Codan Limited
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26 August 2019

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

Full Year Result 2019

Codan Delivers Record Sales and Profit - Announces Special Dividend

Highlights

- Record sales of $271 million
- Record statutory net profit after tax of $45.7 million
- Annual dividend of 9.0 cents, fully franked (interim 4.0, final 5.0)
- Annual special dividend of 5.0 cents, fully franked (interim 2.5, final 2.5)
- Base-business sales re-rated to $200-220 million, up from $180-200 million
- Base-business NPAT re-rated to $28-33 million, up from $25-30 million
- Strong balance sheet continues – $37.5 million net cash

Australian-based technology company, Codan Limited (ASX:CDA), today announced a record statutory net profit after tax of $45.7 million for the year ended 30 June 2019.

Directors announced a final dividend of 5.0 cents per share, fully franked, bringing the full-year dividend to 9.0 cents, up 6%. This dividend has a record date of 30 August 2019 and will be paid on 13 September 2019.

In recognition of the continuing outperformance of the company, the Directors have also announced a final special dividend of 2.5 cents per share for the second half, bringing the full-year special dividend to 5.0 cents which will be paid with the final dividend.

"Codan delivered a record profit in FY19, driven by a consistent level of gold detector sales into Africa, strong growth in sales of our recreational metal detectors and a successful transition into systems and solutions for our Communications business.

Chief Executive, Donald McGurk, said, “We continue to invest heavily in new products and have expanded into new markets in order to broaden the company’s sales and reduce earnings volatility. To that end, in FY19 we:

- progressed development of our second simultaneous multi-frequency (Multi-IQ®) coin and treasure detector, the VANQUISH™, to be released in the first half of FY20;

- established a Minelab sales and distribution centre in Brazil to increase market penetration in the key gold detecting regions of Latin America;

- completed development of the new Sentry® Military Manpack, further expanding our communications offering to the military market; and

- integrated Minetec’s high-precision tracking capability into Caterpillar’s Minestar® underground solution for hard-rock mines.

“Given these initiatives, our strong performance in FY19 and our continuing investment in new product development, we have increased Codan’s base-business sales to a range of $200 million - $220 million, delivering NPAT in the range of $28 million - $33 million. This equates to an 11% increase in base-business sales and profitability.”

Codan Summary Financial Performance	FY19 $m	FY19 % of sales	FY18 $m	FY18 % of sales
Revenue				
Communications	77.6	29%	56.5	25%
Metal Detection	182.1	67%	164.0	71%
Tracking Solutions	11.1	4%	9.4	4%
Total revenue	**270.8**	**100%**	**229.9**	**100%**
Underlying business performance				
EBITDA	78.6	29%	70.4	31%
EBIT	63.4	23%	53.7	23%
Interest	(0.1)		(0.5)	
Net profit before tax	**63.3**	**23%**	**53.2**	**23%**
Taxation	(17.6)		(13.4)	
Underlying net profit after tax	**45.7**	**17%**	**39.8**	**17%**
Non-recurring income/(expenses) after tax:*				
Newton property tax benefit	-		1.7	
Net profit after tax	**45.7**		**41.5**	
Underlying earnings per share, fully diluted	25.3	cents	22.1	cents
Statutory earnings per share, fully diluted	25.3	cents	23.1	cents
Ordinary dividend per share	9.0	cents	8.5	cents
Special dividend per share	5.0	cents	4.0	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.*

Profit margins have remained strong despite the business significantly diversifying its product mix.

Continuing strong cash generation resulted in a net cash position of $37.5 million at 30 June 2019.

Performance by business unit:

Communications – Tactical and Land Mobile Radios (LMR)

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

The division had an excellent year in FY19. Sales increased 37% to $78 million and segment profit increased 147% to $16.7 million.

In the past, Communications has had base-business sales in the range of $65 million to $75 million per annum, with large tactical communications projects potentially taking us to the top of this range. Successful expansion into the global military market has **increased the base business to a sales range of $70 million to $80 million per annum.**

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

In FY19, we completed development of the new Sentry® Military Manpack which will be available for shipment in FY20. This product strengthens our offering to the tactical military radio market and, combined with the Codan RIOS™ interoperability platform, allows us to offer communications solutions into mixed and legacy networks.

Tactical Communications is specifically targeting the global military market, with a focus on developing world militaries in Africa, the Middle East, Asia, Eastern Europe and Latin America. As previously announced, the division recently won an AU $15 million contract to supply a tactical communications network incorporating Codan radios and interoperability solution, along with a suite of third party products.

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

In April, we appointed Scott French, an LMR-industry executive with more than 20 years of experience, to lead the LMR business from Codan's office in Victoria, Canada. We remain confident about the medium to long-term growth potential of this division.

The Communications division has a strong order book, and we expect it to deliver FY20 sales in line with our increased base-business range.

Metal Detection – Recreational, Gold Mining and Countermine

Minelab is the world leader in handheld metal detecting technologies for the recreational, gold mining, demining and military markets. 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's base business is comprised of recreational products sold primarily into Australia, Europe and the USA, a level of gold detector sales into Africa, Latin America and Asia Pacific and sales of countermine products (detecting and clearing explosive devices) globally.

Minelab has had base-business sales of around $110 million per annum. Continuing strong sales of the EQUINOX® coin and treasure product, coupled with the imminent release of the new VANQUISH™ detector and increasingly diversified gold detector sales, have resulted in an **increase in base-business sales to a range of $120 million to $130 million per annum.**

Periods of stronger demand for gold detectors in Africa and new product introductions have the potential to push these revenues higher.

A period of outperformance occurred during the first half of FY19 as Minelab opened new gold markets in the Middle East. We also had the benefit of the first full year of EQUINOX® coin and treasure detector sales. This, coupled with strong ongoing demand for gold detectors, resulted in Minelab's highest ever sales of $182 million, delivering segment contribution of $67 million in FY19.

In Africa, Minelab dominates the artisanal gold mining market, with the GPZ 7000®, SDC2300® and Gold Monster® covering all price points. Existing customers are upgrading their GPX® gold detecting equipment and new customers are entering the market with the Gold Monster®. The SDC 2300® detector is exceptionally good at discovering fine-particle gold in mineralised soil and has become the alternative detector to the GPX 5000®.

In Minelab's established recreational markets, the EQUINOX® detector continues to take market share. During FY19, Minelab also progressed development of the new VANQUISH™ coin and treasure detector, which, like the EQUINOX®, draws on Minelab's proprietary simultaneous multi-frequency technology (Multi-IQ®) to make deep detecting easier and more efficient. VANQUISH™ will be released to the market in the first half of FY20 and we believe it will take market share from competitors.

In May 2019, Minelab delivered its first shipment of the new MDS-10® mine clearance detector, a dual-sensing detector which combines Minelab's leading metal detection technology with ground penetrating radar. It provides superior results in the detection of minimal-metal landmines and improvised explosive devices.

Given Minelab's increasingly diversified sales mix, new products and improving retail distribution, we remain confident of continued success in FY20.

<u>Tracking Solutions - Minetec</u>

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

As previously announced, in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. During FY19, we worked closely with Caterpillar's development team to integrate Minetec's high-precision tracking capability into the Caterpillar MineStar® solution for underground hard-rock mines.

As a result of this agreement, the division is now leveraging Caterpillar's global dealer network to expand sales. During FY19, there were delays in securing contracts for the operational deployment of MineStar® and therefore Minetec did not meet its revenue target of $15 million for the year. Revenue increased marginally to $11.1 million, and the division recorded a small loss. Management is working closely with Caterpillar to improve this situation and is confident that these issues will be rectified in the near future.

During the second half, Minetec and Caterpillar partnered with Newmont Goldcorp to demonstrate value of the combined MineStar® system at their Tanami mine in the Northern Territory. This partnership allowed the team to commission MineStar® for Underground in an operational mine and quantify the benefits with real data.

Separate to the Caterpillar agreement, Minetec has continued to install and commission the underground Fleet Management System in BHP's Olympic Dam mine in South Australia. Vehicle installations are complete across some 650 machines, and we are working through the detailed process of site and user acceptance of the new system.

Our strategy for Minetec continues to focus on working with Caterpillar in order to leverage their global distribution capability, thereby increasing Minetec's sales and profitability to a level that is significant to the Codan group.

Codan Defence Electronics

Codan Defence Electronics was established in July 2016 to offer advanced manufacturing and through-life support to the Australian defence industry. Following three years of intensive business development and bidding activity, Codan has become an approved partner for two defence programmes, however only small supply contracts have been awarded to date. Given the very long decision cycles in defence, we once again do not expect this division to generate significant revenue in FY20.

Outlook

As a result of the strategic initiatives discussed above, we have succeeded in growing Codan's base business during FY19, which represents an increased level of confidence by the Board in the fundamental strength of our business.

Codan has the ability to surprise on the upside as a result of increased demand for gold detectors and large project wins in our Communications division, both of which are difficult to predict. The Board and management remain committed to maximising these opportunities while continuing to grow the company's base business.

FY19 was a record year for the company, with a very strong first half helped by opening a new market for gold detecting in the Middle East and the EQUINOX® coin and treasure detector launch. We do not expect to repeat this level of gold detector sales during the first half of FY20 and therefore expect sales to follow normal seasonality and be stronger in the second half.

The Board is not giving profit guidance at this point, however 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 develops robust technology solutions to solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-

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Codan Limited

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

For the year ended 30 June 2019

ABN	Previous corresponding period
77 007 590 605	30 June 2018

Results for announcement to the market				**$A'000**
Revenue from ordinary activities	Up	18%	to	270,811
Profit from ordinary activities after tax attributable to members	Up	10%	to	45,656
Underlying profit after tax	Up	15%	to	45,656

Dividends	Amount per security	Franked amount per security at 30% tax
Final ordinary dividend	5.0 cents	5.0 cents
Final special dividend	2.5 cents	2.5 cents
Interim ordinary dividend	4.0 cents	4.0 cents
Interim special dividend	2.5 cents	2.5 cents
Record date for determining entitlements to dividends:	30 August 2019	

Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:

The 30 June 2019 Financial Report and the Market Announcement dated 23 August 2019 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 2019 Financial Report.

