heli Ski's (SVHS) business involves helicoptering skiers in and out of isolated mountain peaks, so when they began experiencing outage, coverage, and reliability issues, it hired Tajkowski Technical Planning to find a solution. Tajkowski did a complete system audit and evaluation which uncovered myriad issues that led to the unreliable communications.

## THE RESULT - A NETWORK THAT EXCEEDS EXPECTATIONS

The customer decided to decommission its old system and install Codan. The Codan MT Series is designed to provide reliable coverage in challenging terrains – ranging from freezing, snow-filled mountaintops to scorching deserts.

The Codan repeaters were installed on the mountaintop to support person-to-person communications between all parties, including the helicopter crew, those back at headquarters, guests and the SVHS guides on the ground.

The main radio/repeater is located in a shelter that sits at 10,000 feet and is powered by a DC solar power plant. With temperatures commonly dropping to -40°F, the equipment has to be robust enough to withstand this.

SVHS also uses the Codan transportable repeaters at various locations to extend coverage when needed. These are flown via helicopter to the top of peaks and placed in areas that support the broadest possible coverage range.





## A BIG INVESTMENT IN PUBLIC SAFETY

SVHS's Codan network is so robust that it plays a dual role. It is used both for SVHS operations and also for search and rescue.

"We wanted a public safety grade network so we can assist government agencies with life-saving missions," says Tajkowski. "Using Codan," he continues, "when there is an emergency, we have full radio interoperability with public safety teams from state and local governments. And because of our state-of-the-art helicopters, we are often the first choice when transporting responders to the scene."

*Codan sells solutions, not products. My business isn't about building standard radio systems. I design mission-critical special application radio systems. And when I talk to Codan, I'm talking to engineers who help me find many ways to overcome network challenges.*

**Sean Tajkowski,  
Tajkowski Technical Planning**

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, allowing miners to visualise the whole mine in order to optimise productivity and enhance safety. This technology is now integrated into the Caterpillar MineStar® for Underground solution and available through the Caterpillar global dealer network.

The enhanced MineStar® for Underground solution now combines a range of safety and productivity capabilities to our customers:

#### Safety:

- Proximity awareness; increased visibility of machines and vehicles
- Traffic management; control of physical access within congested areas
- Proximity detection; audio and visual alerts of machinery, vehicles or other miners in close proximity
- Collision avoidance; the ability to automatically slow or stop a vehicle in response to nearby threats

#### Productivity:

- Machine data; provision of real-time data to support production and maintenance planning
- Development, production and maintenance scheduling; automated shift planning for underground operations
- Short interval control; the ability to modify the shift plan in real time

These capabilities are now integrated into MineStar® for Underground software system branded as Caterpillar Fleet, Detect and Health.

#### FY20 Summary

- Achieved general availability of MineStar® for Underground software solutions; for stope and block cave mines
- Won contract for Newmont's Tanami stope mine in Northern Territory
- Completed final product validation for a large block cave mine in Indonesia
- Completed production readiness of the software for the BHP Olympic Dam project; this validates our ability to deploy at scale
- Further integrated Minetec's engineering team into the Caterpillar business, allowing for a restructure of Minetec's cost base

#### FY21 Objectives

- Quantify the productivity and safety improvements from deploying the MineStar® for Underground solution at key reference sites
- Secure new customers through the Caterpillar global dealer network – targeting Australia, North America and Latin America
- Transfer legacy Minetec customer sites to Caterpillar management, with Minetec continuing to provide expert technical support
- Return Minetec to profitability

Our strategy for Minetec continues to focus on working with Caterpillar in order to leverage their global distribution network. We are continuing our transition to become a software systems business: developing, delivering and supporting technology solutions to Caterpillar and their end user customers.



*We are continuing our transition to become a software systems business; developing, delivering and supporting technology solutions to Caterpillar and their end user customers.*





Codan has assessed our ESG (Environmental, Social, Governance) risks and opportunities and presented them below. The Board Audit, Risk and Compliance Committee has endorsed the content within this report, which was compiled with the contribution of various leaders across the business.

## ENVIRONMENTAL



Codan is conscious of our impact on the environment during the manufacture, distribution, use and disposal of our products. We maintain an effective Work Health, Safety and Environmental Management System that is integral to our business processes and are accredited to OHSAS 18001 and AS/NZS 4801 Occupational Health and Safety Management Systems and AS/NZS ISO 14001 Environmental Management Systems.

Codan has adopted stringent testing and quality control procedures. It is accredited to AS 9100 Quality Management System – Requirements for Aviation, Space and Defence and maintains quality assurance systems approved to International Standard AS/NZS ISO 9001. Codan's commitment also extends to our supply chain. Our two largest suppliers, Plexus Corp and Venture Corporation Limited, comply with ISO 9001 Quality Management Systems and ISO 14001 Environmental Management Systems. We partner with suppliers who meet stringent quality standards, are innovative and work in safe and responsible ways.

As part of our ISO certification process, we continually review and update our business risk management register, and conclude that we do not have any significant environment risks. We consider our potential environmental incidences could range from a dangerous chemical spill that requires notifying the EPA, to a noise complaint from neighbours. In FY20 we reported no environmental incidences.

Our global head office located in the Technology Park precinct at Mawson Lakes, South Australia, houses around 240 Codan, Minelab and Minetec staff, and is currently awarded a 4.5 star Nabers energy rating, which exceeds the minimum 4 star requirement.

*Solar panels at head office reduced our energy consumption by 25% in the last six months.*

Codan products are RoHS (Reduction of Hazardous Substances) certified. The goal of RoHS is to reduce the environmental effect and health impact of electronics. The legislation's primary purpose is to make electronics manufacturing safer at every stage of an electronic device's life cycle. Codan products are also fitted with a WEEE (Waste Electrical and Electronic Equipment) sticker which encourages consumers to dispose of the product thoughtfully when at the end of its lifecycle.

*Head office is fitted with multiple recycling stations and organic waste bins in staff kitchen areas to enable sustainable disposal of organic materials.*

Codan has a low carbon footprint with the exception of air travel, which has been essential given our global sales footprint. Current COVID-19 restrictions have prompted a business review of our reliance on air travel and we are working through some options to reduce this reliance when restrictions ease.





## SOCIAL

### Our People and Values



Can-Do



High Performing



Customer Driven



Openness & Integrity

Codan's core values are a shared set of values that shape our company culture and ultimately enable us to achieve our organisational goals.

Our core values are embodied in the strong culture of our organisation. We strive for our values to help guide our day-to-day decisions and provide the framework for not only what we do, but more importantly, how we do it.

Our company's core values underpin our core purpose of delivering superior shareholder value by growing a lasting and innovative organisation that consistently creates outstanding customer experiences.

Codan seeks to employ individuals who align to and genuinely relate to our core values, and encourages all staff to help bring these values to life through their everyday interactions with one another. We hold all of our staff accountable to our values and, most importantly, our senior leaders of the business, who play a significant part in shaping our core values.

Commencing in 2019, Codan partnered with Next Level Elite, a South Australian organisation which supports athletes in broadening their professional goals to make the most of their athletic success. As part of the athletes' tailored mentoring program, which includes topics such as leadership and media training to life beyond sport, athletes presented their unique stories to Codan staff. Each athlete spoke about how they personify a specific Codan Core Value, such as "Can-Do" or "High Performing". This program has proven to be mutually beneficial for both Codan staff and the athletes involved. Staff feedback from these sessions has strongly suggested that this should be a continuing arrangement.

## COVID-19 RESPONSE

In light of the recent worldwide pandemic, COVID-19 has tested our resilience and ability to respond quickly to modify our way of working. The below measures were implemented by the business to not only support staff but also seamlessly continue our business operations:

- ✓ Codan's IT department responded swiftly to ensure staff were equipped to work from home as quickly and efficiently as possible;
- ✓ Codan released a 'COVID-19 staff check in survey'. With an 82% participation rate, the results were overwhelmingly positive with company confidence at 90%, and 98% of staff felt supported by the company during this time;
- ✓ HR held numerous focus groups across varying parts of the business to capture any learnings from our modified way of working, with two of the main considerations under review being a Working From Home policy, and future travel assessment requirements;
- ✓ Mental health and wellbeing training facilitated by external psychologists was offered to all employees. These sessions focussed on self-care and resilience in the workplace, as well as additional training for managers to look out for any early warning signs if members within their team were suffering, and what next steps to take.

## WORKPLACE, HEALTH & SAFETY



Codan is committed to a philosophy of zero harm for all staff in all areas of the business, and we are particularly conscious of exposing employees to critical risk, especially with respect to those travelling to remote locations. As such, Codan engages experts to ensure the safety and welfare of its travellers.

*Codan has not had a lost time injury in the last three financial years.*

*Codan's latest culture survey included an inaugural safety section. After reviewing staff feedback, we've taken additional steps in FY20 to increase safety communication, and to encourage all staff to report all incidences and near misses.*

We are working on a training module to improve safety awareness across the group sites, and undertaking an audit against our legislative requirements for consultation and communication.



## SOCIAL RESPONSIBILITY



Being a socially conscious and responsible organisation is a part of Codan's corporate identity. We endeavour to foster a sense of awareness through our charity programs. We administer this through our Sponsorships & Charity Committee. We are an avid supporter of a number of charities, via numerous initiatives such as direct sponsorship dollars and product donations, charity events and providing employees with time away from work to volunteer.

Proudly Supporting



Codan is a long time proud supporter of Variety – the Children's Charity, with 2020 marking our 32nd year of sponsorship. Specifically Codan is a Gold sponsor of the Variety Bash, Australia's largest and longest running charity motoring event through the Australian outback. Throughout the Variety Bash, participants visit local towns, stopping into schools and organisations to present grants and visit the children. Codan participates in the event with our own Variety Bash vehicle, and encourages local and international employees to be part of the annual eight day event. Codan oversees the radio communications in the lead up to the event as well as manning the control centre to facilitate the communication and tracking of all official vehicles, mobile workshops and mobile doctors, for a safe and successful Variety Bash. Codan employees conduct site surveys ahead of the Variety Bash to ensure the remote site provides reliable communications along the Variety Bash route, as well as provide HF radio operator training, assist with radio installations and attend Variety Bash meetings.

*The Variety Bash truly feels like a once in a lifetime experience. Not only did we get to travel through some remote and beautiful parts of South Australia, but the focus was always brought back to the brilliant work that Variety do for the kids in need, living in these remote communities. It is heart-warming to see firsthand how Variety improves the lives of these children.*

**Rory, Bash participant**

After Australia experienced one of the most devastating bushfire seasons throughout the summer of 2019/2020, Codan has assisted the South Australian Country Fire Service (CFS) in preparation for the upcoming bushfire season. In June, Codan donated five HF SDR Manpacks with all the latest features and capability, alongside five VHF transportable repeaters with UHF Links. Codan is ready to assist the CFS with configuration and operational training. This equipment will offer CFS volunteers improved communications and safety during extended operational incidents.

As part of Codan's response to assist NGOs on the ground in Africa in their COVID-19 relief efforts, Codan has made communications product donations to various organisations to support their work.



*A sign of appreciation from staff at The Hutt Street Centre*

An employee led fundraising drive to raise much needed funds for the Hutt Street Centre, located in Adelaide, South Australia, resulted in a combined effort from Codan, our employees, suppliers and customers, raising enough funds to provide more than 30,000 freshly prepared, hot, nutritious meals for people experiencing homelessness.

## EMPLOYEE ENGAGEMENT



Codan continues to focus on growing our own future leaders and building capability by providing all employees with high-quality learning experiences and development opportunities. In the last three financial years, we have spent 1% of our staff costs on education and training. This included a number of senior and up and coming leaders attending a two day workshop on "Building High Performance Teams". In FY20, we rolled out an online Learning Management System (LMS) platform which houses various mandatory and optional training content for all staff to access.



In building our future capability, Codan also partners with the Australian Industry Group Training Services (AIGTS) to offer selected candidates a four year apprenticeship within our head office at Mawson Lakes. This has been a mutually beneficial program for Codan and the individual with some of these past apprentices now joining our "20 years of service" club.



Codan tests its culture through biennial employee culture surveys.

*Our most recent survey in 2020, [which had an 89% participation rate] revealed that 90% of staff agreed they would recommend Codan as a great place to work, and are proud to work for Codan.*

The overall engagement score also increased 10% to 78%.



The mental health and wellbeing of our staff is of the utmost importance, and to encourage this our staff have access to confidential counselling support, as well as an onsite gym at head office, employer funded fitness challenges such as Corporate Cup, 10,000 daily step challenge, and Adelaide's City to Bay fun run.



The in house café located at our head office premises provides Codan-subsidised meals. This staff benefit encourages our people to get away from their desks and mingle with others and to enjoy our canteen and courtyard facilities.



The "Stark Tower" meeting room is configured with dual AV, phone, game console, child-friendly games and toys such that a child can be brought to work and staff are able to work in the room at the same time.





## WORKPLACE DIVERSITY



Codan is committed to promoting a culture that supports the development of and embraces a diverse mix of employees throughout all levels of the organisation.

Codan recognises that our success is directly related to our people. Our people reflect a growing diversity, with different gender, ages, family status, cultures, ethnicities, and religions represented among our employees. Research shows that a diverse workforce is strongly linked to high performing teams, and we see evidence of that at Codan through innovation, product development and our global workforce.

Codan's purpose to "deliver innovation wherever you are", can only be achieved through the wide range of talent, experience, skills and perspectives of our employees. We recognise that this is reinforced by ensuring that our diversity is reflected throughout all levels of the organisation.

Codan continues to monitor our diversity profile, review our recruitment and development processes and challenge ourselves to understand our employees better, so that all of our employees have the ability to succeed and meet their potential. Codan is committed to sustaining an inclusive environment where our people feel part of the team and contribute to Codan's wider success.

In 2020 we updated both our Diversity and Inclusion and Parental Leave Policies, with the inclusion of paid parental leave for both the primary and secondary caregiver. One of our FY21 objectives is to increase the percentage of female applicants for technical and leadership roles. We have a number of strategies in place to achieve this.

Gender representation	30 June 2020		30 June 2019	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	20%	80%	20%	80%
Senior executive representation	0%	100%	0%	100%
Senior management representation	30%	70%	30%	70%
Group representation	26%	74%	26%	74%
<b>Total</b>	<b>27%</b>	<b>73%</b>	<b>25%</b>	<b>75%</b>

## CORPORATE GOVERNANCE

Codan's corporate governance statement, which was approved by the board on 19 August 2020, is available on the company's website and may be accessed via the following URL:

<https://codan.com.au/who-is-codan/corporate-governance/>

### Compliance



Fraud, anti-bribery and anti-corruption (ABAC) remains a material topic for our business, as we acknowledge some of our businesses operate in high risk environments. Codan finalised a formal review of our ABAC program in FY20, and implemented a number of initiatives to further strengthen our program including more tailored training for high risk roles, defined the acceptable use of gratuities, and a risk-driven third party due diligence program. We can confirm the program remains fit for purpose and in line with good anti-bribery compliance programs.

