

# CODAN LIMITED (“the company”)

ACN 007 590 605

## CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the past financial year, which comply with the fourth edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, unless otherwise stated.

This Corporate Governance Statement is current as at 30 June 2021 and has been approved by the board of directors.

### MANAGEMENT, OVERSIGHT AND BOARD STRUCTURE

#### Role of the board

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

In summary, to fulfil this role, the board is responsible for:

- demonstrating leadership and for the overall corporate governance, operations and performance of the Codan group of companies (“the group”);
- formulating the group's strategic direction;
- approving and monitoring the annual plan, budget and capital expenditure;
- ensuring that appropriate checks are undertaken before appointing a director or senior executive, or putting someone forward for election as a director, and providing shareholders with all material information relevant to a decision on whether or not to elect or re-elect a director;
- setting senior executive and director remuneration;
- establishing and monitoring the achievement of management's goals;
- ensuring the integrity of risk management, internal control, continuous disclosure practices, contractual, statutory and legal compliance, and management information systems; and
- approving and monitoring financial and other reporting.

The board has delegated responsibility for the overall management and performance of the group to the managing director. The roles and responsibilities of the board and management are set out in the board's charter which is available on the company's website.

#### Board processes

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

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

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

Details of director attendance during the year at board and committee meetings is set out in the company's annual report.

The members of the board during the year were:

- Mr D J Simmons (Chair)  
Independent Non-Executive Director
- Mr D S McGurk  
Managing Director and Chief Executive Officer
- Lt-Gen P F Leahy  
Independent Non-Executive Director
- Mr G R C Barclay  
Independent Non-Executive Director
- Ms K J Gramp  
Independent Non-Executive Director

### Company secretary

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

### Director and executive education

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

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

### Performance evaluation

The Remuneration and Nomination Committee is responsible for developing the board evaluation process which includes interviews by the chairman with individual directors and consideration of the requirement for directors to undertake professional development to ensure that they maintain the skills and knowledge needed to perform their roles effectively. A performance evaluation took place during the year ended 30 June 2021.

Appraisals are conducted at least annually for all senior employees, including interviews by the managing director with senior executives. Training and development, and appropriate remuneration and incentives, with regular performance reviews, create an environment of co-operation and constructive dialogue with employees and senior management. A performance evaluation of all executives and senior employees took place during the year ended 30 June 2021.

### Independent professional advice and access to company information

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

### Composition of the board

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

- a broad range of expertise both nationally and internationally;
- a majority of independent directors;

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

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

<b>Board Skills Matrix - June 2021</b>	<b>No. of Directors (5)</b>
General Management / CEO Experience*	● ● ● ● ●
Relevant Industry and Business Knowledge	
- Technology / Engineering	● ● ●
- Communications	● ● ● ●
- Military and Security	● ●
- Consumer Markets	●
- Government	● ● ● ● ●
Listed Company Experience	● ● ● ● ●
International Experience	● ● ● ● ●
Major Transactions - Equity markets, Acquisitions, Disposals	● ● ● ● ●
Finance and Accounting / CFO Experience	● ● ●
Risk Management	● ● ● ● ●

\* - General management is to include a broad range of responsibilities including matters such as WH&S, Human Resources, Legal compliance, setting Strategy and Operational management.

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

- holds less than five percent of the voting shares of the company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the company;
- has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member;

- is not a material supplier or customer of the company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company; and
- is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

The board has a mix of tenure across its serving directors, spanning from six to 13 years across its independent directors. The diversity of tenure provides benefit to our business and its stakeholders. Directors with a longer tenure have a deep understanding of our complex business and the global environment we operate in. For directors with a tenure in excess of ten years the board has conducted a review of their specific circumstances and has concluded that those directors remain appropriately classified as independent.

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

## Diversity

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

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

The board works with management on an annual basis in setting specific objectives in relation to gender and other aspects of diversity, and monitors progress against those objectives. The following objectives were in place during the financial year:

- to increase the percentage of female applicants for technical and leadership roles;
- to run an employee diversity and inclusion survey;
- to arrange unconscious bias training for the human resources team; and
- to hold two internal events with a diversity and inclusion focus.

