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18 August 2021

COMPANY ANNOUNCEMENTS PLATFORM

AUSTRALIAN SECURITIES EXCHANGE

Full Year Result 2021

Codan Delivers Record Sales, Profit and Dividend

Highlights

- Record statutory net profit after tax of $90.2 million and underlying net profit after tax of $97.3 million, representing an increase 41% and 52% respectively over FY20
- Highest full-year sales of $437 million in the company's history
- Metal Detection delivered another record sales year in both recreational and gold mining
- Communications capability expanded with two recent acquisitions
- Sold the Minetec business to Caterpillar
- Annual dividend of 27.0 cents, fully franked (interim 10.5, final 16.5)
- Underlying earnings per share of 54.0 cents, up 52%
- Return on equity of 36%
- Cash generation was excellent with close to zero net debt at year end, after funding circa $174 million for acquisitions (the proceeds from the Minetec sale were received 1 July 2021)

Australian-based technology company, Codan Limited (ASX:CDA), today announced a record statutory net profit after tax of $90.2 million for the year ended 30 June 2021.

Directors announced a final dividend of 16.5 cents per share, fully franked, bringing the full-year dividend to 27.0 cents, up 46%. This dividend has a record date of 26 August 2021 and will be paid on 10 September 2021.

Codan experienced very strong trading throughout the year delivering another record profit. We acquired Domo Tactical Communications (DTC) and Zetron in May 2021 and streamlined the business with the divestment of Minetec.

Chief Executive, Donald McGurk, said, "As a result of our strategy to strengthen and invest in our core business through releasing new products and broadening our geographic footprint, we were pleased to deliver another record year."

To that end, in FY21 we:

- released our new GPX6000® gold detector and MF5® Countermine detector;
- established a new sales office in Mexico to focus on both gold mining and recreational markets;
- launched a direct to consumer e-commerce platform in Brazil for recreation products;
- delivered our largest ever order of Sentry HF radio units to an African military customer;
- achieved another record year in LMR, successfully delivering multiple systems projects and validating our transition to a full solutions provider;
- further strengthened our Communications segment by acquiring DTC and Zetron;
- streamlined the business to focus on core segments with the sale of Minetec to Caterpillar for $18 million cash; and
- worked with key suppliers to increase supply chain robustness in a very challenging COVID-19 environment, positioning us well for the future.

As a result of these initiatives, the business is well placed to deliver another strong performance in FY22, with the record run rate of FY21 being maintained thus far in the new financial year.

CODAN

	FY21		FY20	
	$m	% of sales	$m	% of sales
Revenue				
Communications	95.5	22%	104.0	30%
Metal Detection	326.5	75%	236.4	68%
Tracking Solutions	15.0	3%	7.6	2%
Total revenue	437.0	100%	348.0	100%
Business performance				
EBITDA	158.8	36%	117.8	34%
EBIT	139.8	32%	89.6	26%
Interest	(1.1)		(0.6)	
Net profit before tax	138.7	32%	89.0	26%
Taxation (excluding tax on restructuring expenses)	(41.4)		(25.0)	
Underlying net profit after tax	97.3	22%	64.0	18%
Non-recurring income/(expenses) after tax*:				
Acquisition related expenses	(5.2)		-	
Restructuring expenses	(1.9)		-	
Net profit after tax	90.2		64.0	
Underlying earnings per share, basic	54.0 cents		35.5 cents	
Statutory earnings per share, basic	50.1 cents		35.5 cents	
Ordinary dividend per share	27.0 cents		18.5 cents	

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

During FY21, the group incurred $7.1 million after tax in one-off expenses relating to costs associated with making two acquisitions and the related restructuring. The Board is pleased with the initial integration of both acquisitions and we expect to achieve the FY22 EBITDA contributions of $14 million and $8 million for DTC and Zetron respectively, as previously announced.

Cash generation was excellent with close to zero net debt at year end after funding circa $174 million for acquisitions (excluding the costs incurred to execute these acquisitions).

We deliberately increased inventory holdings during the year to minimise the risk to supply and to reduce freight costs. Due to strong demand and some manufacturing constraints, we have not been able to reach our targeted inventory levels to date; however, we have maintained continuous supply throughout FY21, often under very challenging conditions. During FY22, it is expected that inventory across all key product lines will reach targeted levels.

In FY21, we invested in excess of $30 million in engineering in order to further diversify our revenues through new product introductions. This will ensure that our products remain leading-edge, continue to drive future growth and position us to take further market share from competitors.

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 another record performance during the last 12 months, with sales increasing 38% to $327 million. The business achieved significant growth across all market segments with recreational and gold mining having record sales years and Countermine sales increasing 34% on FY20.

In recreation, our strategy to develop lower priced detectors, using our Multi-IQ® technology has allowed Minelab to grow its market share and successfully penetrate a number of big box retailers. The VANQUISH® product, now in its second year, has exceeded all expectations. Previously, Minelab had focused almost exclusively on high end detectors and now by extending our product portfolio to include entry level and mid-market segments, we have been able to gain market share, as well as grow the total size of the market. Minelab's presence in big box retail stores across North America has grown, providing significant brand awareness and accessibility to our products.

In artisanal gold mining, Minelab continued to grow across its entire product range, with our detectors achieving market leadership across all price points. The Gold Monster®, which was designed to withstand the harsh African environment, has become the machine-of-choice at the entry level and we continue to see customers upgrade to the top-of-line GPZ7000®.

Minelab released the GPX6000® in the second half of FY21, which includes our latest GeoSense-PI® (Pulse Induction) technology. GeoSense-PI® technology responds to ground signals with great clarity and precision, accurately isolating and reporting gold signals in the most difficult environments – even those once considered undetectable. Since the product launch, feedback from the market has been very positive and with production now reaching targeted levels, GPX6000® is expected to make a significant contribution to Minelab's sales in FY22.

During FY21, Minelab launched the MF5®, a Countermine detector based on our Multi-IQ® technology, which is also incorporated into our successful MDS10® dual sensor detector. Minelab now offers the latest metal detection technology across both single and dual sensor requirements.

As the market leader in metal detectors, our investment in product development remains a priority, so that we can continue to widen the technology gap between Minelab and our competitors. The unique and distinctive technology embedded within our metal detectors underpins the success of this business.

In FY22, Minelab will benefit from a full year of GPX6000® sales, increased geographical expansion and the on-going release of new products. Despite ongoing supply challenges, we remain confident of continued success in FY22.

Communications – Tactical, DTC, Zetron and LMR

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

As expected, Codan Communications sales reduced by $8.5 million compared to FY20. Whilst the LMR business achieved another record performance, the Tactical Communications business continued to be impacted by COVID-19. Deferred government programs due to health spending priorities and the inability to travel freely, restricted our efforts to develop and close new business.

One of the great strengths of the Tactical Communications business has been our ability to deliver communications solutions to customers in difficult and diverse environments, one of these markets in recent years has been Afghanistan. During FY21, sales into Afghanistan made up 9% of our Communications business. Given the developments in Afghanistan our sales team will continue to focus on the other markets in the Central Asia region.

The recent acquisition of DTC for a consideration of $114 million is an important acquisition that adds leading edge technology to our communications solutions. Our strategy is to provide a total solution by transitioning from a traditional voice platform to one including data and video. This acquisition will supplement our traditional HF business and provide another significant revenue stream, particularly in the large North American market.

DTC's MIMO Mesh products provide wireless transmission of video and other data applications, which are complementary capabilities to our existing Tactical Communications solutions. We have realised immediate synergies by integrating the sales and marketing teams for both DTC and Codan. This will allow us to access new geographic routes to markets by leveraging Codan's existing global distribution channels into the developing world. Over the long term, our combined engineering capabilities will allow us to bring unique value to a diverse global customer base from military to security to broadcasting.

By continuing to transition into larger systems projects, we achieved another record sales year for our LMR products. Our LMR customers predominantly reside in North America and as such, travel and the ability to close sales have been less affected by COVID-19.

The strategy for LMR has been to expand into adjacent technology solutions and in April 2021, we completed the Zetron acquisition for a consideration of $60 million. Zetron's technology solutions provide the software that is used in control centres to receive and triage incoming calls and then communicate with public safety first-responders. Our merged LMR and Zetron businesses will operate under the Zetron brand in the future. The integration of the two operations has commenced and is progressing as planned.

In FY22, the focus will be on integrating the new businesses and realising the planned sales and cost synergies.

Tracking Solutions - Minetec

In June 2021, Codan entered into an agreement to sell 100% of the shares in Minetec to Caterpillar Holdings Australia.

Under Codan's ownership, the Minetec business had not scaled to a level that supported the ongoing investment required for a technology-based business. As a result, the Board undertook a strategic review of the business. While the technology developed by Minetec is world class, the Board concluded that Codan was not the best owner and therefore the decision was made to sell the business.

This transaction was settled on 1 July 2021 for a consideration of $18 million with an earn out in place for the next five years.

Outlook

As a result of the strategic initiatives discussed above, Codan remains well positioned for another successful year in FY22. Whilst it is too early for the Board to give profit guidance for Codan, there are a number of factors that are relevant when considering the outlook for FY22:

- strong start to the year and in line with the FY21 run rate;
- demand for our metal detection products remains strong;
- Minelab will benefit from a full year of GPX6000® sales;
- Communications segment to include a full year of the newly acquired DTC and Zetron businesses. FY22 will be a year of integration for these two new businesses; and
- uncertainty around Tactical Communications and supply chain due to COVID-19 still exists.

The Board will provide a further business update at the Annual General Meeting in October, which will be held virtually.

Managing Director

Donald McGurk has advised the Board today that it is his intention to retire from his role as Managing Director of Codan sometime within the next 9-12 months. Donald will remain as Managing Director until such time as a successor is appointed to ensure a smooth transition.

Live Webcast – FY21 Full Year Financial Results Announcement

A results briefing will be hosted by Managing Director, Donald McGurk, at 11:00am (Australian Eastern Standard Time) on 19 August 2021. This briefing will be available via the following link – 2021 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.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-

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Codan Limited
(08) 8305 0392

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Company Secretary & CFO
Codan Limited
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Codan Limited

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

For the year ended 30 June 2021

ABN	Previous corresponding period
77 007 590 605	30 June 2020

Results for announcement to the market				**$A'000**
Revenue from ordinary activities	Up	26%	to	437,049
Profit after tax	Up	41%	to	90,197
Underlying profit after tax	Up	52%	to	97,289
Profit from ordinary activities after tax attributable to members	Up	42%	to	90,351
Net profit for the period attributable to members	Up	42%	to	90,351

Dividends	Amount per security	Franked amount per security at 30% tax
Final ordinary dividend	16.5 cents	16.5 cents
Interim ordinary dividend	10.5 cents	10.5 cents
Record date for determining entitlements to dividends:	26 August 2021	

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

The 30 June 2021 Financial Report and the Market Announcement dated 18 August 2021 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).

Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review. The reconciliation from Underlying Profit After Tax to Profit After Tax is as follows:

	$A'000
Underlying profit after tax	**97,289**
Acquisition related expenses	(5,177)
Restructuring expenses	(1,915)
Profit after tax	**90,197**

This report is based on financial statements that have been audited. The audit report is included in the 30 June 2021 Financial Report.

