# 2014 CODAN ANNUAL REPORT

# CODAN BUSINESS MODEL INNOVATION

Codan engages in a process that challenges every aspect of our business and drives continuous improvement across six key elements. By improving upon the way things are done and investing in our people and technology, we continue to innovate and lead our chosen markets. Our customers worldwide trust the Codan brand and recognise it as a commitment to performance and reliability in the harshest environments on the planet.

We strive to create a culture and an environment that attracts high-performing and entrepreneurial talent to innovate and renew our organisation in order to support our customers in an ever-changing world. This investment in our future enables us to leverage the Codan brand across international markets and is aimed at delivering sustainable, profitable growth.

### INVESTMENT
People \ Technology \ Brand

### PEOPLE
High-Performing \ Entrepreneurial \ Diverse

### TECHNOLOGY
Proven \ Focused \ Innovative

### BRAND
Trusted \ Global Performance

### MARKETS
Diversity \ Intimacy \ Reach

### FUTURE
Sustainability \ Profitability \ Growth

# 2014 CODAN ANNUAL REPORT

**Codan Limited**
ABN 77 007 590 605

**Annual General Meeting**
The Annual General Meeting of Codan Limited will be held at 11:00 am on Wednesday, 29 October 2014 at the Hilton Adelaide hotel, 233 Victoria Square, Adelaide, South Australia.

# CONTENTS

# PEOPLE

## HIGH-PERFORMING \ ENTREPRENEURIAL \ DIVERSE

Strive to create a culture and an environment that attracts a wide variety of high-performing and entrepreneurial talent to be successful in an ever-changing world

# INVESTMENT

## PEOPLE \ TECHNOLOGY \ BRAND

Invest in our people and technology to keep us at the forefront of our chosen markets and grow our brand as a trusted provider of reliable and rugged solutions

# FY14 SUMMARY

**$132.3M**
TOTAL REVENUE

**$9.2M**
NET PROFIT AFTER TAX

**3c**
ANNUAL DIVIDEND

- Reported profit of $9.2 million
- Earnings per share of 5.2 cents
- Annual dividend of 3 cents
- The business has stabilised and our new product pipeline is strong
- Significant reduction in inventory and debt achieved in the second half of FY14
- Management took early action to restructure the cost base of the organisation in the first half and maintained a cost focus during the year
- Radio Communications business delivered a much stronger second half and goes into FY15 with good momentum
- Key strategic relationships have been developed with global blue-chip miners for mining productivity and safety solutions
- Strong action taken to compete hard against the supply of counterfeit and second-hand gold detectors in Africa

## CODAN LIMITED

Founded in 1959, Codan Limited (ASX:CDA) is a group of electronics-based businesses that capitalise on their fundamental design and manufacturing skills to provide best-in-class electronics solutions to global markets.

Our success has been driven by our ability to optimise the development and manufacture of sophisticated electronics products and associated software, which has enabled us to deliver cost-effective solutions to a range of customers in the communications, metal detection and mining technology markets.

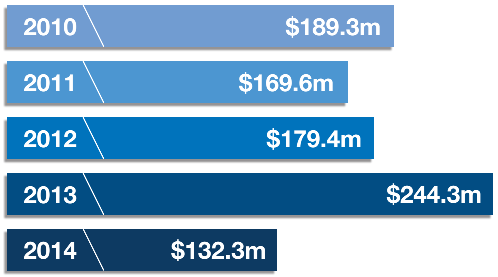
We work closely with our customers to seek innovative ways to solve their problems and add value to their operations.

The Codan brands are internationally established and well regarded in the markets we serve. Our customers include gold prospectors, metal detection hobbyists, aid agencies, miners, businesses and governments, including public safety, military and security organisations.

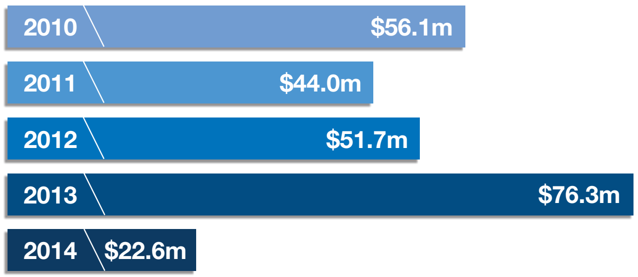
Our plan for growth is based on enhancing our unique intellectual property, putting that know-how into an expanding range of electronics-based product solutions, and then leveraging our operational excellence and marketing capability across the world. We continue to seek out opportunities to grow the business.

