CODAN LIMITED | ABN 77 007 590 605
Technology Park | 2 Second Avenue | Mawson Lakes SA 5095 | Australia
PO Box 35 | Salisbury South SA 5106 | Australia

20 August 2020

COMPANY ANNOUNCEMENTS PLATFORM

AUSTRALIAN SECURITIES EXCHANGE

Full Year Result 2020

Codan Delivers Record Sales, Profit and Dividend

Highlights

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

Australian-based technology company, Codan Limited (ASX:CDA), today announced a record statutory net profit after tax of $64.0 million for the year ended 30 June 2020.

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

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

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

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

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

Codan Summary Financial Performance	FY20 $m	FY20 % of sales	FY19 $m	FY19 % of sales
Revenue				
Communications	104.0	30%	77.6	29%
Metal Detection	236.4	68%	182.1	67%
Tracking Solutions	7.6	2%	11.1	4%
Total revenue	**348.0**	**100%**	**270.8**	**100%**
Business performance				
EBITDA*	117.8	34%	78.6	29%
EBIT*	89.6	26%	63.4	23%
Interest*	(0.6)		(0.1)	
Net profit before tax	**89.0**	**26%**	**63.3**	**23%**
Taxation	(25.0)		(17.6)	
Net profit after tax	**64.0**	**18%**	**45.7**	**17%**
Earnings per share, basic	35.5	cents	25.5	cents
Ordinary dividend per share	18.5	cents	9.0	cents
Special dividend per share	-	cents	5.0	cents
Total dividend	18.5	cents	14.0	cents

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

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

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

Performance by business unit:

Metal Detection – Recreational, Gold Mining and Countermine

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

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

In artisanal gold mining, Minelab continues to dominate, with the GPZ 7000®, SDC 2300® and Gold Monster®. Gold Monster® was designed specifically for our African customers and it has become the machine-of-choice for entry level artisanal miners. The SDC 2300® is exceptionally good at discovering fine-particle gold in highly mineralised soils, and existing customers are upgrading to the top-of-line GPZ 7000® detection performance as they become more successful. During FY21, Minelab will introduce a new gold detector, which will include the best features from both the SDC 2300® and GPX platforms.

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

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

Communications – Tactical and Land Mobile Radios (LMR)

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

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

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

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

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

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

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

Tracking Solutions - Minetec

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

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

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

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

Outlook

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

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

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

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

Live Webcast – FY20 Full Year Financial Results Announcement

A results briefing will be hosted by Managing Director, Donald McGurk, at 11:00am (Australian Eastern Standard Time) on 20 August 2020. This briefing will be available via the following link – 2020 Full Year Results Announcement.

On behalf of the Board

Michael Barton

Company Secretary

This announcement was authorised by the Board of Directors.

Codan is a technology company that develops robust technology solutions to solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world.

CODAN

<u>FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-</u>

Donald McGurk
Managing Director & CEO
Codan Limited
(08) 8305 0392

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

Codan Limited

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

For the year ended 30 June 2020

ABN	Previous corresponding period
77 007 590 605	30 June 2019

Results for announcement to the market				**$A'000**
Revenue from ordinary activities	Up	29%	to	348,017
Profit after tax	Up	40%	to	63,963
Profit from ordinary activities after tax attributable to members	Up	40%	to	63,795
Net profit for the period attributable to members	Up	40%	to	63,795

Dividends	Amount per security	Franked amount per security at 30% tax
Final ordinary dividend	11.0 cents	11.0 cents
Interim ordinary dividend	7.5 cents	7.5 cents
Record date for determining entitlements to dividends:	28 August 2020	

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

The 30 June 2020 Financial Report and the Market Announcement dated 19 August 2020 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).

This report is based on financial statements that have been audited. The audit report is included in the 30 June 2020 Financial Report.

Codan Limited
ABN 77 007 590 605
and its Controlled Entities

Financial Report

30 June 2020

Contents

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

DIRECTORS

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

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 has been a director of Electro Optic Systems Holdings Limited since May 2009. He was appointed as a director of Citadel Group Limited in June 2014 and has been Chairman since November 2019. He is a member of the Advisory Council to China Matters and is a technical advisor to WarpForge Limited.

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 and was a non-executive director of BSA Limited from June 2015 to December 2019. 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 is a director, Chair of Audit & Risk and member of the Remuneration and Nomination Committees of Uniti Group Limited, a chartered accountant and a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants Australia and New Zealand. Ms Gramp was a director, Chair of Audit & Risk and a member of the Remuneration Committee of Godfreys Group Limited from January 2018 to May 2018 and has significant audit committee experience.