Codan Limited
ABN 77 007 590 605
and its Controlled Entities

Financial Report
30 June 2021

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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 2021 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	David was appointed Chairman of the board in 2015 and has been a director of Codan since 2008. Prior to joining the Codan board, David was the Managing Director of Hills Industries Limited (Hills) for 16 years. On appointment, Hills had a turnover of around $200 million. On his retirement in 2008, Hills turnover and market capitalisation were both in excess of $1 billion. Hills was in the ASX200 index and under David's leadership, profit increased every year for 16 years. Hills grew through a combination of internal growth and via acquisitions. During his time as Managing Director, David led around 30 successful acquisitions and joint ventures. David has strong people, financial, capital markets and M&A skills and has significant international experience, particularly focused on China, the USA and the UK. Hills employed 4,000 people globally at its peak. Since David was appointed Chairman, Codan's market capitalisation has grown from less than $150 million to more than $3 billion. This has been achieved by investing in people, having a commitment to continuous learning, encouraging entrepreneurship, rewarding performance and investing in innovation in a digital world. In his role on the Board Audit Risk and Compliance Committee, David has a particular focus on the ever present cyber threats and will continue to push and support best in class defences. David has chaired a number of charitable and government related organisations since retiring from Hills. He is currently the Chair of the Kickstart for Kids charity based in South Australia and is a former Chair of the South Australian Economic Development board.
Mr Donald McGurk HNC (Mech Eng), MBA, FAICD, Harvard AMP Managing Director and Chief Executive Officer	Donald is a motivator of people, with extensive knowledge and experience in the areas of change management and strategy formulation. Donald joined Codan in December 2000 and had executive responsibility for group-wide operations until his transition into the role of CEO in 2010. From 2005 to 2007, he also held executive responsibility for sales of the company's communications products and, from 2007 to 2010, executive responsibility for the business performance of the communications business. Donald was appointed to the board as a director in May 2010 and became Managing Director in November 2010.
Lt-Gen Peter Leahy AC BA (Military Studies), MMAS, GAICD Independent Non-Executive Director	Peter Leahy retired from the Australian Army in 2008 as a Lieutenant General after a 6-year appointment as Chief of Army. In his board appointments since then he has been on the boards of Codan, Electro Optic Systems Holdings Limited and Citadel Group Limited, including one year as Chair of CGL prior to its acquisition to go private. He is the current Chair of Electro Optic Systems Holdings Limited. During his time as Chair of CGL he led the company through a major international acquisition, a substantial capital raise and then negotiated the go private acquisition of the company. He is a member of the Nomination and Remuneration Committee for both EOS and CGL, and a former Chair of EOS's Audit Committee. In addition, to his board activities, he has been an advisor to both the Queensland and South Australian Governments, was a member of the First Principles Review of the Department of Defence, Chair of the Invictus Games in Australia and is an active supporter of veteran's charities. As a Professor at the University of Canberra he lectures on National Security, which includes cybersecurity and digital disruption.

DIRECTORS (CONTINUED)

Name and qualifications	Experience
Mr Graeme Barclay MAICD, F Fin, CA, MA (Hons) Independent Non-Executive Director	Graeme Barclay is a former CEO and qualified chartered accountant with more than 35 years' experience in professional services, investment banking, broadcast infrastructure and telecommunications. Over the past 20 years Graeme has held Executive Chairman or Group CEO roles at BAI Communications, Transit Wireless LLC (New York), Nextgen Networks, Metronode data centres and Axicom (formerly Crown Castle Australia), and for 8 years was also an executive director in Macquarie Group's infrastructure team. In these roles, Graeme was responsible for all aspects of strategy, M&A, sales and business development, contract delivery and operations, as well as implementing the appropriate capital structure and raising third party debt for these businesses in Australia, UK, Hong Kong, Singapore, Canada, USA and New Zealand. Over the past 20 years in these businesses, Graeme led and completed more than 20 acquisition and divestment transactions including the sale of Nextgen Networks to Vocus for $820 million in 2016 and the sale of Metronode to Equinix for $1.04 billion in 2018. Included in his prior board appointments are Arqiva Limited (institutionally owned UK telecommunications infrastructure group), BSA Limited (ASX:BSA, until December 2019) and Chairman of the main board and of the audit and risk committee for Nextgen group (Ontario Teachers' majority owned entity). His current board appointments are Codan (ASX:CDA, since 2015), Axicom (institutionally owned mobile tower infrastructure in Australia, having resigned as CEO during 2020) and chairman of Uniti Group Limited (ASX:UWL). As chairman of Uniti Graeme has overseen an IPO, ten acquisition transactions over a 2 year period, several capital raisings in the equity and corporate debt markets, and Uniti has grown to be the fifth largest listed telecommunications company on the ASX with a market capitalisation of circa $2.2 billion. Uniti's business includes ownership of fibre to the premise networks, a digital communications platform as a service for inbound voice, text, data and analytics and a consumer and business broadband service provider. Graeme holds an honours economics degree, is a qualified CA, a fellow of FINSIA and a member of AICD.
Ms Kathy Gramp BA (Acc), CA, FAICA, FAICD Independent Non-Executive Director, Chair of Board Audit, Risk and Compliance Committee	Kathy was appointed to the board of Codan in November 2015. She has had a long and distinguished executive career and over 24 years of board experience across a diverse range of complex organisations and industry sectors. She has significant experience as Chair of Audit & Risk Committees. Prior to joining Codan, Kathy was CFO of Austereo Ltd. Joining in 1989, retiring June 2011. In that time the company grew from 2 radio stations to the largest commercial radio network in Australia, and the leader in Digital and Online Media. Leadership roles and responsibilities included business planning & re-engineering, debt & equity raising, acquisitions & integration, capital investment, major IT projects, corporate governance, risk management, financial management, tax & accounting, change management and investor & key stakeholder relations. Further experience was gained through exposure to international markets such as Greece, UK, USA, South Africa, Argentina, Malaysia and New Zealand. Kathy is a Director of Uniti Group Limited (ASX.UWL), Chair of Audit & Risk Committee and member of the Nomination & Remuneration Committee. Uniti, a diversified provider of telecommunication services, listed February 2019 and through acquisition and organic growth now has a market capitalisation of circa $2.2 billion. She is also a Director of The Australian Institute of Company Directors and is Chair of the HR & Remuneration Committee and is a Council member of Flinders University and Chair of Audit & Risk Committee. Kathy holds a BA Accounting, is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia & New Zealand and is a member of Chief Executive Women.

COMPANY SECRETARY

Mr Michael Barton BA (Acc), CA

Michael joined Codan in May 2004 as Group Finance Manager after a 14-year career with KPMG in their assurance division. He was appointed Company Secretary in May 2008 and in September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary. Michael leads a team responsible for managing Codan's financial operations as well as legal and commercial matters, investor relations, information technology and business systems. He holds a Bachelor of Arts in Accountancy from the University of South Australia and was recently made a fellow 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	11	11	4	4	2	2
Mr D S McGurk	11	11				
Lt-Gen P F Leahy	11	11			2	2
Mr G R C Barclay	11	11	4	4	2	2
Ms K J Gramp	11	11	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%;

REMUNERATION REPORT – AUDITED (CONTINUED)

Principles of remuneration (continued)

- 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.

Traditionally, Short-term incentive (STI) plans have been based on the achievement of performance hurdles which related to the profitability delivered by our business segments and the group. For a business unit executive, their short-term incentive was split between the group results and the performance of their business unit. Group level executives were measured on group profit. The short-term incentive targets were set by the board each year based on the achievement of a percentage of the budget or the previous year's results or a combination of both.

When the board considered what the approach to STI's for FY21 should be, there was considerable uncertainty in relation to the impact the COVID-19 pandemic would have on our business. By June 2020 we were already experiencing a significant downturn in our Tactical Communications business. Mindful of the need to retain and motivate key executives in those uncertain times, the board decided on a pooled approach. We determined that an STI pool of 2.4% of the group EBIT would be accumulated during the year (2.4% being the average of total executive STI's to EBIT over the preceding 2 to 3 years). Our key executives would then share that pool subject only to achieving 80% of the EBIT achieved in FY20 (which at the time was an all-time record for Codan by a large margin). The percentage share for each executive was to be consistent with FY20. Part of our reasoning was that under this approach, individual executives would not be unfairly impacted by issues totally outside of their control. The STI's earned under this approach were to be capped at 100% of fixed salaries where the business over achieves against the set targets, and the STI payable to an executive could be reduced if the Managing Director or the Chairman determined that the relevant executive had not operated in a manner consistent with Codan Values.

As it turned out, Codan had another all-time record result for FY21. From the board's perspective, what was most pleasing was the heightened level of teamwork and camaraderie across our total executive team and a significant increase in co-operation across business units. This pooled approach to STI's with some modifications and improvements will also apply to the FY22 STI program and to future years. We are committed to providing additional disclosures next year in relation to the new STI program and in particular the key specific and quantified profitability and other metrics applying to the Managing Director and the senior executive team. A key change to the FY22 STI program will be the inclusion of stage gates for each executive, the achievement of which will determine what percentage of that executives STI pool will be paid. The profit pool rate of 2.4% will also be reduced to 2.0%. As always, the payment of an STI will be subject to the Board's discretion having considered the executives compliance with Codan's core values which will also consider sustainability objectives.

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.

REMUNERATION REPORT – AUDITED (CONTINUED)

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.

Performance rights granted become exercisable if certain performance requirements are achieved. The performance requirements are based on Codan achieving earnings per share targets over a three-year period. For the maximum available number of performance rights to vest, Codan's earnings per share must achieve a certain target level set by the Board. For any of the performance rights to vest Codan's earnings per share must achieve a certain threshold level. A pro-rata vesting of performance rights occurs between the threshold and target levels of earnings per share.

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

Of the performance rights granted to Codan's Australian based executives, 90% remain restricted for a further two years after vesting whereby executives are prohibited from trading the shares. This two-year restriction period does not apply to our overseas based executives (such as Mr S A French) due to local taxation requirements. The remaining 10% of performance rights are subject to a "good leaver" clause such that they remain at the Board's discretion until twelve months after the executive leaves the employment of Codan.

The Board has recently conducted a review of the performance rights plan and will be making the following changes to the plan for the FY22 and following years.

- The earnings per share targets will be based on the average of the last three years earnings per share results.
- This three-year average will then be increased by a growth rate that the Board considers to be appropriate.
- For FY22, the target earnings per share will be calculated using an 8% per annum growth rate and the threshold earnings per share will be calculated using a 2% per annum growth rate.
- The plan will be amended so that the automatic vesting of performance rights as a result of a take-over bid for Codan will be removed and the vesting of any rights in this situation will be at the Board's discretion.

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	27,809	13 November 2020	10.11	-	30 June 2024	-
EXECUTIVES						
Mr M Barton	14,641	13 November 2020	10.11	-	30 June 2024	-
Mr P D Charlesworth	18,102	13 November 2020	10.11	-	30 June 2024	-
Mr S A French	17,788	13 November 2020	10.55	-	30 June 2024	-
Mr R D Linehan	17,747	13 November 2020	10.11	-	30 June 2024	-
Mr S P Sangster	17,536	13 November 2020	10.11	-	30 June 2024	-

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

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

	Performance rights granted		Percentage vested in year	Percentage forfeited in year	Financial years in which shares will be issued if vesting achieved
	Number	Date			
DIRECTORS					
Mr D S McGurk	124,524	10 November 2017	100	-	2021
	91,972	16 November 2018	-	-	2022
	63,647	15 November 2019	-	-	2023
	27,809	13 November 2020	-	-	2024
EXECUTIVES					
Mr M Barton	65,559	8 December 2017	100	-	2021
	48,421	16 November 2018	-	-	2022
	33,509	15 November 2019	-	-	2023
	14,641	13 November 2020	-	-	2024
Mr P D Charlesworth	81,058	8 December 2017	100	-	2021
	59,881	16 November 2018	-	-	2022
	41,431	15 November 2019	-	-	2023
	18,102	13 November 2020	-	-	2024
Mr S A French	42,696	15 November 2019	-	-	2023
	17,788	13 November 2020	-	-	2024
Mr R D Linehan	79,469	8 December 2017	100	-	2021
	58,694	16 November 2018	-	-	2022
	40,618	15 November 2019	-	-	2023
	17,747	13 November 2020	-	-	2024
Mr S P Sangster	40,373	8 December 2017	100	-	2021
	31,208	16 November 2018	-	-	2022
	35,996	15 November 2019	-	-	2023
	17,536	13 November 2020	-	-	2024

Performance rights issued on 16 November 2018

The company issued 290,176 performance rights in November 2018 to executives. 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%.

