



23 August 2016

Codan Limited
ABN 77 007 590 605
Technology Park
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Australia

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Australia

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

CONTINUED PROFIT AND DIVIDEND GROWTH

- Underlying net profit after tax of \$21.1 million, up 67% on 18% higher sales
- Statutory net profit after tax of \$15.5 million, up 24%
- Increased annual dividend to 6.0 cents, up 71%, fully franked
- Underlying earnings per share of 11.9 cents, up 68%
- Strong balance sheet - net debt reduced to \$12.6 million
- Broader product offering brings best Radio Communications result in seven years; contribution increased 15%
- Metal Detection contribution increased 55%, assisted by successful release of the GPZ 7000® gold detector in Africa
- Strategy to improve earnings stability by broadening markets and growing revenue base

Australian-based technology company, Codan Limited (ASX:CDA), today announced a 24% increase in statutory net profit after tax to \$15.5 million for the year ended 30 June 2016. Underlying net profit after tax was \$21.1 million, a 67% increase over FY15.

Directors announced a final dividend of 4.0 cents per share, fully franked, bringing the full year dividend to 6.0 cents, up 71%. The dividend has a record date of 15 September 2016 and will be paid on 4 October 2016.

"We are beginning to see the benefits of our significant investment in new product development across the Minelab, LMR and HF product platforms," Chief Executive Officer Donald McGurk said today.

"We have taken steps to get even closer to our customers by establishing a significant presence in Dubai to maximise sales and margins in the high-growth African and Middle East markets."

Financial Performance and Other Matters				
	FY16		FY15	
	\$m	% of sales	\$m	% of sales
Revenue				
Communications	65.0	38%	63.8	44%
Metal detection products	99.2	59%	73.3	51%
Tracking solutions	5.3	3%	4.8	3%
Other	-	-	2.0	2%
Total revenue	169.5	100%	143.9	100%
Underlying business performance				
EBITDA	41.9	25%	29.9	21%
EBIT	29.2	17%	19.3	13%
Interest	(1.7)	-	(2.5)	-
Net profit before tax	27.5	16%	16.8	12%
Taxation	(6.4)	-	(4.1)	-
Underlying net profit after tax	21.1	12%	12.7	9%
Non-recurring (expenses) after tax*:				
Loss on closure of business	-		(0.3)	
Restructuring expenses	(1.8)		-	
Newton building impairment	(1.0)		-	
Minetec asset impairment	(2.8)		-	
Net profit after tax	15.5		12.4	
Underlying earnings per share, fully diluted	11.9 cents		7.1 cents	
Statutory earnings per share, fully diluted	8.7 cents		7.0 cents	
Dividend per share	6.0 cents		3.5 cents	

**Non-underlying income/(expenses) are considered to be outside of normal business activities of the group and for comparability reasons have been separately identified. The methodology of identifying and quantifying these items is consistently applied from year to year. Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit.*

EBITDA and EBIT margins increased as a result of stronger gross margins in Communications and improved expense ratios on higher FY16 sales.

Performance by business unit:

Radio Communications – High Frequency (HF) Radios and Land Mobile Radios (LMR)

Radio Communications is a leading designer and manufacturer of premium communications equipment for High Frequency (HF) and Land Mobile Radio (LMR) applications. It provides communications solutions that allow customers to save lives, enhance security and support peacekeeping activities worldwide.

Radio Communications revenue increased 2% to \$65.0 million, and segment contribution increased 15% to \$17.4 million.

While FY16 delivered an excellent result, we are focused on our strategy to continually broaden our revenue base by expanding our current technology platforms to create new products that enable us to enter adjacent markets.

In FY16, we released a series of new LMR and HF products, including the Patrol® Manpack radio and the Cyclone® repeater, both of which enabled us to broaden our revenue base. More recently, in June 2016 the division launched its Sentry-V™ handheld tactical VHF radio, the first to launch from Codan's upcoming suite of military products.

Sales and marketing capability has also been strengthened by adding a number of key sales resources into Africa and the Middle East. This has given the business better market reach and brought it closer to its key customers and end users. In support of this approach, the sales headquarters for these regions has shifted from the United Kingdom to Dubai.

LMR performed strongly in FY16, delivering its highest ever sales over the 66 year history of the business, brought about by moving our focus to systems and solutions selling in the North American first responder market (ie. police officers, firefighters, paramedics, etc).

As previously announced, the Board has approved an additional engineering investment of approximately \$5 million to be spent over FY17 to accelerate the development of our expanded LMR product range. We have now recruited the majority of the 25 new engineers required to deliver these products, which will be released early in FY18. These LMR products are expected to drive growth in Radio Communications by enabling us to offer even higher value-add solutions to our customers.

FY16 was an excellent year for Radio Communications and, given the level of instability and conflict in some of our key markets, we expect to deliver a similar result in FY17 as we support our customers' ongoing efforts to promote security and peacekeeping in those regions. We have had a strong start to the year given the favourable timing of some large projects.

Metal Detection – Consumer, Gold Mining and Countermine

Minelab is the world leader in handheld metal detecting technologies for the consumer, gold mining, demining and military markets. Over the past 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 revenue increased 35% to \$99.2 million, and segment contribution increased 55% to \$29.8 million. While all parts of the Minelab business performed well, the largest part of this growth was driven by gold detector sales.

While sales of our newly released top of the range gold detector, the GPZ 7000®, were strong in the developed world, the most significant growth in our gold detector sales has come from the successful launch of this product into our African markets. The GPZ 7000® was launched in Africa in October 2015, and demand exceeded our initial expectations as the market quickly recognised the superior performance of this technology.

We have evidence that the adoption of this product is being driven by its superior performance rather than gold surges in isolated markets, which increases our confidence that sales will remain strong as we enter FY17.

Our improved result in FY16 was also helped by surges in demand from two key regions. While the duration of these surges can be uncertain, Minelab will continue to open up new African markets and maximise opportunities as and when they arise.

Sales of the entry level coin & treasure GO-FIND® detector strengthened during FY16 as Minelab signed a number of distribution agreements in the US and Europe which greatly improved market penetration. The GO-FIND® now represents a significant incremental revenue stream for Minelab, and this is expected to grow as we continue to broaden the product's international distribution.

The Countermine business also performed well during the year as a result of increased demining activities undertaken by humanitarian and government organisations.

Our strategy for Minelab is to maintain our competitive advantage across gold, consumer and countermine markets by continually innovating our products while expanding our critical routes to market.

In response to customer demand, two new products are planned for release in FY17. A larger coil for the GPZ 7000® will give a significant depth increase over the standard coil. In addition to this, an entry level gold detector will be released to the African market at the end of 2016. This product has been specifically designed for the African market to fill a gap in our product range and is expected to quickly take market share from competitors.

The Minelab business is strong due to the significant investment we have made to expand our product range and improve our distribution structure. While the African component of this business is difficult to forecast, these factors make us more confident of continued success in FY17.

Tracking Solutions - Minetec

Minetec offers tracking, productivity and safety solutions, predominantly for underground hard-rock mines. These solutions are based upon CSIRO's leading-edge WASP technology (Wireless Ad hoc System for Positioning) and Minetec's SMARTS™ proprietary software application suite which provides the core tracking and communication capability to enable real-time monitoring and control of mine operations. For the first time, underground miners can "see" the whole mine and manage issues, bottlenecks and constraints as they arise.

The journey toward autonomous mining is a real opportunity for Minetec's unique high-precision tracking and integrated real-time wireless communications, made possible by the integration of WASP technology and SMARTS™.

This enabling technology is expected to transform underground mining in the same way that Wi-Fi and GPS transformed open-pit mining two decades ago. Minetec now has a mine-ready, miner-proof suite of products that have been deployed in six operating mines.

These deployments form critical reference sites that demonstrate the technology is proven and delivers real operational benefits. Further to these successes, as announced in August 2016, Minetec has recently secured a multi-million dollar contract to deploy its full range of high-precision tracking, safety and task-management systems for an underground gold mine in Western Australia.

Minetec is focused on capitalising on its early successes and is targeting underground hard-rock gold, copper and diamond mines in Australia and South Africa. The division has unique intellectual property which we strongly believe is highly valued by our customers.

Minetec incurred losses of \$1.3 million in the first half and, as forecast in our half-year announcement, achieved a break-even result in the second half. We expect the business to build on this result and deliver a full year profit in FY17.

The carrying value of Minetec's capitalised product development, inventory and fixed assets has been reviewed and, as a result, the Board has written down the value by \$2.8 million after tax. This write-down relates to Minetec's assets which are not based on the high precision tracking (WASP) technology which is now the key focus of the business.

Leveraging our Defence capability

Codan has a long history of supplying the defence sector, with the company's HF radio systems and landmine detectors being used by military organisations worldwide. We have a core technical competency in the area of RF subsystem design, which is the basis of our metal detection and HF radio technologies.

These core design, manufacturing and support capabilities mean the company is well placed to provide further engineering solutions and manufacturing expertise to the Australian Defence sector, which has announced numerous, multi-billion dollar defence projects for Australia over the next 10+ years.

Defence contracts have long sales cycles and, as a consequence, we do not expect this new initiative to generate sales in FY17.

Corporate

In December 2015, Codan completed the move of all Adelaide operations to its new global headquarters in the Technology Park precinct at Mawson Lakes, South Australia. This world-class facility is now home to around 200 staff.

The company has successfully negotiated the renewal of its \$85 million debt facility for a further three years. Net borrowings decreased by \$28.2 million to \$12.6 million since 31 December 2015 due to our strong performance and good working capital management.

The company continues to pursue the sale of its vacant property at Newton, South Australia. It has been on the market since mid-2015 and, in light of current market conditions, the carrying value has been reassessed and written down by \$1.0 million. While the timing of this sale is uncertain, management anticipates that a transaction will be completed in FY17.

The Board completed its succession planning process during the year with the appointment of Kathy Gramp in November 2015. Ms Gramp now chairs the Board Audit, Risk and Compliance Committee. Mr David Klingberg and Mr Peter Griffiths retired from the Board during the year.

Outlook

The Board and management remain committed to delivering more stable results for shareholders and profit improvement over the long term. This will be achieved by continuing to develop new innovative product platforms, broadening our customer base and seeking further investment opportunities aligned with our core business.

Due to a number of major project awards that are certain to be delivered in the first half of FY17, the Board expects the company to have a stronger first half in FY17 compared to last year.

The Board intends to provide a further business update at the Annual General Meeting in October.

On behalf of the Board



Michael Barton
Company Secretary

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.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-

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Codan Limited

**Appendix 4E
Preliminary Final Report under ASX Listing Rule 4.3A**

For the year ended 30 June 2016

ABN

77 007 590 605

Previous corresponding period

30 June 2015

Results for announcement to the market				\$A'000
Revenue from ordinary activities	Up	17.8%	to	169,540
Profit from ordinary activities after tax attributable to members	Up	23.9%	to	15,495
Underlying profit after tax	Up	66.9%	to	21,135
Dividends	Amount per security		Franked amount per security at 30% tax	
Final dividend	4.0 cents		4.0 cents	
Interim dividend	2.0 cents		2.0 cents	
Record date for determining entitlements to dividends:	15 September 2016			
<i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i>				
The 30 June 2016 Financial Report and the Market Announcement dated 23 August 2016 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E). Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit.				
This report is based on financial statements that have been audited. The audit report is included in the 30 June 2016 Financial Report.				