The business has approximately 375 employees located in Australia, Canada, USA, UK, Ireland, China and UAE. Our marketing reach, largely through a long-established network of staff and dealerships across the world, embraces activity in over 150 countries.

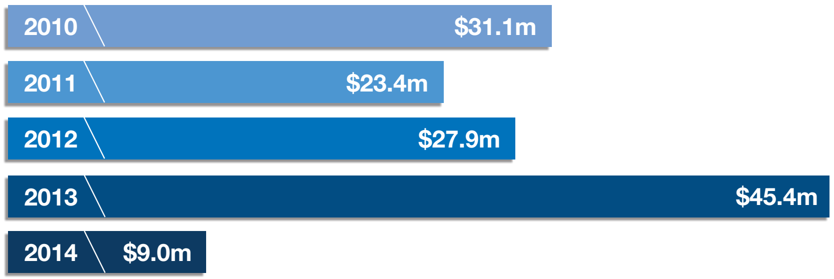
## \ OPERATING REVENUE




## \ EBITDA




## \ UNDERLYING NPAT*




| For year ended 30 June | | 2014 | % of sales | 2013 | % of sales | 2012 | % of sales | 2011 | % of sales | 2010 | % of sales |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE** | **Note** | | | | | | | | | | |
| Communications products | | | | | | | | | | | |
| - HF and LMR | | $53.9m | 41% | $47.5m | 20% | $47.7m | 27% | $43.7m | 26% | $44.6m | 24% |
| - Discontinued Satcom | | | | $10.5m | 4% | $18.7m | 10% | $26.1m | 15% | $25.5m | 13% |
| Metal detection products | | $69.9m | 53% | $166.3m | 68% | $98.6m | 55% | $92.1m | 54% | $106.6m | 56% |
| Mining technology | | $4.0m | 3% | $14.5m | 6% | $9.3m | 5% | | | | |
| Other | | $4.5m | 3% | $5.5m | 2% | $5.1m | 3% | $7.7m | 5% | $12.6m | 7% |
| **Total revenue** | | **$132.3m** | **100%** | **$244.3m** | **100%** | **$179.4m** | **100%** | **$169.6m** | **100%** | **$189.3m** | **100%** |
| **EBITDA** | | **$22.6m** | **17%** | **$76.3m** | **31%** | **$51.7m** | **29%** | **$44.0m** | **26%** | **$56.1m** | **30%** |
| **EBIT** | | **$13.6m** | **10%** | **$64.7m** | **26%** | **$43.2m** | **24%** | **$35.0m** | **21%** | **$45.8m** | **24%** |
| Interest | | ($2.8)m | | ($1.7)m | | ($3.4)m | | ($3.0)m | | ($3.1)m | |
| **Net profit before tax** | | **$10.8m** | **8%** | **$63.0m** | **26%** | **$39.8m** | **22%** | **$32.0m** | **19%** | **$42.7m** | **23%** |
| Tax | | ($1.8)m | | ($17.6)m | | ($11.9)m | | ($8.6)m | | ($11.6)m | |
| **Net profit after tax** | | **$9.0m** | **7%** | **$45.4m** | **19%** | **$27.9m** | **16%** | **$23.4m** | **14%** | **$31.1m** | **16%** |
| Earnings per share | | 5.1c | | 25.8c | | 17.0c | | 14.3c | | 18.8c | |
| Dividend per share | | 3.0c | | 13.0c | | 9.5c | | 9.0c | | 8.0c | |
| Return on equity | 1 | 7% | | 41% | | 37% | | 34% | | 48% | |
| Gearing | 2 | 28% | | 17% | | 17% | | 26% | | 32% | |

Notes:
1. Return on equity is calculated as net profit after tax divided by average equity
2. Gearing is calculated as net debt divided by the sum of net debt and equity

* The financial information shown above reflects the underlying business performance. Non-underlying income/(expenses) are considered to be outside of the normal business activities of the group. For 2014 and for the prior year, the net impact of non-recurring items on the profits of the company was immaterial.