The performance rights 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 15.6 cents as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share. As the earnings per share target has been exceeded to 30 June 2021, it is expected that the performance rights will vest and be converted into shares before the end of August 2021.

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

Performance rights issued on 15 November 2019

The company issued 257,897 performance rights in November 2019 to executives. 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%.

The performance rights become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share of 16.2 cents as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share.

Performance rights issued on 13 November 2020

The company issued 113,623 performance rights in November 2020 to executives. The fair value of the rights was on average $10.18 based on the Black-Scholes formula. The model inputs were: the share price of $11.17, no exercise price, expected volatility 60%, dividend yield 1.7%, a term of three years and a risk-free rate of 0.9%.

The performance rights 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 27.8 cents as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 10% per annum over the three-year period from the base earnings per share.

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 2020	Issued	Vested	Lapsed	Held at 30 June 2021
DIRECTORS					
Mr D S McGurk	280,143	27,809	124,524	-	183,428
EXECUTIVES					
Mr M Barton	147,489	14,641	65,559	-	96,571
Mr P D Charlesworth	182,370	18,102	81,058	-	119,414
Mr S A French	42,696	17,788	-	-	60,484
Mr R D Linehan	178,781	17,747	79,469	-	117,059
Mr S P Sangster	107,577	17,536	40,373	-	84,740

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

Other transactions with key management personnel

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

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

Director share ownership

The Directors' Shareholding Policy 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 2020	Received on exercise of rights	Other changes *	Held at 30 June 2021
Directors				
Mr D J Simmons	86,636	-	-	86,636
Mr D S McGurk	612,424	124,524	(136,000)	600,948
Lt-Gen P F Leahy	57,708	-	-	57,708
Mr G R C Barclay	38,829	-	-	38,829
Ms K J Gramp	12,500	-	-	12,500
Specified executives				
Mr M Barton	253,704	65,559	(112,118)	207,145
Mr P D Charlesworth	461,334	81,058	(96,501)	445,891
Mr S A French	-	-	-	-
Mr R D Linehan	269,477	79,469	(154,240)	194,706
Mr S P Sangster	340	40,373	(36,676)	4,037

** 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	**2021**	**185,751**	**-**	**-**	**17,646**	**-**	**-**	**-**	**203,397**	**-**
	2020	183,912	-	-	17,471	-	-	-	201,383	-
Lt-Gen P F Leahy	**2021**	**92,876**	**-**	**-**	**8,823**	**-**	**-**	**-**	**101,699**	**-**
	2020	91,957	-	-	8,736	-	-	-	100,693	-
Mr G R C Barclay	**2021**	**92,876**	**-**	**-**	**8,823**	**-**	**-**	**-**	**101,699**	**-**
	2020	91,957	-	-	8,736	-	-	-	100,693	-
Ms K J Gramp	**2021**	**101,319**	**-**	**-**	**9,625**	**-**	**-**	**-**	**110,944**	**-**
	2020	100,316	-	-	9,530	-	-	-	109,846	-
Total non-executives' remuneration	**2021**	**472,822**	**-**	**-**	**44,917**	**-**	**-**	**-**	**517,739**	**-**
	2020	468,142	-	-	44,473	-	-	-	512,615	-
EXECUTIVE										
Mr D S McGurk	**2021**	**585,031**	**609,153**	**-**	**23,502**	**17,469**	**-**	**280,087**	**1,515,242**	**58.7**
	2020	599,424	554,144	-	21,003	17,546	-	261,189	1,453,276	56.1
Total directors' remuneration	**2021**	**1,057,853**	**609,153**	**-**	**68,419**	**17,469**	**-**	**280,087**	**2,032,981**	**-**
	2020	1,067,566	554,114	-	65,476	17,546	-	261,189	1,965,891	-

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)	**2021**	**289,069**	**320,708**	**-**	**27,551**	**10,408**	**-**	**147,460**	**795,196**	**58.7**
	2020	293,525	291,732	-	21,058	9,837	-	135,058	751,210	56.8
Mr P D Charlesworth (Executive General Manager, Minelab)	**2021**	**365,471**	**396,525**	**-**	**21,694**	**12,438**	**-**	**182,332**	**978,460**	**58.9**
	2020	358,724	360,698	-	19,906	12,902	-	166,998	919,228	57.4
Mr S A French (Executive General Manager, Zetron)	**2021**	**398,514**	**383,604**	**21,743**	**-**	**-**	**-**	**144,974**	**948,835**	**55.7**
	2020	398,944	297,080	64,634	-	-	-	82,395	843,053	45.0
Mr R D Linehan (Chief Technology Officer, Codan and Executive General Manager, Minetec)	**2021**	**368,019**	**388,750**	**7,062**	**21,694**	**9,939**	**-**	**178,744**	**974,208**	**58.3**
	2020	363,449	271,915	16,121	21,003	8,067	-	163,712	844,267	51.6
Mr S P Sangster (Executive General Manager, Tactical Communications)	**2021**	**400,615**	**384,131**	**24,993**	**-**	**12,661**	**-**	**146,892**	**969,292**	**54.8**
	2020	346,541	313,378	43,280	-	8,770	-	111,003	822,972	51.6
Total executive officers' remuneration	**2021**	**1,821,688**	**1,873,718**	**53,798**	**70,939**	**45,446**	**-**	**800,402**	**4,665,991**	**-**
	2020	1,761,183	1,534,803	124,035	61,967	39,576	-	659,166	4,180,730	-

** 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.

Short-term incentives which vested during the year are as follows: Mr D S McGurk 100%, Mr M Barton 100%, Mr P D Charlesworth 100%, Mr S A French 100%, Mr R D Linehan 100% and Mr S P Sangster 100%.

Directors' and executives' salaries have historically been reviewed as at 1 July each year. Given the uncertainty created by the COVID-19 pandemic, the 1 July 2020 review was delayed to 1 January 2021 when a 2% increase was approved. As a result of superannuation changes in Australia from 1 July 2021 a 0.5% increase has been approved for executives from that date.

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:

	2021	**2020**	**2019**	**2018**	**2017**
Profit attributable to shareholders ($000)	**$90,351**	$63,795	$45,665	$41,575	$43,515
Dividends paid ($000)	**$38,809**	$26,999	$26,873	$19,593	$17,724
Share price at 30 June	**$18.03**	$7.09	$3.47	$3.00	$2.34
Change in share price at 30 June	**$10.94**	$3.62	$0.47	$0.66	$1.16
Earnings per share, fully diluted	**49.8c**	35.3c	25.3c	22.1c	24.9c

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.

FY21 highlights:

- Record statutory net profit after tax of $90.2 million and underlying net profit after tax of $97.3 million, representing an increase 41% and 52% respectively over FY20.
- Highest full-year sales of $437 million in the company's history
- Metal Detection delivered another record sales year in both recreational and gold mining
- Communications capability expanded with two recent acquisitions
- Sold the Minetec business to Caterpillar
- Annual dividend of 27.0 cents, fully franked (interim 10.5, final 16.5)
- Underlying earnings per share of 54.0 cents, up 52%
- Return on equity of 36%
- Cash generation was excellent with close to zero net debt at year end, after funding circa $174 million for acquisitions (the proceeds from the Minetec sale were received 1 July 2021).

Codan experienced very strong trading throughout the year delivering another record profit. We acquired Domo Tactical Communications (DTC) and Zetron in May 2021 and streamlined the business with the divestment of Minetec. As a result of our strategy to strengthen and invest in our core business through releasing new products and broadening our geographic footprint, we were pleased to deliver another record year.

In FY21 we:

- released our new GPX6000® gold detector and MF5® Countermine detector;
- established a new sales office in Mexico to focus on both gold mining and recreational markets;
- launched a direct to consumer e-commerce platform in Brazil for recreation products;
- delivered our largest ever order of Sentry HF radio units to an African military customer;
- achieved another record year in LMR, successfully delivering multiple systems projects and validating our transition to a full solutions provider;
- further strengthened our Communications segment by acquiring DTC and Zetron;
- streamlined the business to focus on core segments with the sale of Minetec to Caterpillar for $18 million cash; and
- worked with key suppliers to increase supply chain robustness in a very challenging COVID-19 environment, positioning us well for the future.

As a result of these initiatives, the business is well placed to deliver another strong performance in FY22, with the record run rate of FY21 being maintained thus far in the new financial year.

Dividend

The company announced a final dividend of 16.5 cents per share, fully franked, bringing the full-year dividend to 27.0 cents, up 46%. This dividend has a record date of 26 August 2021 and will be paid on 10 September 2021.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters

	FY21		FY20	
	$m	% of sales	$m	% of sales
Revenue				
Communications	**95.5**	**22%**	104.0	30%
Metal Detection	**326.5**	**75%**	236.4	68%
Tracking Solutions	**15.0**	**3%**	7.6	2%
Total revenue	**437.0**	**100%**	348.0	100%
Business performance				
EBITDA	**158.8**	**36%**	117.8	34%
EBIT	**139.8**	**32%**	89.6	26%
Interest	**(1.1)**		(0.6)	
Net profit before tax	**138.7**	**32%**	89.0	26%
Taxation (excluding tax on restructuring expenses)	**(41.4)**		(25.0)	
Underlying net profit after tax	**97.3**	**22%**	64.0	18%
Non-recurring income/(expenses) after tax*:				
Acquisition related expenses	**(5.2)**		-	
Restructuring expenses	**(1.9)**		-	
Net profit after tax	**90.2**		**64.0**	
Underlying earnings per share, basic	**54.0 cents**		35.5 cents	
Statutory earnings per share, basic	**50.1 cents**		35.5 cents	
Ordinary dividend per share	**27.0 cents**		18.5 cents	

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

During FY21, the group incurred $7.1 million after tax in one-off expenses relating to costs associated with making two acquisitions and the related restructuring. The Board is pleased with the initial integration of both acquisitions and we expect to achieve the FY22 EBITDA contributions of $14 million and $8 million for DTC and Zetron respectively, as previously announced.

Cash generation was excellent with close to zero net debt at year end after funding circa $174 million for acquisitions (excluding the costs incurred to execute these acquisitions).

We deliberately increased inventory holdings during the year to minimise the risk to supply and to reduce freight costs. Due to strong demand and some manufacturing constraints, we have not been able to reach our targeted inventory levels to date; however, we have maintained continuous supply throughout FY21, often under very challenging conditions. During FY22, it is expected that inventory across all key product lines will reach targeted levels.

In FY21, we invested in excess of $30 million in engineering in order to further diversify our revenues through new product introductions. This will ensure that our products remain leading-edge, continue to drive future growth and position us to take further market share from competitors.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

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 another record performance during the last 12 months, with sales increasing 38% to $327 million. The business achieved significant growth across all market segments with recreational and gold mining having record sales years and Countermine sales increasing 34% on FY20.