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

**Financial Report
30 June 2016**

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DIRECTORS' REPORT

Codan Limited and its Controlled Entities

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 2016 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:

Name and qualifications

Mr David Simmons

BA (Acc)
Chairman,
Independent Non-Executive
Director

Mr Donald McGurk

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

Mr Peter Griffiths

B.Ec (Hons), CPA, FAICD
Independent Non-Executive
Director

Experience

Mr Simmons was appointed by the board as Chairman in February 2015 and has been a director of Codan since May 2008. He has worked in the manufacturing industry throughout his career and has extensive financial and general management experience. Mr Simmons joined Hills Industries Limited in 1984, where he was appointed Finance Director in 1987 and Managing Director in 1992. He retired from Hills Industries Limited in June 2008. Mr Simmons is a former director of Lighting Investments Australia Holdings Pty Ltd. He is Chairman of Commercial Motor Vehicles Group and a board member of the Detmold Group.

Mr McGurk was appointed to the board as a director in May 2010, and was appointed as Managing Director in November 2010. Mr McGurk 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 Mr McGurk 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. Mr McGurk came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries. Mr McGurk holds a Masters Degree in Business Administration from Adelaide University and completed the Advanced Management Program at Harvard University in 2010. He is a board member of Bedford Phoenix Incorporated.

Mr Griffiths retired from the board at the end of May 2016. He was appointed to the board in July 2001. He is a former senior executive of Coca-Cola Amatil Limited, with 10 years of experience working in Central and Eastern Europe and South East Asia. He had previously held the positions of Company Secretary, Chief Financial Officer and Managing Director of C-C Bottlers Limited, and held board positions in Australia, New Zealand and the USA. Mr Griffiths is a Certified Practising Accountant and a former President of the South Australian branch of the Financial Executives Institute, as well as State and Federal President of the Australian Soft Drink Association Ltd. Mr Griffiths has also been a director of several not-for-profit organisations.

DIRECTORS (CONTINUED)

Name and qualifications

Mr David Klingberg AO

FTSE, BTech (Civil), DUniSA, FIEAust,
FAusIMM, FAICD
Independent Non-Executive
Director

Lt-Gen Peter Leahy AC

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

Mr Jim McDowell

LLB (Hons)
Independent Non-Executive
Director

Experience

Mr Klingberg retired from the board in October 2015. He was appointed to the board in July 2005. He is an engineer with extensive national and international experience, having been Managing Director of Kinhill Limited from 1986 to 1998, where he played a major role in developing the small, Adelaide-based group into one of the largest and most successful firms of professional engineers in Australia and South East Asia. Mr Klingberg was Chancellor of the University of South Australia for 10 years, retiring in 2008. He is Chairman of Centrex Metals Limited and a director of E & A Limited. He has previously held the positions of Chairman of Barossa Infrastructure Limited and the South Australian Premier's Climate Change Council, and was a member of the boards of Snowy Hydro Limited and Invest in SA. He is a patron of the St Andrew's Hospital Foundation. In 2009 Mr Klingberg was made an Officer of the Order of Australia for his contributions to governance policy in the tertiary education sector and to commercial and economic development and infrastructure projects.

Lieutenant General Leahy was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37-year career and 6 years as Chief of Army. His distinguished service was recognised with his 2007 appointment as 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 is a member of the Defence South Australia Advisory Board, a director of Citadel Group Limited and a director of Electro Optic Systems Holdings Limited. Lieutenant General Leahy holds a Master of Military Arts and Science from the US Army Command and General Staff College, where he also served as an instructor, and is a graduate of the Australian Institute of Company Directors. In August 2014, he was appointed to the Australian Federal Government's First Principles Review Team, an initiative designed to ensure that the Australian Department of Defence is fit for purpose and able to promptly respond to future challenges.

Mr McDowell was appointed to the board in September 2014. He joined British Aerospace in Singapore in August 1996 and, during his time with British Aerospace, served as the Managing Director - Asia and Chief Executive Officer of BAE Systems Australia Limited. He was Chief Executive Officer of BAE Systems Saudi Arabia from September 2011 until December 2013. Mr McDowell is Chair of the Australian Nuclear Science & Technology Organisation and, in August 2014, was appointed to the Australian Federal Government's First Principles Review Team, an initiative designed to ensure that the Australian Department of Defence is fit for purpose and able to promptly respond to future challenges. He is Chairman of Total Construction Pty Ltd and a director of Austal Limited. Mr McDowell is Chancellor of the University of South Australia.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

DIRECTORS (CONTINUED)

Name and qualifications

Experience

Mr Graeme Barclay

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

Mr Barclay was appointed to the board in February 2015. He has 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. He is currently Non-Executive Chairman and Director of Nextgen Group Holdings Pty Ltd, a Non-Executive Director of BSA Limited and Axicom Holdings Pty Limited, and the founder and Executive Director of First Horizon Advisory. Mr Barclay is a chartered accountant, holding membership of the Institute of Chartered Accountants of Scotland and of Chartered Accountants Australia and NZ.

Ms Kathy Gramp

BA (Acc), CA, FAICA, FAICD
Independent Non-Executive
Director

Ms Gramp was appointed to the board in November 2015. She has had a long and distinguished executive career and over 17 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, Ms Gramp 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. Ms Gramp was previously a director and member of the Audit & Risk and Remuneration Committees of Southern Cross Media Group Limited. She is a director on a number of corporate and not-for-profit boards and has significant audit committee experience. Ms Gramp is a chartered accountant and a Fellow of the Australian Institute of Company Directors and Chartered Accountants Australia and New Zealand.

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. Prior to joining Codan, Michael worked with KPMG for 13 years.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

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:

Director	Board meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration Committee meetings		Nomination Committee meetings		Remuneration and Nomination Committee meetings	
	A	B	A	B	A	B	A	B	A	B
Mr D J Simmons	10	10	2	2	1	1	1	1	1	1
Mr D S McGurk	10	10								
Mr P R Griffiths	8	9	3	3			1	1		
Mr D J Klingberg	3	3	1	1			1	1		
Lt-Gen P F Leahy	10	10			1	1			1	1
Mr J W McDowell	10	10	2	2					1	1
Mr G R C Barclay	10	10	2	2						
Ms K J Gramp	7	7	3	3						

A – Number of meetings attended

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

The Remuneration and Nomination Committees were consolidated into one committee on 18 May 2016.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of directors

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the group, including formulating its strategic direction, approving and monitoring the annual plan, budget and capital expenditure, setting senior executive and director remuneration, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the company to the managing director.

Board processes

To assist in the execution of its responsibilities, the board has established a Nomination Committee, a Remuneration Committee and a Board Audit, Risk and Compliance Committee. During the year, the board consolidated the Nomination Committee and Remuneration Committee and formed a combined Remuneration and Nomination Committee. The committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the group, including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds ten scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board of directors (continued)

Board processes (continued)

The agenda for meetings is prepared in conjunction with the chairman, managing director and company secretary. Standing items include the managing director's report, occupational health and safety report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions, and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

Director and executive education

The group has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the group concerning performance of directors. Directors also have the opportunity to visit group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The group also has a process to educate new executives upon taking such positions. This process includes reviewing the group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with the respective rights, duties, responsibilities and roles of the individual and the board.

Director performance evaluation

The Remuneration and Nomination Committee is responsible for developing the board evaluation process. A performance evaluation took place during the year ended 30 June 2016.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the group's expense. The director must consult with an adviser suitably qualified in the relevant field. A copy of the advice received by the director is made available to all other members of the board.

Composition of the board

The composition of the board is determined using the following principles:

- a broad range of expertise both nationally and internationally;
- a majority of independent directors;
- directors having extensive knowledge of the group's industries and/or extensive expertise in significant aspects of financial management or general management;
- an independent director as chairman;
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities; and
- at each annual general meeting, one-third of the directors, including any director who has held office for three years or more since last being elected, must stand for re-election (except for the managing director).

The board's policy is to seek a diverse range of directors who have a range of ages and genders which mirror the environment in which the group operates. The board uses a skills matrix to ensure that the directors collectively have a combination of skills and experience in the areas of leadership, general management, listed company, finance, accounting, risk management, international business, equity markets and major transactions, as well as relevant industry and business knowledge in the areas of technology and engineering, communications, military and security, mining and

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board of directors (continued)

Composition of the board (continued)

government. The board considers that collectively the directors have the range of skills, knowledge, personal attributes and experience necessary to direct the company.

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five percent of the voting shares of the company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the company;
- has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member;
- is not a material supplier or customer of the company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company; and
- is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

The board is regularly addressing succession in order to ensure that its composition going forward is appropriate.

Company secretary

The board is responsible for the appointment of the company secretary, who is accountable directly to the board, through the Chairman, on all matters to do with the proper functioning of the board.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee assists the board in reviewing remuneration structures, board composition, performance and succession planning. This includes identifying, evaluating and recommending candidates for appointment to the board. The duties of the committee include:

- reviewing remuneration strategies for directors and executives;
- approving remuneration structures and payments for directors and executives;
- reviewing the size and composition of the board, and succession plans, to enable an appropriate mix of skills, experience, expertise and diversity to be maintained;
- identifying, interviewing and evaluating board candidates, and recommending to the board individuals for board appointment;
- ensuring that there is an appropriate induction process in place for new directors, and reviewing its effectiveness;
- developing the appropriate process for evaluation of the performance of the board and its committees, each non-executive director, the chairman and the chief executive officer; and
- making recommendations to the board on the appointment and performance of directors.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration and Nomination Committee (continued)

The members of the Nomination Committee were Mr D J Klingberg (Chair), Mr P R Griffiths and Mr D J Simmons, all independent non-executive directors.

The members of the Remuneration Committee were Mr D J Simmons (Chair) and Lt-Gen P F Leahy, both independent non-executive directors.

The members appointed to the new Remuneration and Nomination Committee on 18 May 2016 were:

- Mr D J Simmons (Chair)
Independent Non-Executive Director
- Lt-Gen P F Leahy
Independent Non-Executive Director
- Mr J W McDowell
Independent Non-Executive Director

The managing director is invited to Remuneration and Nomination Committee meetings, as required, to discuss executives' performance and remuneration packages.

The Remuneration and Nomination Committee's charter is available on the company's website.

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 may obtain independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages can 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.

Certain executives may receive incentive payments based on the achievement of performance hurdles. The performance hurdles relate to measures of profitability. The bonus 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. The potential incentive payable to certain executives is based on up to 60% of the executives' fixed salaries inclusive of superannuation, but can exceed this level if performance hurdles are exceeded.

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2016 the above performance-linked remuneration structure was appropriate.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Principles of remuneration (continued)

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 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 40% 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.

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

	Number of performance rights granted during year	Grant date	Fair value per right at grant date (cents)	Exercise price per right (cents)	Expiry date	Number of rights vested during year
DIRECTORS						
Mr D S McGurk	236,948	25 November 2015	64.0	-	30 June 2019	-
EXECUTIVES						
Mr M Barton	120,709	25 May 2016	91.0	-	30 June 2019	-
Mr P D Charlesworth	154,240	25 May 2016	91.0	-	30 June 2019	-
Mr R D Linehan	154,240	25 May 2016	91.0	-	30 June 2019	-

The performance rights granted on 25 November 2015 and 25 May 2016 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 the group's earnings per share for the year ended 30 June 2015 as the base. 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 10% per annum over the three-year period from the base earnings per share. A pro-rata vesting will occur between the 10% 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.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report – audited (continued)

Performance rights (continued)

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

	Performance rights granted		Percentage vested in year	Percentage forfeited in year	Financial years in which shares will be issued if vesting achieved
	Number	Date			
DIRECTORS					
Mr D S McGurk	111,655	22 November 2013	-	100%	n/a
	296,877	26 November 2014	-	-	2018
	236,948	25 November 2015	-	-	2019
EXECUTIVES					
Mr M Barton	52,813	22 November 2013	-	100%	n/a
	145,638	26 November 2014	-	-	2018
	120,709	25 May 2016	-	-	2019
Mr P D Charlesworth	72,575	22 November 2013	-	100%	n/a
	193,250	26 November 2014	-	-	2018
	154,240	25 May 2016	-	-	2019
Mr R D Linehan	187,998	26 November 2014	-	-	2018
	154,240	25 May 2016	-	-	2019
Mr P McCarter	89,919	22 November 2013	-	100%	n/a
	259,952	26 November 2014	-	100%	n/a

The performance rights granted on 22 November 2013 lapsed on 30 June 2016, as the three-year aggregate performance target was not reached.