*We are pleased to report in FY20 there were zero violations of our ABAC Policy, and we maintain an internal target of zero violations for FY21.*

As part of Australia's new Whistleblower legislation, Codan has formalised a Whistleblower Protection Policy. Employees can report misconduct concerns either internally, or anonymously by accessing the confidential, externally managed hotline. There were no reports to the hotline in FY20.

Codan has recently issued all staff with mandatory training courses for completion to create awareness of our updated ABAC Policy and Whistleblower Program, with a target for 100% completion by the end of the 2020 calendar year.

Codan has also implemented a Modern Slavery Policy following on from the introduction of Australia's Modern Slavery Act 2018. We have recently conducted the KPMG Modern Slavery Benchmark which provided Codan with a self-assessment report with results and recommendations, to be implemented throughout FY21, including tailored Modern Slavery training for our purchasing team.

The revised ABAC, Whistleblower and Modern Slavery Policies can all be found on our website.

### Cyber Security



As a global technology company, safeguarding our intellectual property and confidential information is paramount to maintaining trust with our customers, suppliers and partners. Codan is compliant with the legal and regulatory frameworks pertaining to data security and protection for all of our global locations.

As the probability of cyber-attacks increase and become more complex, Codan has adopted a risk-based framework to protect our assets. Cyber risks are regularly reported to the Codan Board and Board Audit, Risk and Compliance Committee. Relevant organisational policies and standard operating procedures are in place and are regularly reviewed to ensure they remain commensurate with the external risk.

During FY20 Codan completed penetration testing and regular vulnerability assessments to highlight potential system vulnerabilities. Codan also undertook an ethical hacking "Red Team" assessment to test our physical, digital and social engineering controls. This also allowed Codan to test our security monitoring systems and incident response plans in response to a simulated cyber-attack.

*In FY20, Codan had no known major security incidents regarding the loss of confidential information or intellectual property.*

#### FY20 Highlights

- Systems implemented to reduce time to detect and respond to cyber incidents
- Implemented systems and technologies to strengthen the way we access information and systems
- Introduced additional employee cyber-awareness programs across all global locations

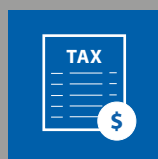
#### FY21 Priorities

- Increase awareness and cyber security programs
- Implement additional technologies to further segregate our assets





## Tax



Codan conducts its tax affairs within a robust risk management policy and framework. Under this framework, we approach our dealings with taxation authorities globally with transparency and integrity, maintaining a conservative approach to tax risk management. As most of the activities and assets which generate our income are in Australia, Codan pays the majority of its taxes here.

In 2020, we paid \$17.2 million corporate tax in Australia, or 97% of our global tax contribution. As a result, our shareholders are able to benefit from the generation of Australian franking credits, notwithstanding that a high proportion of our sales are to overseas customers. Our global effective income tax rate was 28% in 2020, slightly lower than the Australian corporate tax rate of 30%. This difference is due mainly to the tax incentives available in Australia and Canada for the extensive research and development activities that the group undertakes.



## DAVID SIMMONS

BA (Acc)

Chairman, Independent Non-Executive Director  
Chair of Remuneration and Nomination Committee

David was appointed by the board as Chairman in February 2015 and has been a director of Codan since May 2008. He has extensive financial and general management experience, having worked in large, diversified businesses throughout his career, including as Managing Director for 16 years of a then large Australian-based publicly listed company.



## DONALD MCGURK

HNC (Mech Eng), MBA, FAICD, Harvard AMP

Managing Director and Chief Executive Officer

Donald was appointed to the board as a director in May 2010, and was appointed as Managing Director in November 2010. Donald joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. In addition to his manufacturing role, from 2005 to 2007 Donald held executive responsibility for sales of the company's communications products, and from 2007 to 2010, executive responsibility for the business performance of the company's HF radio products. Donald came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries. Donald holds a Masters Degree in Business Administration from The University of Adelaide and completed the Advanced Management Program at Harvard University in 2010.





#### **PETER LEAHY AC**

BA (Military Studies), MMAS, GAICD  
Independent Non-Executive Director

Peter was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37-year career and six years as Chief of Army. His distinguished service was recognised with his 2007 appointment as a Companion of the Order of Australia. Since leaving the Army, he has been appointed as Professor and Foundation Director of the National Security Institute at the University of Canberra. He has been a director of Electro Optic Systems Holdings Limited since May 2009 and a director of Citadel Group Limited since June 2014. Peter is a member of the Advisory Board to China Matters and is a technical advisor to WarpForge Limited.



#### **GRAEME BARCLAY**

MAICD, F Fin, CA, MA (Hons)  
Independent Non-Executive Director

Graeme was appointed to the board in February 2015. He has more than 30 years of international business experience in professional services, broadcast and telecommunications, and extensive knowledge of business in the communications services, technology and infrastructure markets. He was Group Chief Executive Officer of the Broadcast Australia group for 11 years, following three years as Chief Financial Officer and Chief Operating Officer, retiring in April 2013. In his time with Broadcast Australia, the business grew domestically and expanded internationally, and diversified into private networks, transit location communications and data-centre operation and managed hosting services. From July 2010 until September 2013, he was Chairman of Transit Wireless LLP, which has the exclusive rights to install and operate cellular and Wi-Fi systems in the New York subway. From 2002 to 2009, he was an executive director in Macquarie Group's infrastructure team and was involved in several acquisitions and capital-raising transactions for the then listed Macquarie Communications Infrastructure Group. From 2014 to 2018, he was Chairman of the Nextgen Group that successfully divested the Nextgen Networks and Metronode data-centre businesses in 2016 and 2018 respectively. He is currently Chairman of Uniti Group Limited and was a non-executive director of BSA Limited from June 2015 to December 2019. Graeme is a chartered accountant, holding membership of the Institute of Chartered Accountants of Scotland and of Chartered Accountants Australia and New Zealand.



#### **KATHY GRAMP**

BA (Acc), CA, FAICA, FAICD  
Independent Non-Executive Director  
Chair of Board Audit, Risk and Compliance Committee

Kathy was appointed to the board in November 2015. She has had a long and distinguished executive career and over 21 years of board experience across a diverse range of Australian organisations and industry sectors. She has had exposure to international markets and has a wealth of experience in corporate finance at both strategic and operational levels. In 1989, Kathy joined Austereo Ltd, Australia's largest commercial radio network, at a senior corporate level, and her career with Austereo spanned 22 years. As Chief Financial Officer and a member of the Executive Committee, she was closely involved in Austereo's national and international expansion and its successful move into digital and online radio. Kathy is a director, Chair of Audit & Risk and member of the Remuneration and Nomination Committees of Uniti Group Limited, a chartered accountant and a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants Australia and New Zealand. Kathy was a director, Chair of Audit & Risk and a member of the Remuneration Committee of Godfreys Group Limited from January 2018 to May 2018 and has significant audit committee experience.


**DONALD MCGURK**

HNC (Mech Eng), MBA, FAICD, Harvard AMP  
Managing Director and Chief Executive Officer

Donald is a motivator of people, with extensive knowledge and experience in the areas of change management and strategy formulation.

Donald joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. From 2005 to 2007, he also held executive responsibility for sales of the company's communications products and, from 2007 to 2010, executive responsibility for the business performance of HF radio products.

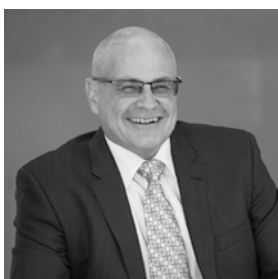
Donald was appointed to the board as a director in May 2010 and became Managing Director in November 2010.

For more details of Donald's qualifications and experience, please see page 32.


**MICHAEL BARTON**

BA (Acc), CA  
Chief Financial Officer and Company Secretary

Michael joined Codan in May 2004 as Group Finance Manager and was appointed Company Secretary in May 2008. In September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary and is responsible for financial control and reporting across the Codan group. He holds a Bachelor of Arts in Accountancy from the University of South Australia and is a member of Chartered Accountants Australia and New Zealand.


**PETER CHARLESWORTH**

BEEEng (Hons), MBA, GAICD, Harvard AMP  
Executive General Manager, Minelab

Peter brings extensive knowledge and experience to Codan from more than 30 years in the electronics industry, including more than 17 years at Codan and formerly in management and technical roles at Tenix Defence and Vision Systems.

Peter joined Codan in December 2002 as General Manager of Engineering and subsequently held various roles including New Business Manager and HF Radio Business Development Manager. He was appointed Executive General Manager of Minelab in 2008, following its acquisition by Codan in that same year.

Peter holds a degree in Electrical and Electronic Engineering with First Class Honours, and a Masters of Business Administration, both from The University of Adelaide. He is also a Graduate Member of the Australian Institute of Company Directors and completed the Advanced Management Program at Harvard University in 2014. He was Chairman of the Technology Industry Association from 2006 to 2011 and was on The University of Adelaide ARI Advisory Board from 2009 to 2015.





### **SCOTT FRENCH**

BSc

Executive General Manager, Land Mobile Radio

Scott was appointed to the role of Executive General Manager, Land Mobile Radio in February 2019 and is based in Victoria, British Columbia.

Scott came to Codan highly recommended for his lateral thinking, strategic approach to business and for his strong leadership. He brings a wealth of experience gained from almost 30 years with world-class organisations such as Motorola, Panasonic and Zetron. During his time at Motorola, Scott made the transition from engineering leadership to overall go-to-market leadership for several lines of business, helping to transform Motorola into a solutions provider beyond land mobile radio (LMR). Throughout his journey, Scott gained a high-level appreciation of LMR technology, solutions, services and associated markets. At Panasonic, he continued his leadership by transforming the company from product to solutions sales, with focus on mobile devices and security, before assuming the role of General Manager, Americas for two years with Zetron, a command and control company.

In addition, Scott served as Vice Chairman on the state and local board of directors of TechAmerica, representing both Motorola and Panasonic, and was also the Chair of the State and Local Government and Education Executive Council of IT Alliance for Public Sector.

Scott holds a Bachelor of Science in Industrial and Systems Engineering from Virginia Tech, and undertook MBA studies with a focus on leadership at Loyola University Maryland.



### **RORY LINEHAN**

BSc (Hons), MSc, PhD, Harvard AMP

Chief Technology Officer, Codan and Executive General Manager, Minetec

Rory brings a unique mix of technical knowledge, diverse commercial skills and broad experience to Codan, delivering insightful leadership across the business.

He joined Codan in March 2014, working across the group to leverage technology and innovation in developing strategies for growth. In February 2019, he was appointed to the role of Chief Technology Officer and leads the company's Technology Council to maximize synergies across the Codan group and assess new opportunities for organic and acquisitive growth. In addition to this group role, Rory is Executive General Manager of Minetec.

Rory holds degrees in Physics and Engineering and a PhD in Mathematics from Coventry University (UK). In November 2018, Rory completed the Harvard Business School Advanced Management Program (AMP). He has skills in strategy, marketing, business development, systems engineering and programme management gained across a wide range of complex projects, including development of the Boeing 787 primary flight-control system.

Prior to Codan, Rory held a number of senior positions with blue-chip firms in the UK, including McLaren, Cobham and Goodrich.



### **PAUL SANGSTER**

BS, Chicago Booth AMP

Executive General Manager, Tactical Communications

Paul joined Codan in 2013 as the Vice President and General Manager of Business Development for the Communications Division and brings over 20 years of progressive experience in communications and surveillance solutions. He was appointed Executive General Manager of Codan Tactical Communications in 2017.

Prior to Codan, Paul spent 12 years at Cobham Tactical Communications and Surveillance as the Vice President of Sales and Marketing.

Paul holds a Bachelor of Science in Management Studies from University of Maryland, Global Campus. He also completed the Executive Development Program and the Advanced Management Program at University of Chicago's Booth Business School.

# FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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# DIRECTORS' REPORT

The directors present their report together with the financial statements of the group comprising Codan Limited ("the company") and its subsidiaries for the financial year ended 30 June 2020 and the auditor's report thereon.

## Directors

The directors of the company at any time during or since the end of the financial year are:

**David Simmons**

**Donald McGurk**

**Peter Leahy AC**

**Graeme Barclay**

**Kathy Gramp**

Details of directors and their qualifications and experience are set out on pages 32 to 33.

## Company Secretary

**Mr Michael Barton** BA (Acc), CA

Michael joined Codan in May 2004 as Group Finance Manager and was appointed Company Secretary in May 2008. In September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary and is responsible for financial control and reporting across the Codan group. He holds a Bachelor of Arts in Accountancy from the University of South Australia and is a member of Chartered Accountants Australia and New Zealand.

## Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year are set out below:

	Board meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration and Nomination Committee meetings	
Director	A	B	A	B	A	B
Mr D J Simmons	10	10	4	4	2	2
Mr D S McGurk	10	10				
Lt-Gen P F Leahy	10	10			2	2
Mr G R C Barclay	10	10	4	4	2	2
Ms K J Gramp	9	10	4	4		

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

## Remuneration Report – Audited

### Principles of remuneration

Key management personnel comprise the directors and executives of the group. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the group.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced executives. The Remuneration and Nomination Committee has reference to trends in comparative companies both locally and internationally and may obtain independent advice on the appropriateness of remuneration packages.

Remuneration packages include a mix of fixed remuneration and performance-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to achieve the broader outcome of increasing the group's net profit. The remuneration structures take into account:

- the overall level of remuneration for each director and executive;
- the executive's ability to control the relevant segment's performance; and
- the amount of incentives within each key management person's remuneration.



In recent years, the Remuneration and Nomination Committee have made a number of changes to the structure of executives' remuneration packages to ensure alignment with shareholders' interests. These changes have been:

- reduction of short-term cash incentives from 60% of fixed salary to 50%;
- increase of long-term share-based remuneration from 40% of fixed salary to 50%;
- introduction of a "good leaver" clause in the long-term incentive structure so that 10% of any shares issued remain restricted and subject to Board cancellation for a period of 12 months after the executive's employment ceases with the company.

Short-term incentive plans are based on the achievement of performance hurdles which relate to the profitability delivered by our business segments and the group. For a business unit executive, the short-term incentive is split between the group results and the performance of the business unit. Group level executives are measured on group profit. The short-term incentive targets are set by the board each year based on a percentage of the budget which is approved by the board. For example, in FY20, the profit target used for group incentive calculation purposes was 16% higher than the FY19 target. The short-term incentive payable to certain executives may relate to the qualitative performance of the executive against

objectives agreed as part of the budget and strategic planning processes.

For FY20, the short-term incentive payable to executives was based on 50% of the executives' fixed salary inclusive of superannuation, but can exceed this level if performance hurdles are exceeded, subject to a cap equal to the executive's fixed salary.

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2020 the above performance-linked remuneration structure was appropriate.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2010 AGM, is not to exceed \$850,000 per annum. Non-executive directors do not receive any performance-related remuneration nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees.