In recreation, our strategy to develop lower priced detectors, using our Multi-IQ® technology has allowed Minelab to grow its market share and successfully penetrate a number of big box retailers. The VANQUISH® product, now in its second year, has exceeded all expectations. Previously, Minelab had focused almost exclusively on high end detectors and now by extending our product portfolio to include entry level and mid-market segments, we have been able to gain market share, as well as grow the total size of the market. Minelab's presence in big box retail stores across North America has grown, providing significant brand awareness and accessibility to our products.

In artisanal gold mining, Minelab continued to grow across its entire product range, with our detectors achieving market leadership across all price points. The Gold Monster®, which was designed to withstand the harsh African environment, has become the machine-of-choice at the entry level and we continue to see customers upgrade to the top-of-line GPZ7000®.

Minelab released the GPX6000® in the second half of FY21, which includes our latest GeoSense-PI® (Pulse Induction) technology. GeoSense-PI® technology responds to ground signals with great clarity and precision, accurately isolating and reporting gold signals in the most difficult environments – even those once considered undetectable. Since the product launch, feedback from the market has been very positive and with production now reaching targeted levels, GPX6000® is expected to make a significant contribution to Minelab's sales in FY22.

During FY21, Minelab launched the MF5®, a Countermine detector based on our Multi-IQ® technology, which is also incorporated into our successful MDS10 dual sensor detector. Minelab now offers the latest metal detection technology across both single and dual sensor requirements.

As the market leader in metal detectors, our investment in product development remains a priority, so that we can continue to widen the technology gap between Minelab and our competitors. The unique and distinctive technology embedded within our metal detectors underpins the success of this business.

In FY22, Minelab will benefit from a full year of GPX6000® sales, increased geographical expansion and the on-going release of new products. Despite ongoing supply challenges, we remain confident of continued success in FY22.

Communications – Tactical, DTC, Zetron and LMR

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

As expected, Codan Communications sales reduced by $8.5 million compared to FY20. Whilst the LMR business achieved another record performance, the Tactical Communications business continued to be impacted by COVID-19. Deferred government programs due to health spending priorities and the inability to travel freely, restricted our efforts to develop and close new business.

One of the great strengths of the Tactical Communications business has been our ability to deliver communications solutions to customers in difficult and diverse environments, one of these markets in recent years has been Afghanistan. During FY21, sales into Afghanistan made up 9% of our Communications business. Given the developments in Afghanistan our sales team will continue to focus on the other markets in the Central Asia region.

The recent acquisition of DTC for a consideration of $114 million is an important acquisition that adds leading edge technology to our communications solutions. Our strategy is to provide a total solution by transitioning from a traditional voice platform to one including data and video. This acquisition will supplement our traditional HF business and provide another significant revenue stream, particularly in the large North American market.

Financial performance and other matters (continued)

Performance by business unit: (continued)

Communications – Tactical, DTC, Zetron and LMR (continued)

DTC's MIMO Mesh products provide wireless transmission of video and other data applications, which are complementary capabilities to our existing Tactical Communications solutions. We have realised immediate synergies by integrating the sales and marketing teams for both DTC and Codan. This will allow us to access new geographic routes to markets by leveraging Codan's existing global distribution channels into the developing world. Over the long term, our combined engineering capabilities will allow us to bring unique value to a diverse global customer base from military to security to broadcasting.

By continuing to transition into larger systems projects, we achieved another record sales year for our LMR products. Our LMR customers predominantly reside in North America and as such, travel and the ability to close sales have been less affected by COVID-19.

The strategy for LMR has been to expand into adjacent technology solutions and in April 2021, we completed the Zetron acquisition for a consideration of $60 million. Zetron's technology solutions provide the software that is used in control centres to receive and triage incoming calls and then communicate with public safety first-responders. Our merged LMR and Zetron businesses will operate under the Zetron brand in the future. The integration of the two operations has commenced and is progressing as planned.

In FY22, the focus will be on integrating the new businesses and realising the planned sales and cost synergies.

Tracking Solutions – Minetec

In June 2021, Codan entered into an agreement to sell 100% of the shares in Minetec to Caterpillar Holdings Australia.

Under Codan's ownership, the Minetec business had not scaled to a level that supported the ongoing investment required for a technology-based business. As a result, the Board undertook a strategic review of the business. While the technology developed by Minetec is world class, the Board concluded that Codan was not the best owner and therefore the decision was made to sell the business.

This transaction was settled on 1 July 2021 for a consideration of $18 million with an earn out in place for the next five years.

Outlook

As a result of the strategic initiatives discussed above, Codan remains well positioned for another successful year in FY22. Whilst it is too early for the Board to give profit guidance for Codan, there are a number of factors that are relevant when considering the outlook for FY22:

- strong start to the year and in line with the FY21 run rate;
- demand for our metal detection products remains strong;
- Minelab will benefit from a full year of GPX6000® sales;
- Communications segment to include a full year of the newly acquired DTC and Zetron businesses. FY22 will be a year of integration for these two new businesses; and
- uncertainty around Tactical Communications and supply chain due to COVID-19 still exists.

The Board will provide a further business update at the Annual General Meeting in October, which will be held virtually.

Managing Director

Donald McGurk has advised the Board today that it is his intention to retire from his role as Managing Director of Codan sometime within the next 9-12 months. Donald will remain as Managing Director until such time as a successor is appointed to ensure a smooth transition.

Sustainability reporting

The Board engaged a consulting firm to assist with the identification of the environmental, social and governance matters most relevant for Codan and to then assess how to address those risks and report against them. While these risks may not have a material financial impact on Codan in the short term the Board is conscious of ensuring that Codan appropriately addresses the environmental, social and governance risks that are relevant for the organisation. The Board is pleased that the FY21 annual report includes Codan's second environmental, social and governance report which has been prepared under the banner of a Sustainability Report.

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 2021:				
FY20 final	11.0	19,856	100%	11 September 2020
FY21 interim	10.5	18,953	100%	11 March 2021
DECLARED AFTER THE END OF THE YEAR:				
FY21 final	16.5	29,783	100%	10 September 2021

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

EVENTS SUBSEQUENT TO REPORTING DATE

Except for the sale of Minetec which settled on 1 July 2021 and has been mentioned elsewhere in this financial report and the declaration of the FY21 final dividend detailed in note 7, 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	600,948
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 19 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	
	2021	**2020**
	$	$
STATUTORY AUDIT		
Audit and review of financial reports	**218,644**	231,259
	218,644	231,259
SERVICES OTHER THAN STATUTORY AUDIT		
Taxation advice and compliance services	**22,997**	49,383
Royalty agreement assurance services	**-**	10,945
	22,997	60,328

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 18th day of August 2021.

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 2021 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

18 August 2021

Consolidated income statement for the year ended 30 June 2021

Codan Limited and its Controlled Entities

	Note	Consolidated 2021 $000	2020 $000
CONTINUING OPERATIONS			
Revenue	2	**437,049**	348,017
Cost of sales		**(193,911)**	(151,481)
Gross profit		**243,138**	196,536
Other income	6	**49**	359
Administrative expenses		**(23,151)**	(21,925)
Sales and marketing expenses		**(53,463)**	(51,054)
Engineering expenses		**(26,234)**	(25,920)
Net financing costs	5	**(1,612)**	(1,457)
Other expenses	6	**(7,913)**	(7,518)
Profit before tax		**130,814**	89,021
Income tax expense	9	**(40,617)**	(25,058)
Profit for the period		**90,197**	63,963
Attributable to:			
Equity holders of the company		**90,351**	63,795
Non-controlling interests		**(154)**	168
		90,197	63,963
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share	8	**50.1 cents**	35.5 cents
Diluted earnings per share	8	**49.8 cents**	35.3 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 25 to 58.

Consolidated statement of comprehensive income

for the year ended 30 June 2021

Codan Limited and its Controlled Entities

	Note	Consolidated 2021 $000	2020 $000
Profit for the period		**90,197**	63,963
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		**(1,441)**	713
less tax effect		**433**	(214)
Changes in fair value of cash flow hedges, net of income tax	23	**(1,008)**	499
Exchange differences on translation of foreign operations	23	**4,097**	(2,160)
Other comprehensive income/(loss) for the period, net of income tax		**3,089**	(1,661)
Total comprehensive income for the period		**93,286**	62,302
Attributable to:			
Equity holders of the company		**93,440**	62,134
Non-controlling interests		**(154)**	168
		93,286	62,302

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 25 to 58.

Consolidated balance sheet as at 30 June 2021

Codan Limited and its Controlled Entities

	Note	Consolidated 2021 $000	Consolidated 2020 $000
CURRENT ASSETS			
Cash and cash equivalents	10	**22,362**	92,830
Trade and other receivables	13	**34,959**	24,752
Inventory	14	**66,433**	32,606
Current tax assets	9	**122**	343
Assets held for sale	16	**17,762**	-
Other assets	15	**15,273**	6,969
Total current assets		**156,911**	157,500
NON-CURRENT ASSETS			
Property, plant and equipment	17	**17,763**	14,176
Right-of-use assets	34	**26,989**	25,367
Product development	18	**74,569**	67,777
Intangible assets	19	**227,327**	86,746
Total non-current assets		**346,648**	194,066
Total assets		**503,559**	351,566
CURRENT LIABILITIES			
Trade and other payables	20	**106,515**	47,044
Lease liabilities	34	**6,950**	3,775
Current tax payable	9	**14,785**	11,958
Liabilities held for sale	16	**1,043**	-
Provisions	21	**13,214**	8,159
Total current liabilities		**142,507**	70,936
NON-CURRENT LIABILITIES			
Lease liabilities	34	**25,170**	26,779
Loans and borrowings	11	**24,000**	-
Deferred tax liabilities	9	**7,018**	4,727
Provisions	21	**1,254**	1,781
Total non-current liabilities		**57,442**	33,287
Total liabilities		**199,949**	104,223
Net assets		**303,610**	247,343
EQUITY			
Share capital	22	**45,842**	44,746
Reserves	23	**70,471**	66,688
Retained earnings		**187,297**	135,909
Total equity		**303,610**	247,343
Total equity attributable to the equity holders of the company		**303,724**	247,303
Non-controlling interests		**(114)**	40
		303,610	247,343

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 25 to 58.

Consolidated statement of changes in equity

for the year ended 30 June 2021

Codan Limited and its Controlled Entities

	Consolidated						
2021	Share capital $000	Foreign currency translation reserve $000	Hedging reserve $000	Equity based payment reserve $000	Profit reserve $000	Retained earnings* $000	Total $000
Balance as at 1 July 2020	44,746	4,552	353	2,802	58,981	135,909	247,343
Profit for the period	-	-	-	-	-	90,197	90,197
Performance rights expensed	-	-	-	1,537	-	-	1,537
Change in fair value of cash flow hedges	-	-	(1,008)	-	-	-	(1,008)
Exchange differences on translation of foreign operations	-	4,097	-	-	-	-	4,097
	44,746	8,649	(655)	4,339	58,981	226,106	342,166
Transactions with owners of the company							
Dividends recognised during the period	-	-	-	-	-	(38,809)	(38,809)
Issue of shares from performance rights	843	-	-	(843)	-	-	-
Employee share plan, net of issue costs	253	-	-	-	-	-	253
	1,096	-	-	(843)	-	(38,809)	(38,556)
Balance at 30 June 2021	45,842	8,649	(655)	3,496	58,981	187,297	303,610

*The amounts in retained earnings includes the portion for non-controlling interests with an opening retained earnings as at 1 July 2020 of $0.040 million, FY21 loss after tax of $0.154 million which results in a closing balance of $0.114 million retained loss as at 30 June 2021.