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 2015	Issued	Vested	Lapsed	Held at 30 June 2016
DIRECTORS					
Mr D S McGurk	408,532	236,948	-	111,655	533,825
EXECUTIVES					
Mr M Barton	198,451	120,709	-	52,813	266,347
Mr P D Charlesworth	265,825	154,240	-	72,575	347,490
Mr R D Linehan	187,998	154,240	-	-	342,238
Mr P McCarter	349,871	-	-	349,871	-

Mr McCarter's performance rights lapsed on 7 September 2015 upon his cessation as Executive General Manager, Codan Radio Communications.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report – audited (continued)

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.

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 2015	Received on exercise of rights	Other changes *	Held at 30 June 2016
Directors				
Mr D J Simmons	61,532	-	-	61,532
Mr D S McGurk	312,517	-	-	312,517
Mr P R Griffiths	199,416	-	-	n/a
Mr D J Klingberg	120,908	-	-	n/a
Lt-Gen P F Leahy	57,708	-	-	57,708
Mr J W McDowell	-	-	-	-
Mr G R C Barclay	-	-	21,052	21,052
Ms K J Gramp	n/a	-	-	-
Specified executives				
Mr M Barton	5,000	-	-	5,000
Mr P D Charlesworth	312,790	-	-	312,790
Mr R D Linehan	-	-	135,825	135,825
Mr P McCarter	-	-	-	n/a
Mr C P Stuff	n/a	-	-	-

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

Mr D J Klingberg retired as a director on 28 October 2015, Ms K J Gramp was appointed as a director on 18 November 2015 and Mr P R Griffiths retired as a director on 31 May 2016. Mr C P Stuff was appointed to the position of Executive General Manager, Radio Communications on 1 September 2015 and Mr P McCarter ceased in the position of Executive General Manager, Codan Radio Communications on 7 September 2015.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (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 & fees	Short-term incentives	Other short term	Post-employment and superannuation contributions	Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
NON-EXECUTIVE										
Mr D J Simmons	2016	162,974	-	-	15,483	-	-	-	178,457	-
	2015	106,612	-	-	10,128	-	-	-	116,740	-
Mr P R Griffiths	2016	81,487	-	-	7,741	-	-	-	89,228	-
	2015	84,662	-	-	8,043	-	-	-	92,705	-
Mr D J Klingberg	2016	26,640	-	-	2,531	-	-	-	29,171	-
	2015	77,606	-	-	7,373	-	-	-	84,979	-
Lt-Gen P F Leahy	2016	81,487	-	-	7,741	-	-	-	89,228	-
	2015	77,606	-	-	7,373	-	-	-	84,979	-
Mr J W McDowell	2016	81,487	-	-	7,741	-	-	-	89,228	-
	2015	64,672	-	-	6,144	-	-	-	70,816	-
Mr G R C Barclay	2016	81,487	-	-	7,741	-	-	-	89,228	-
	2015	32,336	-	-	3,072	-	-	-	35,408	-
Ms K J Gramp	2016	50,972	-	-	4,842	-	-	-	55,814	-
	2015	-	-	-	-	-	-	-	-	-
Total non-executives' remuneration	2016	566,534	-	-	53,820	-	-	-	620,354	-
	2015	443,494	-	-	42,133	-	-	-	485,627	-

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

Directors	Year	Salary & fees	Short-term incentives	Other short term	Post-employment and superannuation contributions	Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
EXECUTIVE										
Mr D S McGurk	2016	516,203	410,088	-	18,337	16,933	-	165,503	1,127,064	51.1
	2015	509,274	135,153	-	20,348	13,669	-	68,592	747,036	27.3
Total directors' remuneration	2016	1,082,737	410,088	-	72,157	16,933	-	165,503	1,747,418	-
	2015	952,768	135,153	-	62,481	13,669	-	68,592	1,232,663	-

Mr J W McDowell was appointed as a director on 1 September 2014 and Mr G R C Barclay was appointed as a director on 1 February 2015. Mr D J Simmons was appointed as chairman of the board on 18 February 2015, Mr D J Klingberg retired as a director on 28 October 2015, Ms K J Gramp was appointed as a director on 18 November 2015 and Mr P R Griffiths retired as a director on 31 May 2016.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

Executive officers	Year	Salary & fees	Short-term incentives	Other short term	Post-employment and superannuation contributions	Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
Mr M Barton (Chief Financial Officer and Company Secretary)	2016	256,802	208,913	-	23,362	11,711	-	95,167	595,955	51.0
	2015	241,489	73,668	-	22,478	8,484	-	33,649	379,768	28.3
Mr P D Charlesworth (Executive General Manager, Minelab)	2016	335,496	322,920	-	19,308	12,665	-	124,112	814,501	54.9
	2015	328,709	100,534	-	18,783	8,947	-	44,650	501,623	28.9
Mr R D Linehan * (Executive General Manager, Minetec & Codan Defence Electronics)	2016	402,137	240,250	46,694	15,652	4,002	-	135,014	843,749	44.5
	2015	329,318	85,423	1,297	24,119	-	-	43,436	483,593	26.6
Mr P McCarter ** (Executive General Manager, Codan Radio Communications)	2016	75,612	-	272	8,195	-	82,046	85,513	251,638	34.0
	2015	443,391	222,186	1,229	37,701	-	-	60,061	764,568	36.9
Mr C P Stuff (Executive General Manager, Radio Communications)	2016	287,518	221,783	673	-	-	-	-	509,974	43.5
	2015	-	-	-	-	-	-	-	-	-
Total executive officers' remuneration	2016	1,357,565	993,866	47,639	66,517	28,378	82,046	439,806	3,015,817	
	2015	1,342,907	481,811	2,526	103,081	17,431	-	181,796	2,129,552	

* Mr R D Linehan relocated from the UK to Australia in January 2016. Until that time, he was paid in UK pounds, with the Australian dollar equivalents calculated using an average exchange rate.

** Mr P McCarter was paid in UK pounds, with the above Australian dollar equivalents calculated using an average exchange rate.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

Mr C P Stuff was appointed to the position of Executive General Manager, Radio Communications on 1 September 2015 and Mr P McCarter ceased in the position of Executive General Manager, Codan Radio Communications on 7 September 2015.

Short-term incentives which vested during the year are as follows: Mr D S McGurk 83% (17% forfeited), Mr M Barton 83% (17% forfeited), Mr P D Charlesworth 100%, Mr R D Linehan 74% (26% forfeited)) and Mr C P Stuff 79% (21% forfeited).

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.

As no performance rights vested during FY16 or during the prior year, the amounts disclosed above as "Performance rights" do not represent take-home pay.

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

Corporate performance

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

	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$
Profit attributable to shareholders	15,494,607	12,507,609	9,196,580	45,416,716	23,146,736
Dividends paid	7,082,530	5,310,509	15,039,383	20,343,012	14,773,138
Share price at 30 June	1.18	1.15	0.75	1.52	1.40
Change in share price at 30 June	0.03	0.40	(0.77)	0.12	0.20

Board Audit, Risk and Compliance Committee

The Board Audit, Risk and Compliance Committee has a documented charter, approved by the board. All members must be non-executive directors. The chairman may not be the chairman of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the group.

The members of the Board Audit, Risk and Compliance Committee during the year were:

- Ms K J Gramp (Chair from 1 June 2016)
Independent Non-Executive Director
(appointed 19 November 2015)
- Mr P R Griffiths (Chair until 31 May 2016)
Independent Non-Executive Director
(retired 31 May 2016)

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Audit, Risk and Compliance Committee (continued)

- Mr G R C Barclay
Independent Non-Executive Director
(appointed 29 January 2016)
- Mr D J Klingberg
Independent Non-Executive Director
(retired 28 October 2015)
- Mr J W McDowell
Independent Non-Executive Director
(resigned 19 November 2015)
- Mr D J Simmons
Independent Non-Executive Director
(appointed 29 January 2016)

The external auditors, the managing director and the chief financial officer are invited to Board Audit, Risk and Compliance Committee meetings at the discretion of the committee.

The responsibilities of the Board, Audit, Risk and Compliance Committee include reporting to the board on:

- reviewing the annual and half-year financial reports and other financial information distributed externally; this includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing management processes supporting external reporting;
- assessing corporate risk assessment processes;
- assessing and establishing an appropriate internal audit function;
- establishing procedures for selecting, appointing and, if necessary, removing the external auditor;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence; the external auditor provides an annual independence declaration in relation to the audit;
- assessing the adequacy of the internal control framework and the company's code of ethical standards;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Board Audit, Risk and Compliance Committee reviews the performance of the external auditors on an annual basis and meets with them during the year to:

- discuss the external audit plan, identifying any significant changes in structure, operations, internal controls or accounting policies likely to affect the financial statements, and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents prior to announcement of results;
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made; and

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Audit, Risk and Compliance Committee (continued)

- as required, organise, review and report on any special reviews or investigations deemed necessary by the board.

The Board Audit, Risk and Compliance Committee's charter is available on the company's website.

Risk management

Material business risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, environment, occupational health and safety, property, product quality, interruptions to production, changes in international quality standards, financial reporting and the purchase, development and use of information systems.

Oversight of the risk management system

The board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the establishment of committees, regular budget, financial and management reporting, established organisational structures, procedures, manuals and policies, external financial and safety audits, insurance programmes and the retention of specialised staff and external advisers.

The Board Audit, Risk and Compliance Committee considers risk management in order to ensure risks are identified, assessed and appropriately managed. The committee reports to the board on these matters on an ongoing basis. During the year ended 30 June 2016, the committee reviewed the company's risk management framework in order to ensure the effective management of the group's material business risks.

Risk management and compliance and control

The group strives to ensure that its products are of the highest standard. Towards this aim, it has certification to AS/NZS ISO 9001.

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- financial exposures are controlled, including the use of derivatives;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel;
- financial reporting accuracy and compliance with the financial reporting regulatory framework; and
- environmental regulation compliance.

Quality and integrity of personnel

Appraisals are conducted at least annually for all senior employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. A performance evaluation of all executives and senior employees took place during the year ended 30 June 2016.

Financial reporting

The managing director and the chief financial officer have provided assurance in writing to the board that the company's financial records have been properly maintained and that the financial reports are founded on a sound system of internal

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk management (continued)

Financial reporting (continued)

compliance and control, and risk management practices, which implements the policies adopted by the board. This declaration includes stating that the financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

Monthly actual results are reported against budgets approved by the directors, and revised forecasts for the year are prepared regularly.

Economic, environmental and social sustainability risks

The group is exposed to material economic risks associated with global economic conditions, developing countries, government spending and exchange rate movements. The Board Audit, Risk and Compliance Committee regularly reviews all material business risks and is satisfied that appropriate risk treatment strategies and controls have been developed and implemented. The company is not exposed to material environmental or social sustainability risks.