During the year it was pleasing to recognise that the percentage of females hired for technical and leadership roles more than doubled versus the previous year, and all other objectives were met.

The following table outlines the proportions of men and women at various levels within the company:

Level	30 June 2021		30 June 2020	
	Female (%)	Male (%)	Female (%)	Male (%)
Board	20%	80%	20%	80%
Senior executive*	0%	100%	0%	100%
Senior management	27%	73%	30%	70%
Other	30%	70%	26%	74%
Whole workforce	29%	71%	27%	73%

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

The board acknowledges that the ASX Corporate governance Principles and Recommendations state that the measurable objective for achieving gender diversity in the composition of a board should be to have not less than 30% of directors of

each gender within a specified date. The board recognises that females currently represent only 20% of all directors. The board is focused on achieving a diverse range of directors who collectively have the skills and experience in accordance with the board's skills matrix.

The board is currently looking for an additional director who has a strong technical or engineering background in technologies relevant to Codan. While the board will conduct an extensive search for this skill set it recognises that there will be fewer females with this highly technical background. As the board addresses succession planning it will strive to achieve the 30% threshold by 30 June 2026.

### Directors' Shareholding Policy

The Directors' Shareholding Policy requires directors to build a minimum shareholding in the company and maintain it during their tenure. Non-executive directors are required to acquire and hold a minimum shareholding with a value approximately equivalent to their annual base fee, and executive directors to their annual total fixed remuneration.

Directors are encouraged to commence acquiring shares as soon as practicable from the date of their appointment, or the effective date of the policy, whichever is the later, and are required to reach the minimum shareholding within a reasonable timeframe (generally not more than five years).

### REMUNERATION AND NOMINATION COMMITTEE

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

- reviewing remuneration strategies for directors and executives;
- approving appropriate remuneration structures and payments for directors and executives;
- reviewing the size and composition of the board, and succession plans, to enable an appropriate mix of skills, experience, expertise, independence and diversity to be maintained;
- identifying, interviewing and evaluating board candidates, and recommending to the board individuals for board appointment/shareholder election;
- ensuring that written agreements are in place with each director and senior executive setting out the terms of their appointment;
- ensuring that there is an appropriate induction process in place for new directors, and reviewing its effectiveness;
- ensuring that there is an appropriate continuing professional development programme in place for directors;
- developing the appropriate process for evaluation of the performance of the board and its committees, each non-executive director, the chairman and the chief executive officer;
- making recommendations to the board on the appointment and performance of directors; and
- ensuring that there are plans in place to manage the succession of the chief executive officer and other senior executives.

### Committee members

The members of the Remuneration and Nomination Committee during the year were:

- Mr D J Simmons (Chair)  
Independent Non-Executive Director
- Lt-Gen P F Leahy  
Independent Non-Executive Director
- Mr G R C Barclay  
Independent Non-Executive Director

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

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

The company's policies and practices regarding the remuneration of non-executive directors, executive directors and other senior executives are disclosed in the remuneration report section of the annual report on page 45.

### Trading in general company securities by directors and employees

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

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

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

## ETHICAL STANDARDS

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

### Conflict of interest

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

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

### Code of conduct

The company's code of conduct provides the framework around the conduct required of all of its employees in achieving its goals, and provides guidance around expected and acceptable standards of behaviour that are aligned with the company's core values.

The board is informed of any material breaches of the code of conduct. The company's code of conduct and core values are available on the company's website.

### Whistleblower protection policy

The company recognises the importance of providing a safe, supportive and confidential environment in which its employees feel secure when reporting wrongdoing. The policy, which is available on the company's website, encourages a commitment by employees at all levels of the organisation to report misconduct and outlines the reporting process they should follow. The board is informed of any material incidents reported.

### Anti-bribery and anti-corruption policy

The company ensures that all dealings with third parties are carried out in accordance with its core values and in compliance with all applicable laws and regulations. The company's policy, which is available on its website, sets out responsibilities in observing and upholding the company's position on bribery and corruption, and provides information and guidance to employees on how to recognise and deal with associated issues. The board is informed of any material breaches reported.

For further information on Codan's ethical standards and compliance programs, please refer to the Sustainability Report found within the annual report.