	Consolidated						
2020	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

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 25 to 58.

Consolidated statement of cash flows for the year ended 30 June 2021

Codan Limited and its Controlled Entities

	Note	Consolidated 2021 $000	Consolidated 2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**450,231**	350,298
Cash paid to suppliers and employees		**(281,501)**	(227,888)
Interest received		**385**	378
Interest paid		**(741)**	(271)
Finance charge on lease liabilities	34	**(718)**	(703)
Income taxes paid (net)		**(36,356)**	(17,830)
Net cash from operating activities	12	**131,300**	103,984
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries (net of cash acquired)	3, 4	**(159,774)**	-
Proceeds from disposal of property, plant and equipment		**2**	3,981
Payments for capitalised product development		**(18,566)**	(18,769)
Payments for intellectual property		**-**	(24)
Acquisition of property, plant and equipment		**(4,139)**	(3,759)
Acquisition of intangibles (computer software and licences)		**(244)**	(442)
Net cash used in investing activities		**(182,721)**	(19,013)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings	11	**24,000**	-
Payment of lease liabilities (principle)	34	**(4,195)**	(2,983)
Dividends paid	7	**(38,809)**	(26,998)
Net cash provided by/(used in) financing activities		**(19,004)**	(29,981)
Net increase/(decrease) in cash held		**(70,425)**	54,990
Cash and cash equivalents at the beginning of the financial year		**92,830**	37,521
Effects of exchange rate fluctuations on cash held		**351**	319
Cash reclassified to asset held for sale	16	**(394)**	-
Cash and cash equivalents at the end of the financial year	10	**22,362**	92,830

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 25 to 58.

1. SIGNIFICANT ACCOUNTING POLICIES

Codan Limited (the "company") is a company domiciled in Australia and is a for-profit entity. The consolidated financial report of the company as at and for the year ended 30 June 2021 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 18 August 2021.

(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 19).
- measurement of inventory net realisable value (refer note 1 (l))
- measurement of expected credit loss allowance for trade receivables (refer note 29(a))

Changes in accounting policies

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 2020.

(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.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition

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

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable (net of rebates, returns, discounts and other allowances). Revenue is recognised when 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 costs incurred comparing with total estimated costs. 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. Revenue is determined based on hours incurred.

(e) Net financing costs

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

(f) Foreign currency

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

Foreign operations

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

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

Hedging

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

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

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

(h) Taxation

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

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

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

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

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

Tax consolidation

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 “lifetime 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 represents the selling price that could be achieved in the ordinary course of business, and is calculated having regard to the quantity of stock on hand in comparison to past usage. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

(m) Project work in progress

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

(n) Intangible assets

Product development costs

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

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, as well as the fair value of any pre-existing non-controlling interest, 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 recognised as an assumed liability 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.

Licences and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

	Straight-line	**Units of production**
Product development, licences and intellectual property	2 - 15 years	5 - 10 years
Computer software	3 - 7 years	Not Applicable
Brand names	20 years	Not Applicable
Customer relationships	5 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Assets held for sale (continued)

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.

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.

(p) Property, plant and equipment

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. The main depreciation rates used for each class of asset for current and comparative periods are as follows:

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

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

(q) Impairment

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

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

The recoverable amount of non-financial 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 non-financial 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 current obligations resulting from employees' services provided to the reporting date, calculated at undiscounted amounts based on remuneration rates that the group expects to pay as at the reporting date, including related on-costs such as superannuation, workers' compensation insurance and payroll tax.

Long service leave

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

Defined contribution superannuation plans

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

(u) Provisions

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

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) 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. The main type of leases of the group are leases for offices, warehouses and manufacturing facilities.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Leases (continued)

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.

(w) 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.

(x) 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.

(y) Future Australian Accounting Standards requirements

A number of new standards are effective after 2021 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

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. The Tracking Solutions segment was sold on 1 July 2021 and therefore will not be reported in future financial statements.

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The Communications segment comprises of the following operating segments: Tactical, DTC, Zetron and LMR, which are aggregated because they have similar characteristics such as long-term average gross margins, nature of products, production process and regulatory environment, type of customers and distribution methods.

Geographical areas

In presenting information on the basis of geographical areas, 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, Canada, Denmark, United Kingdom and United States, with overseas representative offices in Brazil, Ireland, Mexico, Singapore and the United Arab Emirates.

GROUP PERFORMANCE (continued)

2. SEGMENT ACTIVITIES (CONTINUED)

Information about reportable segments	Communications		Metal detection		Tracking solutions		Consolidated	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
Revenue								
External segment revenue	**95,490**	103,987	**326,564**	236,388	**14,995**	7,642	**437,049**	348,017
Result								
Segment result	**16,206**	23,849	**142,384**	97,384	**3,111**	(3,567)	**161,701**	117,666
Impairment							**-**	(7,518)
Unallocated net financing costs							**(895)**	(754)
Unallocated income and expenses							**(22,079)**	(20,373)
Underlying Profit from operating activities							**138,727**	89,021
Income tax expense (excluding tax on restructuring expenses)							**(41,438)**	(25,058)
Underlying net profit							**97,289**	63,963
Acquisition related expenses							**(5,177)**	-
Restructuring expenses							**(1,915)**	-
Statutory net profit							**90,197**	63,963
Non-cash items included above								
Depreciation and amortisation	**7,743**	8,988	**9,461**	8,451	**1,071**	2,347	**18,275**	19,786
Unallocated depreciation and amortisation							**754**	865
Impairment							**-**	7,518
Total depreciation and amortisation							**19,029**	28,169
Assets								
Capital expenditure	**335**	919	**2,226**	2,350	**16**	104	**2,577**	3,373
Unallocated capital expenditure							**1,541**	386
Total capital expenditure							**4,118**	3,759
Segment assets	**294,043**	96,252	**130,879**	114,290	**17,762**	19,113	**442,684**	229,655
Unallocated corporate assets							**60,875**	121,911
Consolidated total assets							**503,559**	351,566

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were United Arab Emirates totalling $133.487 million (2020: $127.019 million), the United States of America totalling $102.134 million (2020: $79.620 million) and Australia totalling $52.761 million (2020: 32.781 million). The two significant customers where revenue was 10% or more of total revenue totalled $50.051 million (2020: $22.677 million) and $44.387 million (2020: $38.065 million) respectively.

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: the United States of America $156.025 million (2020: $0.588 million), Australia $137.902 million (2020: $147.702 million), Canada $47.694 million (2020: $45.023 million), United Kingdom $2.948 million (2020: Nil), Denmark $1.463 million (2020: Nil), United Arab Emirates $0.268 million (2020: $0.622 million), Brazil $0.114 million (2020: $0.108), Mexico $0.035 million (2020: nil) and Ireland $0.019 million (2020: $0.023 million).

GROUP PERFORMANCE (CONTINUED)

3 Acquisition of Zetron

On 30 April 2021, the company acquired all the shares in US-based company, Zetron, Inc. (Zetron), for an upfront cost of $60.216 million inclusive of $9.780 million in cash that was held by the business. The acquisition of Zetron is in line with Codan's well publicised strategy to transform our Communications businesses from products to solutions.

From the acquisition date, Zetron has been consolidated within the group's results and has been reported in the Communications segment in Note 2. The following summary provides current estimates of the major classes of consideration transferred, the expected recognised amounts of assets acquired and liabilities assumed and the estimated goodwill at the acquisition date.

Estimated fair value of consideration transferred	**$000**
Cash paid on completion	**60,216**
Acquiree's cash balance at acquisition date	**(9,780)**
	50,436

Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	
Trade and other receivables	**19,151**
Inventories	**8,574**
Other assets	**4,415**
Property, plant and equipment	**1,314**
Right-of-use assets	**2,961**
Intangible assets	**2,505**
Trade and other payables	**(20,005)**
Lease Liabilities	**(3,382)**
Provisions	**(2,946)**
Taxes	**(865)**
	11,722

Estimated goodwill as a result of the acquisition	
Estimated fair value of consideration transferred	**50,436**
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	**(11,722)**
	38,714

The goodwill is mainly attributable to the synergies that will be realised by incorporating Zetron into Codan's Communications business, Zetron's extensive distribution network and customer loyalty.

The goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs

During the year the group incurred acquisition-related costs of $1.343 million relating to external legal fees, consulting and due diligence costs. The due diligence costs have been included as other expenses within the consolidated income statement. No other acquisition-related costs were incurred.

Contribution to year-end results

The acquired business contributed revenues of $9.263 million and a breakeven EBITDA to the Group for the period from 30 April 2021 to 30 June 2021. If the acquisition had occurred on 1 July 2020, the acquired business' contribution to the consolidated pro-forma revenue and EBITDA for the year ended 30 June 2021 would have been $59.737 million and $3.881 million respectively. It is impractical to estimate the impact the acquisition would have had if applied from 1 July 2020, at a net profit after tax level, due to the impact of taxation and amortisation. Zetron was not controlled by Codan for the most part of FY21 and there are synergies to be realised by bringing Zetron into Codan's Communications business and as a result, past performance is not expected to be representative of future results under Codan's ownership.

GROUP PERFORMANCE (CONTINUED)

4 Acquisition of Domo Tactical Communications

On 12 May 2021, the company acquired all of the shares in US-based company, Domo Tactical Communications (DTC), for an upfront cost of $113.950 million inclusive of $4.612 million in cash that was held by the business, with the possibility of an earn-out of up to USD 16 million if certain gross margin targets are achieved in calendar year 2021. The company has attributed no value to this earn-out as the gross margin targets are unlikely to be achieved. The acquisition of DTC is consistent with Codan's strategic growth plan for our Tactical Communications business. This is focused on providing total communications solutions by transitioning from a traditional voice only platform via the addition of data and video communication capabilities. This acquisition fills a technology gap and will be able to leverage Codan's global distribution channels into the developing world.

From the acquisition date, DTC has been consolidated within the group's results and has been reported in the Communications segment in Note 2. The following summary provides current estimates of the major classes of consideration transferred, the expected recognised amounts of assets acquired and liabilities assumed and the estimated goodwill at the acquisition date.

Estimated fair value of consideration transferred	**$000**
Cash paid on completion	**113,950**
Acquiree's cash balance at acquisition date	**(4,612)**
	109,338
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	
Trade and other receivables	**5,031**
Inventories	**8,813**
Other assets	**5,042**
Property, plant and equipment	**1,551**
Right-of-use assets	**2,222**
Product development	**1,455**
Intangible assets	**5,716**
Trade and other payables	**(14,373)**
Lease Liabilities	**(2,489)**
Provisions	**(2,208)**
Taxes	**(755)**
	10,005
Estimated goodwill as a result of the acquisition	
Estimated fair value of consideration transferred	**109,338**
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	**(10,005)**
	99,333

The goodwill is mainly attributable to the synergies that will be realised by incorporating DTC into Codan's Communications business, access to significant potential wins from DTC's pipeline of projects, the knowledge of the engineering team, customer loyalty and Codan's opportunity to grow the DTC business using Codan's existing routes to market.

The goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs

During the year the group incurred acquisition-related costs of $3.834 million relating to mergers and acquisitions advisory fees, external legal fees, consulting and due diligence costs. The due diligence costs have been included as other expenses within the consolidated income statement. No other acquisition-related costs were incurred.