Environmental regulation

The group's operations are not subject to significant environmental regulation under either Commonwealth or State legislation. However, formal accreditation to ISO 14001, Environmental Management Systems, was achieved in FY15. The board believes that the group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the group.

Internal audit

The Board Audit, Risk and Compliance Committee is responsible for determining the need for an internal audit function for the group. The committee has implemented a process whereby internal control reviews are completed on the high-risk areas of the business as identified on the company's risk register.

Assessment of effectiveness of risk management

The managing director and the chief financial officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. Operational and other compliance risk management processes have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the group.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The company continues to review and confirm its processes to ensure that it does not trade with parties proscribed due to illegal or undesirable activities.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Ethical standards (continued)

Code of conduct

The group has advised each director, manager and employee that they must comply with the company's code of conduct. The code of conduct is available on the company's website and covers the following:

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of professionalism, product quality and service;
- acting at all times with fairness, honesty, consistency and integrity;
- employment practices such as occupational health and safety and anti-discrimination;
- responsibilities to the community, such as environmental protection;
- responsibilities to the individual in respect of the use of confidential information;
- compliance with legislation including compliance in countries where the legal systems and protocols are significantly different from Australia's;
- conflicts of interest;
- responsible and proper use of company property and funds; and
- reporting of unlawful behaviour.

Trading in general company securities by directors and employees

The key elements of the company's Share Trading Policy are:

- identification of those restricted from trading – directors, officers, executives and senior managers, and their closely related parties, may acquire shares in the company, but are prohibited from dealing in company shares:
 - between 1 January and the close of trading on the next ASX trading day after the half-year results are released to the ASX;
 - between 1 July and the close of trading on the next ASX trading day after the full-year results are released to the ASX;
 - during any additional blackout periods imposed by the board; or
 - whilst in possession of price-sensitive information not yet released to the market;
- an additional approval process for directors, officers and executives;
- raising the awareness of legal prohibitions in respect of insider trading;
- prohibiting short-term or speculative trading in the company's shares;
- prohibiting employees from entering into transactions which would have the effect of limiting their exposure to risk relating to unvested Codan securities or vested Codan securities which are subject to holding locks; and
- identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Trading in general company securities by directors and employees (continued)

The policy also details the insider trading provisions of the Corporations Act 2001 and is reproduced in full on the company's website and in the announcements provided to the ASX.

Communication with shareholders

The board provides shareholders with information in accordance with Continuous Disclosure requirements, which include identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the company's website and issuing media releases.

In summary, the Continuous Disclosure policy operates as follows:

- the managing director and the chief financial officer and company secretary are responsible for interpreting the company's policy and where necessary informing the board; the chief financial officer and company secretary is responsible for all communications with the ASX; reportable matters are promptly advised to the ASX;
- the annual report is provided via the company's website and distributed to all shareholders who request a copy; it includes relevant information about the operations of the group during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of the operations of the group during the period; the half-year reviewed financial report is lodged with the ASX and is available on the company's website;
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the company's website after they are released to the ASX; and
- the full texts of notices of meetings and associated explanatory material are placed on the company's website.

The board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the group's strategy and goals. The external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of performance rights to directors and changes to the Constitution. A copy of the Constitution is available to any shareholder who requests it.

Diversity

The board is strongly committed to the principles of diversity and to promoting a culture that supports the development of a diverse mix of employees throughout all levels of the organisation. It is considered that this will ensure the achievement of an appropriate blend of diversity at board, executive and senior management levels within the group.

The board has established a group Diversity and Equity Policy, which is available on the company's website.

The key elements of the policy include:

- ensuring all positions are filled by the best candidates with no discrimination by way of gender, age, ethnicity and cultural background; and
- annual assessment by the board of diversity objectives and performance against objectives.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Diversity (continued)

The group's performance against the Diversity and Equity Policy objectives is as follows:

Gender representation	30 June 2016		30 June 2015	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	17%	83%	0%	100%
Senior executive representation *	0%	100%	0%	100%
Senior management representation	26%	74%	22%	78%
Group representation	26%	74%	25%	75%

* Senior executives are defined as those executives who report directly to the CEO.

The board has the following initiatives in place to progress the objectives of its Diversity and Equity Policy:

- qualified candidates considered for any new board, executive or senior management positions will include both genders; and
- a target of at least 30% female candidates interviewed for all salaried positions in the group.

The board assesses the performance against its objectives on an annual basis.

OPERATING AND FINANCIAL REVIEW

Codan is a group of electronics-based businesses that capitalise on their fundamental design and manufacturing skills to provide best-in-class electronics solutions to global markets. Codan employs approximately 360 people, located in Australia, USA, Ireland, Canada, China, United Arab Emirates, South Africa and New Zealand, and has a network of dealerships across the world.

Our marketing reach embraces over 150 countries and our customers include gold prospectors, metal detection hobbyists, aid agencies, miners, businesses and governments, including public safety, military and security organisations. We work closely with our customers to seek innovative ways to solve their problems and add value to their operations.

FY16 highlights:

- Underlying profit after tax of \$21.1 million, up 67% on 18% higher sales
- Statutory net profit after tax of \$15.5 million, up 24%
- Increased annual dividend to 6.0 cents, up 71%, fully franked
- Underlying earnings per share of 11.9 cents, up 68%
- Strong balance sheet - net debt reduced to \$12.6 million
- Broader product offering brings best Radio Communications result in seven years; contribution increased 15%
- Metal Detection contribution increased 55%, assisted by successful release of the GPZ 7000® gold detector in Africa
- Strategy to improve earnings stability by broadening markets and growing revenue base

The net profit after tax attributable to shareholders increased by 24% to \$15.5 million for the year ended 30 June 2016. Group sales of \$169.5 million were 18% higher than in the prior year. Underlying net profit after tax for the year ended 30 June 2016 was \$21.1 million, a 67% increase over FY15.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

FY16 highlights (continued):

Codan is beginning to see the benefits of its significant investment in new product development across the Minelab, LMR and HF product platforms. Steps have been taken to get even closer to customers by establishing a significant presence in Dubai in order to maximize sales and margins in the high-growth African and Middle East markets.

Dividend

The company announced a final dividend of 4.0 cents per share, fully franked, bringing the full year dividend to 6.0 cents. The dividend has a record date of 15 September 2016 and will be paid on 4 October 2016.

Financial performance and other matters

	FY16		FY15	
	\$m	% of sales	\$m	% of sales
Revenue				
Communications	65.0	38%	63.8	44%
Metal detection	99.2	59%	73.3	51%
Tracking solutions	5.3	3%	4.8	3%
Other	-	-	2.0	2%
Total revenue	169.5	100%	143.9	100%
Underlying business performance				
EBITDA	41.9	25%	29.9	21%
EBIT	29.2	17%	19.3	13%
Interest	(1.7)		(2.5)	
Net profit before tax	27.5	16%	16.8	12%
Taxation	(6.4)		(4.1)	
Underlying net profit after tax	21.1	12%	12.7	9%
Non-recurring (expenses) after tax:*				
Loss on closure of business	-		(0.3)	
Restructuring expenses	(1.8)		-	
Newton building impairment	(1.0)		-	
Minetec asset impairment	(2.8)		-	
Net profit after tax	15.5		12.4	
Underlying earnings per share, fully diluted	11.9 cents		7.1 cents	
Statutory earnings per share, fully diluted	8.7 cents		7.0 cents	
Dividend per share	6.0 cents		3.5 cents	

* Non-underlying income/(expenses) are considered to be outside of normal business activities of the group and for comparability reasons have been separately identified. The methodology of identifying and quantifying these items is consistently applied from year to year. Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit.

EBITDA and EBIT margins increased as a result of stronger gross margins in Communications and improved expense ratios on higher FY16 sales.

The company has successfully negotiated the renewal of its \$85 million debt facility for a further three years. Net borrowings decreased by \$28.2 million to \$12.6 million since 31 December 2015 due to our strong performance and good working capital management.

In December 2015, Codan completed the move of all Adelaide operations to its new global headquarters in the Technology Park precinct at Mawson Lakes, South Australia. This world-class facility is now home to around 200 staff.

The company continues to pursue the sale of its vacant property at Newton, South Australia. It has been on the market since mid-2015 and, in light of current market conditions, the carrying value has been reassessed and written down by \$1.0 million. While the timing of this sale is uncertain, management anticipates that a transaction will be completed in FY17.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

The board completed its succession planning during the year with the appointment of Kathy Gramp in November 2015. Ms Gramp now chairs the Board Audit, Risk and Compliance Committee. Mr David Klingberg and Mr Peter Griffiths retired from the board during the year.

Performance by business unit:

Radio Communications – High Frequency (HF) Radios and Land Mobile Radios (LMR)

Radio Communications is a leading designer and manufacturer of premium communications equipment for High Frequency (HF) and Land Mobile Radio (LMR) applications. It provides communications solutions that allow customers to save lives, enhance security and support peacekeeping activities worldwide.

Radio Communications revenue increased 2% to \$65.0 million, and segment contribution increased 15% to \$17.4 million.

While FY16 delivered an excellent result, we are focused on our strategy to continually broaden our revenue base by expanding our current technology platforms to create new products that enable us to enter adjacent markets.

In FY16, we released a series of new LMR and HF products, including the Patrol® Manpack radio and the Cyclone® repeater, both of which enabled us to broaden our revenue base. More recently, in June 2016 the division launched its Sentry-V™ handheld tactical VHF radio, the first to launch from Codan's upcoming suite of military products.

Sales and marketing capability has also been strengthened by adding a number of key sales resources into Africa and the Middle East. This has given the business better market reach and brought it closer to its key customers and end users. In support of this approach, the sales headquarters for these regions has shifted from the United Kingdom to Dubai.

LMR performed strongly in FY16, delivering its highest ever sales over the 66 year history of the business, brought about by moving our focus to systems and solutions selling in the North American first responder market (ie. police officers, firefighters, paramedics, etc).

As previously announced, the board has approved an additional engineering investment of approximately \$5 million to be spent over FY17 to accelerate the development of our expanded LMR product range. We have now recruited the majority of the 25 new engineers required to deliver these products, which will be released early in FY18. These LMR products are expected to drive growth in Radio Communications by enabling us to offer even higher value-add solutions to our customers.

FY16 was an excellent year for Radio Communications and, given the level of instability and conflict in some of our key markets, we expect to deliver a similar result in FY17 as we support our customers' ongoing efforts to promote security and peacekeeping in those regions. We have had a strong start to the year given the favourable timing of some large projects.

Metal Detection – Consumer, Gold Mining and Countermine

Minelab is the world leader in handheld metal detecting technologies for the consumer, gold mining, demining and military markets. Over the past 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 revenue increased 35% to \$99.2 million, and segment contribution increased 55% to \$29.8 million. While all parts of the Minelab business performed well, the largest part of this growth was driven by gold detector sales.

While sales of our newly released top of the range gold detector, the GPZ 7000®, were strong in the developed world, the most significant growth in our gold detector sales has come from the successful launch of this product into our African markets. The GPZ 7000® was launched in Africa in October 2015, and demand exceeded our initial expectations as the market quickly recognised the superior performance of this technology.

We have evidence that the adoption of this product is being driven by its superior performance rather than gold surges in isolated markets, which increases our confidence that sales will remain strong as we enter FY17.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Metal Detection – Consumer, Gold Mining and Countermine (continued)

Our improved result in FY16 was also helped by surges in demand from two key regions. While the duration of these surges can be uncertain, Minelab will continue to open up new African markets and maximise opportunities as and when they arise.

Sales of the entry level coin & treasure GO-FIND® detector strengthened during FY16 as Minelab signed a number of distribution agreements in the US and Europe which greatly improved market penetration. The GO-FIND® now represents a significant incremental revenue stream for Minelab, and this is expected to grow as we continue to broaden the product's international distribution.

