

# CODAN LIMITED

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 ASX Corporate Governance Council recommendations, unless otherwise stated.

This Corporate Governance Statement is current as at 30 June 2019 and has been approved by the board of directors.

### BOARD OF DIRECTORS

#### Role of the board

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

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

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

#### Board processes

To assist in the execution of its responsibilities, the board has established a 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, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions, and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

#### Director and executive education

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

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

#### Director performance evaluation

The Remuneration and Nomination Committee is responsible for developing the board evaluation process. A performance evaluation took place during the year ended 30 June 2019.

## 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 company.

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

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

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

The board's charter is available on the company's website.

## Directors' Shareholding Policy

The board approved the adoption of the Directors' Shareholding Policy on 20 March 2019. The 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).

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

## Company secretary

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

## REMUNERATION AND NOMINATION COMMITTEE

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

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

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 J W McDowell  
Independent Non-Executive Director  
(resigned 31 August 2018)
- Mr G R C Barclay  
Independent Non-Executive Director  
(appointed 22 May 2019)

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.

## BOARD AUDIT, RISK AND COMPLIANCE COMMITTEE

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

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

- Ms K J Gramp (Chair)  
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 external audit plan, identifying any significant changes in structure, operations, internal controls or accounting policies likely to affect the financial statements, and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and 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.

## **RISK MANAGEMENT**

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 establishment of committees, regular budget, financial and management reporting, established organisational structures, procedures, manuals and policies, external financial and safety audits, insurance programmes and the retention of specialised staff and external advisers.

The Board Audit, Risk and Compliance Committee considers risk management in order to ensure risks are identified, assessed and appropriately managed. The committee reports to the board on these matters on an ongoing basis. During the year ended 30 June 2019, 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.

### **Quality and integrity of personnel**

Appraisals are conducted at least annually for all senior employees. Training and development, and appropriate remuneration and incentives, with regular performance reviews, create an environment of co-operation and constructive dialogue with employees and senior management. A performance evaluation of all executives and senior employees took place during the year ended 30 June 2019.

### **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. This declaration includes stating that the financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

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

### **Economic, environmental and social sustainability risks**

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

### **Environmental regulation**

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

### **Internal audit**

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

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

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

## **ETHICAL STANDARDS**

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

### **Conflict of interest**

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

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

### **Code of conduct**

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

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of professionalism, product quality and service;
- acting at all times with fairness, honesty, consistency and integrity;

- employment practices such as occupational health and safety and anti-discrimination;
- responsibilities to the community, such as environmental protection;
- responsibilities to the individual in respect of the use of confidential information;
- compliance with legislation including compliance in countries where the legal systems and protocols are significantly different from Australia's;
- conflicts of interest;
- responsible and proper use of company property and funds; and
- reporting of unlawful behaviour.

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

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

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

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

### COMMUNICATION WITH SHAREHOLDERS

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

In summary, the Continuous Disclosure Policy operates as follows:

- the managing director and the chief financial officer and company secretary are responsible for interpreting the company's policy and where necessary informing the board; the chief financial officer and company secretary is responsible for all communications with the ASX; reportable matters are promptly advised to the ASX;
- the annual report is provided via the company's website and distributed to all shareholders who request a copy; it includes relevant information about the operations of the group during the year, changes in the state of affairs and details of future developments;

- the half-yearly report contains summarised financial information and a review of the operations of the group during the period; the half-year reviewed financial report is lodged with the ASX and is available on the company's website;
- all key announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the company's website after they are released to the ASX; and
- the full texts of notices of meetings and associated explanatory material are placed on the company's website.

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

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

## DIVERSITY

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

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

The key elements of the policy include:

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

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

Gender representation	30 June 2019		30 June 2018	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	20%	80%	17%	83%
Senior executive representation *	0%	100%	0%	100%
Senior management representation	27%	73%	29%	71%
Group representation	26%	74%	26%	74%

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

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

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

The board reviews with management the adequacy of the company's diversity programmes and initiatives, and the progress made towards achieving its objectives, on an annual basis.