## Service contracts

It is the group's policy that service contracts for key management personnel executives are unlimited in term but capable of termination on three to six months' notice, and that the group retains the right to terminate the contract immediately by making payment in lieu of notice. The group has entered into a service contract with each key management person.

The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, as well as any entitlement to incentive payments and superannuation benefits.

## Performance rights

At the 2004 AGM, shareholders approved the establishment of a Performance Rights Plan (Plan). The Plan is designed to provide nominated executives with an incentive to maximise the return to shareholders over the long term, and to assist in the attraction and retention of key executives.

The number of performance rights issued represents 50% of the nominated executives' fixed pay divided by the volume weighted average of the company's share price in the five days after the release of the group's annual results. For executives not participating in the performance rights plan, other benefits may be offered to encourage long-term performance.

Details of performance rights granted to executives during the year are as follows:

	Number of performance rights granted during year	Grant date	Average fair value per right at grant date (\$)	Exercise price per right (\$)	Expiry date	Number of rights vested during year
<b>DIRECTORS</b>						
<b>Mr D S McGurk</b>	63,647	15 November 2019	5.12	–	30 June 2023	–
<b>EXECUTIVES</b>						
<b>Mr M Barton</b>	33,509	15 November 2019	5.12	–	30 June 2023	–
<b>Mr P D Charlesworth</b>	41,431	15 November 2019	5.12	–	30 June 2023	–
<b>Mr S A French</b>	42,696	15 November 2019	5.79	–	30 June 2023	–
<b>Mr R D Linehan</b>	40,618	15 November 2019	5.12	–	30 June 2023	–
<b>Mr S P Sangster</b>	35,996	15 November 2019	5.12	–	30 June 2023	–

## DIRECTORS' REPORT (continued)

## Remuneration Report – Audited (continued)

## Performance rights (continued)

Mr S A French was appointed to the position of Executive General Manager, Land Mobile Radio on 25 February 2019.

The performance rights granted in FY20 become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share of 16.2 cents as set by the board. For the maximum available number of

performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share. The threshold level of the group's earnings per share before vesting is an increase in aggregate of 5% per annum over the three-year period from the base earnings per share. A pro-rata vesting will occur between the 5% and 15% levels of earnings per share for the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company in the twelve-month period following the vesting date.

Details of vesting profiles of performance rights granted to executives are detailed below:

	Performance rights granted		Percentage	Percentage	Financial years in which
	Number	Date	vested in year	forfeited in year	shares will be issued if vesting achieved
<b>Directors</b>					
<b>Mr D S McGurk</b>	173,959	23 November 2016	100	–	2020
	124,524	10 November 2017	–	–	2021
	91,972	16 November 2018	–	–	2022
	63,647	15 November 2019	–	–	2023
<b>Executives</b>					
<b>Mr M Barton</b>	91,586	23 November 2016	100	–	2020
	65,559	8 December 2017	–	–	2021
	48,421	16 November 2018	–	–	2022
	33,509	15 November 2019	–	–	2023
<b>Mr P D Charlesworth</b>	113,237	23 November 2016	100	–	2020
	81,058	8 December 2017	–	–	2021
	59,881	16 November 2018	–	–	2022
	41,431	15 November 2019	–	–	2023
<b>Mr S A French</b>	42,696	15 November 2019	–	–	2023
<b>Mr R D Linehan</b>	113,237	23 November 2016	100	–	2020
	79,469	8 December 2017	–	–	2021
	58,694	16 November 2018	–	–	2022
	40,618	15 November 2019	–	–	2023
<b>Mr S P Sangster</b>	69,728	23 November 2016	100	–	2020
	40,373	8 December 2017	–	–	2021
	31,208	16 November 2018	–	–	2022
	35,996	15 November 2019	–	–	2023

In relation to the performance rights granted in FY18, the performance requirements were based on the group's aggregated earnings per share over a three-year performance period exceeding 59.51 cents per share. As this earnings per share target has been exceeded to 30 June 2020, it is expected that the performance rights will vest and be converted into shares before the end of August 2020.



## CODAN LIMITED AND ITS CONTROLLED ENTITIES

The movements during the reporting period in the number of performance rights over ordinary shares in Codan Limited, held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

	Held at 1 July 2019	Issued	Vested	Lapsed	Held at 30 June 2020
<b>Directors</b>					
Mr D S McGurk	390,455	63,647	173,959	–	280,143
<b>Executives</b>					
Mr M Barton	205,566	33,509	91,586	–	147,489
Mr P D Charlesworth	254,176	41,431	113,237	–	182,370
Mr S A French	–	42,696	–	–	42,696
Mr R D Linehan	251,400	40,618	113,237	–	178,781
Mr S P Sangster	141,309	35,996	69,728	–	107,577

### Other transactions with key management personnel

There have been no loans to key management personnel or their related parties during the financial year.

From time to time, directors and specified executives, or their personally related entities, may purchase goods from the group. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

### Director share ownership

The Directors' Shareholding Policy requires directors to build a minimum shareholding in the company. For non-executive directors this minimum shareholding should equate to their annual director fee and for executive directors, their annual fixed remuneration. Under the policy, directors have five years to reach the minimum holding.

### Movements in shares

The movement during the reporting period in the number of ordinary shares in Codan Limited, held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

	Held at 1 July 2019	Received on exercise of rights	Other changes *	Held at 30 June 2020
<b>Directors</b>				
Mr D J Simmons	86,636	–	–	86,636
Mr D S McGurk	746,342	173,959	(307,877)	612,424
Lt-Gen P F Leahy	57,708	–	–	57,708
Mr G R C Barclay	38,829	–	–	38,829
Ms K J Gramp	10,000	–	2,500	12,500
<b>Specified executives</b>				
Mr M Barton	271,347	91,586	(109,229)	253,704
Mr P D Charlesworth	541,347	113,237	(193,250)	461,334
Mr S A French	–	–	–	–
Mr R D Linehan	154,240	113,237	2,000	269,477
Mr S P Sangster	370	69,728	(69,758)	340

\* Other changes represent shares that were purchased or sold during the year

## DIRECTORS' REPORT (continued)

## Remuneration Report – Audited (continued)

## Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration paid or payable to each director of the company and other key management personnel of the group are:

Directors	Year	Salary and fees	Short-term incentives	Other short-term	Post-employment and superannuation contributions
		\$	\$	\$	\$
<b>Non-Executive</b>					
Mr D J Simmons	2020	183,912	–	–	17,471
	2019	179,133	–	–	17,018
Lt-Gen P F Leahy	2020	91,957	–	–	8,736
	2019	89,567	–	–	8,509
Mr G R C Barclay	2020	91,957	–	–	8,736
	2019	89,567	–	–	8,509
Ms K J Gramp	2020	100,316	–	–	9,530
	2019	97,709	–	–	9,282
Total non-executives' remuneration	2020	468,142	–	–	44,473
	2019	455,976	–	–	43,318
<b>Executive</b>					
Mr D S McGurk	2020	599,424	554,144	–	21,003
	2019	548,140	410,104	–	20,531
Total directors' remuneration	2020	1,067,566	554,114	–	65,476
	2019	1,004,116	410,104	–	63,849



Other long-term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
\$	\$	\$	\$	%
–	–	–	<b>201,383</b>	–
–	–	–	196,151	–
–	–	–	<b>100,693</b>	–
–	–	–	98,076	–
–	–	–	<b>100,693</b>	–
–	–	–	98,076	–
–	–	–	<b>109,846</b>	–
–	–	–	106,991	–
–	–	–	<b>512,615</b>	–
–	–	–	499,294	–
<b>17,546</b>	–	<b>261,189</b>	<b>1,453,276</b>	<b>56.1</b>
23,589	–	226,670	1,229,034	51.8
<b>17,546</b>	–	<b>261,189</b>	<b>1,965,891</b>	–
23,589	–	226,670	1,728,328	–

## DIRECTORS' REPORT (continued)

## Remuneration Report – Audited (continued)

## Directors' and senior executives' remuneration (continued)

Executive officers	Year	Salary and fees \$	Short-term incentives \$	Other short-term \$	Post-employment and superannuation contributions \$
<b>Mr M Barton</b> (Chief Financial Officer and Company Secretary)	<b>2020</b>	<b>293,525</b>	<b>291,732</b>	<b>–</b>	<b>21,058</b>
	2019	276,527	215,911	–	22,749
<b>Mr P D Charlesworth</b> (Executive General Manager, Minelab & Codan Defence)	<b>2020</b>	<b>358,724</b>	<b>360,698</b>	<b>–</b>	<b>19,906</b>
	2019	362,641	270,079	–	21,628
<b>Mr S A French</b> (Executive General Manager, Land Mobile Radio)	<b>2020</b>	<b>398,944</b>	<b>297,080</b>	<b>64,634*</b>	<b>–</b>
	2019	265,517	89,201	7,402	–
<b>Mr R D Linehan</b> (Chief Technology Officer, Codan and Executive General Manager, Minetec)	<b>2020</b>	<b>363,449</b>	<b>271,915</b>	<b>16,121*</b>	<b>21,003</b>
	2019	362,251	130,860	86,068	–
<b>Mr S P Sangster</b> (Executive General Manager, Tactical Communications)	<b>2020</b>	<b>346,541</b>	<b>313,378</b>	<b>43,280*</b>	<b>–</b>
	2019	352,325	244,585	45,073	–
<b>Total executive officers' remuneration</b>	<b>2020</b>	<b>1,761,183</b>	<b>1,534,803</b>	<b>124,035</b>	<b>61,967</b>
	2019	1,619,261	950,636	138,543	44,377

\* Other short-term benefits relate to costs incurred for arrangements made following the executives' relocation from an overseas country to the location of their employment with Codan.

Executive officers outside of Australia are paid in their local currencies. The Australian dollar equivalents are calculated using average exchange rates.

Mr SA French was appointed to the position of Executive General Manager, Land Mobile Radio on 25 February 2019.

Short-term incentives which vested during the year are as follows: Mr DS McGurk 93% (7% forfeited), Mr MBarton 93% (7% forfeited), Mr PD Charlesworth 93% (7% forfeited), Mr SA French 74% (26% forfeited), Mr RD Linehan 71% (29% forfeited) and Mr SP Sangster 93% (7% forfeited).

Directors and executives received a pay increase of 2.5% effective 1 July 2019. At this point in time, no increase has been granted for FY21.

The remuneration amounts disclosed above have been calculated based on the expense to the company for the financial year. Therefore, items such as performance rights, annual leave and long service leave taken and provided for have been included in the calculations. As a result, the remuneration disclosed may not equal the salary package as agreed with the executive in any one year.

Other than performance rights, no options or shares were issued during the year as compensation for any key management personnel.

Other long-term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
\$	\$	\$	\$	%
<b>9,837</b>	–	<b>135,058</b>	<b>751,210</b>	<b>56.8</b>
10,051	–	116,884	642,122	51.8
<b>12,902</b>	–	<b>166,998</b>	<b>919,228</b>	<b>57.4</b>
19,106	–	144,528	817,982	50.7
–	–	<b>82,395</b>	<b>843,053</b>	<b>45.0</b>
–	–	–	362,120	24.6
<b>8,067</b>	–	<b>163,712</b>	<b>844,267</b>	<b>51.6</b>
9,678	–	142,628	731,485	37.4
<b>8,770</b>	–	<b>111,003</b>	<b>822,972</b>	<b>51.6</b>
8,233	–	82,142	732,358	44.6
<b>39,576</b>	–	<b>659,166</b>	<b>4,180,730</b>	–
47,068	–	486,182	3,286,067	–

## Corporate performance

As required by the *Corporations Act 2001*, the following information is presented:

	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
Profit attributable to shareholders	<b>\$63,795,377</b>	\$45,665,443	\$41,574,557	\$43,514,938	\$15,494,607
Dividends paid	<b>\$26,998,945</b>	\$26,872,758	\$19,593,194	\$17,723,725	\$7,082,530
Share price at 30 June	<b>\$7.09</b>	\$3.47	\$3.00	\$2.34	\$1.18
Change in share price at 30 June	<b>\$3.62</b>	\$0.47	\$0.66	\$1.16	\$0.03
Earnings per share, fully diluted	<b>35.3c</b>	25.3c	22.1c	24.9c	11.9c



## Operating and Financial Review

Codan is a technology company that provides robust technology solutions that solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world. Our customers include United Nations organisations, mining companies, security and military groups, government departments, major corporates as well as individual consumers and small-scale miners.

### FY20 highlights:

- Record statutory net profit after tax of \$64.0 million, increased by 40%
- Highest full-year sales of \$348 million in the company's history
- Record sales achieved in both Metal Detection and Communications
- Annual dividend of 18.5 cents, fully franked (interim 7.5, final 11.0)
- Earnings per share of 35.5 cents, up 39%
- Strong balance sheet continues – \$92.8 million net cash

Despite the pandemic challenges in FY20, Codan has had a very strong 12 months and has delivered another record profit year. This was driven by the strength of gold detector sales into the artisanal gold mining market, continued growth in sales of our recreational metal detectors and several major contracts delivered by the Communications business.

As a result of our strategy to further diversify our revenues by releasing more new products, transitioning to a full solutions provider and broadening our geographic footprint, we were pleased to see that demand across all of our international markets was more evenly distributed. In FY20 we:

- released our second simultaneous multi-frequency (Multi-IQ®) coin and treasure detector series, VANQUISH®;
- progressed the development of our new GPX® replacement gold detector, to be released in FY21;
- significantly increased our Minelab retail footprint across North America, Europe and Asia Pacific and expanded the geographic reach of our gold detectors;
- expanded our market share in the defence communications sector through the successful launch of Sentry® Software Defined Manpack;
- successfully delivered multiple large-scale systems projects in Communications, validating our transition to a full solutions provider;
- completed and delivered the first release of the Cascade™ software defined networked communications solution;
- restructured Minetec's cost base in order to return the business to profitability; and
- through the pandemic, we validated that we have the right manufacturing systems and processes in place which enabled us to maintain supply in very challenging circumstances.

As a result of these initiatives, the business is well placed to deliver another strong performance in FY21.

## Dividend

The company announced a final dividend of 11.0 cents per share, fully franked, bringing the full-year dividend to 18.5 cents, up 32%. This dividend has a record date of 28 August 2020 and will be paid on 11 September 2020.

## Financial performance and other matters

	FY20		FY19	
	\$m	% of sales	\$m	% of sales
<b>Revenue</b>				
Communications	104.0	30%	77.6	29%
Metal Detection	236.4	68%	182.1	67%
Tracking Solutions	7.6	2%	11.1	4%
<b>Total revenue</b>	<b>348.0</b>	<b>100%</b>	<b>270.8</b>	<b>100%</b>
<b>Business performance</b>				
<b>EBITDA*</b>	<b>117.8</b>	<b>34%</b>	78.6	29%
<b>EBIT*</b>	<b>89.6</b>	<b>26%</b>	63.4	23%
Interest*	(0.6)		(0.1)	
<b>Net profit before tax</b>	<b>89.0</b>	<b>26%</b>	<b>63.3</b>	<b>23%</b>
<b>Taxation</b>	<b>(25.0)</b>		(17.6)	
<b>Net profit after tax</b>	<b>64.0</b>	<b>18%</b>	<b>45.7</b>	<b>17%</b>
Earnings per share, basic	35.5 cents		25.3 cents	
Ordinary dividend per share	18.5 cents		9.0 cents	
Special dividend per share	– cents		5.0 cents	
Total dividend	18.5 cents		14.0 cents	

\* The group adopted AASB 16 Leases from 1 July 2019. The previous operating lease expenses have been replaced by depreciation and interest expense on leases. Refer to note 27 in the financial report for more information.