The Countermine business also performed well during the year as a result of increased demining activities undertaken by humanitarian and government organisations.

Our strategy for Minelab is to maintain our competitive advantage across gold, consumer and countermine markets by continually innovating our products while expanding our critical routes to market.

In response to customer demand, two new products are planned for release in FY17. A larger coil for the GPZ 7000® will give a significant depth increase over the standard coil. In addition to this, an entry level gold detector will be released to the African market at the end of 2016. This product has been specifically designed for the African market to fill a gap in our product range and is expected to quickly take market share from competitors.

The Minelab business is strong due to the significant investment we have made to expand our product range and improve our distribution structure. While the African component of this business is difficult to forecast, these factors make us more confident of continued success in FY17.

Tracking Solutions – Minetec

Minetec offers tracking, productivity and safety solutions, predominantly for underground hard-rock mines. These solutions are based upon CSIRO's leading-edge WASP™ technology (Wireless Ad hoc System for Positioning) and Minetec's SMARTS™ proprietary software application suite which provides the core tracking and communication capability to enable real-time monitoring and control of mine operations. For the first time, underground miners can "see" the whole mine and manage issues, bottlenecks and constraints as they arise.

The journey toward autonomous mining is a real opportunity for Minetec's unique high-precision tracking and integrated real-time wireless communications, made possible by the integration of WASP™ technology and SMARTS™.

This enabling technology is expected to transform underground mining in the same way that Wi-Fi and GPS transformed open-pit mining two decades ago. Minetec now has a mine-ready, miner-proof suite of products that have been deployed in six operating mines.

These deployments form critical reference sites that demonstrate the technology is proven and delivers real operational benefits. Further to these successes, as announced in August 2016, Minetec has recently secured a multi-million dollar contract to deploy its full range of high-precision tracking, safety and task-management systems for an underground gold mine in Western Australia.

Minetec is focused on capitalising on its early successes and is targeting underground hard-rock gold, copper and diamond mines in Australia and South Africa. The division has unique intellectual property which we strongly believe is highly valued by these customers.

Minetec incurred losses of \$1.3 million in the first half and, as forecast in our half-year announcement, achieved a break-even result in the second half. We expect the business to build on this result and deliver a full year profit in FY17.

The carrying value of Minetec's capitalised product development, inventory and fixed assets has been reviewed and, as a result, the board has written down the value by \$2.8 million after tax. This write-down relates to Minetec's assets which are not based on the high-precision tracking (WASP™) technology which is now the key focus of the business.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Leveraging our Defence capability

Codan has a long history of supplying the defence sector, with the company's HF radio systems and landmine detectors being used by military organisations worldwide. We have a core technical competency in the area of RF subsystem design, which is the basis of our metal detection and HF radio technologies.

These core design, manufacturing and support capabilities mean the company is well placed to provide further engineering solutions and manufacturing expertise to the Australian Defence sector, which has announced numerous, multi-billion dollar defence projects for Australia over the next 10+ years.

Defence contracts have long sales cycles and, as a consequence, we do not expect this new initiative to generate sales in FY17.

Outlook

The board and management remain committed to delivering more stable results for shareholders with profit improvement over the long term. This will be achieved by continuing to develop new innovative product platforms, broadening our customer base and seeking further investment opportunities aligned with our core business.

Due to a number of major project awards that are certain to be delivered in the first half of FY17, the board expects the company to have a stronger first half in FY17 compared to last year.

The board intends to 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
DECLARED AND PAID DURING THE YEAR ENDED 30 JUNE 2016:				
FY15 final	2.0	3,541	100%	1 October 2015
FY16 interim	2.0	3,541	100%	1 April 2016
DECLARED AFTER THE END OF THE YEAR:				
FY16 final	4.0	7,088	100%	4 October 2016

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

Codan Limited and its Controlled Entities

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	61,532
Mr D S McGurk	312,517
Lt-Gen P F Leahy	57,708
Mr J W McDowell	-
Mr G R C Barclay	21,052
Ms K J Gramp	-

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 27 for a copy of the auditor's independence declaration as required under Section 307C of the Corporations Act.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

NON-AUDIT SERVICES (CONTINUED)

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	
	2016	2015
	\$	\$
STATUTORY AUDIT		
Audit and review of financial reports (KPMG Australia)	192,667	185,000
Audit of financial reports (overseas KPMG firms)	15,077	15,293
	207,744	200,293
SERVICES OTHER THAN STATUTORY AUDIT		
Other assurance services		
Other	2,430	-
Other services		
Taxation compliance services (KPMG Australia)	87,111	123,563
Taxation compliance services (overseas KPMG firms)	135,683	101,367
	225,224	224,930

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 23rd day of August 2016.



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 for the financial year ended 30 June 2016 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.

KPMG

Scott Fleming

Partner

Adelaide

23 August 2016

Consolidated income statement for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Note	Consolidated 2016 \$000	2015 \$000
CONTINUING OPERATIONS			
Revenue	2	169,540	143,863
Cost of sales		(74,609)	(65,519)
Gross profit		94,931	78,344
Administrative expenses		(19,457)	(15,043)
Sales and marketing expenses		(34,167)	(35,258)
Engineering expenses		(13,750)	(11,088)
Net financing costs	3	(2,187)	(1,386)
Other (expenses)/income	4	(5,944)	615
Profit before tax		19,426	16,184
Income tax expense	7	(3,923)	(3,775)
Profit for the period		15,503	12,409
Attributable to:			
Equity holders of the company		15,495	12,508
Non-controlling interests		8	(99)
		15,503	12,409
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share	6	8.8 cents	7.1 cents
Diluted earnings per share	6	8.7 cents	7.0 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 33 to 66.

Consolidated statement of comprehensive income
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Note	Consolidated 2016 \$000	2015 \$000
Profit for the period		15,503	12,409
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		(66)	(97)
less tax effect		20	29
Changes in fair value of cash flow hedges, net of income tax	21	(46)	(68)
Exchange differences on translation of foreign operations	21	1,444	738
Other comprehensive income for the period, net of income tax		1,398	670
Total comprehensive income for the period		16,901	13,079
Attributable to:			
Equity holders of the company		16,893	13,178
Non-controlling interests		8	(99)
		16,901	13,079

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 33 to 66.

Consolidated balance sheet as at 30 June 2016
Codan Limited and its Controlled Entities

	Note	Consolidated 2016 \$000	2015 \$000
CURRENT ASSETS			
Cash and cash equivalents	8	14,333	7,156
Trade and other receivables	11	19,099	20,437
Inventory	12	28,478	31,309
Current tax assets	7	279	472
Assets held for sale	14	5,003	-
Other assets	13	1,500	1,593
Total current assets		68,692	60,967
NON-CURRENT ASSETS			
Property, plant and equipment	15	10,799	16,019
Product development	16	45,336	42,429
Intangible assets	17	87,639	89,254
Total non-current assets		143,774	147,702
Total assets		212,466	208,669
CURRENT LIABILITIES			
Trade and other payables	18	30,438	25,195
Loans and borrowings	9	13	36
Current tax payable	7	2,177	54
Provisions	19	6,577	6,684
Total current liabilities		39,205	31,969
NON-CURRENT LIABILITIES			
Loans and borrowings	9	26,922	42,505
Deferred tax liabilities	7	6,808	5,198
Provisions	19	609	642
Total non-current liabilities		34,339	48,345
Total liabilities		73,544	80,314
Net assets		138,922	128,354
EQUITY			
Share capital	20	42,605	41,856
Reserves	21	63,043	61,645
Retained earnings		33,274	24,853
Total equity		138,922	128,354
Total equity attributable to the equity holders of the company			
Non-controlling interests		(90)	(99)
		138,922	128,354

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 33 to 66.

Consolidated statement of changes in equity
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

2016	Share capital \$000	Translation reserve \$000	Consolidated Hedging reserve \$000	Profit reserve \$000	Retained earnings \$000	Total \$000
Balance as at 1 July 2015	41,856	2,732	(68)	58,981	24,853	128,354
Profit for the period attributable to:						
Equity holders of the company	-	-	-	-	15,495	15,495
Non-controlling interests	-	-	-	-	8	8
Performance rights expensed	567	-	-	-	-	567
Change in fair value of cash flow hedges	-	-	(46)	-	-	(46)
Exchange differences on translation of foreign operations	-	1,444	-	-	-	1,444
	42,423	4,176	(114)	58,981	40,356	145,822
Transactions with owners of the company						
Dividends recognised during the period	-	-	-	-	(7,082)	(7,082)
Employee share plan, net of issue costs	182	-	-	-	-	182
	182	-	-	-	(7,082)	(6,900)
Balance at 30 June 2016	42,605	4,176	(114)	58,981	33,274	138,922

2015	Share capital \$000	Translation reserve \$000	Consolidated Hedging reserve \$000	Profit reserve \$000	Retained earnings \$000	Total \$000
Balance as at 1 July 2014	41,560	1,994	-	48,481	28,256	120,291
Profit for the period attributable to:						
Equity holders of the company	-	-	-	-	12,508	12,508
Non-controlling interests	-	-	-	-	(99)	(99)
Performance rights expensed	296	-	-	-	-	296
Change in fair value of cash flow hedges	-	-	(68)	-	-	(68)
Exchange differences on translation of foreign operations	-	738	-	-	-	738
Transfers to and from reserves	-	-	-	10,500	(10,500)	-
	41,856	2,732	(68)	58,981	30,164	133,665
Transactions with owners of the company						
Dividends recognised during the period	-	-	-	-	(5,311)	(5,311)
Employee share plan, net of issue costs	-	-	-	-	-	-
	-	-	-	-	(5,311)	(5,311)
Balance at 30 June 2015	41,856	2,732	(68)	58,981	24,853	128,354

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 33 to 66.

Consolidated statement of cash flows for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Note	Consolidated 2016 \$000	2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		175,299	157,366
Cash paid to suppliers and employees		(125,369)	(123,677)
Interest received		44	86
Interest paid		(2,013)	(2,470)
Income taxes paid (net)		(50)	(633)
Net cash from operating activities	10	47,911	30,672
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		275	5,369
Payments for capitalised product development		(11,971)	(12,890)
Payments for intellectual property		(1,589)	(1,138)
Acquisition of property, plant and equipment		(4,658)	(3,493)
Acquisition of intangibles (computer software and licences)		(222)	(1,281)
Net cash used in investing activities		(18,145)	(13,433)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings		(15,536)	(17,929)
Dividends paid		(7,082)	(5,311)
Net cash provided by/(used in) financing activities		(22,618)	(23,240)
Net increase/(decrease) in cash held		7,148	(6,001)
Cash and cash equivalents at the beginning of the financial year		7,156	13,031
Effects of exchange rate fluctuations on cash held		29	126
Cash and cash equivalents at the end of the financial year	8	14,333	7,156

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 33 to 66.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

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 2016 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 23 August 2016.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) 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) and interpretations 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.

A number of new standards, amendments to standards and interpretations, effective for annual periods beginning after 1 July 2016, were available for early adoption, but have not been applied in preparing these consolidated financial statements. The company has not yet decided when to adopt AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers* or AASB 16 *Leases* and has not yet determined the potential effect of these standards.

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.

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 impairment assessments of non-current assets, including product development and goodwill (refer note 17).

Changes in accounting policies

For the year ended 30 June 2016, the group has not changed any of its significant accounting policies.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by group entities.

(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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and Its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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. 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) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, and are spread over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs include interest paid relating to borrowings, interest received on funds invested, unwinding of discounts, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. 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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency (continued)

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.