COMPANY SECRETARY

Mr Michael Barton BA (Acc), CA

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

DIRECTORS' MEETINGS

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

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

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

REMUNERATION REPORT – AUDITED

Principles of remuneration

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

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

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

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

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

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

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

REMUNERATION REPORT – AUDITED (CONTINUED)

Principles of remuneration (continued)

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

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

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

Service contracts

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

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

Performance rights

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

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

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

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

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

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

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

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

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

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

	Performance rights granted		Percentage 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	173,959	23 November 2016	100	-	2020
	124,524	10 November 2017	-	-	2021
	91,972	16 November 2018	-	-	2022
	63,647	15 November 2019	-	-	2023
EXECUTIVES					
Mr M Barton	91,586	23 November 2016	100	-	2020
	65,559	8 December 2017	-	-	2021
	48,421	16 November 2018	-	-	2022
	33,509	15 November 2019	-	-	2023
Mr P D Charlesworth	113,237	23 November 2016	100	-	2020
	81,058	8 December 2017	-	-	2021
	59,881	16 November 2018	-	-	2022
	41,431	15 November 2019	-	-	2023
Mr S A French	42,696	15 November 2019	-	-	2023
Mr R D Linehan	113,237	23 November 2016	100	-	2020
	79,469	8 December 2017	-	-	2021
	58,694	16 November 2018	-	-	2022
	40,618	15 November 2019	-	-	2023
Mr S P Sangster	69,728	23 November 2016	100		2020
	40,373	8 December 2017	-	-	2021
	31,208	16 November 2018	-	-	2022
	35,996	15 November 2019	-	-	2023

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

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

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

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

Other transactions with key management personnel

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

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

Director share ownership

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

Movements in shares

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

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

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

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	**2020**	**183,912**	**-**	**-**	**17,471**	**-**	**-**	**-**	**201,383**	**-**
	2019	179,133	-	-	17,018	-	-	-	196,151	-
Lt-Gen P F Leahy	**2020**	**91,957**	**-**	**-**	**8,736**	**-**	**-**	**-**	**100,693**	**-**
	2019	89,567	-	-	8,509	-	-	-	98,076	-
Mr G R C Barclay	**2020**	**91,957**	**-**	**-**	**8,736**	**-**	**-**	**-**	**100,693**	**-**
	2019	89,567	-	-	8,509	-	-	-	98,076	-
Ms K J Gramp	**2020**	**100,316**	**-**	**-**	**9,530**	**-**	**-**	**-**	**109,846**	**-**
	2019	97,709	-	-	9,282	-	-	-	106,991	-
Total non-executives' remuneration	**2020**	**468,142**	**-**	**-**	**44,473**	**-**	**-**	**-**	**512,615**	**-**
	2019	455,976	-	-	43,318	-	-	-	499,294	-
EXECUTIVE										
Mr D S McGurk	**2020**	**599,424**	**554,144**	**-**	**21,003**	**17,546**	**-**	**261,189**	**1,453,276**	**56.1**
	2019	548,140	410,104	-	20,531	23,589	-	226,670	1,229,034	51.8
Total directors' remuneration	**2020**	**1,067,566**	**554,114**	**-**	**65,476**	**17,546**	**-**	**261,189**	**1,965,891**	**-**
	2019	1,004,116	410,104	-	63,849	23,589	-	226,670	1,728,328	-

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)	**2020**	**293,525**	**291,732**	**-**	**21,058**	**9,837**	**-**	**135,058**	**751,210**	**56.8**
	2019	276,527	215,911	-	22,749	10,051	-	116,884	642,122	51.8
Mr P D Charlesworth (Executive General Manager, Minelab & Codan Defence)	**2020**	**358,724**	**360,698**	**-**	**19,906**	**12,902**	**-**	**166,998**	**919,228**	**57.4**
	2019	362,641	270,079	-	21,628	19,106	-	144,528	817,982	50.7
Mr S A French (Executive General Manager, Land Mobile Radio)	**2020**	**398,944**	**297,080**	**64,634***	**-**	**-**	**-**	**82,395**	**843,053**	**45.0**
	2019	265,517	89,201	7,402	-	-	-	-	362,120	24.6
Mr R D Linehan (Chief Technology Officer, Codan and Executive General Manager, Minetec)	**2020**	**363,449**	**271,915**	**16,121***	**21,003**	**8,067**	**-**	**163,712**	**844,267**	**51.6**
	2019	362,251	130,860	86,068	-	9,678	-	142,628	731,485	37.4
Mr S P Sangster (Executive General Manager, Tactical Communications)	**2020**	**346,541**	**313,378**	**43,280***	**-**	**8,770**	**-**	**111,003**	**822,972**	**51.6**
	2019	352,325	244,585	45,073	-	8,233	-	82,142	732,358	44.6
Total executive officers' remuneration	**2020**	**1,761,183**	**1,534,803**	**124,035**	**61,967**	**39,576**	**-**	**659,166**	**4,180,730**	**-**
	2019	1,619,261	950,636	138,543	44,377	47,068	-	486,182	3,286,067	-

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

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

Short-term incentives which vested during the year are as follows: Mr D S McGurk 93% (7% forfeited), Mr M Barton 93% (7% forfeited), Mr P D Charlesworth 93% (7% forfeited), Mr S A French 74% (26% forfeited), Mr R D Linehan 71% (29% forfeited) and Mr S P Sangster 93% (7% forfeited).