# CHAIRMAN'S AND CEO'S REPORT


**Financial year 2014 was a very difficult year for Codan with significantly reduced sales of $132.3 million producing net profit after tax of $9.2 million. This result was particularly disappointing following the record level of profitability experienced in FY13. The company declared a fully franked final dividend of 1.5 cents per share, following on from the 1.5 cents per share fully franked interim dividend. This resulted in a total dividend of 3.0 cents per share for the full year, a significant decrease from last year's record 13 cents per share dividend payout.**

Net debt increased from $25 million to $47 million during the year, but is well down on the $64 million half-year position, due mainly to the significant reduction in gold detector inventories in the second half. The increase during the year was primarily as a result of higher investment in working capital, payment of the FY13 final dividend ($12 million) and tax on last year's profits ($9 million). Net debt remains well inside the company's debt facility of $85 million. This debt facility was renegotiated during the year and has an expiry date of 31 October 2016.

In response to the lower sales, management restructured the expense base of the company. Expense reductions of $10 million per annum were implemented during the restructure, and these took effect early in the first half. In addition to these savings, a number of variable expense reductions were also realised.

The company has previously announced its intention to redevelop the Newton, South Australia head office of Codan Limited. This project is currently on hold as the company considers consolidating its South Australian operations into an alternative leased location. If this were to proceed, the South Australian owned properties at Newton and Torrensville, with carrying values of $10 million, would be sold. Proceeds from the potential sale of these properties would be used to further strengthen our balance sheet and better position us to pursue our strategic initiatives.

The lower level of gold detector sales into Africa (down $80 million on FY13) was the primary reason for the decline in the company's profitability in FY14. Despite making progress across many areas of our business during the year, Minelab faced a new level of threat in its African markets from competitors who used our own brand against us and attempted to copy our gold detector product technology. The dramatic increase in profitability in FY13 was driven by a significant growth in sales of metal detectors into Africa during that period. However this success came at a cost, as counterfeiters were attracted by the same opportunity.

When demand slowed as gold rush activity subsided, there was excess supply in the market, with second-hand machines adding further to that oversupply. This, along with a number of other political and climatic factors, reduced demand for our metal detection products in Africa late in FY13, and this continued through FY14.

The stronger competition in the high-end gold detection products in Africa not only led to lower sales but also reduced margins as prices had to be lowered.

In response to these threats to our gold detector business, Minelab has implemented a number of initiatives aimed at strengthening our position in the market and attacking the counterfeiters. Foremost among these is a move to get closer to the market by taking a greater involvement in the distribution of gold detector products into Africa. This will ensure that the flow of information is fast and accurate, and will enable a much better understanding of market developments leading to the right competitive actions being taken as and when required.

A number of new metal detection products will be released during FY15, and these new technology platforms are expected to significantly improve our position in each of our metal detecting markets. As a matter of vital business importance, our new products include safeguards in the designs that will make them very difficult to copy.

The Minelab consumer business remains strong and is more predictable, as its primary markets are located in the regulated legal environments of Australia, the USA, Europe and Russia.

The countermine business is strategically important in order to maintain our position as the world's number one provider of metal detection technologies and solutions. Minelab has recently won a number of defence contracts in the USA and Australia to develop new handheld and vehicle-mounted dual-sensor detectors that combine with ground-penetrating radar.

During FY14, more than half of Minelab's sales came from the more predictable consumer and countermine business segments.

Our radio communications business has delivered a much improved profit result in FY14 as it begins to see the benefits from a new leadership team and a best-in-class radio platform in the new HF Envoy®.

The new radio communications senior management team has implemented a full restructure of the business, which has resulted in a more customer-focused, solutions-based approach. This has helped to fast track acceptance of the Envoy radio and, together with the cost reduction associated with the restructure, contributed to the profit improvement in FY14. We enter FY15 with strong momentum and a strategic plan to significantly expand the revenue base for this business.