(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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Taxation (continued)

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 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 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 impairment losses. Impairment of receivables is not recognised until objective evidence is available that a loss event may occur. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed; instead impairment testing is performed by considering the risk profile of that group of receivables. All impairment 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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and Its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and Its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

Amortisation (continued)

Product development, licences and intellectual property:	2 - 15 years
Computer software:	3 - 7 years

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, are 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.

Leased assets

Leases where the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases, and the leased assets are not recognised in the balance sheet.

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:

Buildings	4%
Leasehold property	10%
Plant and equipment	5% to 40%

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

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 to sell pre-tax, or their 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.

(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 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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(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.

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

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.

Business segments

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The group comprises four business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The tracking solutions segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector. The "other" business segment includes the manufacture and marketing of printed circuit boards. This business was sold in the prior financial year.

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, China, United Arab Emirates, South Africa and Ireland.

Notes to and forming part of the financial statements for the year ended 30 June 2016

Codan Limited and its Controlled Entities

GROUP PERFORMANCE (continued)

2. SEGMENT ACTIVITIES (CONTINUED)

Information about reportable segments

	Communications		Metal detection		Tracking solutions		Other		Elimination		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue												
External segment revenue	64,996	63,841	99,203	73,262	5,341	4,751	-	2,009	-	-	169,540	143,863
Inter-segment revenue	-	-	-	-	-	-	-	103	-	(103)	-	-
Total segment revenue	64,996	63,841	99,203	73,262	5,341	4,751	-	2,112	-	(103)	169,540	143,863
Result												
Segment result	17,428	15,212	29,819	19,204	(1,229)	(3,320)	-	(565)	-	-	46,018	30,531
Impairment											(5,535)	-
Net financing costs											(2,187)	(1,386)
Restructuring expenses											(2,512)	(197)
Unallocated income and expenses											(16,358)	(12,764)
Profit from operating activities											19,426	16,184
Income tax expense											(3,923)	(3,775)
Net Profit											15,503	12,409
Non-cash items included above												
Depreciation and amortisation	4,380	4,296	7,290	4,923	209	209	-	48	-	-	11,879	9,476
Unallocated depreciation and amortisation											830	1,091
Total depreciation, amortisation											12,709	10,567
Assets												
Capital Expenditure	1,183	651	987	2,394	150	219					2,320	3,264
Unallocated capital expenditure											2,338	300
Total capital expenditure											4,658	3,564
Segment assets	72,098	60,832	98,099	107,863	15,343	17,420	-	20	-	-	185,540	186,135
Unallocated corporate assets											26,926	22,534
Consolidated total assets											212,466	208,669

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were Australia totalling \$26,239,966 (2015: \$30,078,925), the United States of America totalling \$42,397,860 (2015: \$29,268,017) and United Arab Emirates totalling \$40,536,369 (2015: \$15,933,018).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: Australia \$113,894,137 (2015: \$121,421,258), the United States of America \$175,780 (2015: \$185,084), Ireland \$13,078 (2015: \$210,495), England \$30,113 (2015: \$99,045), Canada \$29,511,819 (2015: \$25,811,482) and United Arab Emirates \$148,764 (2015: \$222,203).

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated	
	2016	2015
	\$000	\$000
GROUP PERFORMANCE (CONTINUED)		
3 EXPENSES		
Net financing costs:		
Interest income	(44)	(86)
Net foreign exchange (gain)/loss	459	(1,120)
Interest expense	1,772	2,592
	2,187	1,386
Depreciation of:		
Buildings	3	473
Leasehold property	131	29
Plant and equipment	2,164	2,176
	2,298	2,678
Amortisation of:		
Product development	7,311	5,340
Intellectual property	1,849	1,175
Computer software	588	761
Licences	663	613
	10,411	7,889
Personnel expenses:		
Wages and salaries	36,355	35,479
Other associated personnel expenses	3,090	2,499
Contributions to defined contribution superannuation plans	2,982	2,877
Increase in liability for long service leave	438	377
Increase in liability for annual leave	1,293	1,659
	44,158	42,891
Additional expenses disclosed:		
Impairment of trade receivables	272	(57)
Operating lease rental expense	4,056	2,717
Restructuring expenses	2,512	197
4 OTHER EXPENSES / (INCOME)		
Impairment of building	1,379	-
Impairment of Minetec property, plant and equipment	524	-
Impairment of Minetec inventory	1,287	-
Impairment of Minetec product development	1,753	-
Impairment of Minetec product intellectual property	592	-
(Gain)/loss on sale of property, plant and equipment	364	(299)
Other expenses/(income)	45	(316)
	5,944	(615)

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated	
	2016	2015
	\$000	\$000
GROUP PERFORMANCE (CONTINUED)		
5 DIVIDENDS		
i. An ordinary final dividend of 2.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2015	3,541	-
ii. An ordinary interim dividend of 2.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2016	3,541	-
iii. An ordinary final dividend of 1.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2014	-	2,655
iv. An ordinary interim dividend of 1.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2015	-	2,656
	7,082	5,311

Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 4.0 cents per share, fully franked. Based upon the shares on issue at 30 June 2016, the dividend would be \$7,088,492 and is expected to be paid on 4 October 2016. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%)	11,954	12,864
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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 \$3,037,925 (2015: \$1,517,685).

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.

	Consolidated	
	2016	2015
	\$000	\$000
Net profit used for the purpose of calculating basic and diluted earnings per share	15,495	12,508

The weighted average number of shares used as the denominator number for basic earnings per share was 177,066,095 (2015: 177,014,155).

The calculation of diluted earnings per share at 30 June 2016 was based on profit attributable to shareholders of \$15.5 million and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 178,134,784 (2015: 177,985,408).

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated 2016 \$000	2015 \$000
TAXATION		
7 INCOME TAX		
A. Income tax expense		
Current tax expense:		
Current tax paid or payable for the financial year	2,286	346
Adjustments for prior years	(1,067)	(458)
	<u>1,219</u>	<u>(112)</u>
Deferred tax expense:		
Origination and reversal of temporary differences	2,704	3,887
	<u>3,923</u>	<u>3,775</u>
Total income tax expense in income statement		
	<u>3,923</u>	<u>3,775</u>
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	5,828	4,855
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	845	930
Over/(under) provision for taxation in previous years	1,067	458
Effect of tax rates in foreign jurisdictions	319	5
Utilisation of overseas carried forward R&D tax credits	323	-
	<u>3,274</u>	<u>3,462</u>
Increase in income tax expense due to:		
Non-deductible expenses	86	289
Non-deductible capital loss	413	-
Sundry items	150	24
Income tax expense	<u>3,923</u>	<u>3,775</u>
B. Current tax liabilities / assets		
Balance at the beginning of the year	418	1,055
Net foreign currency differences on translation of foreign entities	10	102
Income tax paid (net)	(50)	(633)
Adjustments from prior year	10	240
Current year's income tax paid or payable on operating profit	(2,286)	(346)
	<u>(1,898)</u>	<u>418</u>
Disclosed in balance sheet as:		
Current tax asset	279	472
Current tax payable	(2,177)	(54)
	<u>(1,898)</u>	<u>418</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

Consolidated
2016 **2015**
\$000 **\$000**

TAXATION (CONTINUED)

7 INCOME TAX (CONTINUED)

C. Deferred tax liabilities

Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:

Expenditure currently tax deductible but deferred and amortised for accounting	13,658	12,204
Sundry items	-	153
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	(412)	(79)
Payments for intellectual property not currently deductible	(2,430)	(2,293)
Provisions for employee benefits not currently deductible	(1,652)	(1,761)
Provisions and accruals not currently deductible	(2,147)	(1,721)
Sundry items	(209)	-
Carry forward tax losses	-	(1,305)
	6,808	5,198

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated 2016 \$000	2015 \$000
CASH MANAGEMENT		
8 CASH AND CASH EQUIVALENTS		
Petty cash	52	52
Cash at bank	14,281	7,104
	14,333	7,156

9 LOANS AND BORROWINGS

Current

Finance lease liabilities	13	36
	13	36

Non-Current

Cash advance	26,922	42,492
Finance lease liabilities	-	13
	26,922	42,505

The group has access to the following lines of credit:

Total facilities available at balance date:

Multi-option facility	85,000	85,000
Commercial credit card	200	200
	85,200	85,200

Facilities utilised at balance date:

Multi-option facility - cash advance	26,922	42,492
Multi-option facility - other	3,528	2,410
Commercial credit card	78	26
	30,528	44,928

Facilities not utilised at balance date:

Multi-option facility	54,550	40,098
Commercial credit card	122	174
	54,672	40,272

In addition to these facilities, the group has cash at bank and short-term deposits of \$14,333,000 as set out in note 8.

Bank Facilities

Facilities are supported by interlocking guarantees between the company and its subsidiaries. The facilities have a term of three years expiring in December 2018, and are subject to compliance with certain financial covenants over that term.

	Consolidated 2016 %	2015 %
Weighted average interest rates:		
Cash at bank	0.49	1.12
Cash advance	3.04	3.00

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated	
	2016	2015
	\$000	\$000
<hr/>		
<u>CASH MANAGEMENT (CONTINUED)</u>		
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	15,503	12,409
Add/(less) items classified as investing or financing activities:		
(Gain)/loss on sale of non-current assets	364	(299)
Add/(less) non-cash items:		
Depreciation of:		
Buildings	3	473
Leasehold property	131	29
Plant and equipment	2,164	2,176
Impairment of building	1,379	-
Amortisation	10,411	7,889
Performance rights and employee share plan expensed	749	295
Impairment of minetec assets	4,156	-
Increase/(decrease) in income taxes	3,925	4,264
Increase/(decrease) in net assets affected by translation	1,575	(239)
Net cash from operating activities before changes in assets and liabilities	<hr/> 40,360	<hr/> 26,997
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	1,338	1,704
Reduction/(increase) in inventories	1,544	(11)
Reduction/(increase) in other assets	93	255
Increase/(reduction) in trade and other payables	4,716	1,510
Increase/(reduction) in provisions	(140)	217
Net cash from operating activities	<hr/> 47,911	<hr/> 30,672

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated 2016 \$000	2015 \$000
OPERATING ASSETS AND LIABILITIES		
11 TRADE AND OTHER RECEIVABLES		
CURRENT		
Trade receivables	19,859	20,808
Less: Provision for impairment losses	(808)	(600)
	<u>19,051</u>	<u>20,208</u>
Other debtors	48	229
	<u>19,099</u>	<u>20,437</u>
12 INVENTORY		
Raw materials	4,546	2,680
Work in progress	12,156	12,202
Finished goods	11,776	16,427
	<u>28,478</u>	<u>31,309</u>
13 OTHER ASSETS		
Prepayments	1,301	1,214
Project work in progress	-	27
Other	199	352
	<u>1,500</u>	<u>1,593</u>
14 ASSETS HELD FOR SALE		
Freehold land and buildings	5,003	-
Reconciliation		
Carrying amount at the beginning of the year	-	-
Transfer	6,382	-
Impairment	(1,379)	-
Carrying amount at end of year	<u>5,003</u>	<u>-</u>
15 PROPERTY, PLANT AND EQUIPMENT		
Freehold land and buildings at cost	-	9,462
Accumulated depreciation	-	(3,374)
	<u>-</u>	<u>6,088</u>
Leasehold property at cost	1,190	599
Accumulated amortisation	(358)	(289)
	<u>832</u>	<u>310</u>
Plant and equipment at cost	27,552	28,972
Accumulated depreciation	(18,218)	(20,057)
	<u>9,334</u>	<u>8,915</u>
Capital work in progress at cost	633	706
Total property, plant and equipment	<u>10,799</u>	<u>16,019</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