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

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

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

Corporate performance

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

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

OPERATING AND FINANCIAL REVIEW

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

FY20 highlights:

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

Despite the pandemic challenges in FY20, Codan has had a very strong 12 months and has delivered another record profit year. This was driven by the strength of gold detector sales into the artisanal gold mining market, continued growth in sales of our recreational metal detectors and several major contracts delivered by the Communications business. As a result of our strategy to further diversify our revenues by releasing more new products, transitioning to a full solutions provider and broadening our geographic footprint, we were pleased to see that demand across all of our international markets was more evenly distributed. In FY20 we:

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

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

Dividend

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

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters

	FY20		FY19	
	$m	% of sales	$m	% of sales
Revenue				
Communications	**104.0**	**30%**	77.6	29%
Metal Detection	**236.4**	**68%**	182.1	67%
Tracking Solutions	**7.6**	**2%**	11.1	4%
Total revenue	348.0	100%	270.8	100%
Business performance				
EBITDA*	**117.8**	**34%**	78.6	29%
EBIT*	**89.6**	**26%**	63.4	23%
Interest*	**(0.6)**		(0.1)	
Net profit before tax	89.0	26%	63.3	23%
Taxation	**(25.0)**		(17.6)	
Net profit after tax	64.0	18%	45.7	17%
Earnings per share, basic	**35.5 cents**		25.5 cents	
Ordinary dividend per share	**18.5 cents**		9.0 cents	
Special dividend per share	**- cents**		5.0 cents	
Total dividend	18.5 cents		14.0 cents	

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

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

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

Performance by business unit:

Metal Detection – Recreational, Gold Mining and Countermine

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

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

In artisanal gold mining, Minelab continues to dominate, with the GPZ 7000®, SDC 2300® and Gold Monster®. Gold Monster® was designed specifically for our African customers, and has become the machine-of-choice for entry level artisanal miners. The SDC 2300® is exceptionally good at discovering fine-particle gold in highly mineralised soils, and existing customers are upgrading to the top-of-line GPZ 7000® detection performance as they become more successful. During FY21, Minelab will introduce a new gold detector, which will include the best features from both the SDC 2300® and GPX platforms.

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

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

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Performance by business unit: (continued)

Communications – Tactical and Land Mobile Radios (LMR)

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

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

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

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

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

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

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

Tracking Solutions – Minetec

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

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

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

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

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Outlook

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

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

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

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

DIVIDENDS

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

	Cents per share	Total amount $000	Franked	Date of payment
DECLARED AND PAID DURING THE YEAR ENDED 30 JUNE 2019:				
FY19 final ordinary	5.0	8,999	100%	13 September 2019
FY19 final special	2.5	4,500	100%	13 September 2019
FY20 interim ordinary	7.5	13,499	100%	12 March 2020
DECLARED AFTER THE END OF THE YEAR:				
FY20 final ordinary	11.0	19,799	100%	11 September 2020

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	612,424
Lt-Gen P F Leahy	57,708
Mr G R C Barclay	38,829
Ms K J Gramp	12,500

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

Insurance premiums

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

NON-AUDIT SERVICES

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

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

- all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the Board Audit, Risk and Compliance Committee to ensure that they do not have an impact on the integrity and objectivity of the auditor; and

- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

Refer page 17 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	
	2020	**2019**
	$	$
STATUTORY AUDIT		
Audit and review of financial reports	**231,259**	214,763
	231,259	214,763
SERVICES OTHER THAN STATUTORY AUDIT		
Taxation advice and compliance services	**49,383**	55,973
Corporate finance services	**-**	40,466
Royalty agreement assurance services	**10,945**	-
	60,328	96,439

ROUNDING OFF

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

This report is made with a resolution of the directors:

D J Simmons
Director

D S McGurk
Director

Dated at Mawson Lakes this 19th day of August 2020.