Cash generation was excellent, resulting in a net cash position of \$92.8 million at 30 June 2020. Over the coming months, we expect to rebuild inventory levels that were depleted by a very strong finish to the year.

We continue to invest heavily in new products, with FY20 engineering spend in excess of \$30 million. This will ensure that our products remain leading-edge and continue to drive future growth in the business.

### Performance by business unit:

#### Metal Detection – Recreational, Gold Mining and Countermine

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

Minelab delivered a record performance during the last 12 months, with sales increasing 30% to \$236 million.

The key driver was our commitment to ongoing investment into new products and business development in new geographic territories, creating a strong demand for our full range of metal detectors across both the artisanal gold mining and recreational markets. We are particularly pleased with the growth we have achieved over recent years in the recreational market as we continue to introduce new technology to our customers and significantly expand our retail distribution footprint.

In artisanal gold mining, Minelab continues to dominate, with the GPZ 7000®, SDC 2300® and Gold Monster®. Gold Monster® was designed specifically for our African customers, and has become the machine-of-choice for entry level artisanal miners. The SDC 2300® is exceptionally good at discovering fine-particle gold in highly mineralised soils, and existing customers are upgrading to the top of the line GPZ 7000® detection performance as they become more successful.

During FY21, Minelab will introduce a new gold detector, which will include the best features from both the SDC 2300® and GPX platforms.

Despite the challenges presented by COVID-19, Minelab's recreational business achieved a record result. The demand for our recreational detectors has been remarkably resilient right through the pandemic, which we attribute to metal detecting being a remote outdoor hobby that has the potential to find items of value. The successful release of our second simultaneous multi-frequency (Multi-IQ®) detector, VANQUISH®, and the sustained strong demand for our Multi-IQ® EQUINOX® detector positioned us to take additional market share.

In FY21, Minelab will benefit from a full year of VANQUISH® sales, the release of a new gold detector and an expanding geographical sales footprint. We remain confident of continued success next year.

## DIRECTORS' REPORT (continued)

### Operating and Financial Review (continued)

#### Performance by Business Unit (continued)

##### Communications – Tactical and Land Mobile Radios (LMR)

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.

The division had an excellent year in FY20, with both Tactical and LMR achieving record sales levels, resulting in an increase in sales of 34% to \$104 million. This growth was largely attributed to a number of major contracts being delivered in Tactical Communications, including the \$15 million East African contract and several larger systems sales by LMR.

We continue to execute our strategy of transitioning the Communications division from a product-centric business to a complete solutions provider. Codan's ongoing product development is being complemented by strategic partnerships with key suppliers in order to further broaden our solutions offering.

Tactical Communications continues to target the global military market, with a focus on developing world militaries in Africa, the Middle East, Asia and Latin America.

Our Tactical Communications portfolio includes a highly advanced software defined radio platform and interoperability solutions which are further supplemented by our in-country service, training and customer support. The strength in our existing partner network will allow us to continue to offer the same level of in-country service and support, despite the current travel restrictions imposed by COVID-19. We are also investing in our digital footprint to increase remote support to our partners and end users, now and into the future.

In LMR, our strategy is to grow the business by transitioning into larger systems projects and offering ongoing service and support. This will be enabled by the release of our new Cascade™ software defined solution, an interoperable first-responder radio with excellent performance at a competitive price point. Cascade™ is scheduled for full release in FY21.

Tactical Communications entered FY20 with a record \$34 million order book, which delivered a record sales year. However, given the current travel restrictions, coupled with the changing priorities of governments in this environment, some project awards may be delayed. Despite the sales opportunity pipeline remaining very strong, Tactical Communications will enter FY21 with a much reduced order book and, as a result, it may be difficult to repeat the record level of sales achieved in FY20. On the other hand, LMR has recently won a large contract, and this business is well placed to deliver growth in FY21.

##### Tracking Solutions – Minetec

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology allows real-time monitoring and control of mining operations in order to optimise productivity and enhance safety. It is an enabling technology required for mining automation.

As previously announced, in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc ("CAT"). We have since integrated Minetec's high-precision tracking capability into the CAT MineStar® solution, which is providing marketing leverage to CAT's global dealer network.

During FY20, the board conducted a strategic review of our Tracking Solutions business. Under the global partnership agreement with CAT, Minetec is transitioning to a Software Systems business, developing and delivering supporting technology to CAT and their end-user customers. This transition, coupled with the fact that Minetec did not meet Codan's expectations in FY20, resulted in a decision to write down the non-CAT specific capitalised product development, which was \$7.5 million in total.

Our strategy for Minetec continues to focus on working with CAT in order to leverage their global distribution network. As we continue to transition the business to being a technology provider to CAT, we have reduced our cost structure and, as a result, we expect the business to return to profitability in FY21.



## Outlook

As a result of the strategic initiatives discussed above, Codan remains well positioned for another successful year in FY21. Whilst it is too early for the board to give profit guidance, there are a number of factors that are relevant when considering the outlook for FY21:

- strong start to the year and in line with FY20;
- demand for our metal detection products remains strong;
- Minelab will benefit from a full year of Vanquish® sales and the release of a new gold detector;
- current travel restrictions will make it more difficult for Tactical Communications to conduct business development activities and close orders with new customers; and
- Minetec is expected to return to profitability;

Our combination of cash on hand and cash generation, underwrites our investment in new product innovation.

The board will provide a further business update at the Annual General Meeting in October.

## Dividends

Dividends paid or declared by the company to members since the end of the previous financial year were:

	Cents per share	Total amount \$000	Franked	Date of payment
<b>Declared and paid during the year ended 30 June 2020:</b>				
FY19 final ordinary	5.0	8,999	100%	13 September 2019
FY19 final special	2.5	4,500	100%	13 September 2019
FY20 interim ordinary	7.5	13,499	100%	12 March 2020
<b>Declared after the end of the year:</b>				
<b>FY20 final ordinary</b>	<b>11.0</b>	<b>19,799</b>	<b>100%</b>	<b>11 September 2020</b>

All dividends paid or declared by the company since the end of the previous financial year were fully franked.

## Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year 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.

## DIRECTORS' REPORT (continued)

### Likely developments

The group will continue with its strategy of continuing to invest in new product development and to seek opportunities to further strengthen profitability by expanding into related businesses offering complementary products and technologies.

Further information about likely developments in the operations of the group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the group.

### Directors' interests

The relevant interest of each director in the shares issued by the company as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Ordinary shares
Mr D J Simmons	86,636
Mr D S McGurk	612,424
Lt-Gen P F Leahy	57,708
Mr G R C Barclay	38,829
Ms K J Gramp	12,500

### Indemnification and insurance of officers

#### Indemnification

The company has agreed to indemnify the current and former directors and officers of the company and certain controlled entities against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors and secretaries of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Deed of Access, Indemnity and Insurance stipulates that the company and certain controlled entities will meet the full amount of any such liabilities, including costs and expenses.

#### Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

### Non-audit services

During the year, KPMG, the company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the Board Audit, Risk and Compliance Committee to ensure that they do not have an impact on the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

Refer page 52 for a copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001*.

## CODAN LIMITED AND ITS CONTROLLED ENTITIES

Details of the amounts paid or payable to the auditor of the company, KPMG, and its related practices for audit and non-audit services provided during the year are as follows:

	Consolidated	
	2020 \$	2019 \$
<b>Statutory audit</b>		
Audit and review of financial reports	231,259	214,763
	231,259	214,763
<b>Services other than statutory audit</b>		
Taxation advice and compliance services	49,383	55,973
Corporate finance services	—	40,466
Royalty agreement assurance services	10,945	—
	60,328	96,439

### Rounding off

The company is of a kind referred to in *ASIC Legislative Instrument 2016/191* dated 1 April 2016 and, in accordance with that Legislative Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors :



**D J Simmons**  
Director



**D S McGurk**  
Director

Dated at Mawson Lakes  
this 19<sup>th</sup> day of August 2020.



# LEAD AUDITOR'S INDEPENDENCE DECLARATION

under Section 307c of the *Corporations Act 2001*



## 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 audit of Codan Limited for the financial year ended 30 June 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



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

Paul Cenko  
Partner

Adelaide

19 August 2020

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# CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2020

	Note	Consolidated 2020 \$000	2019 \$000
<b>Continuing operations</b>			
Revenue	2	348,017	270,811
Cost of sales		(151,481)	(117,478)
<b>Gross profit</b>		<b>196,536</b>	<b>153,333</b>
Other income	4	359	–
Administrative expenses		(21,925)	(20,830)
Sales and marketing expenses		(51,054)	(44,159)
Engineering expenses		(25,920)	(24,756)
Net financing costs	3	(1,457)	(203)
Other expenses	4	(7,518)	(83)
<b>Profit before tax</b>		<b>89,021</b>	<b>63,302</b>
Income tax expense	7	(25,058)	(17,646)
<b>Profit for the period</b>		<b>63,963</b>	<b>45,656</b>
<b>Attributable to:</b>			
Equity holders of the company		63,795	45,665
Non-controlling interests		168	(9)
		<b>63,963</b>	<b>45,656</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share	6	35.5 cents	25.5 cents
Diluted earnings per share	6	35.3 cents	25.3 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 92.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Note	Consolidated	
		2020 \$000	2019 \$000
<b>Profit for the period</b>		<b>63,963</b>	45,656
<b>Items that may be reclassified subsequently to profit or loss</b>			
Changes in fair value of cash flow hedges		<b>713</b>	406
less tax effect		<b>(214)</b>	(122)
Changes in fair value of cash flow hedges, net of income tax	21	<b>499</b>	<b>284</b>
Exchange differences on translation of foreign operations	21	<b>(2,160)</b>	3,124
<b>Other comprehensive income/(loss) for the period, net of income tax</b>		<b>(1,661)</b>	3,408
<b>Total comprehensive income for the period</b>		<b>62,302</b>	<b>49,064</b>
<b>Attributable to:</b>			
Equity holders of the company		<b>62,134</b>	49,073
Non-controlling interests		<b>168</b>	(9)
		<b>62,302</b>	<b>49,064</b>

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 92.



# CONSOLIDATED BALANCE SHEET

as at 30 June 2020

		Consolidated	
	Note	2020 \$000	2019 \$000
<b>Current assets</b>			
Cash and cash equivalents	8	92,830	37,521
Trade and other receivables	11	25,307	19,007
Inventory	12	32,606	36,703
Current tax assets	7	343	337
Assets held for sale	14	–	3,750
Other assets	13	6,414	5,189
<b>Total current assets</b>		<b>157,500</b>	<b>102,507</b>
<b>Non-current assets</b>			
Property, plant and equipment	15	14,176	14,126
Right-of-use assets	27	25,367	–
Product development	16	67,777	69,857
Intangible assets	17	86,746	87,827
<b>Total non-current assets</b>		<b>194,066</b>	<b>171,810</b>
<b>Total assets</b>		<b>351,566</b>	<b>274,317</b>
<b>Current liabilities</b>			
Trade and other payables	18	47,044	44,161
Lease liabilities	27	3,775	–
Current tax payable	7	11,958	1,635
Provisions	19	8,159	8,033
<b>Total current liabilities</b>		<b>70,936</b>	<b>53,829</b>
<b>Non-current liabilities</b>			
Lease liabilities	27	26,779	–
Deferred tax liabilities	7	4,727	8,082
Provisions	19	1,781	1,192
<b>Total non-current liabilities</b>		<b>33,287</b>	<b>9,274</b>
<b>Total liabilities</b>		<b>104,223</b>	<b>63,103</b>
<b>Net assets</b>		<b>247,343</b>	<b>211,214</b>
<b>Equity</b>			
Share capital	20	44,746	43,761
Reserves	21	66,688	67,652
Retained earnings		135,909	99,801
<b>Total equity</b>		<b>247,343</b>	<b>211,214</b>
Total equity attributable to the equity holders of the company		247,303	211,342
Non-controlling interests		40	(128)
		<b>247,343</b>	<b>211,214</b>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 92.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Consolidated						
	Share capital	Foreign currency translation reserve	Hedging reserve	Equity based payment reserve	Profit reserve	Retained earnings	Total
2020	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 1 July 2019	43,761	6,712	(146)	2,105	58,981	99,801	211,214
Transition to AASB 16 (net of tax)	–	–	–	–	–	(857)	(857)
Profit for the period	–	–	–	–	–	63,963	63,963
Performance rights expensed	–	–	–	1,682	–	–	1,682
Change in fair value of cash flow hedges	–	–	499	–	–	–	499
Exchange differences on translation of foreign operations	–	(2,160)	–	–	–	–	(2,160)
	43,761	4,552	353	3,787	58,981	162,907	274,341
<b>Transactions with owners of the company</b>							
Dividends recognised during the period	–	–	–	–	–	(26,998)	(26,998)
Issue of shares from performance rights	985	–	–	(985)	–	–	–
	985	–	–	(985)	–	(26,998)	(26,998)
<b>Balance at 30 June 2020</b>	<b>44,746</b>	<b>4,552</b>	<b>353</b>	<b>2,802</b>	<b>58,981</b>	<b>135,909</b>	<b>247,343</b>

	Consolidated						
	Share capital	Foreign currency translation reserve	Hedging reserve	Equity based payment reserve	Profit reserve	Retained earnings	Total
2019	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 1 July 2018	42,721	3,588	(430)	2,187	58,981	81,018	188,065
Profit for the period	–	–	–	–	–	45,656	45,656
Performance rights expensed	–	–	–	712	–	–	712
Change in fair value of cash flow hedges	–	–	284	–	–	–	284
Exchange differences on translation of foreign operations	–	3,124	–	–	–	–	3,124
Transfers to and from reserves	–	–	–	–	–	–	–
	42,721	6,712	(146)	2,899	58,981	126,674	237,841
<b>Transactions with owners of the company</b>							
Dividends recognised during the period	–	–	–	–	–	(26,873)	(26,873)
Issue of shares from performance rights	794	–	–	(794)	–	–	–
Employee share plan, net of issue costs	246	–	–	–	–	–	246
	1,040	–	–	(794)	–	(26,873)	(26,627)
<b>Balance at 30 June 2019</b>	<b>43,761</b>	<b>6,712</b>	<b>(146)</b>	<b>2,105</b>	<b>58,981</b>	<b>99,801</b>	<b>211,214</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 92.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

		Consolidated	
	Note	2020 \$000	2019 \$000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		350,298	290,738
Cash paid to suppliers and employees		(227,888)	(208,290)
Interest received		378	176
Interest paid		(271)	(226)
Interest on lease assets	27	(703)	–
Income taxes paid (net)		(17,830)	(20,305)
<b>Net cash from operating activities</b>	10	<b>103,984</b>	<b>62,093</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		3,981	–
Payments for capitalised product development		(18,769)	(20,453)
Payments for intellectual property		(24)	(226)
Acquisition of property, plant and equipment		(3,759)	(4,132)
Acquisition of intangibles (computer software and licences)		(442)	(866)
<b>Net cash used in investing activities</b>		<b>(19,013)</b>	<b>(25,677)</b>
<b>Cash flows from financing activities</b>			
Payment of lease liabilities	27	(2,983)	–
Dividends paid		(26,998)	(26,873)
<b>Net cash provided by/(used in) financing activities</b>		<b>(29,981)</b>	<b>(26,873)</b>
<b>Net increase/(decrease) in cash held</b>		<b>54,990</b>	<b>9,543</b>
Cash and cash equivalents at the beginning of the financial year		37,521	27,711
Effects of exchange rate fluctuations on cash held		319	267
<b>Cash and cash equivalents at the end of the financial year</b>	8	<b>92,830</b>	<b>37,521</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 92.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

## 1. Significant Accounting Policies

Codan Limited (the "company") is a company domiciled in Australia and is a for-profit entity. The consolidated financial report of the company as at and for the year ended 30 June 2020 comprises the company and its subsidiaries (together referred to as the "group" and individually as "group entities"). The financial report was authorised for issue by the directors on 19 August 2020.