Codan Limited
ABN 77 007 590 605
and its Controlled Entities

Financial Report
30 June 2019

Contents

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 2019 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	Experience
Mr David Simmons BA (Acc) Chairman, Independent Non-Executive Director, Chair of Remuneration and Nomination Committee	Mr Simmons was appointed by the board as Chairman in February 2015 and has been a director of Codan since May 2008. He has extensive financial and general management experience, having worked in large diversified businesses throughout his career, including as Managing Director for 16 years of a then large Australian-based publicly listed company.
Mr Donald McGurk HNC (Mech Eng), MBA, FAICD, Harvard AMP Managing Director and Chief Executive Officer	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 the University of Adelaide and completed the Advanced Management Program at Harvard University in 2010.
Lt-Gen Peter Leahy AC BA (Military Studies), MMAS, GAICD Independent Non-Executive Director	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 six years as Chief of Army. His distinguished service was recognised with his 2007 appointment as a Companion of the Order of Australia. Since leaving the Army he has been appointed as Professor and Foundation Director of the National Security Institute at the University of Canberra. He is the Chief Defence Advisor to the Queensland Government, has been a director of Electro Optic Systems Holdings Limited since May 2009 and a director of Citadel Group Limited since June 2014. He is a member of the Advisory Board to China Matters and is a technical advisor to WarpForge Limited. 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 Jim McDowell LLB (Hons) Independent Non-Executive Director	Mr McDowell was appointed to the board in September 2014 and resigned on 31 August 2018. He was a director of Austal Limited from December 2014 to August 2018 and a director of Micro-X Limited from September 2017 to August 2018.

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 more than 30 years of international business experience in professional services, broadcast and telecommunications, and extensive knowledge of business in the communications services, technology and infrastructure markets. He was Group Chief Executive Officer of the Broadcast Australia group for 11 years, following three years as Chief Financial Officer and Chief Operating Officer, retiring in April 2013. In his time with Broadcast Australia, the business grew domestically and expanded internationally, and diversified into private networks, transit location communications and data-centre operation and managed hosting services. From July 2010 until September 2013, he was Chairman of Transit Wireless LLP, which has the exclusive rights to install and operate cellular and Wi-Fi systems in the New York subway. From 2002 to 2009, he was an executive director in Macquarie Group's infrastructure team and was involved in several acquisitions and capital-raising transactions for the then listed Macquarie Communications Infrastructure Group. From 2014 to 2018, he was Chairman of the Nextgen Group that successfully divested the Nextgen Networks and Metronode data-centre businesses in 2016 and 2018 respectively. He is currently Chairman of Uniti Group Limited, CEO of Axicom Holdings and has been a non-executive director of BSA Limited since June 2015. Mr Barclay is a chartered accountant, holding membership of the Institute of Chartered Accountants of Scotland and of Chartered Accountants Australia and New Zealand.
Ms Kathy Gramp BA (Acc), CA, FAICA, FAICD Independent Non-Executive Director, Chair of Board Audit, Risk and Compliance Committee	Ms Gramp was appointed to the board in November 2015. She has had a long and distinguished executive career and over 21 years of board experience across a diverse range of Australian organisations and industry sectors. She has had exposure to international markets and has a wealth of experience in corporate finance at both strategic and operational levels. In 1989, 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 a director, Chair of Audit & Risk and a member of the Remuneration Committee of Godfreys Group Limited from January 2018 until May 2018, was previously a director and member of the Audit & Risk and Remuneration Committees of Southern Cross Media Group Limited and has significant audit committee experience. Ms Gramp is a director of Uniti Group Limited, a chartered accountant and a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants Australia and New Zealand.

COMPANY SECRETARY

Mr Michael Barton BA (Acc), CA

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

DIRECTORS' MEETINGS

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

	Board meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration and Nomination Committee meetings	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr D J Simmons	10	10	4	4	2	2
Mr D S McGurk	10	10	3	4		
Lt-Gen P F Leahy	10	10			2	2
Mr J W McDowell	1	1			1	1
Mr G R C Barclay	10	10	3	4		
Ms K J Gramp	10	10	4	4		

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

REMUNERATION REPORT – AUDITED

Principles of remuneration

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

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced executives. The Remuneration and Nomination Committee 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. For FY19, the potential incentive payable to certain executives is normally based on 50% of the executives' fixed salaries inclusive of superannuation, but can exceed this level if performance hurdles are exceeded, subject to a 200% cap.

REMUNERATION REPORT – AUDITED (CONTINUED)

Principles of remuneration (continued)

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2019 the above performance-linked remuneration structure was appropriate.

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

Service contracts

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

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

Performance rights

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

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

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

	Number of performance rights granted during year	Grant date	Average fair value per right at grant date (cents)	Exercise price per right (cents)	Expiry date	Number of rights vested during year
DIRECTORS						
Mr D S McGurk	91,972	16 November 2018	253.9	-	30 June 2022	-
EXECUTIVES						
Mr M Barton	48,421	16 November 2018	253.9	-	30 June 2022	-
Mr P D Charlesworth	59,881	16 November 2018	253.9	-	30 June 2022	-
Mr R D Linehan	58,694	16 November 2018	253.9	-	30 June 2022	-
Mr S P Sangster	31,208	16 November 2018	253.9	-	30 June 2022	-

Mr S P Sangster was appointed to the position of Executive General Manager, Tactical Communications on 1 July 2018.

The performance rights granted on 16 November 2018 become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using a non-statutory base-level earnings per share as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share. The threshold level of the group's earnings per share before vesting is an increase in aggregate of 5% per annum over the three-year period from the base earnings per share. A pro-rata vesting will occur between the 5% and 15% levels of earnings per share for the three-year period.

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

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

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

	Performance rights granted		Percentage 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	236,948	25 November 2015	100	-	2019
	173,959	23 November 2016	-	-	2020
	124,524	10 November 2017	-	-	2021
	91,972	16 November 2018	-	-	2022
EXECUTIVES					
Mr M Barton	120,709	25 May 2016	100	-	2019
	91,586	23 November 2016	-	-	2020
	65,559	8 December 2017	-	-	2021
	48,421	16 November 2018	-	-	2022
Mr P D Charlesworth	154,240	25 May 2016	100	-	2019
	113,237	23 November 2016	-	-	2020
	81,058	8 December 2017	-	-	2021
	59,881	16 November 2018	-	-	2022
Mr R D Linehan	154,240	25 May 2016	100	-	2019
	113,237	23 November 2016	-	-	2020
	79,469	8 December 2017	-	-	2021
	58,694	16 November 2018	-	-	2022
Mr S P Sangster	103,630	22 April 2016	100	-	2019
	69,728	23 November 2016	-	-	2020
	40,373	8 December 2017	-	-	2021
	31,208	16 November 2018	-	-	2022

In relation to the performance rights granted on 23 November 2016, the performance requirements were based on the group's aggregated earnings per share over a three-year performance period exceeding 43.93 cents per share. As this earnings per share target has been exceeded to 30 June 2019, it is expected that the performance rights will vest and be converted into shares before the end of August 2019.

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 2018	Issued	Vested	Lapsed	Held at 30 June 2019
DIRECTORS					
Mr D S McGurk	535,431	91,972	236,948	-	390,455
EXECUTIVES					
Mr M Barton	277,854	48,421	120,709	-	205,566
Mr P D Charlesworth	348,535	59,881	154,240	-	254,176
Mr R D Linehan	346,946	58,694	154,240	-	251,400
Mr S P Sangster	213,731	31,208	103,630	-	141,309

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.

Director share ownership

The Directors' Shareholding Policy was approved by the board on 20 March 2019 and requires non-executive directors to build a minimum shareholding in the company with a value approximately equivalent to their annual base fee, and executive directors to their annual total fixed remuneration. Under the policy, directors have five years to reach the minimum holding.

The Directors' Shareholding Policy is available on the company's website.

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 2018	Received on exercise of rights	Other changes *	Held at 30 June 2019
Directors				
Mr D J Simmons	86,636	-	-	86,636
Mr D S McGurk	609,394	236,948	(100,000)	746,342
Lt-Gen P F Leahy	57,708	-	-	57,708
Mr J W McDowell	-	-	-	n/a
Mr G R C Barclay	38,829	-	-	38,829
Ms K J Gramp	10,000	-	-	10,000
Specified executives				
Mr M Barton	150,638	120,709	-	271,347
Mr P D Charlesworth	456,040	154,240	(68,933)	541,347
Mr S A French	n/a	-	-	-
Mr R D Linehan	287,573	154,240	(287,573)	154,240
Mr S P Sangster	340	103,630	(103,600)	370
Mr C P Stuff	-	-	-	n/a

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

Mr J W McDowell resigned as a director on 31 August 2018. Mr S P Sangster was appointed to the position of Executive General Manager, Tactical Communications on 1 July 2018, Mr S A French was appointed to the position of Executive General Manager, Land Mobile Radio on 25 February 2019 and Mr C P Stuff, our former Executive General Manager, Radio Communications, retired from the business on 8 March 2019.