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

To the Directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Codan Limited for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

19 August 2020

Consolidated income statement for the year ended 30 June 2020

Codan Limited and its Controlled Entities

	Note	Consolidated 2020 $000	2019 $000
CONTINUING OPERATIONS			
Revenue	2	**348,017**	270,811
Cost of sales		**(151,481)**	(117,478)
Gross profit		**196,536**	153,333
Other income	4	**359**	-
Administrative expenses		**(21,925)**	(20,830)
Sales and marketing expenses		**(51,054)**	(44,159)
Engineering expenses		**(25,920)**	(24,756)
Net financing costs	3	**(1,457)**	(203)
Other expenses	4	**(7,518)**	(83)
Profit before tax		**89,021**	63,302
Income tax expense	7	**(25,058)**	(17,646)
Profit for the period		**63,963**	45,656
Attributable to:			
Equity holders of the company		**63,795**	45,665
Non-controlling interests		**168**	(9)
		63,963	45,656
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share	6	**35.5 cents**	25.5 cents
Diluted earnings per share	6	**35.3 cents**	25.3 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 23 to 56.

Consolidated statement of comprehensive income

for the year ended 30 June 2020

Codan Limited and its Controlled Entities

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

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 23 to 56.

Consolidated balance sheet as at 30 June 2020

Codan Limited and its Controlled Entities

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

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 23 to 56.

Consolidated statement of changes in equity

for the year ended 30 June 2020

Codan Limited and its Controlled Entities

2020	Consolidated 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 2019	43,761	6,712	(146)	2,105	58,981	99,801	211,214
Transition to AASB 16 (net of tax)	-	-	-	-	-	(857)	(857)
Profit for the period	-	-	-	-	-	63,963	63,963
Performance rights expensed	-	-	-	1,682	-	-	1,682
Change in fair value of cash flow hedges	-	-	499	-	-	-	499
Exchange differences on translation of foreign operations	-	(2,160)	-	-	-	-	(2,160)
	43,761	4,552	353	3,787	58,981	162,907	274,341
Transactions with owners of the company							
Dividends recognised during the period	-	-	-	-	-	(26,998)	(26,998)
Issue of shares from performance rights	985	-	-	(985)	-	-	-
	985	-	-	(985)	-	(26,998)	(26,998)
Balance at 30 June 2020	44,746	4,552	353	2,802	58,981	135,909	247,343

2019	Consolidated 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
Transfers to and from reserves	-	-	-	-	-	-	-
	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 shares from 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

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 23 to 56.

Consolidated statement of cash flows for the year ended 30 June 2020

Codan Limited and its Controlled Entities

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

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 23 to 56.

1. SIGNIFICANT ACCOUNTING POLICIES

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

(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).
- measurement of inventory net realisable value (refer note 1(l))
- measurement of expected credit loss allowance for trade receivables (refer note 28(a))

Changes in accounting policies

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

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

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

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

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

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

(d) Revenue recognition

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

Sale of goods

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

Construction contracts

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

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

Rendering of services

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

(e) Net financing costs

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency

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

Foreign operations

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

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

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

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Taxation (continued)

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

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

Tax consolidation

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

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

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

(i) Goods and services tax

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

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

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

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

(l) Inventories

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

(m) Project work in progress

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets

Product development costs

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

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

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

Goodwill

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

Measuring goodwill

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

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

Contingent liabilities

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

Non-controlling interest

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

Transaction costs

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

Licences and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

Amortisation is charged to the income statement on 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, were measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

Subsequent costs

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

Depreciation

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

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

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

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

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 superannuation, workers' compensation insurance and payroll tax.

Long service leave

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

Defined contribution superannuation plans

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

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

GROUP PERFORMANCE

2 SEGMENT ACTIVITIES

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

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

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

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

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

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

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

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

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

	Consolidated 2020 $000	Consolidated 2019 $000

GROUP PERFORMANCE (CONTINUED)

5 DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

	2020 $000	2019 $000
- ordinary final fully-franked dividend of 5.0 cent per share paid on 13 September 2019	**8,999**	-
- special final fully-franked dividend of 2.5 cent per share paid on 13 September 2019	**4,500**	-
- ordinary interim fully-franked dividend of 7.5 cents per ordinary share paid on 12 March 2020	**13,499**	-
- ordinary final fully-franked dividend of 4.5 cents per ordinary share paid on 14 September 2018	-	8,062
- special final fully-franked dividend of 4.0 cents per ordinary share paid on 14 September 2018	-	7,166
- ordinary interim fully-franked dividend of 4.0 cents per ordinary share paid on 13 March 2019	-	7,166
- special interim fully-franked dividend of 2.5 cents per ordinary share paid on 13 March 2019	-	4,479
	26,998	26,873

Subsequent events

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

Dividend franking account

	2020 $000	2019 $000
Franking credits available to shareholders for subsequent financial years (30%)	**42,604**	27,110

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

6 EARNINGS PER SHARE

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

	2020 $000	2019 $000
Net profit used for the purpose of calculating basic and diluted earnings per share	**63,795**	45,665

The weighted average number of shares used as the denominator number for basic earnings per share was 179,867,477 (2019: 178,994,483). The movement in the year is as a consequence of the shares issued under the performance rights plan.