Demand for our new Envoy radio continues to grow as customers recognise the benefits associated with the quality of our digital voice and simple user interface over conventional HF radio solutions. We are excited by the opportunity that this new technology provides to expand the HF radio market, as we demonstrate what a modern HF radio system can do to solve a new range of communications needs.

Sales of land mobile radio products have been impacted by the well-publicised cuts in US government spending, causing us to work hard to reduce the expense base of the business. Although our entry into land mobile radio provides a large opportunity for new business, we will not reap the full benefits from this acquisition without further investment in next generation product technology, which will allow us to broaden our offering and ensure we remain relevant over the longer term.

We continue to see significant opportunities to grow the radio communications business by integrating land mobile radio and HF radio communications, which will enable expansion into new markets and geographical regions and provide the platform to offer a range of expanded and different communications solutions.

Minetec has developed industry-leading communications systems to the mining sector, aimed at improving mine productivity and safety. While this new business continues to require significant investment to position it for future growth, much has been achieved to advance the technology and strengthen the international customer base.

FY14 sales declined compared to last year as Minetec made the strategic decision to transition away from the supply of more traditional mining services and focus on the commercialisation of its own technology solutions.

In response to the challenges faced by the Australian mining industry, Minetec has taken its technology to global blue-chip miners and successfully completed a number of proof-of-concept demonstrations, which were won in open competition. We are now focused on transitioning this success into a number of full mine roll-outs during FY15.

The key to success in this business is offering the customer a totally integrated solution, which not only solves today's problems, but is flexible enough to be configured to meet the future expectations of the international mining community in the critically important areas of mine safety and productivity.

Minetec has extended its product portfolio from underground hard-rock mines to wireless technologies for open-pit mining. During trials, Minetec's collision-avoidance system has set a new benchmark in the marketplace, offering performance that cannot be met with legacy GPS-based solutions. The majority of the world's mining production is from open-pit mining, and this has opened up a significantly larger addressable market for Minetec.

As the global mining industry becomes more regulated, Minetec is well placed to take advantage of the legislation that is driving demand for enhanced collision-avoidance systems, and we have appointed a number of international dealers to assist our growth.

While the current economic environment has miners focused on short-term cost control, the mine-management and asset-tracking systems developed by Minetec are seen as long-term solutions to reducing operating costs, as miners move to more mechanised and automated mining production techniques.

The foundation of our growth strategy has always been to ensure that we invest heavily in new product development, and we have continued to do that during FY14 despite the need for expense savings. That level of investment over many years now stands us in very good stead, with a number of new product platforms on the verge of release to the market across each of our three business units.

We continue to seek opportunities to further strengthen our business by capitalising on our core capabilities and strengths to move into new markets that are closely aligned to our existing technologies. This element of our strategy, along with our continued investment in new product development, is critical to the future success of the company, and as such we have appointed a high-level resource to the executive team to drive these initiatives globally.

Our people have always been at the heart of our success and, despite the extensive cuts to staff numbers during the year, have demonstrated great resilience and a willingness to do what it takes in adverse circumstances to meet the challenge of doing more with less.

We sincerely thank everyone for their contribution and support during FY14, in what has been a very difficult year, and we look forward to making significant progress in FY15.