Consolidated
2016 2015
\$000 \$000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Freehold land and buildings

Carrying amount at beginning of year	6,088	10,426
Additions	141	2
Transfers	156	546
Asset held for sale transfer	(6,382)	-
Disposals	-	(4,413)
Depreciation	(3)	(473)
Carrying amount at end of year	<u>-</u>	<u>6,088</u>

Leasehold property improvements

Carrying amount at beginning of year	310	252
Additions	278	140
Transfers	404	-
Disposals	(34)	(74)
Depreciation	(131)	(29)
Net foreign currency differences on translation of foreign entities	5	21
Carrying amount at end of year	<u>832</u>	<u>310</u>

Plant and equipment

Carrying amount at beginning of year	8,915	8,083
Additions	3,579	3,330
Transfers	123	137
Impairment	(524)	-
Disposals	(595)	(584)
Depreciation	(2,164)	(2,176)
Net foreign currency differences on translation of foreign entities	-	125
Carrying amount at end of year	<u>9,334</u>	<u>8,915</u>

Capital work in progress at cost

Carrying amount at beginning of year	706	1,367
Additions, net of transfers	(73)	(661)
Carrying amount at end of year	<u>633</u>	<u>706</u>
Total carrying amount at end of year	<u>10,799</u>	<u>16,019</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and Its Controlled Entities

	Consolidated 2016 \$000	2015 \$000
OPERATING ASSETS AND LIABILITIES (CONTINUED)		
16 PRODUCT DEVELOPMENT		
Product development at cost	97,835	85,864
Accumulated amortisation	(52,499)	(43,435)
	<u>45,336</u>	<u>42,429</u>
Reconciliation		
Carrying amount at beginning of year	42,429	34,879
Capitalised in current period	11,971	12,890
Impairment	(1,753)	-
Amortisation	(7,311)	(5,340)
	<u>45,336</u>	<u>42,429</u>
17 INTANGIBLE ASSETS		
Goodwill	<u>83,274</u>	<u>83,525</u>
Intellectual property at cost	16,328	14,277
Accumulated amortisation	(14,390)	(12,552)
	<u>1,938</u>	<u>1,725</u>
Computer software at cost	10,273	12,894
Accumulated amortisation	(9,851)	(12,047)
	<u>422</u>	<u>847</u>
Licences at cost	5,106	5,003
Accumulated amortisation	(3,101)	(1,846)
	<u>2,005</u>	<u>3,157</u>
Total intangible assets	<u>87,639</u>	<u>89,254</u>
Reconciliations		
Goodwill		
Carrying amount at beginning of year	83,525	82,396
Net foreign currency differences on translation of foreign entities	(251)	1,129
	<u>83,274</u>	<u>83,525</u>
Intellectual property		
Carrying amount at beginning of year	1,725	1,495
Additions	2,096	1,335
Amortisation	(1,849)	(1,175)
Net foreign currency differences on translation of foreign entities	(34)	70
	<u>1,938</u>	<u>1,725</u>
Computer software		
Carrying amount at beginning of year	847	816
Additions	169	92
Transfers from capital work in progress	4	705
Amortisation	(588)	(761)
Disposals	(10)	(5)
	<u>422</u>	<u>847</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

Consolidated

2016 2015
\$000 \$000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

17 INTANGIBLE ASSETS (CONTINUED)

Licences

Carrying amount at beginning of year	3,157	3,286
Acquisitions	53	412
Transfers	50	72
Impairment	(592)	-
Amortisation	(663)	(613)
	2,005	3,157

The following segments have significant carrying amounts of goodwill:

Tracking solutions	8,538	8,538
Metal detection	53,957	53,957
Communications	20,779	21,030
	83,274	83,525

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 the oncoming year's budget, and cash flows are forecast for a 5-year period. The key assumption driving the value-in-use valuation is the level of sales, which is based on management assessments 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 12% has been applied to the forecast cash flows.

Minetec was acquired by Codan in 2012 and is in the early stages of developing a mining technology business, which forms the basis of the tracking solutions segment. It had a history of providing relatively basic communication services to the mining industry. However, over the past four years Codan has invested in the best of Minetec's intellectual property in order to transition the company to a high-value-add technology solutions provider.

Over FY16, Minetec has continued to progress the technical maturity of its products and made significant progress with mining customers to successfully transition from delivery of pilot demonstration projects to full-scale implementation of tracking, safety and productivity technologies in operational environments. From a technology perspective, FY16 has seen Minetec transition from the product development phase to the systems integration of solutions that have been successfully demonstrated in operating mines. The business is now "product ready".

Having now proven the technology and demonstrated our solutions, the challenge is to secure further market acceptance and commitment to full-scale operational deployments. While the task has been made more difficult by low commodity prices and cuts to miners' capital expenditure budgets, the Minetec value proposition is well aligned to the challenges of sectors such as underground hard-rock mining, which is moving toward increased mechanisation.

During FY16, the transition from the development to implementation phase and the ongoing volatile nature of commodity markets resulted in management critically assessing the carrying value of all capitalised product development, fixed assets and inventory for this business unit. This process identified assets that are no longer considered to be core to Minetec's value proposition and therefore a write-down of \$4.2 million was recorded against these assets.

In performing the value-in-use calculations for the Minetec business, the first year of the cash flow forecasts is based on the oncoming year's budget. Cash flows are forecast for a 5-year period. As the business is in the early stage of its development, historical data is not reflective of the possible future outcomes. A number of scenarios have been prepared in order to understand the range of valuation outcomes, and these alternatives have then been assessed to determine a weighted average recoverable amount. The key assumption to the valuation scenarios is the level of sales achieved by this business. To prepare the sales forecasts, management has determined the number of mines that are expected to adopt productivity and safety technology, the average sales value expected per mine and the market share that will be won by Minetec. Other assumptions relate to the level of

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

Consolidated
2016 2015
\$000 \$000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

17 INTANGIBLE ASSETS (CONTINUED)

Goodwill (continued)

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 16% 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 the productivity and safety solutions that are being developed and sold by Minetec, and this possibility has been included as one of the valuation scenarios.

The valuation scenarios identify the number of mines in the two most prospective countries for Minetec's safety and productivity solutions. Over the five-year forecast period, the weighted average valuation has Minetec achieving 7% of that market. If that share were to reduce to 4%, the recoverable amount of the Minetec cash generating unit would be approximately equal to its carrying amount.

Intellectual Property

Subsequent to the acquisition of Minelab Electronics Pty Ltd by Codan Limited in 2008, Minelab Electronics Pty Ltd acquired ownership of the intellectual property that forms the basis for its metal detection products. The consideration payable under the agreement is based on the sales of metal detection products over a ten-year period. An asset in relation to the acquired intellectual property will be recognised as Minelab Electronics Pty Ltd becomes liable for the payments under the contract.

Licences

The company entered into a licence agreement on 30 June 2011 with a leading provider of advanced technology for high frequency radio communication products. Licence payments are being made as technology is delivered to the company. The licenced technology allows the company access to next-generation radio waveforms for high-speed data transmission, automatic link establishment and digital voice.

18 TRADE AND OTHER PAYABLES

Current

Trade payables	9,655	11,935
Other payables and accruals	20,620	13,163
Net foreign currency hedge payable	163	97
	<u>30,438</u>	<u>25,195</u>

19 PROVISIONS

Current

Employee benefits	5,097	5,287
Warranty repairs	1,160	1,077
Other	320	320
	<u>6,577</u>	<u>6,684</u>

Non-Current

Employee benefits	609	642
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Reconciliation of warranty provision

Carrying amount at beginning of year	1,077	1,101
Provisions made/(released)	1,437	637
Payments made	(1,354)	(661)
	<u>1,160</u>	<u>1,077</u>

Reconciliation of other provision

Carrying amount at beginning of year	320	320
Provisions made/(reversed) during the year	-	-
	<u>320</u>	<u>320</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

Consolidated

2016 2015
\$000 \$000

CAPITAL MANAGEMENT

20 SHARE CAPITAL

Share capital

Opening balance (177,063,244 ordinary shares fully paid)	41,856	41,560
Performance rights expensed	567	296
Issue of share capital through employee share plan	182	-
Closing balance (177,212,302 ordinary shares fully paid)	42,605	41,856

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	4,176	2,732
Hedging reserve	(114)	(68)
Profit reserve	58,981	58,981
	63,043	61,645

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	2,732	1,994
Net translation adjustment	1,444	738
Balance at end of year	4,176	2,732

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	(68)	-
Gains/(losses) on cash flow hedges taken to/from hedging reserve	(46)	(68)
Balance at end of year	(114)	(68)

Profit reserve

The profit reserve comprises Codan Limited's accumulated profits.

Balance at beginning of year	58,981	48,481
Transfer of profit after tax attributed to the parent entity	-	10,500
Balance at end of year	58,981	58,981

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 are subject to externally imposed capital requirements.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities**

GROUP STRUCTURE

23 GROUP ENTITIES

Name	Country of incorporation	Class of share	Interest held	Interest held
			2016 %	2015 %
Parent Entity				
Codan Limited	Australia	Ordinary		
Controlled Entities				
Codan (Qld) Pty Ltd *	Australia	Ordinary	100	100
Codan (UK) Limited	England	Ordinary	100	100
Codan Defence Electronics Pty Ltd **	Australia	Ordinary	100	-
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	100	100
Codan US Inc	USA	Ordinary	100	100
Codan Radio Communications ME JLT	UAE	Ordinary	100	100
Codan Radio Communications Pty Ltd	Australia	Ordinary	100	100
Codan Holdings US Inc	USA	Ordinary	100	100
Daniels Electronics Ltd	Canada	Ordinary	100	100
A.C.N. 007 912 558 Pty Ltd (previously IMP Printed Circuits Pty Ltd) *	Australia	Ordinary	100	100
Minelab Americas Inc	USA	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
Minetec Pty Ltd	Australia	Ordinary	100	100
Minetec RSA (Pty) Ltd	South Africa	Ordinary	100	100
Minetec Wireless Technologies Pty Ltd *	Australia	Ordinary	100	100
Parketronics Pty Ltd *	Australia	Ordinary	100	100

* A.C.N. 007 912 558 Pty Ltd, Codan (Qld) Pty Ltd, Minetec Wireless Technologies Pty Ltd and Parketronics Pty Ltd are inactive entities and are in the process of being liquidated.

** Codan Defence Electronics Pty Ltd was incorporated on 10 May 2016.

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

GROUP STRUCTURE (CONTINUED)

24 DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiary listed below is relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' report.

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:

Summarised income statement and retained earnings

	Consolidated	
	2016	2015
	\$000	\$000
Profit before tax	27,862	15,163
Income tax expense	(3,632)	(4,379)
Profit after tax	24,230	10,784
Retained earnings at beginning of the year	1,043	6,069
Retained earnings at end of the year	18,191	1,043

Balance sheet

CURRENT ASSETS

Cash and cash equivalents	8,636	2,612
Trade and other receivables	69,091	48,988
Inventories	22,429	17,000
Assets held for sale	5,003	-
Other assets	1,103	1,467
Total current assets	106,262	70,067

NON-CURRENT ASSETS

Investments	26,458	26,458
Property, plant and equipment	9,185	14,357
Product development	36,036	35,973
Intangible assets	56,046	56,722
Total non-current assets	127,725	133,510

Total assets	233,987	203,577
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Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

GROUP STRUCTURE (CONTINUED)

24 DEED OF CROSS GUARANTEE (CONTINUED)

Balance sheet (continued)

	Consolidated	
	2016	2015
	\$000	\$000
CURRENT LIABILITIES		
Trade and other payables	19,901	18,071
Other liabilities	69,914	45,922
Provisions	5,103	5,015
Total current liabilities	94,918	69,008
NON-CURRENT LIABILITIES		
Loans and borrowings	8,753	24,104
Deferred tax liabilities	7,092	5,595
Provisions	531	549
Total non-current liabilities	16,376	30,248
Total liabilities	111,294	99,256
Net assets	122,693	104,321
EQUITY		
Share capital	43,718	42,970
Reserves	60,784	60,308
Retained earnings	18,191	1,043
Total equity	122,693	104,321

25 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2016, the parent company of the group was Codan Limited.