REMUNERATION REPORT - AUDITED (CONTINUED)

Directors' and senior executives' remuneration

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

Directors	Year	Salary and fees	Short-term incentives	Other short term	Post-employment and superannuation contributions	Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		$	$	$	$	$	$	$	$	%
NON-EXECUTIVE										
Mr D J Simmons	**2019**	**179,133**	**-**	**-**	**17,018**	**-**	**-**	**-**	**196,151**	**-**
	2018	175,908	-	-	16,711	-	-	-	192,619	-
Lt-Gen P F Leahy	**2019**	**89,567**	**-**	**-**	**8,509**	**-**	**-**	**-**	**98,076**	**-**
	2018	87,955	-	-	8,356	-	-	-	96,311	-
Mr J W McDowell	**2019**	**14,806**	**-**	**-**	**1,407**	**-**	**-**	**-**	**16,213**	**-**
	2018	87,955	-	-	8,356	-	-	-	96,311	-
Mr G R C Barclay	**2019**	**89,567**	**-**	**-**	**8,509**	**-**	**-**	**-**	**98,076**	**-**
	2018	87,955	-	-	8,356	-	-	-	96,311	-
Ms K J Gramp	**2019**	**97,709**	**-**	**-**	**9,282**	**-**	**-**	**-**	**106,991**	**-**
	2018	95,950	-	-	9,115	-	-	-	105,065	-
Total non-executives' remuneration	**2019**	**470,782**	**-**	**-**	**44,725**	**-**	**-**	**-**	**515,507**	**-**
	2018	535,723	-	-	50,894	-	-	-	586,617	-

REMUNERATION REPORT - AUDITED (CONTINUED)

Directors' and senior executives' remuneration (continued)

Directors	Year	Salary and 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	**2019**	**548,140**	**410,104**	**-**	**20,531**	**23,589**	**-**	**226,670**	**1,229,034**	**51.8**
	2018	528,369	385,453	-	20,049	8,326	-	207,126	1,149,323	51.6
Total directors' remuneration	**2019**	**1,018,922**	**410,104**	**-**	**65,256**	**23,589**	**-**	**226,670**	**1,744,541**	**-**
	2018	1,064,092	385,453	-	70,943	8,326	-	207,126	1,735,940	-

Mr J W McDowell resigned as a director on 31 August 2018.

REMUNERATION REPORT - AUDITED (CONTINUED)

Directors' and senior executives' remuneration (continued)

Executive officers	Year	Salary and fees	Short-term incentives	Other short term	Post-employment and superannuation contributions	Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		$	$	$	$	$	$	$	$	%
Mr M Barton (Chief Financial Officer and Company Secretary)	**2019**	**276,527**	**215,911**	**-**	**22,749**	**10,051**	**-**	**116,884**	**642,122**	**51.8**
	2018	278,940	202,934	-	25,000	7,527	-	121,381	635,782	51.0
Mr P D Charlesworth (Executive General Manager, Minelab & Codan Defence)	**2019**	**362,641**	**270,079**	**-**	**21,628**	**19,106**	**-**	**144,528**	**817,982**	**50.7**
	2018	344,240	266,713	-	20,049	3,995	-	152,236	787,233	53.2
Mr S A French (Executive General Manager, Land Mobile Radio)	**2019**	**265,517**	**89,201**	**7,402**	**-**	**-**	**-**	**-**	**362,120**	**24.6**
Mr R D Linehan (Chief Technology Officer, Codan and Executive General Manager, Minetec)	**2019**	**362,251**	**130,860**	**86,068***	**-**	**9,678**	**-**	**142,628**	**731,485**	**37.4**
	2018	374,614	198,982	64,500*	-	9,106	-	151,649	798,851	43.9
Mr S P Sangster (Executive General Manager, Tactical Communications)	**2019**	**352,325**	**244,585**	**2,491**	**-**	**8,233**	**-**	**82,142**	**689,776**	**47.4**
Mr C P Stuff (Executive General Manager, Radio Communications)	**2019**	**270,124**	**171,352**	**4,997**	**-**	**64,632**	**83,214**	**-**	**594,319**	**28.8**
	2018	361,124	129,657	2,382	-	62,182	-	-	555,345	23.3
Total executive officers' remuneration	**2019**	**1,889,385**	**1,121,988**	**100,958**	**44,377**	**111,700**	**83,214**	**486,182**	**3,837,804**	**-**
	2018	1,358,918	798,286	66,882	45,049	82,810	-	425,266	2,777,211	-

** Other short-term benefits for Mr R D Linehan relate to costs incurred for arrangements made following his relocation from overseas to Australia.*

REMUNERATION REPORT - AUDITED (CONTINUED)

Directors' and senior executives' remuneration (continued)

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

Mr S P Sangster was appointed to the position of Executive General Manager, Tactical Communications on 1 July 2018, Mr S A French was appointed to the position of Executive General Manager, Land Mobile Radio on 25 February 2019 and Mr C P Stuff, our former Executive General Manager, Radio Communications, retired from the business on 8 March 2019.

Short-term incentives which vested during the year are as follows: Mr D S McGurk 70% (30% forfeited), Mr M Barton 70% (30% forfeited), Mr P D Charlesworth 71% (29% forfeited), Mr S A French 70% (30% forfeited), Mr R D Linehan 35% (65% forfeited), Mr S P Sangster 62% (38% forfeited) and Mr C P Stuff 62% (38% 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.

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:

	2019	**2018**	**2017**	**2016**	**2015**
	$	**$**	**$**	**$**	**$**
Profit attributable to shareholders	**45,665,443**	41,574,557	43,514,938	15,494,607	12,507,609
Dividends paid	**26,872,758**	19,593,194	17,723,725	7,082,530	5,310,509
Share price at 30 June	**3.47**	3.00	2.34	1.18	1.15
Change in share price at 30 June	**0.47**	0.66	1.16	0.03	0.40

OPERATING AND FINANCIAL REVIEW

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

FY19 highlights:

- Record sales of $271 million
- Record statutory net profit after tax of $45.7 million
- Annual dividend of 9.0 cents, fully franked (interim 4.0, final 5.0)
- Annual special dividend of 5.0 cents, fully franked (interim 2.5, final 2.5)
- Base-business sales re-rated to $200-220 million, up from $180-200 million
- Base-business NPAT re-rated to $28-33 million, up from $25-30 million
- Strong balance sheet continues – $37.5 million net cash

Codan delivered a record profit in FY19, driven by a consistent level of gold detector sales into Africa, strong growth in sales of our recreational metal detectors and a successful transition into systems and solutions for our Communications business. The company continues to invest heavily in new products and has expanded into new markets in order to broaden the company's sales and reduce earnings volatility. To that end, in FY19 we:

- progressed development of our second simultaneous multi-frequency (Multi-IQ®) coin and treasure detector, the VANQUISH™, to be released in the first half of FY20;
- established a Minelab sales and distribution centre in Brazil to increase market penetration in the key gold detecting regions of Latin America;
- completed development of the new Sentry® Military Manpack, further expanding our communications offering to the military market; and
- integrated Minetec's high-precision tracking capability into Caterpillar's Minestar® underground solution for hard-rock mines.

Given these initiatives, our strong performance in FY19 and our continuing investment in new product development, we have increased Codan's base-business sales to a range of $200 million - $220 million, delivering NPAT in the range of $28 million - $33 million. This equates to an 11% increase in base-business sales and profitability.

Dividend

The company announced a final dividend of 5.0 cents per share, fully franked, bringing the full-year dividend to 9.0 cents, up 6%. This dividend has a record date of 30 August 2019 and will be paid on 13 September 2019.

In recognition of the continuing outperformance of the company, the company also announced a final special dividend of 2.5 cents per share for the second half, bringing the full-year special dividend to 5.0 cents which will be paid with the final dividend.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters

	FY19		FY18	
	$m	% of sales	$m	% of sales
Revenue				
Communications	**77.6**	**29%**	56.5	25%
Metal Detection	**182.1**	**67%**	164.0	71%
Tracking Solutions	**11.1**	**4%**	9.4	4%
Total revenue	**270.8**	**100%**	229.9	100%
Underlying business performance				
EBITDA	**78.6**	**29%**	70.4	31%
EBIT	**63.4**	**23%**	53.7	23%
Interest	**(0.1)**		(0.5)	
Net profit before tax	**63.3**	**23%**	53.2	23%
Taxation	**(17.6)**		(13.4)	
Underlying net profit after tax	**45.7**	**17%**	39.8	17%
Non-underlying income/(expenses) after tax:*				
Newton property tax benefit	**-**		1.7	
Net profit after tax	**45.7**		41.5	
Underlying earnings per share, fully diluted	**25.3 cents**		22.1 cents	
Statutory earnings per share, fully diluted	**25.3 cents**		23.1 cents	
Ordinary dividend per share	**9.0 cents**		8.5 cents	
Special dividend per share	**5.0 cents**		4.0 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.*

Profit margins have remained strong despite the business significantly diversifying its product mix.

Continuing strong cash generation resulted in a net cash position of $37.5 million at 30 June 2019.

Performance by business unit:

Communications – Tactical and Land Mobile Radios (LMR)

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

The division had an excellent year in FY19. Sales increased 37% to $78 million and segment profit increased 147% to $16.7 million.

In the past, Communications has had base-business sales in the range of $65 million to $75 million per annum, with large tactical communications projects potentially taking us to the top of this range. Successful expansion into the global military market has increased the base business to a sales range of $70 million to $80 million per annum.

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

In FY19, we completed development of the new Sentry® Military Manpack which will be available for shipment in FY20. This product strengthens our offering to the tactical military radio market and, combined with the Codan RIOS™ interoperability platform, allows us to offer communications solutions into mixed and legacy networks.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Performance by business unit: (continued)

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

Tactical Communications is specifically targeting the global military market, with a focus on developing world militaries in Africa, the Middle East, Asia, Eastern Europe and Latin America. As previously announced, the division recently won an AU $15 million contract to supply a tactical communications network incorporating Codan radios and interoperability solution, along with a suite of third party products.

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

In April, we appointed Scott French, an LMR-industry executive with more than 20 years of experience, to lead the LMR business from Codan's office in Victoria, Canada. We remain confident about the medium to long-term growth potential of this division.

The Communications division has a strong order book, and we expect it to deliver FY20 sales in line with our increased base-business range.