Contribution to year-end results

The acquired business contributed revenues of $7.684 million and EBITDA of $0.453 million to the Group for the period from 12 May 2021 to 30 June 2021. If the acquisition had occurred on 1 July 2020, the acquired business' contribution to the consolidated pro-forma revenue and EBITDA for the year ended 30 June 2021 would have been $59.684 million and $4.667 million respectively. It is impractical to estimate the impact the acquisition would have had if applied from 1 July 2020, at a net profit after tax level, due to the impact of taxation and amortisation. DTC was not controlled by Codan for the most part of FY21 and there are synergies to be realised by bringing DTC into Codan's Communications business and as a result, past performance is not expected to be representative of future results under Codan's ownership.

	Note	Consolidated 2021 $000	Consolidated 2020 $000
GROUP PERFORMANCE (CONTINUED)			
5 EXPENSES			
Net financing costs:			
Interest income		**(385)**	(378)
Net foreign exchange (gain)/loss		**538**	861
Interest expense		**741**	271
Finance charge on lease liabilities		**718**	703
		1,612	1,457
Depreciation of:			
Right-of-use assets		**3,554**	3,179
Leasehold property		**119**	98
Plant and equipment		**3,023**	3,629
		6,696	6,906
Amortisation of:			
Product development - straight-line		**7,746**	9,154
Product development - units of production		**3,678**	3,594
Intellectual property		**409**	409
Computer software		**306**	291
Licences		**168**	297
Brand names		**26**	-
		12,333	13,745
Personnel expenses:			
Wages and salaries		**55,766**	48,311
Other associated personnel expenses		**4,425**	3,499
Contributions to defined contribution superannuation plans		**4,943**	4,572
Long service leave expense		**856**	771
Annual leave expense		**3,198**	2,521
Performance rights plan		**1,537**	1,682
Employee share plan		**253**	250
		70,978	61,606
6 OTHER EXPENSES / (INCOME)			
Acquisition related expenses		**5,177**	-
Restructuring expenses		**2,736**	-
Impairment of Minetec product development		**-**	7,518
(Gain)/loss on sale of property, plant and equipment		**(2)**	(206)
Other expenses/(income)		**(47)**	(153)
		7,864	7,159

	Consolidated 2021 $000	Consolidated 2020 $000

GROUP PERFORMANCE (CONTINUED)

7 DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

	2021 $000	2020 $000
- ordinary final fully-franked dividend of 11.0 cents per ordinary share paid on 11 September 2020	**19,856**	-
- ordinary interim fully-franked dividend of 10.5 cents per ordinary share paid on 11 March 2021	**18,953**	-
- ordinary final fully-franked dividend of 5.0 cents per ordinary share paid on 13 September 2019	-	8,999
- special final fully-franked dividend of 2.5 cents per ordinary 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
	38,809	26,998

Subsequent events

Since the end of the financial year, the directors declared a final ordinary fully franked dividend of 16.5 cents per share, payable on 10 September 2021. The financial impact of this final dividend of $29.783 million has not been brought to account in the group financial statements for the year ended 30 June 2021 and will be recognised in subsequent financial reports.

The sale of Minetec settled on 1 July 2021; refer to note 16 for more information.

Dividend franking account

	2021 $000	2020 $000
Franking credits available to shareholders for subsequent financial years (30%)	**64,894**	42,604

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 $12.764 million (2020: $8.485 million).

8 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.

	2021 $000	2020 $000
Net profit used for the purpose of calculating basic and diluted earnings per share	**90,351**	63,795

The weighted average number of shares used as the denominator number for basic earnings per share was 180,424,509 (2020: 179,867,477). The movement in the year is as a consequence of the shares issued under the performance rights plan and employee shares plan.

The calculation of diluted earnings per share at 30 June 2021 was based on a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares of 181,255,390 (2020: 180,961,854). The movement in the year relates to the shares issued under the performance rights granted and employee share plan.

	Consolidated 2021 $000	Consolidated 2020 $000

TAXATION

9 INCOME TAX

A. Income tax expense

	2021 $000	2020 $000
Current tax expense:		
Current tax paid or payable for the financial year	**39,675**	27,909
Adjustments for prior years	**(70)**	(204)
	39,605	27,705
Deferred tax expense:		
Origination and reversal of temporary differences	**1,012**	(2,647)
Total income tax expense in income statement	**40,617**	25,058
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**39,244**	26,706
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**(958)**	(1,294)
Effect of tax rates in foreign jurisdictions	**-**	(9)
(Over)/under provision for taxation in previous years	**(70)**	(204)
Other deductible expenses	**(47)**	(259)
	38,169	24,940
Increase in income tax expense due to:		
Capital expenses relating to acquisitions and disposals	**1,633**	-
Non-deductible expenses	**556**	118
Non-assessable amounts	**121**	-
Effect of tax rates in foreign jurisdictions	**138**	-
Income tax expense	**40,617**	25,058

B. Current tax liabilities / assets

	2021 $000	2020 $000
Balance at the beginning of the year	**(11,615)**	(1,298)
Net foreign currency differences on translation of foreign entities	**(124)**	25
Income tax paid (net)	**36,356**	17,830
Adjustments from prior year	**395**	(263)
Current year's income tax paid or payable on operating profit	**(39,675)**	(27,909)
	(14,663)	(11,615)
Disclosed in balance sheet as:		
Current tax asset	**122**	343
Current tax payable	**(14,785)**	(11,958)
	(14,663)	(11,615)

C. Deferred tax liabilities

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

	2021 $000	2020 $000
Expenditure currently tax deductible but deferred and amortised for accounting (intangible assets)	**21,277**	19,841
Liabilities recognised from the identifiable intangible assets acquired from business combination	**2,351**	-
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	**(658)**	(1,640)
Payments for intellectual property not currently deductible	**(1,183)**	(1,671)
Provisions for employee benefits not currently deductible	**(2,552)**	(2,250)
Provisions and accruals not currently deductible	**(6,387)**	(4,467)
Sundry items	**(634)**	(249)
Carry forward overseas tax losses	**(474)**	-
Carry forward overseas R&D tax credits	**(4,722)**	(4,837)
	7,018	4,727

D. Effective tax rates

	2021	2020
Global operations - total consolidated tax expense	**31%**	28%
Australian operations - Australian company income tax expense	**31%**	29%

	Consolidated 2021 $000	Consolidated 2020 $000

CASH MANAGEMENT

10 CASH AND CASH EQUIVALENTS

	2021 $000	2020 $000
Cash on hand	**179**	516
Cash at bank	**22,183**	92,314
	22,362	92,830

11 LOANS AND BORROWINGS

Non-Current

	2021 $000	2020 $000
Cash advance	**24,000**	-
	24,000	-

The group has access to the following lines of credit:

	2021 $000	2020 $000
Total facilities available at balance date:		
Multi-option facility	**80,645**	40,000
Commercial credit card	**1,133**	200
	81,778	40,200
Facilities utilised at balance date:		
Multi-option facility - cash advance	**24,000**	-
Multi-option facility - guarantees	**1,427**	1,113
Commercial credit card	**230**	16
	25,657	1,129
Facilities not utilised at balance date:		
Multi-option facility	**55,218**	38,887
Commercial credit card	**903**	184
	56,121	39,071

In addition to these facilities, the group has cash at bank and short-term deposits of $22.362 million as set out in note 10.

Bank Facilities

The cash advance facility is supported by interlocking guarantees between Codan Limited and its subsidiaries. The multi–option facility of $80 million has a term of three years expiring in April 2024 and is subject to compliance with certain financial covenants over that term.

	Consolidated 2021 %	Consolidated 2020 %
Weighted average interest rates:		
Cash at bank	**0.42**	0.66
Cash advance	**1.35**	N/A

	Note	Consolidated 2021 $000	2020 $000
CASH MANAGEMENT (CONTINUED)			

12 NOTES TO THE STATEMENT OF CASH FLOWS

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

	2021 $000	2020 $000
Profit after income tax	**90,197**	63,963
Add/(less) items classified as investing or financing activities:		
(Gain)/loss on sale of non-current assets	**(2)**	(206)
Add/(less) non-cash items:		
Depreciation	**6,696**	6,906
Impairment of product development costs	**-**	7,518
Amortisation	**12,333**	13,745
Performance rights and employee share plan expensed	**1,790**	1,682
Increase/(decrease) in income taxes	**4,261**	7,228
Increase/(decrease) in net assets affected by foreign currency translation	**(747)**	(805)
Net cash from operating activities before changes in assets and liabilities	**114,528**	100,031
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**9,239**	(6,300)
Reduction/(increase) in inventories	**(16,441)**	4,097
Reduction/(increase) in other assets	**(418)**	(1,225)
Increase/(reduction) in trade and other payables	**24,205**	2,883
Reversal of deferred lease liabilities	**-**	3,783
Increase/(reduction) in provisions	**187**	715
Net cash from operating activities	**131,300**	103,984

	Consolidated 2021 $000	Consolidated 2020 $000

OPERATING ASSETS AND LIABILITIES

13 TRADE AND OTHER RECEIVABLES

Current	2021 $000	2020 $000
Trade receivables	**37,652**	26,929
Less: expected credit loss provision	**(2,716)**	(2,234)
Other debtors	**23**	57
	34,959	24,752

14 INVENTORY

	2021 $000	2020 $000
Raw materials	**29,325**	11,666
Work in progress	**16,146**	14,622
Finished goods	**20,962**	6,318
	66,433	32,606

In FY21, inventories of $169.540 million (2020: $134.760 million) were recognised as an expense and included in cost of sales. As at 30 June 2021, $19.789 million of inventory has been written down to net realisable value less cost to sell.

15 OTHER ASSETS

	2021 $000	2020 $000
Prepayments	**7,334**	3,326
Net foreign currency hedge receivable	**-**	505
Project work in progress	**4,392**	2,063
Other	**3,547**	1,075
	15,273	6,969

16 DISPOSAL GROUP HELD FOR SALE

Codan has entered into an agreement on 2 June 2021 to sell 100% of the shares in its wholly-owned subsidiary Minetec Pty Ltd to Caterpillar Holdings Australia Pty. Ltd. The sale was successfully settled on 1 July 2021 for $18.056 million. Following completion, Codan will provide manufacturing services to Caterpillar for up to five years, to ensure a successful transition and continuous supply to Caterpillar customers.

Assets and liabilities of disposal group held for sale at 30 June 2021, the disposal group was stated at carrying amount and comprised the following assets and liabilities.