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

	Consolidated 2020 $000	Consolidated 2019 $000

TAXATION

7 INCOME TAX

A. Income tax expense

	2020 $000	2019 $000
Current tax expense:		
Current tax paid or payable for the financial year	**27,909**	16,336
Adjustments for prior years	**(204)**	(135)
	27,705	16,201
Deferred tax expense:		
Origination and reversal of temporary differences	**(2,647)**	1,445
Total income tax expense in income statement	**25,058**	17,646
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**26,706**	18,991
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**(1,294)**	(1,139)
Effect of tax rates in foreign jurisdictions	**(9)**	(193)
(Over)/under provision for taxation in previous years	**(204)**	(135)
Other deductible expenses	**(259)**	(21)
	24,940	17,503
Increase in income tax expense due to:		
Non-deductible expenses	**118**	143
Income tax expense	**25,058**	17,646

B. Current tax liabilities / assets

	2020 $000	2019 $000
Balance at the beginning of the year	**(1,298)**	(5,966)
Net foreign currency differences on translation of foreign entities	**25**	4
Income tax paid (net)	**17,830**	20,305
Adjustments from prior year	**(263)**	695
Current year's income tax paid or payable on operating profit	**(27,909)**	(16,336)
	(11,615)	(1,298)
Disclosed in balance sheet as:		
Current tax asset	**343**	337
Current tax payable	**(11,958)**	(1,635)
	(11,615)	(1,298)

C. Deferred tax liabilities

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

	2020 $000	2019 $000
Expenditure currently tax deductible but deferred and amortised for accounting	**19,841**	20,241
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	**(1,640)**	(330)
Payments for intellectual property not currently deductible	**(1,671)**	(2,165)
Provisions for employee benefits not currently deductible	**(2,250)**	(2,042)
Provisions and accruals not currently deductible	**(4,467)**	(3,367)
Sundry items	**(249)**	(144)
Carry forward overseas tax losses	**-**	(55)
Carry forward overseas R&D tax credits	**(4,837)**	(4,056)
	4,727	8,082

D. Effective tax rates

	2020	2019
Global operations - total consolidated tax expense	**28%**	28%
Australian operations - Australian company income tax expense	**29%**	28%

	Consolidated 2020 $000	Consolidated 2019 $000
CASH MANAGEMENT		
8 CASH AND CASH EQUIVALENTS		
Cash on hand	**516**	2,012
Cash at bank	**92,314**	35,509
	92,830	37,521

9 LOANS AND BORROWINGS

The group has access to the following lines of credit:

	2020 $000	2019 $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	**1,113**	6,281
Commercial credit card	**16**	23
	1,129	6,304
Facilities not utilised at balance date:		
Multi-option facility	**38,887**	33,719
Commercial credit card	**184**	177
	39,071	33,896

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

Bank Facilities

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

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

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

	Note	Consolidated 2020 $000	Consolidated 2019 $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			
Profit after income tax		**63,963**	45,656
Add/(less) items classified as investing or financing activities:			
(Gain)/loss on sale of non-current assets		**(206)**	62
Add/(less) non-cash items:			
Depreciation		**6,906**	2,568
Impairment of product development costs		**7,518**	-
Amortisation		**13,745**	12,677
Performance rights and employee share plan expensed		**1,682**	958
Increase/(decrease) in income taxes		**7,228**	(2,659)
Increase/(decrease) in net assets affected by foreign currency translation		**(805)**	278
Net cash from operating activities before changes in assets and liabilities		**100,031**	59,540
Change in assets and liabilities during the financial year:			
Reduction/(increase) in receivables		**(6,300)**	10,777
Reduction/(increase) in inventories		**4,097**	(5,115)
Reduction/(increase) in other assets		**(1,225)**	(2,715)
Increase/(reduction) in trade and other payables		**2,883**	(1,779)
Reversal of deferred lease liabilities	27	**3,783**	-
Increase/(reduction) in provisions		**715**	1,385
Net cash from operating activities		**103,984**	62,093

	Consolidated	
	2020	**2019**
	$000	**$000**

OPERATING ASSETS AND LIABILITIES

11 TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	**26,929**	20,177
Less: expected credit loss provision	**(2,234)**	(1,343)
Other debtors	**612**	173
	25,307	19,007

12 INVENTORY

Raw materials	**11,666**	9,667
Work in progress	**14,622**	14,003
Finished goods	**6,318**	13,033
	32,606	36,703

In FY20, inventories of $134.760 million (2019: $102.216 million) were recognised as an expense and included in cost of sales.

13 OTHER ASSETS

Prepayments	**3,326**	3,811
Net foreign currency hedge receivable	**505**	-
Project work in progress	**2,063**	832
Other	**520**	546
	6,414	5,189

14 ASSETS HELD FOR SALE

Freehold land	**-**	3,750
Reconciliation		
Carrying amount at beginning of year	**3,750**	3,750
Disposals	**(3,750)**	-
Carrying amount at end of year	**-**	3,750

In FY18, the company signed a contract for the sale of its Newton property and the settlement took place in FY20.