Metal Detection – Recreational, Gold Mining and Countermine

Minelab is the world leader in handheld metal detecting technologies for the recreational, gold mining, demining and military markets. 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's base business is comprised of recreational products sold primarily into Australia, Europe and the USA, a level of gold detector sales into Africa, Latin America and Asia Pacific and sales of countermine products (detecting and clearing explosive devices) globally. Minelab has had base-business sales of around $110 million per annum. Continuing strong sales of the EQUINOX® coin and treasure product, coupled with the imminent release of the new VANQUISH™ detector and increasingly diversified gold detector sales, have resulted in an increase in base-business sales to a range of $120 million to $130 million per annum.

Periods of stronger demand for gold detectors in Africa and new product introductions have the potential to push these revenues higher.

A period of outperformance occurred during the first half of FY19 as Minelab opened new gold markets in the Middle East. We also had the benefit of the first full year of EQUINOX® coin and treasure detector sales. This, coupled with strong ongoing demand for gold detectors, resulted in Minelab's highest ever sales of $182 million, delivering segment contribution of $67 million in FY19.

In Africa, Minelab dominates the artisanal gold mining market, with the GPZ 7000®, SDC2300® and Gold Monster® covering all price points. Existing customers are upgrading their GPX® gold detecting equipment and new customers are entering the market with the Gold Monster®. The SDC 2300® detector is exceptionally good at discovering fine-particle gold in mineralised soil and has become the alternative detector to the GPX 5000®.

In Minelab's established recreational markets, the EQUINOX® detector continues to take market share. During FY19, Minelab also progressed development of the new VANQUISH™ coin and treasure detector, which, like the EQUINOX®, draws on Minelab's proprietary simultaneous multi-frequency technology (Multi-IQ®) to make deep detecting easier and more efficient. VANQUISH™ will be released to the market in the first half of FY20 and we believe it will take market share from competitors.

In May 2019, Minelab delivered its first shipment of the new MDS-10® mine clearance detector, a dual-sensing detector which combines Minelab's leading metal detection technology with ground penetrating radar. It provides superior results in the detection of minimal-metal landmines and improvised explosive devices.

Given Minelab's increasingly diversified sales mix, new products and improving retail distribution, we remain confident of continued success in FY20.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Performance by business unit: (continued)

Tracking Solutions – Minetec

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

As previously announced, in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. During FY19, we worked closely with Caterpillar's development team to integrate Minetec's high-precision tracking capability into the Caterpillar MineStar® solution for underground hard-rock mines.

As a result of this agreement, the division is now leveraging Caterpillar's global dealer network to expand sales. During FY19, there were delays in securing contracts for the operational deployment of MineStar® and therefore Minetec did not meet its revenue target of $15 million for the year. Revenue increased marginally to $11.1 million, and the division recorded a small loss. Management is working closely with Caterpillar to improve this situation and is confident that these issues will be rectified in the near future.

During the second half, Minetec and Caterpillar partnered with Newmont Goldcorp to demonstrate value of the combined MineStar® system at their Tanami mine in the Northern Territory. This partnership allowed the team to commission MineStar® for Underground in an operational mine and quantify the benefits with real data.

Separate to the Caterpillar agreement, Minetec has continued to install and commission the underground Fleet Management System in BHP's Olympic Dam mine in South Australia. Vehicle installations are complete across some 650 machines, and we are working through the detailed process of site and user acceptance of the new system.

Our strategy for Minetec continues to focus on working with Caterpillar in order to leverage their global distribution capability, thereby increasing Minetec's sales and profitability to a level that is significant to the Codan group.

Codan Defence Electronics

Codan Defence Electronics was established in July 2016 to offer advanced manufacturing and through-life support to the Australian defence industry. Following three years of intensive business development and bidding activity, Codan has become an approved partner for two defence programmes, however only small supply contracts have been awarded to date. Given the very long decision cycles in defence, we once again do not expect this division to generate significant revenue in FY20.

Outlook

As a result of the strategic initiatives discussed above, we have succeeded in growing Codan's base business during FY19, which represents an increased level of confidence by the Board in the fundamental strength of our business.

Codan has the ability to surprise on the upside as a result of increased demand for gold detectors and large project wins in our Communications division, both of which are difficult to predict. The Board and management remain committed to maximising these opportunities while continuing to grow the company's base business.

FY19 was a record year for the company, with a very strong first half helped by opening a new market for gold detecting in the Middle East and the EQUINOX® coin and treasure detector launch. We do not expect to repeat this level of gold detector sales during the first half of FY20 and therefore expect sales to follow normal seasonality and be stronger in the second half.

The Board is not giving profit guidance at this point, however 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 2019:				
FY18 final ordinary	4.5	8,062	100%	14 September 2018
FY18 final special	4.0	7,166	100%	14 September 2018
FY19 interim ordinary	4.0	7,166	100%	13 March 2019
FY19 interim special	2.5	4,479	100%	13 March 2019
DECLARED AFTER THE END OF THE YEAR:				
FY19 final ordinary	5.0	8,961	100%	13 September 2019
FY19 final special	2.5	4,481	100%	13 September 2019

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.

LIKELY DEVELOPMENTS

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

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

DIRECTORS' INTERESTS

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

	Ordinary shares
Mr D J Simmons	86,636
Mr D S McGurk	746,342
Lt-Gen P F Leahy	57,708
Mr G R C Barclay	38,829
Ms K J Gramp	10,000

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

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	
	2019	2018
	$	$
STATUTORY AUDIT		
Audit and review of financial reports (KPMG Australia)	**214,763**	204,874
	214,763	204,874
SERVICES OTHER THAN STATUTORY AUDIT		
Taxation compliance services (KPMG Australia)	**55,973**	56,760
Taxation compliance services (overseas KPMG firms)	**-**	27,220
Corporate finance services	**40,466**	32,591
	96,439	116,571

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.

DIRECTORS' REPORT
Codan Limited and its Controlled Entities

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 2019.

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Codan Limited for the financial year ended 30 June 2019 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

KPMG

Paul Cenko
Partner

Adelaide

23 August 2019

Consolidated income statement for the year ended 30 June 2019

Codan Limited and its Controlled Entities

	Note	Consolidated 2019 $000	2018 $000
CONTINUING OPERATIONS			
Revenue	2	**270,811**	229,914
Cost of sales		**(117,478)**	(98,209)
Gross profit		**153,333**	131,705
Administrative expenses		**(20,830)**	(19,295)
Sales and marketing expenses		**(44,159)**	(37,976)
Engineering expenses		**(24,756)**	(20,360)
Net financing costs	3	**(203)**	(730)
Other (expenses)/income	4	**(83)**	(152)
Profit before tax		**63,302**	53,192
Income tax expense	7	**(17,646)**	(11,644)
Profit for the period		**45,656**	41,548
Attributable to:			
Equity holders of the company		**45,665**	41,575
Non-controlling interests		**(9)**	(27)
		45,656	41,548
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share	6	**25.5 cents**	23.4 cents
Diluted earnings per share	6	**25.3 cents**	23.1 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 24 to 58.

Consolidated statement of comprehensive income

for the year ended 30 June 2019

Codan Limited and its Controlled Entities

	Note	Consolidated 2019 $000	2018 $000
Profit for the period		**45,656**	41,548
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		**406**	(1,170)
less tax effect		**(122)**	351
Changes in fair value of cash flow hedges, net of income tax	21	**284**	(819)
Exchange differences on translation of foreign operations	21	**3,124**	954
Other comprehensive income/(loss) for the period, net of income tax		**3,408**	135
Total comprehensive income for the period		**49,064**	41,683
Attributable to:			
Equity holders of the company		**49,073**	41,710
Non-controlling interests		**(9)**	(27)
		49,064	41,683

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 24 to 58.

Consolidated balance sheet as at 30 June 2019

Codan Limited and its Controlled Entities

	Note	Consolidated 2019 $000	Consolidated 2018 $000
CURRENT ASSETS			
Cash and cash equivalents	8	**37,521**	27,711
Trade and other receivables	11	**19,007**	29,784
Inventory	12	**36,703**	31,588
Current tax assets	7	**337**	91
Assets held for sale	14	**3,750**	3,750
Other assets	13	**5,189**	2,474
Total current assets		**102,507**	95,398
NON-CURRENT ASSETS			
Property, plant and equipment	15	**14,126**	12,489
Product development	16	**69,857**	59,830
Intangible assets	17	**87,827**	86,585
Total non-current assets		**171,810**	158,904
Total assets		**274,317**	254,302
CURRENT LIABILITIES			
Trade and other payables	18	**44,161**	46,346
Current tax payable	7	**1,635**	6,057
Provisions	19	**8,033**	7,299
Total current liabilities		**53,829**	59,702
NON-CURRENT LIABILITIES			
Deferred tax liabilities	7	**8,082**	5,994
Provisions	19	**1,192**	541
Total non-current liabilities		**9,274**	6,535
Total liabilities		**63,103**	66,237
Net assets		**211,214**	188,065
EQUITY			
Share capital	20	**43,761**	42,721
Reserves	21	**67,652**	64,326
Retained earnings		**99,801**	81,018
Total equity		**211,214**	188,065
Total equity attributable to the equity holders of the company		**211,342**	188,184
Non-controlling interests		**(128)**	(119)
		211,214	188,065

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 24 to 58.

Consolidated statement of changes in equity

for the year ended 30 June 2019

Codan Limited and its Controlled Entities

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

	Consolidated						
2018	Share capital $000	Foreign currency translation reserve $000	Hedging reserve $000	Equity based payment reserve $000	Profit reserve $000	Retained earnings $000	Total $000
Balance as at 1 July 2017	43,928	2,634	389	-	58,981	59,063	164,995
Profit for the period	-	-	-	-	-	41,548	41,548
Performance rights expensed	-	-	-	774	-	-	774
Change in fair value of cash flow hedges	-	-	(819)	-	-	-	(819)
Exchange differences on translation of foreign operations	-	954	-	-	-	-	954
Transfers to and from reserves	(1,954)	-	-	1,954	-	-	-
	41,974	3,588	(430)	2,728	58,981	100,611	207,452
Transactions with owners of the company							
Dividends recognised during the period	-	-	-	-	-	(19,593)	(19,593)
Issue of share capital through performance rights	541	-	-	(541)	-	-	-
Employee share plan, net of issue costs	206	-	-	-	-	-	206
	747	-	-	(541)	-	(19,593)	(19,387)
Balance at 30 June 2018	42,721	3,588	(430)	2,187	58,981	81,018	188,065

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 24 to 58.