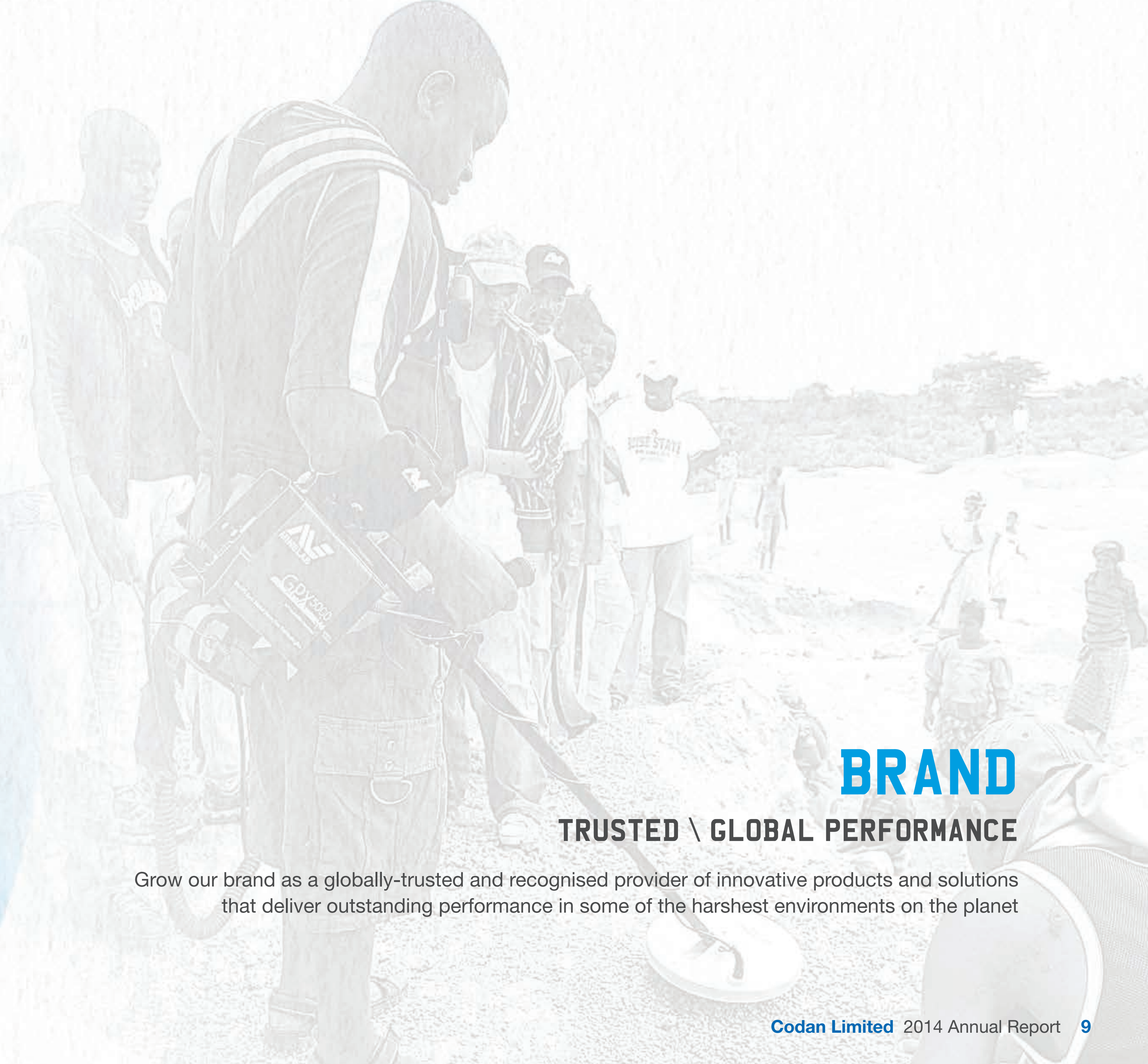
**Dr David Klingner**
**Chairman**

**Mr Donald McGurk**
**Managing Director and CEO**

# TECHNOLOGY

## PROVEN \ FOCUSED \ INNOVATIVE

Bring innovative technology to our defined markets by engineering solutions that add value to our customers in a variety of difficult and mission-critical environments



# BRAND

## TRUSTED \ GLOBAL PERFORMANCE

Grow our brand as a globally-trusted and recognised provider of innovative products and solutions that deliver outstanding performance in some of the harshest environments on the planet

# GLOBAL LOCATIONS

## CODAN DISTRIBUTES GLOBALLY AND HAS OPERATIONS AROUND THE WORLD

# \ OPERATIONS


RADIO
COMMUNICATIONS
METAL
DETECTION
MINING
TECHNOLOGY
OUR PEOPLE,
VALUES AND
PROCESSES

# RADIO COMMUNICATIONS

**Codan Radio Communications is a leading international designer and manufacturer of premium High Frequency (HF) radio and Land Mobile Radio (LMR) communications systems. We deliver our capability worldwide for the security, military, humanitarian and public safety markets. Our mission is to provide communication solutions that enable our customers to save lives, create security and support peacekeeping worldwide. With more than 50 years in the business, Radio Communications has garnered a reputation for reliability and customer satisfaction, producing innovative and industry-leading technology solutions.**