Assets held for sale	2021 $000	2020 $000
Cash and cash equivalents	**394**	-
Trade and other receivables	**4,736**	-
Other assets	**1,573**	-
Property, plant and equipment	**315**	-
Right of use assets	**103**	-
Product development	**2,094**	-
Intangible assets	**8,547**	-
	17,762	-
Liabilities held for sale		
Trade and other payables	**(121)**	-
Provisions	**(812)**	-
Lease liabilities	**(110)**	-
	(1,043)	-

	Consolidated 2021 $000	Consolidated 2020 $000

OPERATING ASSETS AND LIABILITIES

17 PROPERTY, PLANT AND EQUIPMENT

	2021 $000	2020 $000
Leasehold property at cost	**7,149**	1,190
Accumulated depreciation	**(6,138)**	(668)
	1,011	522
Plant and equipment at cost	**58,254**	38,312
Accumulated depreciation	**(43,282)**	(26,616)
	14,972	11,696
Capital work in progress at cost	**1,780**	1,958
Total property, plant and equipment	**17,763**	14,176

Reconciliations

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

	2021 $000	2020 $000
Leasehold property improvements		
Carrying amount at beginning of year	**522**	568
Acquisitions through entities acquired (net value)	**607**	-
Additions	**10**	16
Transfers	**5**	32
Disposals	**-**	-
Depreciation	**(119)**	(98)
Net foreign currency differences on translation of foreign entities	**(14)**	4
Carrying amount at end of year	**1,011**	522
Plant and equipment		
Carrying amount at beginning of year	**11,696**	10,357
Acquisitions through entities acquired (net value)	**1,701**	-
Additions	**3,060**	2,080
Transfers	**1,799**	2,874
Reclassification to asset held for sale	**(315)**	-
Disposals	**-**	(24)
Depreciation	**(3,023)**	(3,629)
Net foreign currency differences on translation of foreign entities	**54**	38
Carrying amount at end of year	**14,972**	11,696
Capital work in progress at cost		
Carrying amount at beginning of year	**1,958**	3,201
Acquisitions through entities acquired (net value)	**557**	-
Additions	**1,069**	1,717
Transfers	**(1,804)**	(2,960)
Carrying amount at end of year	**1,780**	1,958
Total carrying amount at end of year	**17,763**	14,176

	Note	Consolidated 2021 $000	Consolidated 2020 $000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

18 PRODUCT DEVELOPMENT

	Note	2021 $000	2020 $000
Product development at cost		**171,739**	170,311
Accumulated amortisation and impairment losses		**(97,170)**	(102,534)
		74,569	67,777
Reconciliation			
Carrying amount at beginning of year		**67,777**	69,857
Acquisitions through entities acquired (net value)		**1,455**	-
Capitalised in current period		**18,566**	18,769
Reclassification to asset held for sale		**(2,094)**	-
Impairment	19	**-**	(7,518)
Amortisation		**(11,424)**	(12,748)
Net foreign currency differences on translation of foreign entities		**289**	(583)
		74,569	67,777

19 INTANGIBLE ASSETS

	2021 $000	2020 $000
Intellectual property at cost	**21,986**	21,976
Accumulated amortisation	**(20,740)**	(20,272)
	1,246	1,704
Computer software at cost	**15,096**	10,664
Accumulated amortisation	**(14,021)**	(9,911)
	1,075	753
Licences at cost	**5,442**	5,741
Accumulated amortisation	**(4,826)**	(5,268)
	616	473
Brand names	**6,674**	-
Accumulated amortisation	**(26)**	-
	6,648	-
Customer relationships	**1,064**	-
Accumulated amortisation	**-**	-
	1,064	-
Goodwill	**216,678**	83,816
Total intangible assets	**227,327**	86,746

Reconciliations

	2021 $000	2020 $000
Intellectual property		
Carrying amount at beginning of year	**1,704**	2,171
Additions	**-**	24
Amortisation	**(409)**	(409)
Net foreign currency differences on translation of foreign entities	**(49)**	(82)
	1,246	1,704
Computer software		
Carrying amount at beginning of year	**753**	630
Acquisitions through entities acquired (net value)	**403**	-
Additions	**237**	343
Transfers from capital work in progress	**-**	54
Amortisation	**(306)**	(291)
Net foreign currency differences on translation of foreign entities	**(12)**	17
	1,075	753

	Consolidated 2021 $000	Consolidated 2020 $000
OPERATING ASSETS AND LIABILITIES (CONTINUED)		
19 INTANGIBLE ASSETS (CONTINUED)		
Licences		
Carrying amount at beginning of year	**473**	746
Acquisitions through entities acquired (net value)	**312**	-
Additions	**7**	45
Reclassification to asset held for sale	**(9)**	-
Amortisation	**(168)**	(297)
Net foreign currency differences on translation of foreign entities	**1**	(21)
	616	473
Brand names		
Carrying amount at beginning of year	**-**	-
Acquisitions through entities acquired (net value)	**6,442**	-
Amortisation	**(26)**	-
Net foreign currency differences on translation of foreign entities	**232**	-
	6,648	-
Customer Relationships		
Carrying amount at beginning of year	**-**	-
Acquisitions through entities acquired (net value)	**1,064**	-
	1,064	-
Goodwill		
Carrying amount at beginning of year	**83,816**	84,280
Acquisitions through entities acquired (net value)	**138,047**	-
Reclassification to asset held for sale	**(8,538)**	-
Net foreign currency differences on translation of foreign entities	**3,353**	(464)
	216,678	83,816
The following segments have significant carrying amounts of goodwill:		
Communications	**162,721**	21,321
Metal Detection	**53,957**	53,957
Tracking Solutions	**-**	8,538
	216,678	83,816

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 10% (FY20: 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.

At 30 June 2021, the Tracking Solutions business is classified as an Asset held for sale, with the estimated sale price to Caterpillar of $18.056 million, supporting the carrying value. The sale of the Tracking Solutions business was successfully completed on 1 July 2021.

OPERATING ASSETS AND LIABILITIES (CONTINUED)

	Consolidated	
	2021	2020
	$000	$000
20 TRADE AND OTHER PAYABLES		
Current		
Trade payables	**42,423**	21,548
Other payables and accruals	**63,156**	25,496
Net foreign currency hedge payable	**936**	-
	106,515	47,044
21 PROVISIONS		
Current		
Employee benefits	**9,774**	6,238
Warranty repairs	**3,440**	1,921
	13,214	8,159
Reconciliation of warranty provision		
Carrying amount at beginning of year	**1,921**	1,798
Acquisitions through entities acquired (net value)	**627**	-
Provisions made	**2,039**	1,514
Payments made	**(1,147)**	(1,391)
	3,440	1,921
Non-Current		
Employee benefits	**1,254**	1,781

CAPITAL MANAGEMENT

22 SHARE CAPITAL

	2021 $000	2020 $000
Share capital		
Opening balance (179,992,883 ordinary shares fully paid)	**44,746**	43,761
Issue of share capital through vested performance rights	**843**	985
Issue of share capital through employee share plan	**253**	-
Closing balance (180,506,054 ordinary shares fully paid)	**45,842**	44,746

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 2021 $000	Consolidated 2020 $000

CAPITAL MANAGEMENT (CONTINUED)

23 RESERVES

Foreign currency translation reserve	**8,649**	4,552
Hedging reserve	**(655)**	353
Equity based payment reserve	**3,496**	2,802
Profit reserve	**58,981**	58,981
	70,471	66,688

Foreign currency translation

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

Balance at beginning of year	**4,552**	6,712
Net translation adjustment	**4,097**	(2,160)
Balance at end of year	**8,649**	4,552

Hedging reserve

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

Balance at beginning of year	**353**	(146)
Gains/(losses) on cash flow hedges taken to/from hedging reserve	**(1,008)**	499
Balance at end of year	**(655)**	353

Equity based payment reserve

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

Balance at beginning of year	**2,802**	2,105
Performance rights expensed	**1,537**	1,682
Performance rights vested	**(843)**	(985)
Balance at end of year	**3,496**	2,802

Profit reserve

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

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

24 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

25 GROUP ENTITIES

Name	Country of incorporation	Class of share	Interest held 2021 %	Interest held 2020 %
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	UK	Ordinary	**100**	100
Codan (US), Inc	USA	Ordinary	**100**	100
Corp Ten International, Inc.	USA	Ordinary	**100**	100
Daniels Electronics Ltd	Canada	Ordinary	**100**	100
Domo Tactical Communications (DTC) Limited	UK	Ordinary	**100**	-
Domo Tactical Communications (DTC) PTE limited	Singapore	Ordinary	**100**	-
DTC Communications, Inc	USA	Ordinary	**100**	-
DTC Group Holdings, LLC	USA	Ordinary	**100**	-
DTC International Holdings Ltd	UK	Ordinary	**100**	-
DTC North America Holdings, LLC	USA	Ordinary	**100**	-
MEP Surveillance Midco, Inc	USA	Ordinary	**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
Minelab Mining Pro General Trading (FZC)	UAE	Ordinary	**-**	50
Minelab de Mexico SA de CV	Mexico	Ordinary	**100**	100
Minetec Pty Ltd	Australia	Ordinary	**100**	100
Minetec RSA (Pty) Ltd	South Africa	Ordinary	**100**	100
Spectronics A/S	Denmark	Ordinary	**100**	100
Zetron Air Systems Pty Ltd	Australia	Ordinary	**100**	-
Zetron Australasia Pty Ltd	Australia	Ordinary	**100**	-
Zetron, Inc. (US)	USA	Ordinary	**100**	-
Zetron Inc. (UK)	UK	Ordinary	**100**	-
Zetron Limited	UK	Ordinary	**100**	-

26 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)

26 DEED OF CROSS GUARANTEE (CONTINUED)

	Consolidated 2021 $000	Consolidated 2020 $000
Summarised income statement and retained earnings		
Revenue	**308,476**	257,579
Net finance costs	**(149)**	(1,364)
Other expenses	**(197,221)**	(168,881)
Profit before tax	**111,106**	87,334
Income tax expense	**(38,634)**	(28,058)
Profit after tax	**72,472**	59,276
Retained earnings at beginning of year	**114,585**	82,307
Retained earnings at end of year	**148,248**	114,585
Balance sheet		
CURRENT ASSETS		
Cash and cash equivalents	**4,834**	85,819
Trade and other receivables	**20,835**	43,097
Inventories	**34,527**	25,785
Other assets	**1,303**	3,106
Total current assets	**61,499**	157,807
NON-CURRENT ASSETS		
Investments	**207,088**	32,976
Right-of-use assets	**21,264**	23,522
Property, plant and equipment	**13,215**	12,320
Product development	**47,537**	43,868
Intangible assets	**54,958**	55,468
Total non-current assets	**344,062**	168,154
Total assets	**405,561**	325,961
CURRENT LIABILITIES		
Trade and other payables	**68,650**	49,506
Current tax payable	**14,401**	11,937
Lease Liability	**6,950**	3,775
Provisions	**9,321**	6,494
Total current liabilities	**99,322**	71,712
NON-CURRENT LIABILITIES		
Loans and borrowings	**24,000**	-
Lease Liability	**19,266**	24,747
Deferred tax liabilities	**4,201**	3,922
Provisions	**613**	1,535
Total non-current liabilities	**48,080**	30,204
Total liabilities	**147,402**	101,916
Net assets	**258,159**	224,045
EQUITY		
Share capital	**45,842**	44,746
Reserves	**64,069**	64,714
Retained earnings	**148,248**	114,585
Total equity	**258,159**	224,045

GROUP STRUCTURE (CONTINUED)

27 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2021, the parent company of the group was Codan Limited.

	Company	
	2021	**2020**
	$000	**$000**
Result of parent entity		
Profit after tax for the period	**81,092**	57,194
Other comprehensive income/(loss)	**(568)**	2,136
Total comprehensive income for the period	**80,524**	59,330
Financial position of parent entity at year end		
Current assets	**48,818**	140,836
Total assets	**370,503**	289,288
Current liabilities	**67,452**	51,242
Total liabilities	**123,113**	85,403
Total equity of the parent entity comprising:		
Share capital	**45,842**	44,746
Reserves	**62,397**	62,271
Retained earnings	**139,151**	96,868
Total equity	**247,390**	203,885

As at 30 June 2021, Codan Limited entered into contracts to purchase plant and equipment for $1.857 million (2020: $0.945 million).