15 PROPERTY, PLANT AND EQUIPMENT

Leasehold property at cost	**1,190**	1,134
Accumulated depreciation	**(668)**	(566)
	522	568
Plant and equipment at cost	**38,312**	33,703
Accumulated depreciation	**(26,616)**	(23,346)
	11,696	10,357
Capital work in progress at cost	**1,958**	3,201
Total property, plant and equipment	**14,176**	14,126

	Consolidated 2020 $000	Consolidated 2019 $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:

	Consolidated 2020 $000	Consolidated 2019 $000
Leasehold property improvements		
Carrying amount at beginning of year	**568**	360
Additions	**16**	288
Transfers	**32**	2
Disposals	**-**	-
Depreciation	**(98)**	(90)
Net foreign currency differences on translation of foreign entities	**4**	8
Carrying amount at end of year	**522**	568
Plant and equipment		
Carrying amount at beginning of year	**10,357**	10,802
Additions	**2,080**	1,541
Transfers	**2,874**	429
Disposals	**(24)**	(41)
Depreciation	**(3,629)**	(2,478)
Net foreign currency differences on translation of foreign entities	**38**	104
Carrying amount at end of year	**11,696**	10,357
Capital work in progress at cost		
Carrying amount at beginning of year	**3,201**	1,327
Additions	**1,717**	1,874
Transfers	**(2,960)**	-
Carrying amount at end of year	**1,958**	3,201
Total carrying amount at end of year	**14,176**	14,126

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

	Consolidated 2020 $000	Consolidated 2019 $000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

17 INTANGIBLE ASSETS (CONTINUED)

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

Goodwill

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

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

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

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

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

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

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

OPERATING ASSETS AND LIABILITIES (CONTINUED)

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

CAPITAL MANAGEMENT

20 SHARE CAPITAL

	2020 $000	2019 $000
Share capital		
Opening balance (179,227,907 ordinary shares fully paid)	**43,761**	42,721
Issue of share capital through vested performance rights	**985**	794
Issue of share capital through employee share plan	**-**	246
Closing balance (179,992,883 ordinary shares fully paid)	**44,746**	43,761

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.

	Consolidated 2020 $000	Consolidated 2019 $000

CAPITAL MANAGEMENT (CONTINUED)

21 RESERVES

	2020	2019
Foreign currency translation	**4,552**	6,712
Hedging reserve	**353**	(146)
Equity based payment reserve	**2,802**	2,105
Profit reserve	**58,981**	58,981
	66,688	67,652

Foreign currency translation

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

	2020	2019
Balance at beginning of year	**6,712**	3,588
Net translation adjustment	**(2,160)**	3,124
Balance at end of year	**4,552**	6,712

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.

	2020	2019
Balance at beginning of year	**(146)**	(430)
Gains/(losses) on cash flow hedges taken to/from hedging reserve	**499**	284
Balance at end of year	**353**	(146)

Equity based payment reserve

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

	2020	2019
Balance at beginning of year	**2,105**	2,187
Performance rights expensed	**1,682**	712
Performance rights vested	**(985)**	(794)
Balance at end of year	**2,802**	2,105

Profit reserve

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

	2020	2019
Balance at beginning of year	**58,981**	58,981
Balance at end of year	**58,981**	58,981

22 CAPITAL MANAGEMENT

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

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

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

GROUP STRUCTURE

23 GROUP ENTITIES

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

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:

GROUP STRUCTURE (CONTINUED)

24 DEED OF CROSS GUARANTEE (CONTINUED)

	Consolidated 2020 $000	Consolidated 2019 $000
Summarised income statement and retained earnings		
Profit before tax	**87,334**	60,422
Income tax expense	**(28,058)**	(17,398)
Profit after tax	**59,276**	43,024
Retained earnings at beginning of year	**82,894**	66,743
Adoption of AASB 16 (net of tax)	(587)	-
Revised retained earnings at beginning of year	**82,307**	66,743
Retained earnings at end of year	**114,585**	82,894
Balance sheet		
CURRENT ASSETS		
Cash and cash equivalents	**85,819**	29,583
Trade and other receivables	**43,097**	44,021
Inventories	**25,785**	28,938
Assets held for sale	**-**	3,750
Other assets	**3,106**	3,720
Total current assets	**157,807**	110,012
NON-CURRENT ASSETS		
Investments	**32,976**	32,976
Right-of-use assets	**23,522**	-
Property, plant and equipment	**12,320**	11,919
Product development	**43,868**	39,982
Intangible assets	**55,468**	55,804
Total non-current assets	**168,154**	140,681
Total assets	**325,961**	250,693
CURRENT LIABILITIES		
Trade and other payables	**40,921**	39,914
Other liabilities	**8,585**	6,705
Current tax payable	**11,937**	1,568
Lease Liability	**3,775**	-
Provisions	**6,494**	6,175
Total current liabilities	**71,712**	54,362
NON-CURRENT LIABILITIES		
Lease Liability	**24,747**	-
Deferred tax liabilities	**3,922**	4,306
Provisions	**1,535**	1,000
Total non-current liabilities	**30,204**	5,306
Total liabilities	**101,916**	59,668
Net assets	**224,045**	191,025
EQUITY		
Share capital	**44,746**	43,761
Reserves	**64,714**	64,370
Retained earnings	**114,585**	82,894
Total equity	**224,045**	191,025