## FY14 SUMMARY

- Released upgraded digital voice capability for Envoy®
- Restructured the business under a new management team
- Won multi-year contracts with major agencies worldwide
- Achieved highly successful new product releases in both HF radio and LMR businesses

## FY15 OBJECTIVES

- Consolidate on improved financial performance
- Upgrade and expand the LMR product portfolio
- Deliver education sessions on the new Digital HF radio systems
- Identify adjacent products and markets for expansion opportunities

CODAN
RADIO COMMUNICATIONS

**Codan Radio Communications underwent a major restructure this year, following the recruitment of Paul McCarter as Executive General Manager, and a new senior management team. During the year, the team updated the vision and strategy for the business and made important changes to key management positions and technical staff. The new team has had a significant impact. Focus on the front end of the business has delivered improved financial performance and a good order backlog for the coming financial year.**

The continued focus on new technology has produced several releases in the year, including upgraded digital voice which is providing world-leading voice quality for over-the-horizon communications. The new Hivenet product is providing wide-area multiple-repeater capability, with complete AES 256 bit encryption, self-healing repeater networking and Codan's superb low-current-draw expertise. The HF radio and LMR integration product, MRAY, is proving a success with customers from around the globe who are interested in deploying the radio interconnect solution that provides true wide-area coverage without the need for infrastructure, satellite systems and, most importantly, with no costly fees.

The radio communications business has further improved its long-standing relationship with global non-government organisations (NGOs). During the year, we have extended multi-year contracts and won new contracts to support NGOs worldwide. The relationships we have developed continue to be strengthened by our great service-delivery culture and partnership strategy. Recent deliveries at short notice and to exacting standards have helped to cement our brand as the premier HF radio communications provider to this market. We have also continued our stance of only delivering to approved security forces and peacekeepers worldwide, to ensure that our advanced technology solutions do not fall into the wrong hands.

The business is undertaking a major investment programme to develop new land mobile radio products for both our North American and global customers. The private radio network landscape is changing. P25 has a new standard, the Digital Mobile Radio (DMR) market is growing and mobile phone systems are changing the face of private networks. The old industry landscape is evolving and Codan is transitioning its business model to deliver higher value-add, customer-focused radio solutions to best utilise that evolving technology and meet the emerging need of customers with a world-class LMR radio system.

Codan Radio Communications continues to enhance its world-class product design and development capability. Our focus is firmly fixed on delivery to our customers, and Radio Communications will continue to provide leading-edge systems and radio solutions with a customer-oriented service platform. We have the ability to deliver quality, best-value, dependable, field-supported systems, overcoming local or long-haul communication challenges almost anywhere in the world. Codan Radio Communications provides the trusted platform for our customers and partners.

# CASE STUDIES

## The Envoy Evolution


The Envoy evolution represents a quantum leap forward in HF radio communications following the launch of the Codan Envoy smart radio in June 2012.

At the launch in Paris, the Envoy changed the face of the commercial HF radio communications market with its colour screen, icon-based user interface and software upgradeability. The Envoy evolution continued over the next 12 months with the release of upgrades for first-generation Digital Voice, Ethernet and USB connectivity, a high-speed modem, IP-linking technology and powerful antenna options.

The successful reception of Envoy was led by one of the world's most trusted global humanitarian organisations which, with headquarters in Geneva, Switzerland, and with a mandate to help victims of war, provides humanitarian aid for people across 80 countries who are affected by conflict and armed violence.

The humanitarian organisation deploys Envoy radios to provide vital communications in war-torn areas that have limited communications infrastructure. The radios help ensure the safety of their personnel, providing them with a reliable communications link back to base. The GPS tracking on Envoy also helps base operations know the location of their personnel and allows tracking of their movements.