Consolidated statement of cash flows for the year ended 30 June 2019

Codan Limited and its Controlled Entities

	Note	Consolidated 2019 $000	2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**290,738**	231,096
Cash paid to suppliers and employees		**(208,290)**	(159,759)
Interest received		**176**	94
Interest paid		**(226)**	(597)
Income taxes paid (net)		**(20,305)**	(22,616)
Net cash from operating activities	10	**62,093**	48,218
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**-**	16
Payments for capitalised product development		**(20,453)**	(16,543)
Payments for intellectual property		**(226)**	(2,029)
Acquisition of property, plant and equipment		**(4,132)**	(3,427)
Acquisition of intangibles (computer software and licences)		**(866)**	(470)
Net cash used in investing activities		**(25,677)**	(22,453)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(26,873)**	(19,593)
Net cash provided by/(used in) financing activities		**(26,873)**	(19,593)
Net increase/(decrease) in cash held		**9,543**	6,172
Cash and cash equivalents at the beginning of the financial year		**27,711**	21,421
Effects of exchange rate fluctuations on cash held		**267**	118
Cash and cash equivalents at the end of the financial year	8	**37,521**	27,711

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 24 to 58.

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 2019 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 2019.

(a) Statement of compliance

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

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

(b) Basis of preparation

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

The group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and, in accordance with that Legislative Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to impairment assessments of non-current assets, including product development and goodwill (refer note 17).

Changes in accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 30 June 2018.

AASB 15 – Revenue from Contracts with Customers

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

The group adopted AASB 15 on 1 July 2018. The majority of the group's sales, being sale of goods, have only one performance obligation, resulting in AASB 15 not having a material impact on recognition of revenue compared to the group's accounting policies applied prior to implementation. Accordingly, the information presented for 2018 has not been restated.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (continued)

Changes in accounting policies (continued)

AASB 15 – Revenue from Contracts with Customers (continued)

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

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

AASB 9 – Financial Instruments

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

(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.

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.

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency (continued)

Foreign operations (continued)

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Taxation (continued)

Tax consolidation

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

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

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

(i) Goods and services tax

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

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

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

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

(l) Inventories

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

(m) Project work in progress

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

(n) Intangible assets

Product development costs

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

Product development costs (continued)

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

Amortisation (continued)

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

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

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

(o) Assets held for sale

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

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

(p) Property, plant and equipment

Owned assets

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

Land and buildings that had been revalued to fair value prior to the transition to AIFRS, being 1 July 2004, 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.

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:

Leasehold property	6% to 10%
Plant and equipment	7% to 40%

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

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

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

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

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

(r) Payables

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

(s) Interest bearing borrowings

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

(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.

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.

(v) Share capital

Ordinary shares

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

(w) Share-based payment transactions

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

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

(x) Future Australian Accounting Standards requirements

A number of new standards are effective after 2019 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these consolidated financial statements. Of those standards that are not yet effective, AASB 16 is expected to have a material impact on the group's financial statements in the period of initial application.

The group is required to adopt AASB 16 *Leases* from 1 July 2019. The group has assessed the estimated impact that initial application of AASB 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on 1 July 2019 may change because the new accounting policies are subject to change until the group presents its first financial statements that include the date of initial application. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. AASB 16 replaces existing leases guidance, including AASB 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The group will recognise new assets and liabilities for its operating leases of office, warehouse and factory facilities. The nature of expenses related to those leases will now change because the group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. Based on the information currently available, the group estimates that it will recognise additional lease liabilities of $30.151 million and right-of-use assets of $29.315 million as at 1 July 2019. The impact on its income statement for the year ended 30 June 2020 is expected to be immaterial. In addition, the group does not expect the adoption of AASB 16 to impact its ability to comply with any loan covenants.

The group plans to apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. The group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 July 2019 and identified as leases in accordance with AASB 117 and IFRIC 4.

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 three business segments. The Communications segment includes the design, development, manufacture and marketing of communications equipment. The Metal Detection segment includes the design, development, manufacture and marketing of metal detection equipment. Lastly, the Tracking Solutions segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector.

Geographical segments

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

GROUP PERFORMANCE (continued)

2. SEGMENT ACTIVITIES (CONTINUED)

Information about reportable segments	Communications		Metal Detection		Tracking Solutions		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	$000	$000	$000	$000
Revenue								
External segment revenue	**77,639**	56,525	**182,058**	164,039	**11,114**	9,350	**270,811**	229,914
Result								
Segment result	**16,715**	6,763	**67,323**	64,064	**(1,183)**	706	**82,855**	71,533
Net financing cost							**(203)**	(730)
Unallocated income and expenses							**(19,350)**	(17,611)
Profit from operating activities							**63,302**	53,192
Income tax expense							**(17,646)**	(11,644)
Net Profit							**45,656**	41,548
Non-cash items included above								
Depreciation and amortisation	**5,874**	7,076	**7,523**	8,485	**1,312**	606	**14,709**	16,167
Unallocated depreciation and amortisation							**536**	494
Total depreciation and amortisation							**15,245**	16,661
Assets								
Capital expenditure	**806**	838	**1,442**	1,310	**153**	354	**2,401**	2,502
Unallocated capital expenditure							**1,731**	925
Total capital expenditure							**4,132**	3,427
Segment assets	**88,574**	81,565	**112,655**	111,207	**26,646**	25,483	**227,875**	218,255
Unallocated corporate assets							**46,442**	36,047
Consolidated total assets							**274,317**	254,302

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were United Arab Emirates totalling $65.908 million (2018: $54.745 million), the United States of America totalling $60.141 million (2018: $40.925 million) and Australia totalling $34.910 million (2018: $37.437 million).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: Australia $128.234 million (2018: $121.474 million), Canada $43.254 million (2018: $37.051 million), United Arab Emirates $0.223 million (2018: $0.256 million), the United States of America $0.079 million (2018: $0.106 million) and Ireland $0.020 million (2018: $0.019 million).

	Consolidated 2019 $000	Consolidated 2018 $000

GROUP PERFORMANCE (CONTINUED)

3 EXPENSES

	2019 $000	2018 $000
Net financing costs:		
Interest income	**(176)**	(94)
Net foreign exchange (gain)/loss	**134**	222
Interest expense	**245**	602
	203	730
Depreciation of:		
Leasehold property	**90**	148
Plant and equipment	**2,478**	2,699
	2,568	2,847
Amortisation of:		
Product development - straight-line	**7,477**	7,891
Product development - units of production	**4,007**	3,339
Intellectual property	**409**	1,939
Computer software	**289**	161
Licences	**495**	484
	12,677	13,814
Personnel expenses:		
Wages and salaries	**42,181**	38,629
Other associated personnel expenses	**3,746**	3,541
Contributions to defined contribution superannuation plans	**3,719**	3,158
Long service leave expense	**886**	466
Annual leave expense	**2,514**	1,743
Performance rights plan	**712**	774
Employee share plan	**246**	206
	54,004	48,517
Additional expenses disclosed:		
Operating lease rental expense	**6,113**	5,580

4 OTHER EXPENSES / (INCOME)

	2019 $000	2018 $000
(Gain)/loss on sale of property, plant and equipment	**62**	161
Other expenses/(income)	**21**	(9)
	83	152

GROUP PERFORMANCE (CONTINUED)

5 DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

	Consolidated 2019 $000	Consolidated 2018 $000
- ordinary final fully-franked dividend of 4.5 cents per ordinary share paid on 14 September 2018	**8,062**	-
- special final fully-franked dividend of 4.0 cents per ordinary share paid on 14 September 2018	**7,166**	-
- ordinary interim fully-franked dividend of 4.0 cents per ordinary share paid on 13 March 2019	**7,166**	-
- special interim fully-franked dividend of 2.5 cents per ordinary share paid on 13 March 2019	**4,479**	
- ordinary final fully-franked dividend of 4.0 cents per ordinary share paid on 3 October 2017	-	7,125
- special final fully-franked dividend of 3.0 cents per ordinary share paid on 3 October 2017	-	5,343
- ordinary interim fully-franked dividend of 4.0 cents per ordinary share paid on 3 April 2018	-	7,125
	26,873	19,593

Subsequent events

Since the end of the financial year, the directors declared a final ordinary fully franked dividend of 5.0 cents per share and a fully franked special dividend of 2.5 cents per share, bringing total final dividends to 7.5 cents fully franked, payable on 13 September 2019. The financial impact of this final dividend of $13,442,093 has not been brought to account in the group financial statements for the year ended 30 June 2019 and will be recognised in subsequent financial reports.

Dividend franking account

	2019 $000	2018 $000
Franking credits available to shareholders for subsequent financial years (30%)	**27,110**	23,334

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 $5,760,897 (2018: $6,491,207).

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.

	2019 $000	2018 $000
Net profit used for the purpose of calculating basic and diluted earnings per share	**45,665**	41,575

The weighted average number of shares used as the denominator number for basic earnings per share was 178,994,483 (2018: 177,951,688). The movement in the year is as a consequence of the shares issued under the employee share plan and the performance rights plan.

The calculation of diluted earnings per share at 30 June 2019 was based on a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares of 180,530,338 (2018: 179,977,716). The movement in the year relates to the shares issued under the employee share plan and the performance rights granted.