GROUP STRUCTURE (CONTINUED)

25 PARENT ENTITY DISCLOSURES

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

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

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

OTHER NOTES

26 AUDITOR'S REMUNERATION

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

OTHER NOTES (CONTINUED)

27. LEASES AND COMMITMENTS

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

AASB 16 Lease - Transition approach

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

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

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

Adjustments to the Statement of Financial Position at 1 July 2019

	$000
Right-of-use assets recognised	28,546
Lease liabilities recognised	(33,537)
Deferred tax assets (net) recognised	351
Reversal of deferred lease liabilities	3,783
Retained earnings reduction	**(857)**

Reconciliation of non-cancellable operating lease commitments to lease liabilities at 1 July 2019

Operating lease obligation 30 June 2019	41,184
less:	
Short-term and low value leases	(307)
Commitments reassessed as having no leasing arrangements	(3,709)
add:	
Reasonably certain extension clauses	509
Undiscounted lease liabilities at 1 July 2019	**37,677**
Current lease liabilities	3,668
Non-current lease liabilities	29,869
Discounted lease liabilities at 1 July 2019 *	**33,537**

* The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 July 2019 was 2.27%.

To assist with the understanding of the impact of the application of AASB 16 in this initial period refer to the following summary:

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

OTHER NOTES (CONTINUED)

27. LEASES AND COMMITMENTS (CONTINUED)

AASB 16 Lease - Transition approach (continued)

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

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

Leases

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

Right-of-use assets

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

Lease liabilities

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

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

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

Capital Expenditure Commitments

	Consolidated 2020 $000	2019 $000
Aggregate amount of contracts for capital expenditure		
Within one year	**951**	1,589
One year or later and no later than five years	**-**	-
	951	1,589

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 and bank accounts.

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

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

Trade and other receivables

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

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

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

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

Guarantees

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

OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

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

	Note	Consolidated 2020 $000	Consolidated 2019 $000
Cash and cash equivalents	8	**92,830**	37,521
Trade and other receivables	11	**25,307**	19,007

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

	2020	2019
Australia/Oceania	**6,443**	4,083
Europe	**1,301**	5,103
Americas	**11,644**	2,874
Asia	**2,283**	5,368
Africa/Middle East	**5,258**	2,749
	26,929	20,177

Impairment losses

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

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

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

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

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

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 2020	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	**47,044**	**(47,044)**	**(47,044)**	**-**	**-**
Lease liabilities	**30,554**	**(34,338)**	**(3,775)**	**(12,624)**	**(17,939)**
	77,598	**(81,382)**	**(50,819)**	**(12,624)**	**(17,939)**
Derivative financial liabilities					
Net foreign currency hedge payables	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**-**
30 June 2019					
Non-derivative financial liabilities					
Trade and other payables	43,953	(43,953)	(43,953)	-	-
Lease liabilities	-	-	-	-	-
	43,953	(43,953)	(43,953)	-	-
Derivative financial liabilities					
Net foreign currency hedge payables	208	(208)	(208)	-	-
	208	(208)	(208)	-	-

(c) Market risk

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

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

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

OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Market risk (continued)

Interest rate risk

Profile

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

	Consolidated	
	2020	2019
	$000	$000
Fixed rate instruments		
Financial assets	**40,000**	15,017
Financial liabilities	**-**	-
	40,000	15,017
Variable rate instruments		
Financial assets	**52,830**	22,504
Financial liabilities	**-**	-
	52,830	22,504

Cash flow sensitivity

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

	Profit/(loss) before tax		Reserve	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	$000	$000	$000	$000
30 June 2020				
Variable rate instruments	**528**	**(528)**	**-**	**-**
30 June 2019				
Variable rate instruments	225	(225)	-	-

Currency risk

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

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

OTHER NOTES (CONTINUED)

28 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Currency risk (continued)

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

	Consolidated	
	EUR $000	USD $000
30 June 2020		
Cash and cash equivalents	**580**	**5,698**
Trade receivables	**576**	**16,795**
Trade payables	**(164)**	**(17,260)**
Gross balance sheet exposure	**992**	**5,233**
Hedge transactions relating to balance sheet exposure	**-**	**(2,914)**
Net exposure at the reporting date	**992**	**2,319**
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)

Sensitivity analysis

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

	Consolidated	
	Reserve credit/(debit) $000	Profit/(loss) before tax $000
2020		
EUR	**-**	**(90)**
USD	**(46)**	**(211)**
	(46)	**(301)**
2019		
EUR	-	(87)
USD	19	223
	19	136

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 receivable of $505,000, for which an independent valuation was obtained from the relevant banking institution.