- impairment assessments of non-current assets, including product development and goodwill (refer note 17)
- measurement of inventory net realisable value (refer note 1(l))
- measurement of expected credit loss allowance for trade receivables (refer note 28(a))

### Changes in accounting policies

Except for AASB 16 *Leases* as described in note 27, the accounting policies applied in these financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 30 June 2019.

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The consolidated financial report of the group complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board ("IASB").

### (b) Basis of preparation

The consolidated financial report is prepared in Australian dollars (the company's functional currency and the functional currency of the majority of the group) on the historical costs basis except that derivative financial instruments are stated at their fair value.

The group 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.

### Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to:

### (c) Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between subsidiaries are eliminated in full on consolidation.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. Transaction costs, other than those associated with the issue of debt or equity securities that the group incurs in connection with a business combination, are expensed as incurred.

Upon the loss of control, the group derecognises the assets and liabilities of the subsidiary, and non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement.

Non-controlling interests are measured at their proportionate share of the subsidiaries' net assets.

## (d) Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) payable to taxation authorities.

### Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable (net of rebates, returns, discounts and other allowances). Revenue is recognised when performance obligations are satisfied and the significant risks and rewards of ownership pass to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Control usually passes when the goods are shipped to the customer.

### Construction contracts

Contract revenue includes the initial amount agreed in the contract, plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in the income statement in proportion to the stage of completion of the contract as performance obligations are satisfied and. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to professional judgement of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

### Rendering of services

Revenue from rendering services is recognised in the period in which the service is provided.

## (e) Net financing costs

Net financing costs include interest paid relating to borrowings, interest received on funds invested, unwinding of discounts and foreign exchange gains and losses. Qualifying assets are assets that take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the qualifying assets. Interest income and borrowing costs are recognised in the income statement on an accruals basis, using the effective-interest method. Foreign currency gains and losses are reported on a net basis.

## (f) Foreign currency

Foreign currency transactions are translated to Australian dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income and presented within equity, to the extent that the hedge is effective.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair-value adjustments arising on acquisition, are translated to Australian dollars at the foreign exchange rates ruling at the reporting date. Equity items are translated at historical rates. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the foreign operations.

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and on consolidation they are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the hedging reserve. To the extent that the hedge is ineffective, such differences are recognised in the income statement. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to the income statement as an adjustment to the income statement on disposal.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### for the year ended 30 June 2020 (continued)

#### (g) Derivative financial instruments

The group has used derivative financial instruments to hedge its exposure to foreign exchange and interest rate movements. In accordance with its policy, the group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement unless the derivative qualifies for hedge accounting.

##### Hedging

On initial designation of the hedge, the group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in comprehensive income and presented within equity. When the forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the unrealised gain or loss recognised in equity is recognised immediately in the income statement.

#### (h) Taxation

Income tax expense on the income statement comprises a current and deferred tax expense. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, adjusted for any prior year under or over provision. The movement in deferred tax assets and liabilities results in a deferred tax expense, unless the movement results from a business combination, in which case the tax entry is recognised in goodwill, or a transaction has impacted equity, in which case the tax entry is also reflected in equity.

Deferred tax assets and liabilities arise from temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle the tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### Tax consolidation

The company is the head entity in the tax-consolidated group comprising all the Australian wholly owned subsidiaries. The company recognises the current tax liability of the tax-consolidated group. The tax-consolidated group has determined that subsidiaries will account for deferred tax balances and will make contributions to the head entity for the current tax liabilities as if the subsidiary prepared its tax calculation on a stand-alone basis.

The company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, are recognised by the head entity only.



## **(i) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or is expensed.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recovered from, or payable to, the ATO are classified as operating cash flows.

## **(j) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts form an integral part of the group's cash management and are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

## **(k) Trade and other receivables**

Trade debtors are to be settled within agreed trading terms, typically less than 60 days, and are initially recognised at fair value and then subsequently at amortised cost, less any expected credit loss allowances. Under the "expected credit loss" model, the allowance for credit losses is calculated by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability weighted outcomes. Significant receivables are individually assessed. Non-significant receivables are not individually assessed; instead, credit loss testing is performed by considering the risk profile of that group of receivables. All allowances for credit losses are recognised in the income statement.

## **(l) Inventories**

Raw materials and stores, work in progress and finished goods are measured at the lower of cost (determined on a first-in first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

## **(m) Project work in progress**

Project work in progress represents the gross unbilled amount expected to be collected from customers for project work performed to date. It is measured at cost, plus profit recognised to date, less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects. Project work in progress is presented as part of other assets in the balance sheet for all projects in which costs incurred, plus recognised profits, exceed progress billings.

## **(n) Intangible assets**

### **Product development costs**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products, is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the group intends to, and has sufficient resources to, complete development and to use or sell the asset.

The expenditure capitalised has a finite useful life and includes the cost of materials, direct labour and an appropriate proportion of overheads that are directly attributable to preparing the asset for its intended use, less accumulated amortisation and accumulated impairment losses. Other development expenditure is recognised in the income statement when incurred.

### **Goodwill**

All business combinations are accounted for by applying the acquisition method, and goodwill may arise upon the acquisition of subsidiaries. Goodwill is stated at cost, less any accumulated impairment losses, and has an indefinite useful life. It is allocated to cash-generating units and is not amortised but is tested annually for impairment.

### **Measuring goodwill**

The group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired (including intangible assets) and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the group to the previous owners of the acquiree, and equity interests issued by the group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the company.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2020 (continued)

### (n) Intangible assets (continued)

#### Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

#### Non-controlling interest

The group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

#### Transaction costs

Transaction costs that the group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

#### Licences and other intangible assets

Licences and other intangible assets that are acquired by the group, which have finite useful lives, are stated at cost, less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as incurred.

#### Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

#### Amortisation

Amortisation is calculated on the cost of the asset, less its residual value.

Amortisation is charged to the income statement on either a straight-line or units of production basis. Intangible assets are amortised over their estimated useful lives from the date that they are available for use, but goodwill is only written down if there is an impairment.

The estimated useful lives in the current and comparative periods are as follows:

	Straight-line	Units of production
Product development, licences and intellectual property:	2 – 15 years	5 – 10 years
Computer software:	3 – 7 years	Not applicable

Amortisation methods, useful lives and residual values are reviewed at each reporting date.

### (o) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

### (p) Property, plant and equipment

#### Owned assets

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Land and buildings that had been revalued to fair value prior to the transition to AIFRS, being 1 July 2004, were measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" in the income statement.

### Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

### Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is charged to the income statement on property, plant and equipment on a straight-line basis over the estimated useful life of the assets. Capitalised leased assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the group will obtain ownership of the asset, the life of the asset. Land is not depreciated. The main depreciation rates used for each class of asset for current and comparative periods are as follows:

Right-of-use assets	7% to 25%
Leasehold property	6% to 10%
Plant and equipment	7% to 40%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## (q) Impairment

The carrying amounts of the group's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such impairment exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life or are not yet available for use, the recoverable amount is estimated annually.

The recoverable amount of assets is the greater of their fair value, less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash-generating units to which the corporate asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from other assets or groups of assets. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## (r) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

## (s) Interest bearing borrowings

Interest bearing borrowings are recognised initially at their fair value, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## for the year ended 30 June 2020 (continued)

### (t) Employee benefits

#### Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries, incentives and annual leave represent present obligations resulting from employees' services provided to the reporting date, calculated at undiscounted amounts based on remuneration rates that the group expects to pay as at the reporting date, including related on-costs such as superannuation, workers' compensation insurance and payroll tax.

#### Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows resulting from the employees' services provided to the reporting date. The provision is calculated using expected future increases in wage and salary rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using high-quality corporate bond rates at the reporting date which most closely match the terms of maturity of the related liabilities.

#### Defined contribution superannuation plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The group contributes to defined contribution superannuation plans and these contributions are expensed in the income statement as incurred.

### (u) Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it can be estimated reliably and it is probable that a future sacrifice of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

#### Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

#### Restructuring and employee termination benefits

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

#### Warranty

A provision is made for the group's estimated liability on all products sold and still under warranty, and includes claims already received. The estimate is based on the group's warranty cost experience over previous years.

### (v) Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### (w) Share-based payment transactions

Share-based payments in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained from the group.

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards which vest.

### (x) Future Australian Accounting Standards requirements

A number of new standards are effective after 2020 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these consolidated financial statements. The group does not expect that these new accounting standards will have a material impact on the consolidated financial statements.

## GROUP PERFORMANCE

### 2. Segment activities

The group determines and presents operating segments based on the information that is internally provided to the CEO, who is the group's chief operating decision-maker.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are regularly reviewed by the group's CEO, to make decisions about resources to be allocated to the segments and assess their performance.

Segment results relate to the underlying operations of a segment and are as reported to the CEO, and include the expense from functions that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the company's headquarters and cash balances), corporate expenses, non-underlying other income and expense, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The group's primary format for segment reporting is based on business segments.

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### Business segments

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. 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. Lastly, the Tracking Solutions segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector.

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### Geographical segments

In presenting information on the basis of geographical segments, segment revenue has been based on the geographic location of the invoiced customer. Segment assets are based on the geographic location of the assets. The group has manufacturing and corporate offices in Australia and Canada, with overseas representative offices in the United States of America, United Arab Emirates, South Africa, Brazil and Ireland.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

### GROUP PERFORMANCE (continued)

Information about reportable segments	Communications		Metal Detection		Tracking Solutions		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>								
External segment revenue	103,987	77,639	236,388	182,058	7,642	11,114	348,017	270,811
<b>Result</b>								
Segment result	23,849	16,715	97,384	67,323	(3,567)	(1,183)	117,666	82,855
Impairment							(7,518)	–
Unallocated net financing costs							(754)	(203)
Unallocated income and expenses							(20,373)	(19,350)
Profit from operating activities							89,021	63,302
Income tax expense							(25,058)	(17,646)
<b>Net Profit</b>							63,963	45,656
<b>Non-cash items included above</b>								
Depreciation and amortisation	8,988	5,874	8,451	7,523	2,347	1,312	19,786	14,709
Unallocated depreciation and amortisation							865	536
Impairment							7,518	–
<b>Total depreciation and amortisation</b>							28,169	15,245
<b>Assets</b>								
Capital expenditure	919	806	2,350	1,442	104	153	3,373	2,401
Unallocated capital expenditure							386	1,731
<b>Total capital expenditure</b>							3,759	4,132
Segment assets	96,252	88,574	114,290	112,655	19,113	26,646	229,655	227,875
Unallocated corporate assets							121,911	46,442
<b>Consolidated total assets</b>							351,566	274,317

The group derived its revenues from a number of countries. The two significant countries where revenue was 10% or more of total revenue were United Arab Emirates totalling \$127.019 million (2019: \$65.908 million) and the United States of America totalling \$79.620 million (2019: \$60.141 million).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: Australia \$147.702 million (2019: \$128.234 million), Canada \$45.023 million (2019: \$43.254 million), United Arab Emirates \$0.622 million (2019: \$0.223 million), the United States of America \$0.588 million (2019: \$0.079 million), Brazil \$0.108 million (2019: nil) and Ireland \$0.023 million (2019: \$0.020 million).



		<b>Consolidated</b>	
		<b>2020</b>	<b>2019</b>
	<b>Note</b>	<b>\$000</b>	<b>\$000</b>
<b>3. Expenses</b>			
<b>Net financing costs:</b>			
Interest income		(378)	(176)
Net foreign exchange (gain)/loss		861	134
Interest expense		271	245
Finance charge on lease liabilities		703	–
		<b>1,457</b>	<b>203</b>
<b>Depreciation of:</b>			
Right-of-use assets	27	<b>3,179</b>	–
Leasehold property		<b>98</b>	90
Plant and equipment		<b>3,629</b>	2,478
		<b>6,906</b>	<b>2,568</b>
<b>Amortisation of:</b>			
Product development – straight-line		<b>9,154</b>	7,477
Product development – units of production		<b>3,594</b>	4,007
Intellectual property		<b>409</b>	409
Computer software		<b>291</b>	289
Licences		<b>297</b>	495
		<b>13,745</b>	<b>12,677</b>
<b>Personnel expenses:</b>			
Wages and salaries		<b>48,311</b>	42,181
Other associated personnel expenses		<b>3,499</b>	3,746
Contributions to defined contribution superannuation plans		<b>4,572</b>	3,719
Long service leave expense		<b>771</b>	886
Annual leave expense		<b>2,521</b>	2,514
Performance rights plan		<b>1,682</b>	712
Employee share plan		<b>250</b>	246
		<b>61,606</b>	<b>54,004</b>
<b>4. Other expenses / (income)</b>			
Impairment of Minetec product development		<b>7,518</b>	–
(Gain)/loss on sale of property, plant and equipment		<b>(206)</b>	62
Other expenses/(income)		<b>(153)</b>	21
		<b>7,159</b>	<b>83</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

### GROUP PERFORMANCE (continued)

	Consolidated	
	2020	2019
	\$000	\$000

#### 5. Dividends

Codan Limited has provided or paid for dividends as follows:		
– ordinary final fully-franked dividend of 5.0 cent per share paid on 13 September 2019	8,999	–
– special final fully-franked dividend of 2.5 cent per share paid on 13 September 2019	4,500	–
– ordinary interim fully-franked dividend of 7.5 cents per ordinary share paid on 12 March 2020	13,499	–
– ordinary final fully-franked dividend of 4.5 cents per ordinary share paid on 14 September 2018	–	8,062
– special final fully-franked dividend of 4.0 cents per ordinary share paid on 14 September 2018	–	7,166
– ordinary interim fully-franked dividend of 4.0 cents per ordinary share paid on 13 March 2019	–	7,166
– special interim fully-franked dividend of 2.5 cents per ordinary share paid on 13 March 2019	–	4,479
	26,998	26,873

#### Subsequent events

Since the end of the financial year, the directors declared a final ordinary fully franked dividend of 11.0 cents per share, payable on 11 September 2020. The financial impact of this final dividend of \$19,799,217 has not been brought to account in the group financial statements for the year ended 30 June 2020 and will be recognised in subsequent financial reports.

#### Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%)	42,604	27,110
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The franking credits available are based on the balance of the dividend franking account at year–end, adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. Based upon the above declared dividend, the impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$8,485,379 (2019: \$5,760,897).

#### 6. Earnings per share

The group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights granted to employees.

Net profit used for the purpose of calculating basic and diluted earnings per share	63,795	45,665
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The weighted average number of shares used as the denominator number for basic earnings per share was 179,867,477 (2019: 178,994,483). The movement in the year is as a consequence of the shares issued under the performance rights plan.

The calculation of diluted earnings per share at 30 June 2020 was based on a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares of 180,961,854 (2019: 180,530,338). The movement in the year relates to the shares issued under the performance rights granted.

## TAXATION

	Consolidated	
	2020	2019
	\$000	\$000
<b>7. Income tax</b>		
<b>A. Income tax expense</b>		
<b>Current tax expense:</b>		
Current tax paid or payable for the financial year	27,909	16,336
Adjustments for prior years	(204)	(135)
	27,705	16,201
<b>Deferred tax expense:</b>		
Origination and reversal of temporary differences	(2,647)	1,445
<b>Total income tax expense in income statement</b>	<b>25,058</b>	<b>17,646</b>
<b>Reconciliation between tax expense and pre-tax net profit:</b>		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	26,706	18,991
<b>Decrease in income tax expense due to:</b>		
Additional deduction for research and development expenditure	(1,294)	(1,139)
Effect of tax rates in foreign jurisdictions	(9)	(193)
(Over)/under provision for taxation in previous years	(204)	(135)
Other deductible expenses	(259)	(21)
	24,940	17,503
<b>Increase in income tax expense due to:</b>		
Non-deductible expenses	118	143
Income tax expense	25,058	17,646
<b>B. Current tax liabilities / assets</b>		
Balance at the beginning of the year	(1,298)	(5,966)
Net foreign currency differences on translation of foreign entities	25	4
Income tax paid (net)	17,830	20,305
Adjustments from prior year	(263)	695
Current year's income tax paid or payable on operating profit	(27,909)	(16,336)
	(11,615)	(1,298)
<b>Disclosed in balance sheet as:</b>		
Current tax asset	343	337
Current tax payable	(11,958)	(1,635)
	(11,615)	(1,298)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## TAXATION (continued)

	Consolidated	
	2020	2019
	\$000	\$000
<b>C. Deferred tax liabilities</b>		
<b>Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:</b>		
Expenditure currently tax deductible but deferred and amortised for accounting	19,841	20,241
<b>Set-off of tax in relation to deferred tax assets:</b>		
Difference in depreciation of property, plant and equipment	(1,640)	(330)
Payments for intellectual property not currently deductible	(1,671)	(2,165)
Provisions for employee benefits not currently deductible	(2,250)	(2,042)
Provisions and accruals not currently deductible	(4,467)	(3,367)
Sundry items	(249)	(144)
Carry forward overseas tax losses	–	(55)
Carry forward overseas R&D tax credits	(4,837)	(4,056)
	4,727	8,082
<b>D. Effective tax rates</b>		
Global operations – total consolidated tax expense	28%	28%
Australian operations – Australian company income tax expense	29%	28%



## CASH MANAGEMENT

	Consolidated	
	2020 \$000	2019 \$000
<b>8. Cash and cash equivalents</b>		
Cash on hand	516	2,012
Cash at bank	92,314	35,509
	<b>92,830</b>	<b>37,521</b>
<b>9. Loans and borrowings</b>		
The group has access to the following lines of credit:		
Total facilities available at balance date:		
Multi-option facility	40,000	40,000
Commercial credit card	200	200
	<b>40,200</b>	<b>40,200</b>
Facilities utilised at balance date:		
Multi-option facility – guarantees	1,113	6,281
Commercial credit card	16	23
	<b>1,129</b>	<b>6,304</b>
Facilities not utilised at balance date:		
Multi-option facility	38,887	33,719
Commercial credit card	184	177
	<b>39,071</b>	<b>33,896</b>

In addition to these facilities, the group has cash at bank and short-term deposits of \$92,830,000 as set out in note 8.

### Bank Facilities

Facilities are supported by interlocking guarantees between the company and its subsidiaries. The multi-option facility of \$40 million has a term of three years expiring in January 2022, and is subject to compliance with certain financial covenants, with an additional facility of \$40 million available subject to our financial institutions' approval.

	Consolidated	
	2020 %	2019 %
<b>Weighted average interest rates:</b>		
Cash at bank	0.66	0.67
Cash advance*	N/A	2.61

\*The group did not draw down on the bank facilities during the financial year ended 30 June 2020.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## CASH MANAGEMENT (continued)

		Consolidated	
	Note	2020 \$000	2019 \$000

### 10. Notes to the statement of cash flows

Reconciliation of profit after income tax to net cash provided by operating activities

Profit after income tax		63,963	45,656
Add/(less) items classified as investing or financing activities:			
(Gain)/loss on sale of non-current assets		(206)	62
Add/(less) non-cash items:			
Depreciation		6,906	2,568
Impairment of product development costs		7,518	
Amortisation		13,745	12,677
Performance rights and employee share plan expensed		1,682	958
Increase/(decrease) in income taxes		7,228	(2,659)
Increase/(decrease) in net assets affected by foreign currency translation		(805)	278
Net cash from operating activities before changes in assets and liabilities		100,031	59,540
Change in assets and liabilities during the financial year:			
Reduction/(increase) in receivables		(6,300)	10,777
Reduction/(increase) in inventories		4,097	(5,115)
Reduction/(increase) in other assets		(1,225)	(2,715)
Increase/(reduction) in trade and other payables		2,883	(1,779)
Reversal of deferred lease liabilities	27	3,783	–
Increase/(reduction) in provisions		715	1,385
Net cash from operating activities		103,984	62,093

## OPERATING ASSETS AND LIABILITIES

	Consolidated	
	2020 \$000	2019 \$000
<b>11. Trade and other receivables</b>		
<b>Current</b>		
Trade receivables	26,929	20,177
Less: expected credit loss provision	(2,234)	(1,343)
Other debtors	612	173
	<b>25,307</b>	<b>19,007</b>
<b>12. Inventory</b>		
Raw materials	11,666	9,667
Work in progress	14,622	14,003
Finished goods	6,318	13,033
	<b>32,606</b>	<b>36,703</b>
In FY20, inventories of \$134.760 million (2019: \$102.216 million) were recognised as an expense and included in cost of sales.		
<b>13. Other assets</b>		
Prepayments	3,326	3,811
Net foreign currency hedge receivable	505	–
Project work in progress	2,063	832
Other	520	546
	<b>6,414</b>	<b>5,189</b>
<b>14. Assets held for sale</b>		
Freehold land	–	3,750
<b>Reconciliation</b>		
Carrying amount at beginning of year	3,750	3,750
Disposals	(3,750)	–
<b>Carrying amount at end of year</b>	<b>–</b>	<b>3,750</b>
In FY18, the company signed a contract for the sale of its Newton property and the settlement took place in FY20.		
<b>15. Property, plant and equipment</b>		
Leasehold property at cost	1,190	1,134
Accumulated depreciation	(668)	(566)
	<b>522</b>	<b>568</b>
Plant and equipment at cost	38,312	33,703
Accumulated depreciation	(26,616)	(23,346)
	<b>11,696</b>	<b>10,357</b>
Capital work in progress at cost	1,958	3,201
<b>Total property, plant and equipment</b>	<b>14,176</b>	<b>14,126</b>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
for the year ended 30 June 2020 (continued)

**OPERATING ASSETS AND LIABILITIES (continued)**

	Consolidated	
	2020	2019
	\$000	\$000
<b>15. Property, plant and equipment (continued)</b>		
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
<b>Leasehold property improvements</b>		
Carrying amount at beginning of year	568	360
Additions	16	288
Transfers	32	2
Disposals	–	–
Depreciation	(98)	(90)
Net foreign currency differences on translation of foreign entities	4	8
<b>Carrying amount at end of year</b>	<b>522</b>	<b>568</b>
<b>Plant and equipment</b>		
Carrying amount at beginning of year	10,357	10,802
Additions	2,080	1,541
Transfers	2,874	429
Disposals	(24)	(41)
Depreciation	(3,629)	(2,478)
Net foreign currency differences on translation of foreign entities	38	104
<b>Carrying amount at end of year</b>	<b>11,696</b>	<b>10,357</b>
<b>Capital work in progress at cost</b>		
Carrying amount at beginning of year	3,201	1,327
Additions	1,717	1,874
Transfers	(2,960)	–
<b>Carrying amount at end of year</b>	<b>1,958</b>	<b>3,201</b>
<b>Total carrying amount at end of year</b>	<b>14,176</b>	<b>14,126</b>



		Consolidated	
	Note	2020 \$000	2019 \$000
<b>16. Product development</b>			
Product development at cost		170,311	152,153
Accumulated amortisation and impairment losses		(102,534)	(82,296)
		67,777	69,857
<b>Reconciliation</b>			
Carrying amount at beginning of year		69,857	59,830
Capitalised in current period		18,769	20,453
Impairment	17	(7,518)	–
Amortisation		(12,748)	(11,484)
Net foreign currency differences on translation of foreign entities		(583)	1,058
		67,777	69,857
<b>17. Intangible assets</b>			
Intellectual property at cost		21,976	21,981
Accumulated amortisation		(20,272)	(19,810)
		1,704	2,171
Computer software at cost		10,664	10,254
Accumulated amortisation		(9,911)	(9,624)
		753	630
Licences at cost		5,741	5,717
Accumulated amortisation		(5,268)	(4,971)
		473	746
Goodwill		83,816	84,280
<b>Total intangible assets</b>		<b>86,746</b>	<b>87,827</b>
<b>Reconciliations</b>			
<b>Intellectual property</b>			
Carrying amount at beginning of year		2,171	2,319
Additions		24	226
Amortisation		(409)	(409)
Net foreign currency differences on translation of foreign entities		(82)	35
		1,704	2,171
<b>Computer software</b>			
Carrying amount at beginning of year		630	323
Additions		343	590
Transfers from capital work in progress		54	21
Amortisation		(291)	(289)
Disposals		–	(21)
Net foreign currency differences on translation of foreign entities		17	6
		753	630

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## OPERATING ASSETS AND LIABILITIES (continued)

### 17. Intangible assets (continued)

	Consolidated	
	2020 \$000	2019 \$000
<b>Licences</b>		
Carrying amount at beginning of year	746	965
Acquisitions	45	276
Amortisation	(297)	(495)
Net foreign currency differences on translation of foreign entities	(21)	–
	473	746
<b>Goodwill</b>		
Carrying amount at beginning of year	84,280	82,978
Net foreign currency differences on translation of foreign entities	(464)	1,302
	83,816	84,280
The following segments have significant carrying amounts of goodwill:		
Communications	21,321	21,785
Metal Detection	53,957	53,957
Tracking Solutions	8,538	8,538
	83,816	84,280

#### Goodwill

The recoverable amount of cash generating units has been determined using value-in-use calculations.

The Communications and Metal Detection cash-generating units are well established businesses, and the approach to the value-in-use calculations for these units is similar. The first year of the cash flow forecasts is based on management's internal forecasts, and cash flows are forecast for a five-year period. The key assumption driving the value-in-use valuation is the level of sales, which is based on management assessment having regard to the demand expected from customers, the global economy and the businesses' competitive position. Other assumptions relate to the level of gross margins achieved on sales and the level of expense required to run the business, these assumptions reflect past experience. A terminal value has been determined at the conclusion of five years assuming a long-term growth rate of 3%. A pre-tax discount rate of 11% (FY19: 11%) has been applied to the forecast cash flows. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating units.

Tracking Solutions which comprises Minetec was acquired by Codan in 2012 and over the past eight years, Minetec has developed unique high precision, productivity and safety solutions for underground hard-rock mines.

The strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability levels that will make a significant contribution to the Codan group. As previously announced, in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. ("CAT"). We have since integrated Minetec's high-precision tracking capability into the CAT MineStar® solution for underground hard-rock mines and the focus is to now leverage CAT's global dealer network to expand sales.

During FY20, the Board conducted a strategic review of our Tracking Solutions business. Under the global partnership agreement with CAT, Minetec is transitioning to a software systems business, developing, delivering and supporting technology to CAT and their end-user customers. This transition, coupled with the fact that Minetec did not meet Codan's profit expectations in FY20, has resulted in a decision to write down the capitalised product development that pre-dates the CAT relationship, which was \$7.518 million.

In performing the value-in-use calculations for the Minetec business, the first year of the cash flow forecasts is based on management's internal forecasts. Cash flows are forecast for a five-year period. The key assumption to the valuation scenario is the level of sales achieved by this business. Management have increased the sales in years two to five by a generally accepted long-term growth rate of 3%. Other assumptions relate to the level of gross margins achieved on sales, the level of expense to run the business and working capital requirements, and these assumptions are reflective of Codan's past experience with technology-based businesses. A terminal value has been determined at the conclusion of five years assuming a long-term growth rate of 3%. A pre-tax discount rate of 14% (FY19: 14%) has been applied to the forecast cash flows.

The key risk to the value-in-use calculations is that the mining industry does not adopt CAT MineStar®. If Minetec's revenue and cost base from the FY21 plan were to remain flat over the forecast period, the recoverable amount of the Minetec cash-generating unit would support its carrying amount. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating unit.

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>18. Trade and other payables</b>		
<b>Current</b>		
Trade payables	21,548	22,634
Other payables and accruals	25,496	21,319
Net foreign currency hedge payable	–	208
	<b>47,044</b>	<b>44,161</b>
<b>19. Provisions</b>		
<b>Current</b>		
Employee benefits	6,238	6,235
Warranty repairs	1,921	1,798
	<b>8,159</b>	<b>8,033</b>
<b>Reconciliation of warranty provision</b>		
Carrying amount at beginning of year	1,798	1,452
Provisions made	1,514	1,644
Payments made	(1,391)	(1,298)
	<b>1,921</b>	<b>1,798</b>
<b>Non-current</b>		
Employee benefits	1,781	1,192

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## CAPITAL MANAGEMENT

	Consolidated	
	2020	2019
	\$000	\$000

### 20. Share capital

#### Share capital

Opening balance (179,227,907 ordinary shares fully paid)	43,761	42,721
Issue of share capital through vested performance rights	985	794
Issue of share capital through employee share plan	–	246
<b>Closing balance (179,992,883 ordinary shares fully paid)</b>	<b>44,746</b>	<b>43,761</b>

#### Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the winding up of the company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds on liquidation.