	Consolidated 2019 $000	Consolidated 2018 $000
TAXATION		
7 INCOME TAX		
A. Income tax expense		
Current tax expense:		
Current tax paid or payable for the financial year	**16,336**	13,064
Adjustments for prior years	**(135)**	(606)
	16,201	12,458
Deferred tax expense:		
Origination and reversal of temporary differences	**1,445**	(814)
Total income tax expense in income statement	**17,646**	11,644
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**18,991**	15,958
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**(1,139)**	(2,229)
(Over)/under provision for taxation in previous years	**(135)**	(606)
Demolition of buildings	**-**	(1,714)
Sundry items	**(21)**	(6)
	17,696	11,403
Increase in income tax expense due to:		
Non-deductible expenses	**143**	229
Effect of tax rates in foreign jurisdictions	**(193)**	12
Income tax expense	**17,646**	11,644
B. Current tax liabilities / assets		
Balance at the beginning of the year	**(5,966)**	(16,089)
Net foreign currency differences on translation of foreign entities	**4**	(4)
Income tax paid (net)	**20,305**	22,616
Adjustments from prior year	**695**	575
Current year's income tax paid or payable on operating profit	**(16,336)**	(13,064)
	(1,298)	(5,966)
Disclosed in balance sheet as:		
Current tax asset	**337**	91
Current tax payable	**(1,635)**	(6,057)
	(1,298)	(5,966)

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:

	Consolidated 2019 $000	Consolidated 2018 $000
Expenditure currently tax deductible but deferred and amortised for accounting	**20,241**	18,441
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	**(330)**	(397)
Payments for intellectual property not currently deductible	**(2,165)**	(3,051)
Provisions for employee benefits not currently deductible	**(2,042)**	(1,799)
Provisions and accruals not currently deductible	**(3,367)**	(2,942)
Sundry items	**(144)**	(350)
Carry forward overseas tax losses	**(55)**	(20)
Carry forward overseas R&D tax credits	**(4,056)**	(3,888)
	8,082	5,994

	Consolidated 2019 $000	Consolidated 2018 $000
CASH MANAGEMENT		
8 CASH AND CASH EQUIVALENTS		
Petty cash	**2,012**	300
Cash at bank	**35,509**	27,411
	37,521	27,711

9 LOANS AND BORROWINGS

The group has access to the following lines of credit:

	Consolidated 2019 $000	Consolidated 2018 $000
Total facilities available at balance date:		
Multi-option facility	**40,000**	40,000
Commercial credit card	**200**	200
	40,200	40,200
Facilities utilised at balance date:		
Multi-option facility - guarantees	**6,281**	3,336
Commercial credit card	**23**	11
	6,304	3,347
Facilities not utilised at balance date:		
Multi-option facility	**33,719**	36,664
Commercial credit card	**177**	189
	33,896	36,853

In addition to these facilities, the group has cash at bank and short-term deposits of $37,521,000 as set out in note 8.

Bank Facilities

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

	Consolidated 2019 %	Consolidated 2018 %
Weighted average interest rates:		
Cash at bank	**0.67**	0.45
Cash advance	**2.61**	2.60

	Consolidated 2019 $000	Consolidated 2018 $000
CASH MANAGEMENT (CONTINUED)		

10 NOTES TO THE STATEMENT OF CASH FLOWS

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

	2019 $000	2018 $000
Profit after income tax	**45,656**	41,548
Add/(less) items classified as investing or financing activities:		
(Gain)/loss on sale of non-current assets	**62**	161
Add/(less) non-cash items:		
Depreciation of:		
Leasehold property	**90**	148
Plant and equipment	**2,478**	2,699
Amortisation	**12,677**	13,814
Performance rights and employee share plan expensed	**958**	980
Increase/(decrease) in income taxes	**(2,659)**	(10,972)
Increase/(decrease) in net assets affected by translation	**278**	(100)
Net cash from operating activities before changes in assets and liabilities	**59,540**	48,278
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**10,777**	(9,227)
Reduction/(increase) in inventories	**(5,115)**	(561)
Reduction/(increase) in other assets	**(2,715)**	463
Increase/(reduction) in trade and other payables	**(1,779)**	9,113
Increase/(reduction) in provisions	**1,385**	152
Net cash from operating activities	**62,093**	48,218

	Consolidated	
	2019	2018
	$000	$000

OPERATING ASSETS AND LIABILITIES

11 TRADE AND OTHER RECEIVABLES

Current	2019 $000	2018 $000
Trade receivables	**20,177**	29,994
Less: expected credit loss provision	**(1,343)**	(459)
Other debtors	**173**	249
	19,007	29,784

12 INVENTORY

	2019 $000	2018 $000
Raw materials	**9,667**	6,565
Work in progress	**14,003**	12,695
Finished goods	**13,033**	12,328
	36,703	31,588

In 2019, inventories of $102.216 million (2018: $83.904 million) were recognised as an expense and included in cost of sales.

13 OTHER ASSETS

	2019 $000	2018 $000
Prepayments	**3,811**	2,188
Project work in progress	**832**	-
Other	**546**	286
	5,189	2,474

14 ASSETS HELD FOR SALE

	2019 $000	2018 $000
Freehold land	**3,750**	3,750

In FY18, the company signed a contract for the sale of its Newton property. The contract is subject to a number of conditions to be satisfied by the purchaser, with settlement expected to take place in FY20.

15 PROPERTY, PLANT AND EQUIPMENT

	2019 $000	2018 $000
Leasehold property at cost	**1,134**	858
Accumulated depreciation	**(566)**	(498)
	568	360
Plant and equipment at cost	**33,703**	33,397
Accumulated depreciation	**(23,346)**	(22,595)
	10,357	10,802
Capital work in progress at cost	**3,201**	1,327
Total property, plant and equipment	**14,126**	12,489

	Consolidated 2019 $000	Consolidated 2018 $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:

	2019 $000	2018 $000
Leasehold property improvements		
Carrying amount at beginning of year	**360**	479
Additions	**288**	25
Transfers	**2**	-
Disposals	**-**	(9)
Depreciation	**(90)**	(148)
Net foreign currency differences on translation of foreign entities	**8**	13
Carrying amount at end of year	**568**	360
Plant and equipment		
Carrying amount at beginning of year	**10,802**	9,807
Additions	**1,541**	2,407
Transfers	**429**	1,367
Disposals	**(41)**	(168)
Depreciation	**(2,478)**	(2,699)
Net foreign currency differences on translation of foreign entities	**104**	88
Carrying amount at end of year	**10,357**	10,802
Capital work in progress at cost		
Carrying amount at beginning of year	**1,327**	1,699
Additions, net of transfers	**1,874**	(372)
Carrying amount at end of year	**3,201**	1,327
Total carrying amount at end of year	**14,126**	12,489

	Consolidated 2019 $000	Consolidated 2018 $000
OPERATING ASSETS AND LIABILITIES (CONTINUED)		
16 PRODUCT DEVELOPMENT		
Product development at cost	**152,153**	131,545
Accumulated amortisation	**(82,296)**	(71,715)
	69,857	59,830
Reconciliation		
Carrying amount at beginning of year	**59,830**	54,189
Capitalised in current period	**20,453**	16,543
Amortisation	**(11,484)**	(11,230)
Net foreign currency differences on translation of foreign entities	**1,058**	328
	69,857	59,830
17 INTANGIBLE ASSETS		
Goodwill	**84,280**	82,978
Intellectual property at cost	**21,981**	21,674
Accumulated amortisation	**(19,810)**	(19,355)
	2,171	2,319
Computer software at cost	**10,254**	10,386
Accumulated amortisation	**(9,624)**	(10,063)
	630	323
Licences at cost	**5,717**	5,440
Accumulated amortisation	**(4,971)**	(4,475)
	746	965
Total intangible assets	**87,827**	86,585
Reconciliations		
Goodwill		
Carrying amount at beginning of year	**82,978**	82,529
Net foreign currency differences on translation of foreign entities	**1,302**	449
	84,280	82,978
Intellectual property		
Carrying amount at beginning of year	**2,319**	2,216
Additions	**226**	2,029
Amortisation	**(409)**	(1,939)
Net foreign currency differences on translation of foreign entities	**35**	13
	2,171	2,319
Computer software		
Carrying amount at beginning of year	**323**	354
Additions	**590**	128
Transfers from capital work in progress	**21**	-
Amortisation	**(289)**	(161)
Disposals	**(21)**	-
Net foreign currency differences on translation of foreign entities	**6**	2
	630	323

	Consolidated 2019 $000	Consolidated 2018 $000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

17 INTANGIBLE ASSETS (CONTINUED)

	2019 $000	2018 $000
Licences		
Carrying amount at beginning of year	**965**	1,107
Acquisitions	**276**	342
Amortisation	**(495)**	(484)
	746	965

The following segments have significant carrying amounts of goodwill:

	2019 $000	2018 $000
Communications	**21,785**	20,483
Metal Detection	**53,957**	53,957
Tracking Solutions	**8,538**	8,538
	84,280	82,978

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 assessment, having regard to the demand expected from customers, the global economy and the business's competitive position. Other assumptions relate to the level of gross margins achieved on sales and the level of expense required to run the business; these assumptions reflect past experience. A terminal value has been determined at the conclusion of five years, assuming a long-term growth rate of 3%. A pre-tax discount rate of 11% (FY18: 14%) has been applied to the forecast cash flows. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating units.

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

The strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability levels that will make a significant contribution to the Codan group. As previously announced, in 2018, Minetec entered into an exclusive global licensing, technology development and marketing agreement with Caterpillar Inc. During FY19, we worked closely with Caterpillar's development team to integrate Minetec's high-precision tracking capability into the Caterpillar MineStar® solution for underground hard-rock mines.

As a result of this agreement, the division is now leveraging Caterpillar's global dealer network to expand sales. During FY19, there were delays in securing contracts for the operational deployment of MineStar®, and therefore Minetec did not meet its revenue target of $15 million for the year. Revenue increased marginally to $11.1 million, and the division recorded a small loss. Management is working closely with Caterpillar to improve this situation and is confident that these issues will be rectified in the near future.