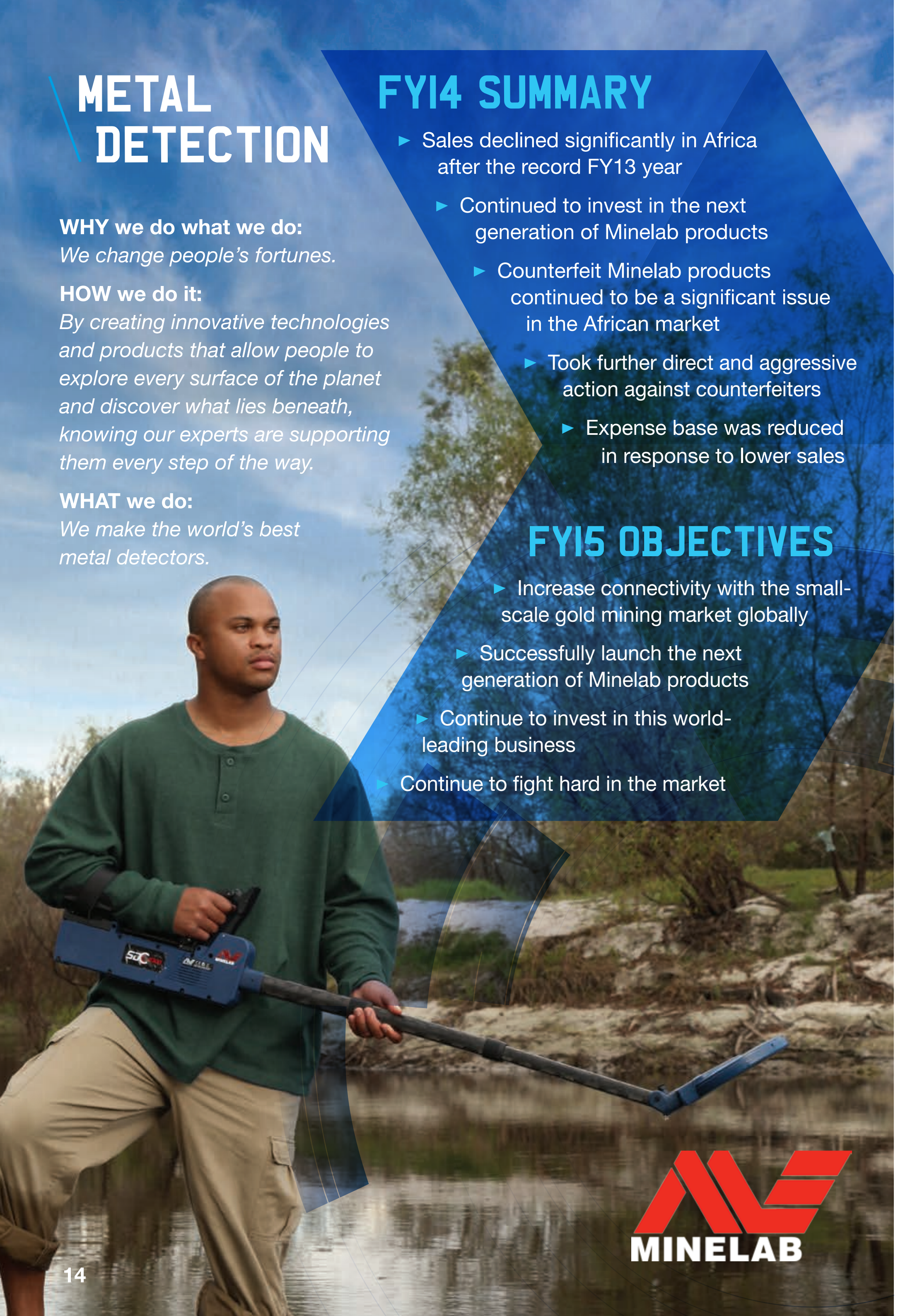
*"Envoy exceeds our expectations in specifications and is easy to use for end-users…Codan was listening to customer needs," said a communications specialist from the humanitarian organisation.*

*"Envoy can be nicely customised to our needs; this means we could almost immediately switch over to Envoy [from Codan NGT]. I am convinced of great Envoy success."*

Two years after the launch, Envoy has continued to live up to its promise of continuous capability improvement, with the launch of second-generation Digital Voice which provides voice clarity unparalleled on the HF radio communication medium, providing a voice quality experience that is similar to cellular phones, and ensures continued operation in degraded and fading HF radio channels.