	Company	
	2016	2015
	\$000	\$000
Result of parent entity		
Profit after tax for the period	24,661	10,968
Other comprehensive income	(305)	(2,830)
Total comprehensive income for the period	24,356	8,138
Financial position of parent entity at year-end		
Current assets	98,200	74,270
Total assets	214,205	190,953
Current liabilities	81,621	60,918
Total liabilities	97,635	92,126
Total equity of the parent entity comprising:		
Share capital	43,718	42,970
Reserves	55,846	56,431
Retained earnings	17,005	(574)
Total equity	116,569	98,827

During the year, Codan Limited entered into contracts to purchase plant and equipment for \$597,146 (2015:\$340,799).

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

	Consolidated	
	2016	2015
	\$	\$
<hr/>		
OTHER NOTES		
26 AUDITOR'S REMUNERATION		
Audit services:		
KPMG Australia - audit and review of financial reports	192,667	185,000
Overseas KPMG firms - audit of financial reports	15,077	15,293
Other services:		
KPMG Australia - taxation services	87,111	123,563
KPMG Australia - other assurance services	2,430	-
Overseas KPMG firms - taxation services	135,683	101,367
	432,968	425,223

	Consolidated	
	2016	2015
	\$000	\$000

27 COMMITMENTS

I. Capital expenditure commitments

Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:

Within one year	1,353	805
One year or later and no later than five years	-	349
	1,353	1,154

II. Non-cancellable operating lease expense and other commitments

Future operating lease commitments not provided for in the financial statements which are payable:

Within one year	3,149	2,748
One year or later and no later than five years	12,850	10,854
Later than five years	22,252	24,962
	38,251	38,564

The group leases property under non-cancellable operating leases expiring from one to fifteen years. Leases generally provide the group with a right of renewal, at which time all terms are renegotiated. Lease payments normally comprise a base amount and an adjustment for the consumer price index.

III. Finance lease and hire purchase payment commitments

Within one year	13	39
One year or later and no later than five years	-	13
Later than five years	-	-
	13	52
Less: future finance charges	-	(3)
	13	49

Finance lease and hire purchase liabilities provided for in the financial statements:

Current	13	36
Non-current	-	13
	13	49

Finance leases and hire purchase agreements are entered into as a means of funding the acquisition of plant and equipment. Repayments are generally fixed, and no leases have escalation clauses other than in the event of payment default. No lease arrangements create restrictions on other financing transactions.

Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

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 management 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.

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. For the year ended 30 June 2016, the group had one customer in the Metal Detection segment with sales of \$20.5 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, has less of an influence on credit risk.

The group has established a credit policy under which each new customer is analysed individually for credit worthiness before the group's standard 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 impairment that represents its estimate of incurred 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 in respect of losses that have been incurred but not yet identified.

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 2016
Codan Limited and its Controlled Entities

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	Carrying amount Consolidated	
		2016 \$000	2015 \$000
Cash and cash equivalents	8	14,333	7,156
Trade and other receivables	11	19,099	20,437

The group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Australia/Oceania	4,403	5,600
Europe	4,012	3,888
Americas	7,484	6,272
Asia	1,471	1,142
Africa/Middle East	2,489	3,906
	19,859	20,808

Impairment losses

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

	Consolidated		Gross 2015 \$000	Impairment 2015 \$000
	Gross 2016 \$000	Impairment 2016 \$000		
Not past due	11,683	(49)	10,725	(40)
Past due 0-30 days	4,231	(150)	7,498	(8)
Past due 31-60 days	2,341	-	1,397	-
Past due 61-120 days	623	(27)	225	-
More than 120 days	981	(582)	963	(552)
	19,859	(808)	20,808	(600)

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	
	2016 \$000	2015 \$000
Balance at 1 July	600	741
Impairment loss/(reversal) recognised	272	(57)
Trade receivables written off to the allowance for impairment	(64)	(84)
Balance at 30 June	808	600

Notes to and forming part of the financial statements
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OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(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
30 June 2016					
Non-derivative financial liabilities					
Trade and other payables	30,275	(30,275)	(30,275)	-	-
Finance leases	13	(13)	(13)	-	-
Cash advance	26,922	(27,439)	(518)	(26,922)	-
	57,210	(57,727)	(30,806)	(26,922)	-
Derivative financial liabilities					
Net foreign currency hedge payable	163	(163)	(163)	-	-
	163	(163)	(163)	-	-
30 June 2015					
Non-derivative financial liabilities					
Trade and other payables	25,098	(25,098)	(25,098)	-	-
Finance leases	49	(52)	(39)	(13)	-
Cash advance	42,492	(43,657)	(1,165)	(42,492)	-
	67,639	(68,807)	(26,302)	(42,505)	-

(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 2016
Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Market risk (continued)

Profile

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

	Carrying amount	
	Consolidated	
	2016	2015
	\$000	\$000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(13)	(52)
	(13)	(52)
Variable rate instruments		
Financial assets	14,333	7,156
Financial liabilities	(26,922)	(42,492)
	(12,589)	(35,336)

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 2015.

	Profit/(loss) before tax		Reserve	
	100 bp	100 bp	100 bp	100 bp
	increase	decrease	increase	decrease
	\$000	\$000	\$000	\$000
30 June 2016				
Variable rate instruments	(126)	126	-	-
30 June 2015				
Variable rate instruments	(353)	353	-	-

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, EUR and CAD.

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 \$25,580,000 of FY17 cash flows. On average, the collars give protection above 77 cents and enable participation down to 71 cents, and the average forward exchange contract rate is 74 cents.

Notes to and forming part of the financial statements
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OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Currency risk (continued)

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	CAD \$000
30 June 2016			
Cash and cash equivalents	542	4,998	-
Trade receivables	643	12,656	-
Trade payables	(22)	(5,118)	3
Loans and borrowings	-	(8,753)	-
Gross balance sheet exposure	1,163	3,783	3
Hedge transactions relating to balance sheet exposure	-	(1,038)	-
Net exposure at the reporting date	1,163	2,745	3
30 June 2015			
Cash and cash equivalents	290	2,341	-
Trade receivables	111	8,830	-
Trade payables	(21)	(6,112)	(15)
Gross balance sheet exposure	380	5,059	(15)
Hedge transactions relating to balance sheet exposure	-	(2,170)	-
Net exposure at the reporting date	380	2,889	(15)

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
2016		
EUR	-	(106)
USD	15	(250)
CAD	-	-
	15	(356)
2015		
EUR	-	(35)
USD	(6)	(262)
CAD	-	1
	(6)	(296)

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.

(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 payables of \$162,530, for which an independent valuation was obtained from the relevant banking institution.

Notes to and forming part of the financial statements
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Consolidated
2016 **2015**
\$000 **\$000**

OTHER NOTES (CONTINUED)

29 EMPLOYEE BENEFITS

Aggregate liability for employee benefits, including on-costs:

Current - other creditors and accruals	5,248	3,848
Current - employee entitlements	5,097	5,287
Non-current - employee entitlements	609	642
	10,954	9,777

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%	3.50%
Discount rate	3.54%	4.20%
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.

ESP shares issued in financial year 2016

The company issued 149,058 shares to eligible employees in June 2016. The fair value of the shares was \$1.22 per share, based on the volume weighted average price at which Codan shares were traded on the ASX for the five trading days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in 2016 in relation to the ESP shares issued was \$181,851. The shares are restricted from sale until the earlier of three years from the acquisition date or upon the date on which an employee is no longer employed by the group.

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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2016
Codan Limited and Its Controlled Entities**

OTHER NOTES (CONTINUED)

29 EMPLOYEE BENEFITS (CONTINUED)

Performance rights issued in financial year 2014

The company issued 326,962 performance rights in November 2013 to certain executives. The fair value of the rights was on average \$1.11 based on the Black-Scholes formula. The model inputs were: the share price of \$1.51, no exercise price, expected volatility 86%, dividend yield 8.6%, a term of three years and a risk-free rate of 4.2%. The total expense recognised as employee costs in 2016 in relation to the performance rights issued was nil (2015:nil)

The group's earnings per share over the three-year period to 30 June has not met the performance target, and therefore these performance rights have lapsed and no shares will be issued.

Performance rights issued in financial year 2015

The company issued 1,083,715 performance rights in November 2014 to certain executives. The fair value of the rights was on average \$0.67 based on the Black-Scholes formula. The model inputs were: the share price of \$0.80, no exercise price, expected volatility 77%, dividend yield 3.75%, a term of three years and a risk-free rate of 3.1%. Due to the departure of an executive in FY16 259,952 performance rights were cancelled. The total expense recognised as employee costs in 2016 in relation to the performance rights issued was \$241,605 (2015: \$250,389).

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. For executives 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.

Performance rights issued in financial year 2016

The company issued 236,948 performance rights in November 2015 to the chief executive officer. The fair value of the rights was \$0.64 based on the Black-Scholes formula. The model inputs were: the share price of \$0.80, no exercise price, expected volatility 43%, dividend yield 4.38%, a term of three years and a risk-free rate of 2.9%.

The company issued 312,447 performance rights in April 2016 and 429,189 performance rights in May 2016 to certain employees. The fair value of the rights was on average \$0.89 based on the Black-Scholes formula. The average model inputs were: the share price of \$1.08, no exercise price, expected volatility 53%, dividend yield 3.72%, a term of three years and a risk-free rate of 2.6%.

The total expense recognised as employee costs in 2016 in relation to the performance rights issued was \$325,210.

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. For executives 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 2016
Codan Limited and its Controlled Entities

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 2016	2015
	\$	\$
Short-term employee benefits	3,891,895	3,017,410
Post-employment benefits	138,674	174,901
Share-based payments	605,309	250,388
Other long term	45,311	31,100
Termination benefits	82,046	-
	4,763,235	3,473,799

(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 / LIABILITY PER SHARE

	2016	2015
Net tangible asset/(liability) per share	7.2 cents	1.0 cents

DIRECTORS' DECLARATION

Codan Limited and its controlled entities

In the opinion of the directors of Codan Limited ("the company"):

- (a) the consolidated financial statements and notes, set out on pages 28 to 66, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
- (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001;
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (e) there are reasonable grounds to believe that the company and the group entity identified in Note 24 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 the group entity pursuant to ASIC Class Order 98/1418; and
- (f) the directors have been given the declaration required by Section 295A of the *Corporations Act 2001* by the chief executive officer and the chief financial officer for the financial year ended 30 June 2016.

Dated at Newton this 23rd day of August 2016.

Signed in accordance with a resolution of the directors:



D J Simmons
Director



D S McGurk
Director



Independent auditor's report to the members of Codan Limited

Report on the financial report

We have audited the accompanying financial report of Codan Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2016, and consolidated statement of comprehensive income, consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is 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 2016 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included on pages 7 to 14 of the directors' report for the year ended 30 June 2016. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Codan Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Scott Fleming
Partner

Adelaide

23 August 2016