	Consolidated 2020 $000	Consolidated 2019 $000

OTHER NOTES (CONTINUED)

29 EMPLOYEE BENEFITS

Aggregate liability for employee benefits, including on-costs:

	2020 $000	2019 $000
Current - short-term incentives and other accruals	**8,917**	6,790
Current - employee entitlements	**6,238**	6,235
Non-current - employee entitlements	**1,781**	1,192
	16,936	14,217

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:

	2020	2019
Assumed rate of increase in wage and salary rates	**3.00%**	3.00%
Discount rate	**2.51%**	2.81%
Settlement term	**10 years**	10 years

Employee Share Plan

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

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

Performance Rights Plan

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

Performance rights issued in financial year 2018

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

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

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

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

OTHER NOTES (CONTINUED)

29 EMPLOYEE BENEFITS (CONTINUED)

Performance rights issued in financial year 2019

The company issued 409,731 performance rights in November 2018 to certain employees. The fair value of the rights was on average $2.54 based on the Black-Scholes formula. The model inputs were: the share price of $3.14, no exercise price, expected volatility 30%, dividend yield 4.0%, a term of three years and a risk-free rate of 2.7%. Due to the departure of employees, 19,676 performance rights have been cancelled. The total expense recognised as employee costs in 2020 in relation to the performance rights issued was $553,031 (2019: $418,163).

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

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

Performance rights issued in financial year 2020

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

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

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

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

OTHER NOTES (CONTINUED)

30 KEY MANAGEMENT PERSONNEL DISCLOSURES

Transactions with key management personnel

(a) Loans to directors

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

(b) Key management personnel compensation

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

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

(c) Key management personnel transactions

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

31 OTHER RELATED PARTIES

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

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

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

32 NET TANGIBLE ASSET PER SHARE

	2020	2019
Net tangible asset per share	**53.9 cents**	34.1 cents

DIRECTORS' DECLARATION
Codan Limited and its controlled entities

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

   a) the consolidated financial statements and notes that are set out on pages 18 to 56 and the remuneration report on pages 3 to 9 in the directors' report, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

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

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

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

3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2020.

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

Signed in accordance with a resolution of the directors:

Dated at Mawson Lakes this 19th day of August 2020.

D J Simmons
Director

D S McGurk
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 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

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

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

Basis for opinion

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

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

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

KPMG

Key Audit Matters

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

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

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

Valuation of goodwill ($83.816 million)

Refer note 17 to the financial report

The key audit matter	How the matter was addressed in our audit
A key audit matter for us was the Group's annual testing of goodwill for impairment, given the size of the balance (being 24% of total assets). We focussed on the significant forward-looking assumptions the Group applied in their value in use models, including forecast cash flows, growth rates during the forecast period, terminal growth rates and discount rates. Our testing focussed on the carrying value of Tracking Solutions goodwill ($8.538 million). Tracking Solutions, which comprises the Minetec business, is in the early stage of commercialisation of its products, with a significant global licencing, technology development and a marketing agreement with Caterpillar. The Group's ability to secure further market acceptance and full-scale operational deployment of its productivity and safety solutions depends on successful integration of Minetec and Caterpillar technology, forecast growth of the mining sector, leverage of the Caterpillar global dealer network and widespread uptake of the products. Minetec did not meet Codan's profit expectations in the current financial year. The VIU models are internally developed and uses a range of internal and external data as inputs. Forward looking assumptions may be prone to greater risk of potential bias or error These conditions increase the possibility of goodwill being impaired, raising our audit focus. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: • We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards • We assessed the integrity of the VIU model, including the accuracy of the underlying calculations. • We compared the forecast cash flows contained in the VIU model to Board approved forecasts. • We checked the consistency of the forecast cash flows to the Group's stated plans and strategy; using our knowledge of the Minetec business model, key customers and its early stage of commercialisation of its products. • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts included in the VIU models. • We considered the sensitivity of the VIU models by varying key assumptions such as sales forecasts, gross margin, operating costs and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias and to focus our further procedures. • Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities. • We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. 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 2020, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 3 to 9 of the Directors' report for the year ended 30 June 2020.

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

KPMG

KPMG

Paul Cenko
Partner

Adelaide

19 August 2020