### 21. Reserves

Foreign currency translation	4,552	6,712
Hedging reserve	353	(146)
Equity based payment reserve	2,802	2,105
Profit reserve	58,981	58,981
	<b>66,688</b>	<b>67,652</b>

#### Foreign currency translation

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

Balance at beginning of year	6,712	3,588
Net translation adjustment	(2,160)	3,124
Balance at end of year	<b>4,552</b>	<b>6,712</b>

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments (net of tax) related to hedged transactions that have not yet occurred.

Balance at beginning of year	(146)	(430)
Gains/(losses) on cash flow hedges taken to/from hedging reserve	499	284
Balance at end of year	<b>353</b>	<b>(146)</b>

#### Equity based payment reserve

The equity based payment reserve comprises Codan Limited's accumulated expenses in relation to unvested performance rights.

Balance at beginning of year	2,105	2,187
Performance rights expensed	1,682	712
Performance rights vested	(985)	(794)
Balance at end of year	<b>2,802</b>	<b>2,105</b>

#### Profit reserve

The profit reserve comprises a portion of Codan Limited's accumulated profits.

Balance at beginning of year	58,981	58,981
Balance at end of year	<b>58,981</b>	<b>58,981</b>



## 22. Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the level of dividends paid to ordinary shareholders and the overall return on capital.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, and the advantages and security afforded by a sound capital position. This approach has not changed from previous years. Neither the company nor any of its subsidiaries is subject to externally imposed capital requirements.

## GROUP STRUCTURE

### 23. Group entities

Name	Country of incorporation	Class of share	Interest held	
			2020 %	2019 %
Parent Entity				
Codan Limited	Australia	Ordinary		
Controlled Entities				
Codan Defence Electronics Pty Ltd	Australia	Ordinary	100	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	100	100
Codan Radio Communications ME DMCC	UAE	Ordinary	100	100
Codan Radio Communications Pty Ltd	Australia	Ordinary	100	100
Codan (UK) Limited	England	Ordinary	100	100
Codan US Inc	USA	Ordinary	100	100
Daniels Electronics Ltd	Canada	Ordinary	100	100
Minelab Americas Inc	USA	Ordinary	100	100
Minelab do Brasil Equipamentos Para Mineração Ltda	Brazil	Ordinary	100	100
Minelab Electronics Pty Limited	Australia	Ordinary	100	100
Minelab International Limited	Ireland	Ordinary	100	100
Minelab MEA General Trading LLC	UAE	Ordinary	49	49
Minelab Mining Pro (FZE)	UAE	Ordinary	100	100
Minelab Mining Pro General Trading (FZC)	UAE	Ordinary	50	50
Minetec Pty Ltd	Australia	Ordinary	100	100
Minetec RSA (Pty) Ltd	South Africa	Ordinary	100	100

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## GROUP STRUCTURE (continued)

### 24. Deed of cross guarantee

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, the wholly-owned subsidiary listed below is relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial and directors' reports.

It is a condition of the Class Order that the company and its subsidiary enter into a Deed of Cross Guarantee. The effect of the Deed is that the company guarantees to each creditor payment in full of any debt in the event of the winding up of the subsidiary under certain provisions of the Corporations Act 2001.

If a winding up occurs under the provisions of the Act, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiary has also given similar guarantees in the event that the company is wound up.

Minelab Electronics Pty Limited is the only subsidiary subject to the Deed. Minelab Electronics Pty Limited became a party to the Deed on 22 June 2009, by virtue of a Deed of Assumption.

A summarised consolidated income statement and a consolidated balance sheet, comprising the company and controlled entity which is a party to the Deed, after eliminating all transactions between the parties to the Deed of Cross Guarantee, is set out as follows:

	Consolidated	
	2020	2019
	\$000	\$000
<b>Summarised income statement and retained earnings</b>		
Profit before tax	87,334	60,422
Income tax expense	(28,058)	(17,398)
<b>Profit after tax</b>	<b>59,276</b>	<b>43,024</b>
<b>Retained earnings at beginning of year</b>	<b>82,894</b>	<b>66,743</b>
Adoption of AASB 16 (net of tax)	(587)	–
<b>Revised retained earnings at beginning of year</b>	<b>82,307</b>	<b>66,743</b>
<b>Retained earnings at end of year</b>	<b>114,585</b>	<b>82,894</b>
<b>Balance sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	85,819	29,583
Trade and other receivables	43,097	44,021
Inventories	25,785	28,938
Assets held for sale	–	3,750
Other assets	3,106	3,720
<b>Total current assets</b>	<b>157,807</b>	<b>110,012</b>
<b>Non-current assets</b>		
Investments	32,976	32,976
Right-of-use assets	23,522	–
Property, plant and equipment	12,320	11,919
Product development	43,868	39,982
Intangible assets	55,468	55,804
<b>Total non-current assets</b>	<b>168,154</b>	<b>140,681</b>
<b>Total assets</b>	<b>325,961</b>	<b>250,693</b>

<b>Current liabilities</b>		
Trade and other payables	40,921	39,914
Other liabilities	8,585	6,705
Current tax payable	11,937	1,568
Lease liability	3,775	–
Provisions	6,494	6,175
<b>Total current liabilities</b>	<b>71,712</b>	<b>54,362</b>
<b>Non-current liabilities</b>		
Lease liability	24,747	–
Deferred tax liabilities	3,922	4,306
Provisions	1,535	1,000
<b>Total non-current liabilities</b>	<b>30,204</b>	<b>5,306</b>
<b>Total liabilities</b>	<b>101,916</b>	<b>59,668</b>
<b>Net assets</b>	<b>224,045</b>	<b>191,025</b>
<b>Equity</b>		
Share capital	44,746	43,761
Reserves	64,714	64,370
Retained earnings	114,585	82,894
<b>Total equity</b>	<b>224,045</b>	<b>191,025</b>

## 25. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2020, the parent company of the group was Codan Limited.

	<b>Company</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>Result of parent entity</b>		
Profit after tax for the period	57,194	45,304
Other comprehensive income	2,136	1,154
<b>Total comprehensive income for the period</b>	<b>59,330</b>	<b>46,458</b>
<b>Financial position of parent entity at year end</b>		
Current assets	140,836	98,065
Total assets	289,288	221,128
Current liabilities	51,242	43,066
Total liabilities	85,403	48,575
<b>Total equity of the parent entity comprising:</b>		
Share capital	44,746	43,761
Reserves	62,271	61,532
Retained earnings	96,868	67,260
<b>Total equity</b>	<b>203,885</b>	<b>172,553</b>

During the year, Codan Limited entered into contracts to purchase plant and equipment for \$945,000 (2019: \$1,264,000).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## OTHER NOTES

	Consolidated	
	2020	2019
	\$	\$
<b>26. Auditor's remuneration</b>		
<b>Audit services:</b>		
KPMG – audit and review of financial reports – Group	221,944	214,763
KPMG – audit and review of financial reports – Controlled entities	9,315	–
Other firms – audit and review of financial reports	66,382	87,285
<b>Assurance services:</b>		
KPMG – royalty agreement assurance services	10,945	–
<b>Other services:</b>		
KPMG – taxation advice and compliance services	49,383	55,973
KPMG – other services	–	40,466
Other firms – taxation advice and compliance services	19,339	16,971
Other firms – other services	33,364	44,003
	<b>410,672</b>	<b>459,461</b>

## 27. Leases and commitments

Effective from 1 July 2019, the group adopted AASB 16 Leases, requiring an amendment to its accounting policies. This note explains the impact to the group's financial statements from adopting AASB 16 and discloses the new accounting policies that have been applied.

### AASB 16 Leases – Transition approach

The group has adopted AASB 16 using the simplified transition approach and has not restated comparative amounts. The group has measured its lease liabilities at the present value of the remaining lease payments, discounted using the appropriate incremental borrowing rates as of 1 July 2019. The associated right-of-use assets were measured on transition as if the new Standard had been applied since the commencement date of the lease. The main type of leases of the group impacted by AASB 16 are leases for offices, warehouses and manufacturing facilities. The adjustments arising from the new leasing rules are recognised in the opening balance of retained earnings on 1 July 2019.

The group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.



<b>Adjustments to the Statement of Financial Position at 1 July 2019</b>	<b>\$000</b>
Right-of-use assets recognised	28,546
Lease liabilities recognised	(33,537)
Deferred tax assets (net) recognised	351
Reversal of deferred lease liabilities	3,783
Retained earnings reduction	(857)
<b>Reconciliation of non-cancellable operating lease commitments to lease liabilities at 1 July 2019</b>	
Operating lease obligation 30 June 2019	41,184
less:	
Short-term and low value leases	(307)
Commitments reassessed as having no leasing arrangements	(3,709)
add:	
Reasonably certain extension clauses	509
<b>Undiscounted lease liabilities at 1 July 2019</b>	<b>37,677</b>
Current lease liabilities	3,668
Non-current lease liabilities	29,869
<b>Discounted lease liabilities at 1 July 2019 *</b>	<b>33,537</b>

\* The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 July 2019 was 2.27%.  
To assist with the understanding of the impact of the application of AASB 16 in this initial period refer to the following summary:

<b>Right-of-use assets</b>	
Balance at 1 July 2019	28,546
Additions	–
Depreciation	(3,179)
Balance at 30 June 2020	25,367
<b>Lease Liabilities</b>	
Balance at 1 July 2019	33,537
Finance charge on lease liabilities	703
Lease payments	(3,686)
Balance at 30 June 2020	30,554
<b>of which are:</b>	
Current lease liabilities	3,775
Non-current lease liabilities	26,779

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## OTHER NOTES (continued)

### 27. Leases and commitments (continued)

The following table has been included to compare the new accounting treatment under AASB 16 with how the same transactions would have been shown under the previous AASB 117 for the period from 1 July 2019 to 30 June 2020:

	Income Statement \$000	Statement of cash flows \$000
<b>Previous AASB 117 accounting treatment</b>		
Expenses (lease payments)	(3,686)	
Expenses (lease payments short-term leases)	(153)	
Cash flows from operating activities		(3,839)
<b>Total</b>	<b>(3,839)</b>	<b>(3,839)</b>
<b>New AASB 16 treatment</b>		
Expenses (lease payments short-term leases)	(153)	
Finance charge on lease liabilities	(703)	
Depreciation right-of-use asset	(3,179)	
Cash flows from operating activities		(856)
Cash flows from financing activities		(2,983)
<b>Total</b>	<b>(4,035)</b>	<b>(3,839)</b>

#### Leases

A lease arrangement is one that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group does not recognise lease arrangements in respect of intangible assets. The payments associated with short-term lease arrangements and leases of low-value assets are recognised on a straight-line basis in the Income Statement. Short-term leases are leases with a lease term of 12 months or less. The group applies the requirements of the leasing standard on a lease-by-lease basis.

#### Right-of-use assets

The group recognises a right-of-use asset and a lease liability at the commencement date of the lease arrangement. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to dismantle or remediate the underlying asset, less any lease incentives received. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. In addition, the right-of-use asset may be adjusted periodically due to remeasurements of the lease liability.

#### Lease liabilities

The lease liability is initially measured at the present value of the outstanding lease payments at the commencement date of the arrangement, discounted using the borrowing rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally, the group uses its incremental borrowing rate as the discount rate.

Some property leases contain extension options exercisable by the group. The group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

The lease liability is subsequently measured through increasing the carrying amount to reflect interest on the lease liability, less lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

**Capital Expenditure Commitments**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>Aggregate amount of contracts for capital expenditure</b>		
Within one year	<b>951</b>	1,589
One year or later and no later than five years	–	–
	<b>951</b>	<b>1,589</b>

**28. Additional financial instruments disclosure****Financial risk management****Overview**

The group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework.

The Board Audit, Risk and Compliance Committee is responsible for developing and monitoring risk management policies. The committee reports regularly to the board on its activities.

Risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board Audit, Risk and Compliance Committee oversees how management monitors compliance with the group's risk management policies and procedures, and reviews the adequacy of the risk framework in relation to the risks faced by the group.

**(a) Credit risk**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers and bank accounts.

The credit risk on the financial assets of the consolidated entity is the carrying amount of the asset, net of any impairment losses recognised.

The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. As at 30 June 2020, the customer with the group's highest trade and other receivable balance accounted for \$6.5 million (2019: \$4.2 million).

**Trade and other receivables**

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

The group has established a credit policy under which new customers are analysed for credit worthiness before the group's payment and delivery terms and conditions are offered.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the group may have a secured claim. The group does not normally require collateral in respect of trade and other receivables.

The group has established an allowance for expected credit losses that represents its estimate of losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets. This allowance has taken into account the increased credit risk currently being caused by COVID-19.

**Guarantees**

Group policy is to provide financial guarantees only to wholly owned subsidiaries.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## OTHER NOTES (continued)

### 28. Additional financial instruments disclosure (continued)

#### (a) Credit risk (continued)

The carrying amount of the group's financial assets represents the maximum credit exposure. The group's maximum exposure to credit risk at the reporting date was:

	Note	Consolidated	
		2020 \$000	2019 \$000
Cash and cash equivalents	8	92,830	37,521
Trade and other receivables	11	25,307	19,007
The group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:			
Australia/Oceania		6,443	4,083
Europe		1,301	5,103
Americas		11,644	2,874
Asia		2,283	5,368
Africa/Middle East		5,258	2,749
		26,929	20,177

#### Impairment losses

The aging of the group's trade receivables at the reporting date was:

	Consolidated			
	Gross 2020 \$000	Impairment 2020 \$000	Gross 2019 \$000	Impairment 2019 \$000
Not past due	17,253	(1,262)	16,112	(795)
Past due 0–30 days	7,960	(151)	2,840	–
Past due 31–60 days	791	(102)	66	–
Past due 61–120 days	104	(2)	504	–
More than 120 days	821	(717)	655	(548)
	26,929	(2,234)	20,177	(1,343)

Trade receivables have been reviewed, taking into consideration letters of credit held and the credit assessment of the individual customers. The impairment recognised is considered appropriate for the credit risk remaining.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Consolidated	
	2020 \$000	2019 \$000
Balance at 1 July	1,343	459
Impairment loss/(reversal) recognised	1,236	905
Trade receivables written off to the allowance for impairment	(345)	(21)
<b>Balance at 30 June</b>	<b>2,234</b>	<b>1,343</b>



**(b) Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and without incurring unacceptable losses or risking damage to the group's reputation. Refer to note 9 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

	Carrying amount \$000	Contractual cash flows \$000	12 months or less \$000	1–5 years \$000	More than 5 years \$000
<b>30 June 2020</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	47,044	(47,044)	(47,044)	–	–
Lease liabilities	30,554	(34,338)	(3,775)	(12,624)	(17,939)
	77,598	(81,382)	(50,819)	(12,624)	(17,939)
<b>Derivative financial liabilities</b>					
Net foreign currency hedge payables	–	–	–	–	–
	–	–	–	–	–
<b>30 June 2019</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	43,953	(43,953)	(43,953)	–	–
Lease liabilities	–	–	–	–	–
	43,953	(43,953)	(43,953)	–	–
<b>Derivative financial liabilities</b>					
Net foreign currency hedge payables	208	(208)	(208)	–	–
	208	(208)	(208)	–	–

**(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the policy set by the board. Generally, the group seeks to apply hedge accounting in order to manage volatility in the income statement.