OTHER NOTES

28 AUDITOR'S REMUNERATION

	Consolidated	
	2021	**2020**
	$	**$**
Audit services:		
KPMG - audit and review of financial reports - Group	**218,644**	221,944
KPMG - audit and review of financial reports - Controlled entities	**-**	9,315
Other firms - audit and review of financial reports	**64,916**	66,382
Assurance services:		
KPMG - royalty agreement assurance services	**-**	10,945
Other services:		
KPMG - taxation advice and compliance services	**22,997**	49,383
KPMG - other services	**-**	-
Other firms - taxation advice and compliance services	**13,802**	19,339
Other firms - other services	**12,061**	33,364
	332,420	410,672

OTHER NOTES (CONTINUED)

29 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 2021, the customer with the group's highest trade and other receivable balance accounted for $2.2 million (2020: $6.5 million)

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which customers operate, 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 (ECL) based on the lifetime ECL approach 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. In determining the lifetime ECL, management uses both historical credit loss experience and forecasts of future economic conditions for trade receivables. The need to consider forward-looking information means that the group exercises judgement as to how changes in macroeconomic factors will affect the ECL on trade receivables.

Guarantees

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

OTHER NOTES (CONTINUED)

29 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 2021 $000	Consolidated 2020 $000
Cash and cash equivalents	10	**22,362**	92,830
Trade and other receivables	13	**34,959**	25,307
Project work in progress	15	**4,392**	2,063

The group's gross trade receivables at the reporting date by geographic region was:

	2021	2020
Australia/Oceania	**3,639**	6,443
Europe	**5,608**	1,301
Americas	**20,411**	11,644
Asia	**4,178**	2,283
Africa/Middle East	**3,816**	5,258
	37,652	26,929

Impairment losses

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

	Consolidated Gross 2021 $000	Impairment 2021 $000	Gross 2020 $000	Impairment 2020 $000
Not past due	**24,942**	**(1,438)**	17,253	(1,262)
Past due 0-30 days	**4,362**	**(24)**	7,960	(151)
Past due 31-60 days	**2,992**	**(16)**	791	(102)
Past due 61-120 days	**2,415**	**(25)**	104	(2)
More than 120 days	**2,941**	**(1,213)**	821	(717)
	37,652	**(2,716)**	26,929	(2,234)

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 2021 $000	Consolidated 2020 $000
Balance at 1 July	**2,234**	1,343
Acquisition through entities acquired	**692**	-
Impairment loss/(reversal) recognised	**(164)**	1,236
Trade receivables written off to the allowance for impairment	**(46)**	(345)
Balance at 30 June	**2,716**	2,234

OTHER NOTES (CONTINUED)

29 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 11 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

30 June 2021	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	**105,579**	**(105,579)**	**(105,579)**	**-**	**-**
Lease liabilities	**32,120**	**(36,395)**	**(6,950)**	**(14,666)**	**(14,778)**
Cash advance	**24,000**	**(24,312)**	**(312)**	**(24,000)**	**-**
	161,699	**(166,286)**	**(112,841)**	**(38,666)**	**(14,778)**
Derivative financial liabilities					
Net foreign currency hedge payables	**936**	**(936)**	**(936)**	**-**	**-**
	936	**(936)**	**(936)**	**-**	**-**
30 June 2020					
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	-	-	-	-	-
	-	-	-	-	-

(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)

29 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 2021 $000	2020 $000
Fixed rate instruments		
Financial assets	**416**	40,000
Financial liabilities	**-**	-
	416	40,000
Variable rate instruments		
Financial assets	**21,946**	52,830
Financial liabilities	**(24,000)**	-
	(2,054)	52,830

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 2021.

	Profit/(loss) before tax		Reserve	
	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 June 2021				
Variable rate instruments	**(21)**	**21**	**-**	**-**
30 June 2020				
Variable rate instruments	528	(528)	-	-

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 $27,000,000 of FY22 cash flows. On average, the collars give protection above 1AUD:0.80USD cents and enable participation down to 1AUD:0.74USD, and the average forward exchange contract rate is 1AUD:0.75USD.

OTHER NOTES (CONTINUED)

29 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Currency risk (continued)

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

	Consolidated EUR $000	Consolidated USD $000
30 June 2021		
Cash and cash equivalents	**1,192**	**4,890**
Trade receivables	**2,250**	**13,498**
Trade payables	**(1,059)**	**(22,085)**
Gross balance sheet exposure	**2,383**	**(3,697)**
Hedge transactions relating to balance sheet exposure	**-**	**(3,990)**
Net exposure at the reporting date	**2,383**	**(7,687)**
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

Sensitivity analysis

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

	Consolidated Reserve credit/(debit) $000	Consolidated Profit/(loss) before tax $000
2021		
EUR	**-**	**(217)**
USD	**85**	**699**
	85	**482**
2020		
EUR	-	(90)
USD	(46)	(211)
	(46)	(301)

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

(d) Fair value hierarchy

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year, financial instruments valued at fair value were limited to net foreign currency hedge payable of $936,000, for which an independent valuation was obtained from the relevant banking institution.

	Consolidated	
	2021	2020
	$000	$000

OTHER NOTES (CONTINUED)

30 EMPLOYEE BENEFITS

Aggregate liability for employee benefits, including on-costs:

Current - short-term incentives and other accruals	**9,097**	8,917
Current - employee entitlements	**9,774**	6,238
Non-current - employee entitlements	**1,254**	1,781
	20,125	16,936

The present values of employee entitlements not expected to be settled within 12 months of the reporting date have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	**3.00%**	3.00%
Discount rate	**2.46%**	2.51%
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.

The company issued 23,622 shares to eligible employees in August 2020. The fair values of the shares was $10.74 per share, based on the volume weighted average price at which Codan shares were traded on the ASX for the five trading days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in FY21 in relation to the ESP shares issued was $253,000. The shares are restricted from sale until the earlier of three years from the issue date or the date an employee is no longer employed by the group.

Performance Rights Plan

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

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 FY21 in relation to the performance rights issued was $18,972.

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.

The group’s earnings per share over the three-year period to 30 June have exceeded the performance target. Therefore, it is expected that 390,055 shares will be issued to the relevant employees by the end of August 2021.

OTHER NOTES (CONTINUED)

30 EMPLOYEE BENEFITS (CONTINUED)

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 FY21 in relation to the performance rights issued was $806,355

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.

Performance rights issued in financial year 2021

The company issued 154,830 performance rights in November 2020 to certain employees. The fair value of the rights was on average $10.18 based on the Black-Scholes formula. The model inputs were: the share price of $11.17, no exercise price, expected volatility 60%, dividend yield 1.7%, a term of three years and a risk-free rate of 0.9%. The total expense recognised as employee costs in FY21 in relation to performance rights issued was $711,445.

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 27.8 cents. For employees to receive the total number of performance rights, the group’s earnings per share must increase by at least 10% per annum over the three-year period.

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

31 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 5) is as follows:

	Consolidated	
	2021 $	2020 $
Short-term employee benefits	**5,416,210**	5,041,701
Post-employment benefits	**139,358**	127,443
Share-based payments	**1,080,489**	920,355
Other long term benefits	**62,915**	57,122
	6,698,972	6,146,621

(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.

OTHER NOTES (CONTINUED)

32 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.

33 NET TANGIBLE ASSET PER SHARE

	2021	2020
Net tangible asset per share (including right of use assets)	**4.8 cents**	53.9 cents
Net tangible asset per share (excluding right of use assets)	**(10.1) cents**	40.1 cents

34 LEASES AND COMMITMENTS

	Consolidated	
Reconciliations	**2021**	**2020**
	$	**$**
Right-of-use assets at cost	**37,565**	28,546
Accumulated depreciation	**(10,576)**	(3,179)
	26,989	25,367
Right-of-use assets		
Carrying amount at beginning of year	**25,367**	28,546
Acquisitions through entities acquired (net value)	**5,183**	-
Reclassification to asset held for sale	**(103)**	-
Depreciation	**(3,554)**	(3,179)
Net foreign currency differences on translation of foreign entities	**96**	-
Carrying amount at end of year	**26,989**	25,367
Lease Liabilities		
Carrying amount at beginning of year	**30,554**	33,537
Assumed liabilities through entities acquired	**5,871**	-
Finance charge on lease liabilities	**718**	703
Reclassification to liabilities held for sale	**(110)**	-
Lease payments	**(4,913)**	(3,686)
	32,120	30,554
of which are:		
Current lease liabilities	**6,950**	3,775
Non-current lease liabilities	**25,170**	26,779

Capital expenditure commitments

Aggregate amount of contracts for capital expenditure

Within one year	**2,034**	951
One year or later and no later than five years	**-**	-
	2,034	951

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 20 to 58 and the remuneration report on pages 3 to 11 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 2021 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 25 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 2021.

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 18th day of August 2021.

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 2021 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 2021;
- Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 30 June 2021;
- 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.

Key Audit Matters

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

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

KPMG

Valuation of Other Identifiable Intangibles Acquired through Business Combinations ($8.2m)	
Refer to Note 3 and Note 4 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

During 2021 the Group made two significant acquisitions:
• On 30 April 2021 the Group acquired Zetron Inc (Zetron) for $60.2 million.
• On 12 May 2021 the Group acquired Domo-Tactical Communications (DTC) for $113.9 million.
 	
The acquisitions resulted in the recognition of other intangible assets of $8.2 million and goodwill of $138.0 million.
 	
The valuation of other identifiable intangibles acquired through business combinations are considered to be a key audit matter due to the:
• Size of the acquisitions having a significant impact on the Group's financial statements;
• The judgement required by the Group to determine the contingent consideration payable for DTC considering the possibility of an additional payment of up to USD 16 million in the event certain gross margin targets are achieved by 31 December 2021.
• Significant judgements by the Group relating to the determination of the fair values of intangible assets in the acquisitions requiring significant audit effort.
 	
The Group's valuation model used to determine the fair value of intangibles assets is complex and sensitive to changes in a number of key assumptions. This drives additional audit effort specifically on the feasibility of these key assumptions and consistency of application to the Group's strategy. The key assumptions we focussed on in the valuation of intangible assets included forecasted revenue, royalty rates, discount rates and useful lives of customer relationships, product development and brands.
 	
We involved our valuation specialists to supplement our senior audit team members in assessing this key audit matter.
	Our procedures included:
	• Evaluating the acquisition accounting by the Group against the requirements of the accounting standards;
	• Reading the underlying transaction agreements to understand the terms of the acquisition and nature of the assets and liabilities acquired;
	• Assessing the accuracy of the consideration paid for DTC against forecast DTC gross margin to 31 December 2021, actual DTC gross margin from acquisition date and in accordance with the accounting standards;
	• Evaluating the valuation methodology used by the Group to determine the provisional fair value of identifiable intangible assets, considering accounting standard requirements;
	• Working with our valuation specialists, we assessed the key assumptions used by the Group in the identification and valuation of intangible assets including:
	  o assessing the useful life of product development, customer relationships and brands by using our industry experience and knowledge of the terms and conditions of the underlying agreements and against the accounting standard requirements;
	  o checking forecasted revenue used by the Group was consistent with the Group's valuation model used as part of the pre-acquisition due diligence process;
	  o assessing royalty rates used in the valuation of product development and brands against publicly available comparable royalty rates from comparable markets; and
	  o checking the discount rates applied in the valuation of intangible assets are comparable with the internal rate of return implied by the Group's pre-acquisition due diligence valuation models.
	• We assessed the adequacy of disclosures in the financial report using our understanding of the acquisitions, against the requirements of the accounting standard.

KPMG

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.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report and Remuneration Report. The Chairman's Letter to Shareholders, CEO's Report, Operations Report, Sustainability Report and ASX Additional Information are expected to be made available to us after the date of the Auditor's Report.

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.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Codan Limited for the year ended 30 June 2021, 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 11 of the Directors' report for the year ended 30 June 2021.

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

18 August 2021