## BOARD AUDIT, RISK AND COMPLIANCE COMMITTEE

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

### Committee members

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

- Ms K J Gramp (Chair)  
Independent Non-Executive Director
- Mr G R C Barclay  
Independent Non-Executive Director
- Mr D J Simmons  
Independent Non-Executive Director

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

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

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

- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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

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

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

### **Integrity of financial reporting**

The managing director and the chief financial officer have provided assurance in writing to the board that the company's financial records have been properly maintained and that the financial reports are founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the board and is operating effectively. This declaration includes stating that the financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

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

### **Periodic corporate reports**

Processes are in place to verify the integrity of any periodic corporate reports released to the market that are not audited or reviewed by the external auditor.

The Continuous Disclosure Committee meets regularly to consider the company's disclosure obligations, and announcements are prepared in accordance with the company's Continuous Disclosure Policy and released to the market following consideration and approval by the board. Administrative market announcements are reviewed and approved for release by the company secretary.

Other unaudited reports such as the Sustainability report found within the annual report, investor and analyst presentations are released to the market following a comprehensive review by members of the senior executive team and the board.

### **Assessment of effectiveness of risk management**

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

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

## **Oversight of the risk management system**

The board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the setting and communication of the risk appetite within which management is expected to operate, consideration of new and emerging sources of risk, including sustainability, and the controls and mitigation measures put in place to deal with those risks, the establishment of committees, regular budget, financial and management reporting, organisational structures, procedures, manuals and policies, external financial and safety audits and insurance programmes, the retention of specialised staff and external advisers and the monitoring of management's performance against the risk management framework, which is reviewed annually.

The Board Audit, Risk and Compliance Committee considers risk management in order to ensure risks are identified, assessed and appropriately managed. The committee reports to the board on these matters on an ongoing basis. During the year ended 30 June 2021, the committee reviewed the company's risk management framework in order to ensure the effective management of the group's material business risks.

## **Risk management and compliance and control**

The group strives to ensure that its products are of the highest standard. Towards this aim, it has certification to AS/NZS ISO 9001 and AS 9100.

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

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

## **Internal audit**

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

## **Exposure to economic, environmental and social sustainability risks**

The group is exposed to material economic risks associated with global economic conditions, developing countries, government spending and exchange rate movements. The Board Audit, Risk and Compliance Committee regularly reviews all material business risks and is satisfied that appropriate risk treatment strategies and controls have been developed and implemented.

The company's exposure to environmental or social sustainability risks, and how they are managed, are set out in its Sustainability report on pages 26 to 37 of the company's annual report.

## **CONTINUOUS DISCLOSURE**

The company is committed to complying with its continuous disclosure obligations in order to ensure that the company's market announcements are accurate, balanced and expressed in a clear and objective manner, and that all stakeholders have equal and timely access to material information.

New and substantive investor and analyst presentations are released to the market before being made available to investors or analysts.

The company provides copies of all market announcements to the board promptly after they have been released to the market.

A copy of the Continuous Disclosure Policy is available on the company's website.

## **COMMUNICATION WITH SHAREHOLDERS**

The company provides information about itself and its history, its key governance policies, including the Shareholder Communication Policy, on its website. The information can be found via "Who is Codan" at the top of the home page, in sections called "The Company" and "Corporate Governance".

The annual report is provided via the company's website and distributed to all shareholders who request a copy. It includes relevant information about the operations of the group during the year, changes in the state of affairs and details of future developments.

All key announcements made to the market, including investor and analyst presentations, are placed on the company's website after they are released to the ASX.

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

Shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of performance rights to directors and changes to the Constitution, a copy of which is available to any shareholder who requests it. All substantive resolutions are decided by way of a poll.

In order to communicate with shareholders quickly and to reduce paper usage, the company encourages shareholders to receive communications electronically. Shareholders can do this by providing an email address to the company's share registry, Computershare, at [www.investorcentre.com](http://www.investorcentre.com), and by registering for investor alerts through the company's website at [www.codan.com.au/investor-centre/overview/](http://www.codan.com.au/investor-centre/overview/). Shareholders can also communicate with the company at [investors@codan.com.au](mailto:investors@codan.com.au) and with Computershare at [www.computershare.com.au](http://www.computershare.com.au).