The net fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of the contractual future cash flows on amounts due from customers (reduced for expected credit losses), or due to suppliers. The carrying amount of financial assets and financial liabilities approximates their net fair values.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

### OTHER NOTES (continued)

#### 28. Additional financial instruments disclosure (continued)

##### (c) Market risk (continued)

##### Interest Rate Risk

###### Profile

At the reporting date, the interest rate profile of the group's interest-bearing financial instruments was:

	Consolidated	
	2020 \$000	2019 \$000
<b>Fixed rate instruments</b>		
Financial assets	40,000	15,017
Financial liabilities	–	–
	<b>40,000</b>	<b>15,017</b>
<b>Variable rate instruments</b>		
Financial assets	52,830	22,504
Financial liabilities	–	–
	<b>52,830</b>	<b>22,504</b>

##### Cash flow sensitivity

If interest rates varied by 100 basis points for the full financial year, then based on the balance of variable rate instruments held at the reporting date, profit and equity would have been affected as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2019.

	Profit/(loss) before tax		Reserve	
	100 bp increase \$000	100 bp decrease \$000	100 bp increase \$000	100 bp decrease \$000
<b>30 June 2020</b>				
Variable rate instruments	528	(528)	–	–
<b>30 June 2019</b>				
Variable rate instruments	225	(225)	–	–

##### Currency risk

The group is exposed to currency risk on sales, purchases and balance sheet accounts that are denominated in a currency other than the respective functional currencies of group entities, primarily the Australian dollar (AUD). The currencies in which these transactions are denominated are primarily USD and EUR.

The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally in USD). The terms of these commitments are usually less than 12 months. As at the reporting date, the group has entered into a mix of forward exchange contracts and collar hedge instruments which will limit the foreign exchange risk on USD \$18,000,000 of FY21 cash flows. On average, the collars give protection above 69 cents and enable participation down to 64 cents, and the average forward exchange contract rate is 67 cents.

## CODAN LIMITED AND ITS CONTROLLED ENTITIES

The group's exposure to foreign currency risk (in AUD equivalent), after taking into account hedge transactions at reporting date, was as follows:

	Consolidated	
	EUR \$000	USD \$000
<b>30 June 2020</b>		
Cash and cash equivalents	580	5,698
Trade receivables	576	16,795
Trade payables	(164)	(17,260)
<b>Gross balance sheet exposure</b>	<b>992</b>	<b>5,233</b>
Hedge transactions relating to balance sheet exposure	–	(2,914)
<b>Net exposure at the reporting date</b>	<b>992</b>	<b>2,319</b>
<b>30 June 2019</b>		
Cash and cash equivalents	441	4,348
Trade receivables	542	9,431
Trade payables	(30)	(11,953)
<b>Gross balance sheet exposure</b>	<b>953</b>	<b>1,826</b>
Hedge transactions relating to balance sheet exposure	–	(4,278)
<b>Net exposure at the reporting date</b>	<b>953</b>	<b>(2,452)</b>

### Sensitivity analysis

Given the foreign currency balances included in the balance sheet as at reporting date, if the Australian dollar at that date strengthened by 10%, then the impact on profit and equity arising from the balance sheet exposure would be as follows:

	Consolidated	
	Reserve credit/(debit) \$000	Profit/(loss) before tax \$000
<b>2020</b>		
EUR	–	(90)
USD	(46)	(211)
	<b>(46)</b>	<b>(301)</b>
<b>2019</b>		
EUR	–	(87)
USD	19	223
	<b>19</b>	<b>136</b>

A 10% weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2020 (continued)

### OTHER NOTES (continued)

#### 28. Additional financial instruments disclosure (continued)

##### (d) Fair value hierarchy

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 current year, financial instruments valued at fair value were limited to net foreign currency hedge receivable of \$505,000, for which an independent valuation was obtained from the relevant banking institution.

	Consolidated	
	2020 \$000	2019 \$000
<b>29. Employee benefits</b>		
<b>Aggregate liability for employee benefits, including on-costs:</b>		
Current - short-term incentives and other accruals	8,917	6,790
Current - employee entitlements	6,238	6,235
Non-current - employee entitlements	1,781	1,192
	<b>16,936</b>	<b>14,217</b>
The present values of employee entitlements not expected to be settled within 12 months of the reporting date have been calculated using the following weighted averages:		
Assumed rate of increase in wage and salary rates	3.00%	3.00%
Discount rate	2.51%	2.81%
Settlement term	10 years	10 years

##### Employee Share Plan

On 19 December 2012, the directors approved the establishment of an Employee Share Plan (ESP). The ESP is designed to recognise the contribution made by employees to the group, and provides eligible employees with an opportunity to share in the future growth and profitability of the company by offering them the opportunity to acquire shares in the company.

No employee shares were issued during the financial year ended 30 June 2020.

##### Performance Rights Plan

At the 2004 AGM, shareholders approved the establishment of a Performance Rights Plan (Plan). The Plan is designed to provide employees with an incentive to maximise the return to shareholders over the long term, and to assist in the attraction and retention of key employees.

##### Performance rights issued in financial year 2018

The company issued 124,524 performance rights in November 2017 to the chief executive officer. The fair value of the rights was on average \$1.80 based on the Black-Scholes formula. The model inputs were: the share price of \$2.26, no exercise price, expected volatility 39%, dividend yield 5.8%, a term of three years and a risk-free rate of 2.6%.

The company issued 416,536 performance rights in December 2017 to certain employees. The fair value of the rights was on average \$1.67 based on the Black-Scholes formula. The model inputs were: the share price of \$2.09, no exercise price, expected volatility 37%, dividend yield 6.2%, a term of three years and a risk-free rate of 2.6%. Due to the departure of employees, 51,511 performance rights have been cancelled. The total expense recognised as employee costs in 2020 in relation to the performance rights issued was \$141,917 (2019: \$347,630).



The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share as set by the board, which was 14.9 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

The group's earnings per share over the three-year period to 30 June have exceeded the performance target. Therefore, it is expected that 489,549 shares will be issued to the relevant employees by the end of August 2020.

**Performance rights issued in financial year 2019**

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 4.0%, a term of three years and a risk-free rate of 2.7%. Due to the departure of employees, 19,676 performance rights have been cancelled. The total expense recognised as employee costs in 2020 in relation to the performance rights issued was \$553,031 (2019: \$418,163).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share as set by the board, which was 15.6 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company.

**Performance rights issued in financial year 2020**

The company issued 349,991 performance rights in November 2019 to certain employees. The fair value of the rights was on average \$5.22 based on the Black-Scholes formula. The model inputs were: the share price of \$6.31, no exercise price, expected volatility 31%, dividend yield 2.2%, a term of three years and a risk-free rate of 1.2%. Due to the departure of employees, 6,729 performance rights have been cancelled. The total expense recognised as employee costs in 2020 in relation to the performance rights issued was \$987,197.

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share as set by the board, which was 16.2 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company.

No performance rights have been issued since the end of the financial year.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 (continued)

## OTHER NOTES (continued)

### 30. Key management personnel disclosures

Transactions with key management personnel

#### (a) Loans to directors

There have been no loans to directors during the financial year.

#### (b) Key management personnel compensation

The key management personnel compensation included in "personnel expenses" (refer note 3) is as follows:

	Consolidated	
	2020 \$000	2019 \$000
Short-term employee benefits	5,041,701	4,541,357
Post-employment benefits	127,443	109,633
Share-based payments	920,355	712,852
Other long term benefits	57,122	135,289
	6,146,621	5,499,131

#### (c) Key management personnel transactions

From time to time, directors and specified executives, or their related parties, purchase goods from the group. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

### 31. Other related parties

All transactions with non-key management personnel related parties are on normal terms and conditions. Companies within the group purchase materials from other group companies. These transactions are on normal commercial terms. Loans between entities in the wholly owned group are repayable at call and no interest is charged.

### 32. Net tangible asset per share

	2020	2019
Net tangible asset per share	53.9 cents	34.1 cents

# DIRECTORS' DECLARATION

Codan Limited and its controlled entities

1. In the opinion of the directors of Codan Limited ("the company"):
  - a) the consolidated financial statements and notes that are set out on pages 53 to 92 and the remuneration report on pages 38 to 45 in the directors' report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
    - (ii) complying with *Australian Accounting Standards* 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.
2. There are reasonable grounds to believe that the company and the group entities identified in note 23 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those group entities pursuant to ASIC *Corporations (Wholly owned Companies) Instrument 2016/785*.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2020.
4. The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Mawson Lakes this 19<sup>th</sup> day of August 2020.



**D J Simmons**  
Director



**D S McGurk**  
Director

# INDEPENDENT AUDITOR'S REPORT



## Independent Auditor's Report

To the shareholders of Codan Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the Financial Report of Codan Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated balance sheet as at 30 June 2020;
- Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 30 June 2020;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.





### Key Audit Matters

The Key Audit Matter we identified was the valuation of the Group's Goodwill.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### Valuation of goodwill (\$83.816 million)

Refer note 17 to the financial report

#### The key audit matter

A key audit matter for us was the Group's annual testing of goodwill for impairment, given the size of the balance (being 24% of total assets).

We focussed on the significant forward-looking assumptions the Group applied in their value in use models, including forecast cash flows, growth rates during the forecast period, terminal growth rates and discount rates.

Our testing focussed on the carrying value of Tracking Solutions goodwill (\$8.538 million). Tracking Solutions, which comprises the Minetec business, is in the early stage of commercialisation of its products, with a significant global licencing, technology development and a marketing agreement with Caterpillar. The Group's ability to secure further market acceptance and full-scale operational deployment of its productivity and safety solutions depends on successful integration of Minetec and Caterpillar technology, forecast growth of the mining sector, leverage of the Caterpillar global dealer network and widespread uptake of the products. Minetec did not meet Codan's profit expectations in the current financial year.

The VIU models are internally developed and uses a range of internal and external data as inputs. Forward looking assumptions may be prone to greater risk of potential bias or error

These conditions increase the possibility of goodwill being impaired, raising our audit focus.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

#### How the matter was addressed in our audit

Our procedures included:

- We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards
- We assessed the integrity of the VIU model, including the accuracy of the underlying calculations.
- We compared the forecast cash flows contained in the VIU model to Board approved forecasts.
- We checked the consistency of the forecast cash flows to the Group's stated plans and strategy; using our knowledge of the Minetec business model, key customers and its early stage of commercialisation of its products.
- We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts included in the VIU models.
- We considered the sensitivity of the VIU models by varying key assumptions such as sales forecasts, gross margin, operating costs and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias and to focus our further procedures.
- Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities.
- We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

## INDEPENDENT AUDITOR'S REPORT (continued)



### Other Information

Other Information is financial and non-financial information in Codan Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our Auditor's Report.



#### Report on the Remuneration Report

##### Opinion

In our opinion, the Remuneration Report of Codan Limited for the year ended 30 June 2020, complies with *Section 300A of the Corporations Act 2001*.

##### Directors' responsibilities


The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

##### Our responsibilities

We have audited the Remuneration Report included in pages 38 to 45 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG  
KPMG

  
Paul Cenko  
Partner

Adelaide  
19 August 2020

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules not disclosed elsewhere in this report is set out below.

## Shareholdings as at 13 August 2020

### Substantial shareholders

The numbers of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number of ordinary shares
I B Wall and P M Wall	34,808,151
Interests associated with Starform Pty Ltd, Dareel Pty Ltd and Pinara Group Pty Ltd	27,027,925

### Distribution of equity security holders

Number of shares held	Number of equity security holders Ordinary shares	Issued Capital %
1 - 1,000	2,527	0.6%
1,001 - 5,000	2,024	2.9%
5,001 - 10,000	589	2.5%
10,001 - 100,000	577	8.2%
100,001 and Over	69	85.7%
<b>Total</b>	<b>5,786</b>	<b>100%</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 252.

### Securities exchange

The company is listed on the Australian Securities Exchange. The home exchange is Sydney.

### Other information

Codan Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

### On-market buy-back

There is no current on-market buy-back.



## Twenty largest shareholders

Name	Number of ordinary shares held	Issued Capital %
IB Wall and P M Wall	34,808,151	19.3%
HSBC Custody Nominees (Australia) Limited	23,431,166	13.0%
J P Morgan Nominees Australia Limited	18,620,665	10.3%
Dareel Pty Ltd	17,899,872	9.9%
Citicorp Nominees Pty Limited	9,191,386	5.1%
National Nominees Limited	7,763,335	4.3%
Kynola Pty Ltd	6,627,548	3.7%
Starform Pty Ltd	6,404,224	3.6%
A Bettison	3,562,124	2.0%
BNP Paribas Nominees Pty Ltd	3,476,987	1.9%
M K and M C Heard	2,737,399	1.5%
Warren Glen Pty Ltd	1,843,567	1.0%
Mitranikitan Pty Ltd	1,778,194	1.0%
J A Uhrig	1,235,853	0.7%
G Bettison	1,228,342	0.7%
Rosevine Pty Ltd	1,107,254	0.6%
Cedara Pty Ltd	1,107,254	0.6%
L F Choate	850,482	0.5%
Griffinna Pty Ltd	850,000	0.5%
UBS Nominees Pty Ltd	841,912	0.5%
<b>Total</b>	<b>145,365,715</b>	<b>80.7%</b>

## Offices and officers

### Company Secretary

Mr Michael Barton BA (ACC), CA

### Principal registered office

Technology Park  
2 Second Avenue  
Mawson Lakes, South Australia 5095

**Telephone:** (08) 8305 0311

**Facsimile:** (08) 8305 0411

**Internet address:** [www.codan.com.au](http://www.codan.com.au)

### Location of share registry

Computershare Investor Services Pty Limited  
GPO Box 1903  
Adelaide, South Australia 5001

# CORPORATE DIRECTORY

## Directors

**David Simmons** (Chairman)

**Donald McGurk** (Managing Director and Chief Executive Officer)

**Peter Leahy AC**

**Graeme Barclay**

**Kathy Gramp**

## Company Secretary

**Michael Barton**

## Principal registered office

Technology Park  
2 Second Avenue  
Mawson Lakes  
South Australia 5095

## Auditor

KPMG  
151 Pirie Street  
Adelaide  
South Australia 5000

## Location of share registry

Computershare Investor Services Pty Limited  
GPO Box 1903  
Adelaide  
South Australia 5001





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