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 five year period. As the business is in the early stage of its development, historical data is not reflective of the possible future outcomes. The key assumption to the valuation scenario is the level of sales achieved by this business. To prepare the sales forecasts management have considered a number of known opportunities that are expected to adopt Minetec's technology in coming years. Other assumptions relate to the level of gross margins achieved on sales, the level of expense to run the business and working capital requirements, and these assumptions are reflective of Codan's past experience with technology-based businesses. A terminal value has been determined at the conclusion of five years assuming a long term growth rate of 3%. A pre-tax discount rate of 14% (FY18: 17%) 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 Minetec's technology. If, from the FY20 budget year, Minetec were to grow at 8% over the forecast period, the recoverable amount of the Minetec cash-generating unit would be approximately equal to its carrying amount. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating units.

OPERATING ASSETS AND LIABILITIES (CONTINUED)

17 INTANGIBLE ASSETS (CONTINUED)

Intellectual Property

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

	Consolidated	
	2019 $000	2018 $000
Current		
Trade payables	**22,634**	25,693
Other payables and accruals	**21,319**	20,039
Net foreign currency hedge payable	**208**	614
	44,161	46,346

19 PROVISIONS

	2019 $000	2018 $000
Current		
Employee benefits	**6,235**	5,847
Warranty repairs	**1,798**	1,452
	8,033	7,299
Non-Current		
Employee benefits	**1,192**	541

Reconciliation of warranty provision

	2019 $000	2018 $000
Carrying amount at beginning of year	**1,452**	1,593
Provisions made	**1,644**	1,201
Payments made	**(1,298)**	(1,342)
	1,798	1,452

	Consolidated 2019 $000	Consolidated 2018 $000

CAPITAL MANAGEMENT

20 SHARE CAPITAL

Share capital	2019 $000	2018 $000
Opening balance (178,189,989 ordinary shares fully paid)	**42,721**	43,928
Transfers to and from reserves	**-**	(1,954)
Issue of share capital through vested performance rights	**794**	541
Issue of share capital through employee share plan	**246**	206
Closing balance (179,227,907 ordinary shares fully paid)	**43,761**	42,721

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

	2019 $000	2018 $000
Foreign currency translation	**6,712**	3,588
Hedging reserve	**(146)**	(430)
Equity based payment reserve	**2,105**	2,187
Profit reserve	**58,981**	58,981
	67,652	64,326

Foreign currency translation

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

	2019 $000	2018 $000
Balance at beginning of year	**3,588**	2,634
Net translation adjustment	**3,124**	954
Balance at end of year	**6,712**	3,588

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.

	2019 $000	2018 $000
Balance at beginning of year	**(430)**	389
Gains/(losses) on cash flow hedges taken to/from hedging reserve	**284**	(819)
Balance at end of year	**(146)**	(430)

Equity based payment reserve

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

	2019 $000	2018 $000
Balance at beginning of year	**2,187**	-
Performance rights expensed	**712**	774
Transfers from Share Capital	**-**	1,954
Performance rights vested	**(794)**	(541)
Balance at end of year	**2,105**	2,187

Profit reserve

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

	2019 $000	2018 $000
Balance at beginning of year	**58,981**	58,981
Balance at end of year	**58,981**	58,981

CAPITAL MANAGEMENT (CONTINUED)

22 CAPITAL MANAGEMENT

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

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, and the advantages and security afforded by a sound capital position. This approach has not changed from previous years.

Neither the company nor any of its subsidiaries is subject to externally imposed capital requirements.

GROUP STRUCTURE

23 GROUP ENTITIES

Name	Country of incorporation	Class of share	Interest held 2019 %	Interest held 2018 %
Parent Entity				
Codan Limited	Australia	Ordinary		
Controlled Entities				
Codan Defence Electronics Pty Ltd	Australia	Ordinary	**100**	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	**100**	100
Codan Radio Communications ME DMCC	UAE	Ordinary	**100**	100
Codan Radio Communications Pty Ltd	Australia	Ordinary	**100**	100
Codan (UK) Limited	England	Ordinary	**100**	100
Codan US Inc	USA	Ordinary	**100**	100
Daniels Electronics Ltd	Canada	Ordinary	**100**	100
Minelab Americas Inc	USA	Ordinary	**100**	100
Minelab do Brasil Equipamentos Para Mineração Ltda	Brazil	Ordinary	**100**	100
Minelab Electronics Pty Limited	Australia	Ordinary	**100**	100
Minelab International Limited	Ireland	Ordinary	**100**	100
Minelab MEA General Trading LLC	UAE	Ordinary	**49**	49
Minelab Mining Pro (FZE)	UAE	Ordinary	**100**	100
Minelab Mining Pro General Trading (FZC)	UAE	Ordinary	**50**	50
Minetec Pty Ltd	Australia	Ordinary	**100**	100
Minetec RSA (Pty) Ltd	South Africa	Ordinary	**100**	100

GROUP STRUCTURE (CONTINUED)

24 DEED OF CROSS GUARANTEE

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

It is a condition of the Class Order that the company and its subsidiary enter into a Deed of Cross Guarantee. The effect of the Deed is that the company guarantees to each creditor payment in full of any debt in the event of the winding up of the subsidiary under certain provisions of the *Corporations Act 2001*. If a winding up occurs under the provisions of the Act, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiary has also given similar guarantees in the event that the company is wound up.

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

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

	Consolidated	
	2019 $000	2018 $000
Summarised income statement and retained earnings		
Profit before tax	**60,422**	52,572
Income tax expense	**(17,398)**	(12,878)
Profit after tax	**43,024**	39,694
Retained earnings at beginning of year	**66,743**	46,642
Retained earnings at end of year	**82,894**	66,743
Balance sheet		
CURRENT ASSETS		
Cash and cash equivalents	**29,583**	21,486
Trade and other receivables	**44,021**	60,062
Inventories	**28,938**	24,558
Assets held for sale	**3,750**	3,750
Other assets	**3,720**	2,282
Total current assets	**110,012**	112,138
NON-CURRENT ASSETS		
Investments	**32,976**	13,888
Property, plant and equipment	**11,919**	9,974
Product development	**39,982**	39,297
Intangible assets	**55,804**	56,182
Total non-current assets	**140,681**	119,341
Total assets	**250,693**	231,479

GROUP STRUCTURE (CONTINUED)

24 DEED OF CROSS GUARANTEE (CONTINUED)

Balance sheet (continued)	Consolidated 2019 $000	Consolidated 2018 $000
CURRENT LIABILITIES		
Trade and other payables	**39,914**	37,291
Other liabilities	**6,705**	5,763
Current tax payable	**1,568**	6,033
Provisions	**6,175**	5,846
Total current liabilities	**54,362**	54,933
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**4,306**	3,710
Provisions	**1,000**	439
Total non-current liabilities	**5,306**	4,149
Total liabilities	**59,668**	59,082
Net assets	**191,025**	172,397
EQUITY		
Share capital	**43,761**	42,721
Reserves	**64,370**	62,933
Retained earnings	**82,894**	66,743
Total equity	**191,025**	172,397

25 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2019, the parent company of the group was Codan Limited.

	Company 2019 $000	Company 2018 $000
Result of parent entity		
Profit after tax for the period	**45,304**	40,471
Other comprehensive income	**1,154**	1,397
Total comprehensive income for the period	**46,458**	41,868
Financial position of parent entity at year end		
Current assets	**98,065**	97,724
Total assets	**221,128**	199,834
Current liabilities	**43,066**	42,887
Total liabilities	**48,575**	48,186
Total equity of the parent entity comprising:		
Share capital	**43,761**	42,721
Reserves	**61,532**	60,098
Retained earnings	**67,260**	48,829
Total equity	**172,553**	151,648

During the year, Codan Limited entered into contracts to purchase plant and equipment for $1,264,000 (2018: $837,000).

OTHER NOTES

26 AUDITOR'S REMUNERATION

	Consolidated 2019 $	Consolidated 2018 $
Audit services:		
KPMG Australia - audit and review of financial reports	**214,763**	204,874
Overseas other firms - audit and review of financial reports	**87,285**	67,471
Other services:		
KPMG Australia - taxation services	**55,973**	56,760
KPMG Australia - other services	**40,466**	32,591
Overseas KPMG firms - taxation services	**-**	27,220
Overseas other firms - taxation & other services	**60,974**	76,884
	459,461	465,800

27 COMMITMENTS

	Consolidated 2019 $000	Consolidated 2018 $000
I. Capital expenditure commitments		
Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:		
Within one year	**1,589**	1,315
One year or later and no later than five years	**-**	-
	1,589	1,315
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	**5,790**	5,231
One year or later and no later than five years	**14,437**	13,670
Later than five years	**20,957**	23,893
	41,184	42,794

The group leases property under non-cancellable operating leases with a term of 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.

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 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. As at 30 June 2019, the customer with the group's highest trade and other receivable balance accounted for $4.2 million (2018: nil).

Trade and other receivables

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

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

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

The group has established an allowance for expected credit losses that represents its estimate of losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets.

Guarantees

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

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:

		Carrying amount Consolidated	
	Note	2019 $000	2018 $000
Cash and cash equivalents	8	**37,521**	27,711
Trade and other receivables	11	**19,007**	29,784

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

	2019	2018
Australia/Oceania	**4,083**	8,484
Europe	**5,103**	3,824
Americas	**2,874**	7,560
Asia	**5,368**	3,349
Africa/Middle East	**2,749**	6,777
	20,177	29,994

Impairment losses

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

	Consolidated			
	Gross 2019 $000	Impairment 2019 $000	Gross 2018 $000	Impairment 2018 $000
Not past due	**16,112**	**(795)**	25,115	(211)
Past due 0-30 days	**2,840**	**-**	3,629	-
Past due 31-60 days	**66**	**-**	378	-
Past due 61-120 days	**504**	**-**	621	(46)
More than 120 days	**655**	**(548)**	251	(202)
	20,177	**(1,343)**	29,994	(459)

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	
	2019 $000	2018 $000
Balance at 1 July	**459**	833
Impairment loss/(reversal) recognised	**905**	(122)
Trade receivables written off to the allowance for impairment	**(21)**	(252)
Balance at 30 June	**1,343**	459

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:

30 June 2019	Carrying amount $000	Contractual cash flows $000	12 months or less $000	1-5 years $000	More than 5 years $000
Non-derivative financial liabilities					
Trade and other payables	**43,953**	**(43,953)**	**(43,953)**	**-**	**-**
	43,953	**(43,953)**	**(43,953)**	**-**	**-**
Derivative financial liabilities					
Net foreign currency hedge payables	**208**	**(208)**	**(208)**	**-**	**-**
	208	**(208)**	**(208)**	**-**	**-**
30 June 2018					
Non-derivative financial liabilities					
Trade and other payables	45,732	(45,732)	(45,732)	-	-
	45,732	(45,732)	(45,732)	-	-
Derivative financial liabilities					
Net foreign currency hedge payables	614	(614)	(614)	-	-
	614	(614)	(614)	-	-

(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.

OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Market risk (continued)

Interest rate risk

Profile

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

	Carrying amount Consolidated 2019 $000	Carrying amount Consolidated 2018 $000
Fixed rate instruments		
Financial assets	**15,017**	10,000
Financial liabilities	**-**	-
	15,017	10,000
Variable rate instruments		
Financial assets	**22,504**	17,711
Financial liabilities	**-**	-
	22,504	17,711

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 2018.

	Profit/(loss) before tax 100 bp increase $000	Profit/(loss) before tax 100 bp decrease $000	Reserve 100 bp increase $000	Reserve 100 bp decrease $000
30 June 2019				
Variable rate instruments	**225**	**(225)**	**-**	**-**
30 June 2018				
Variable rate instruments	177	(177)	-	-

Currency risk

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

The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally in USD). The terms of these commitments are usually less than 12 months. As at the reporting date, the group has entered into a mix of forward exchange contracts and collar hedge instruments which will limit the foreign exchange risk on USD $25,000,000 of FY20 cash flows. On average, the collars give protection above 73 cents and enable participation down to 68 cents, and the average forward exchange contract rate is 71 cents.

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	Consolidated USD $000
30 June 2019		
Cash and cash equivalents	**441**	**4,348**
Trade receivables	**542**	**9,431**
Trade payables	**(30)**	**(11,953)**
Gross balance sheet exposure	**953**	**1,826**
Hedge transactions relating to balance sheet exposure	**-**	**(4,278)**
Net exposure at the reporting date	**953**	**(2,452)**
30 June 2018		
Cash and cash equivalents	630	4,761
Trade receivables	1,442	15,529
Trade payables	(69)	(16,299)
Gross balance sheet exposure	2,003	3,991
Hedge transactions relating to balance sheet exposure	-	(2,255)
Net exposure at the reporting date	2,003	1,736

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	Consolidated Profit/(loss) before tax $000
2019		
EUR	**-**	**(87)**
USD	**19**	**223**
	19	**136**
2018		
EUR	-	(182)
USD	56	(158)
	56	(340)

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 payable of $208,000, for which an independent valuation was obtained from the relevant banking institution.

	Consolidated 2019 $000	Consolidated 2018 $000

OTHER NOTES (CONTINUED)

29 EMPLOYEE BENEFITS

Aggregate liability for employee benefits, including on-costs:

	2019 $000	2018 $000
Current - short-term incentives and other accruals	**6,790**	5,357
Current - employee entitlements	**6,235**	5,847
Non-current - employee entitlements	**1,192**	541
	14,217	11,745

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:

	2019	2018
Assumed rate of increase in wage and salary rates	**3.00%**	3.00%
Discount rate	**2.81%**	3.77%
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 2019

The company issued 76,260 shares to eligible employees in June 2019. The fair values of the shares was $3.22 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 2019 in relation to the ESP shares issued was $245,557. 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.

OTHER NOTES (CONTINUED)

29 EMPLOYEE BENEFITS (CONTINUED)

Performance rights issued in financial year 2017

The company issued 816,772 performance rights in November 2016 to certain employees. The fair value of the rights was on average $1.29 based on the Black-Scholes formula. The model inputs were: the share price of $1.57, no exercise price, expected volatility 52%, dividend yield 3.82%, a term of three years and a risk-free rate of 2.6%. Due to the departure of employees, 51,796 performance rights have been cancelled. The total recovery recognised as employee costs in 2019 in relation to the performance rights issued was $54,059 (2018: $435,147 expense).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory base-level earnings per share as set by the board, which was 11.0 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

The group's earnings per share over the three-year period to 30 June have exceeded the performance target. Therefore, it is expected that 764,976 shares will be issued to the relevant employees by the end of August 2019.

Performance rights issued in financial year 2018

The company issued 124,524 performance rights in November 2017 to the chief executive officer. The fair value of the rights was on average $1.80 based on the Black-Scholes formula. The model inputs were: the share price of $2.26, no exercise price, expected volatility 39%, dividend yield 5.75%, a term of three years and a risk-free rate of 2.6%.

The company issued 416,536 performance rights in December 2017 to certain employees. The fair value of the rights was on average $1.67 based on the Black-Scholes formula. The model inputs were: the share price of $2.09, no exercise price, expected volatility 37%, dividend yield 6.22%, a term of three years and a risk-free rate of 2.6%. Due to the departure of employees, 38,410 performance rights have been cancelled. The total expense recognised as employee costs in 2019 in relation to the performance rights issued was $347,630 (2018: $353,086).

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

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

Performance rights issued in financial year 2019

The company issued 409,731 performance rights in November 2018 to certain employees. The fair value of the rights was on average $2.54 based on the Black-Scholes formula. The model inputs were: the share price of $3.14, no exercise price, expected volatility 30%, dividend yield 3.98%, a term of three years and a risk-free rate of 2.7%. Due to the departure of employees, 9,953 performance rights have been cancelled. The total expense recognised as employee costs in 2019 in relation to the performance rights issued was $418,163.

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

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

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

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	
	2019 $	2018 $
Short-term employee benefits	**4,541,357**	3,673,631
Post-employment benefits	**109,633**	115,992
Share-based payments	**712,852**	632,392
Other long term benefits	**135,289**	91,136
	5,499,131	4,513,151

(c) Key management personnel transactions

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

31 OTHER RELATED PARTIES

All transactions with non-key management personnel related parties are on normal terms and conditions.

Companies within the group purchase materials from other group companies. These transactions are on normal commercial terms.

Loans between entities in the wholly owned group are repayable at call and no interest is charged.

32 NET TANGIBLE ASSET PER SHARE

	2019	2018
Net tangible asset per share	**34.1 cents**	26.5 cents

DIRECTORS' DECLARATION

Codan Limited and its controlled entities

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

   a) the consolidated financial statements and notes that are set out on pages 19 to 58 and the remuneration report on pages 3 to 10 in the directors' report, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

   b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the company and the group entities identified in note 23 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those group entities pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785.*

3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2019.

4. The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Mawson Lakes this 23rd day of August 2019.

D J Simmons	**D S McGurk**
Director	Director

Independent Auditor's Report

To the shareholders of Codan Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 30 June 2019
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

Key Audit Matter

The ***Key Audit Matter*** we identified is:

- Recoverable value of goodwill in relation to the Tracking Solutions business.

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

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

KPMG

Recoverable value of goodwill in relation to the Tracking Solutions business

Tracking Solutions Goodwill $8,538,000 – Refer to Note 17 to the Financial Report.

The key audit matter

The 'recoverable value of goodwill in relation to the Tracking Solutions business' is a Key Audit Matter due to the level of judgement required by us in evaluating the Group's assessment of the recoverable value of goodwill.

Tracking Solutions, which comprises the Minetec business, is in the early stage of commercialisation of its products, with a significant global licencing, technology development and marketing agreement signed during the prior year with Caterpillar and the contract to supply a fleet management system to BHP Billiton. The Group's ability to secure further market acceptance and full-scale operational deployment of its productivity and safety solutions depends on successful integration of Minetec and Caterpillar technology, forecast growth of the mining sector and widespread uptake of the products. These conditions increase the possibility of goodwill being impaired, raising our audit focus.

The Group's assessment of the recoverable value of the Minetec business, through its value in use model, contains significant judgements.

We focused on the following areas:

- Sales forecasts, the gross margin expected to be earned, and operating costs. The uncertainty as to when the significant uptake of the products will occur makes it challenging to forecast cash flows in this business; and
- The discount rate applied to the forecast Minetec cash flows is judgemental and may vary according to the conditions and environment from time to time.

To assess the significant judgements relating to this key audit matter, we involved senior audit team members, including valuation specialists, with experience in the industry.

How the matter was addressed in our audit

Our procedures included:

- We compared the value in use method applied against the requirements of Australian Accounting Standards.
- We assessed the integrity of the value in use model, including the accuracy of the underlying calculations.
- We tested design and implementation of the controls for the Group's valuation of the Minetec business including board authorisation of key inputs to the value in use model such as sales forecasts, gross margin, operating costs and the discount rate.
- We compared the forecast cash flows contained in the value in use model to Board approved forecasts.
- We obtained an update of the product integration activity performed with Caterpillar during the year. We checked the consistency of the details of the integration activities to the forecast cashflows contained in the value in use model.
- We performed sensitivity analysis on key judgements such as sales forecasts, gross margin, operating costs and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias and to focus our further procedures.
- We critically evaluated the Group's key cash flow assumptions by:
  - Comparing the drivers of sales forecasts (including identified mines where the products could be deployed, sales value and gross margin expected to be earned) to known industry trends, Minetec's price lists and existing customer contracts.
  - Checking the consistency of the Group's forecast cash flows to the Group's stated plans and strategy; using our knowledge of the Minetec business model and its early stage of commercialisation of its products.
  - Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts included in the value in use model.
- Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities.
- We assessed the Group's disclosures against the requirements of Australian Accounting Standards.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Codan Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Paul Cenko
Partner

Adelaide

23 August 2019