During a recent communications trial of Digital Voice by the South Australian Police, one of the officers was quoted as saying, *"The latest generation digital voice over HF gives us the ability to talk securely, and the digital quality of the audio enables easy and clear communications. This makes HF a much more operator-friendly option than ever before."*

The Envoy evolution continues globally, with delivery of the radios to the New South Wales and South Australian Police, Ambulance Services New South Wales and the State Emergency Service, Fiji Meteorological Services, Bank of Tanzania, Bangladesh Police, and with radios being deployed by security organisations in Libya, Afghanistan, Angola, Mali and Uganda.



# METAL DETECTION

**WHY we do what we do:**
*We change people's fortunes.*

**HOW we do it:**
*By creating innovative technologies and products that allow people to explore every surface of the planet and discover what lies beneath, knowing our experts are supporting them every step of the way.*

**WHAT we do:**
*We make the world's best metal detectors.*

## FY14 SUMMARY

- Sales declined significantly in Africa after the record FY13 year
- Continued to invest in the next generation of Minelab products
- Counterfeit Minelab products continued to be a significant issue in the African market
- Took further direct and aggressive action against counterfeiters
- Expense base was reduced in response to lower sales

## FY15 OBJECTIVES

- Increase connectivity with the small-scale gold mining market globally
- Successfully launch the next generation of Minelab products
- Continue to invest in this world-leading business
- Continue to fight hard in the market

MINELAB

**Minelab is the world leader in providing metal detection technologies to small-scale gold miners, hobbyists and prospectors, and for demining and military needs.**

Minelab's financial performance in FY14 was significantly down on the record year of FY13, largely as a result of a decline in the African small-scale gold mining market, coupled with increased counterfeit activity in that market. FY15 will see major new releases across the Minelab product range, beginning with the new mid-range compact gold machine, the SDC 2300™, which was released in June.

Minelab has recently celebrated its 25th anniversary and also launched its "Why" statement, "We Change People's Fortunes".

## Small-scale gold mining

Minelab's world-leading gold detecting technology continues to revolutionise how small-scale gold miners from around the world prospect for gold.

While Minelab continues to develop other geographic regions, the largest source of demand for gold detectors comes from Africa. The primary driver of demand for gold detection machines in Africa is the adoption of metal detection technology by the large number of small-scale gold miners, and the demonstrated success they have in finding gold. These small-scale gold miners have previously used traditional and often environmentally damaging mining techniques to find gold. Minelab's metal detectors are changing the way gold is found by these miners.

The African market for gold detectors can be volatile, with peaks in demand being driven by gold finds. Gold detector sales declined significantly in FY14, and represented only approximately 30% of the record sales achieved in FY13.

There are many factors which influence the demand for new gold detectors in Africa. Some of these factors include civil unrest and political instability, weather patterns and events, religious events, the development of an active second-hand market and, to some extent, the gold price. However, the biggest threat and competition that we face in this African market is from Chinese-made counterfeit products bearing the Minelab trademarks, and this impacted our business significantly in FY14.

The great success of the Minelab business in Africa over recent years has attracted these new competitors, who use our own product technology and branding against us. Counterfeiters copy the look and feel of our products and benefit from our strong brand and the market development work that we do in Africa. While we are taking action across a number of fronts, ultimately our future success rests with the development of new product technologies and our ability to outmarket, outcompete and outperform competitors, no matter what form they take.

We continue to invest in the development of small-scale gold mining markets outside of Africa, and believe that, in time, good markets will develop in Central and Latin America and Asia.

## Hobbyists and Prospectors

The foundation of the Minelab business has been built on the success that it has achieved in selling metal detectors into the mainly developed world economies of Australia, the USA, Europe and Russia, for individuals who metal detect for the fun of it and for whom metal detecting is an interest, a hobby and a sport.

These metal detectors include those aimed at finding gold and those that are for the detection of coin and treasure such as jewellery and artefacts. This part of the business represents a significant portion of the total Minelab business, and is well placed for growth as the hobby of metal detection becomes increasingly familiar and accepted across the world, and Minelab continues to release new products to the market.

A key driver of growth in this first-world market is the release of new products. While FY14 was one of continued investment in the development of new products, there were no major product releases. However, in FY15 there will be major new product releases, starting with the release of a new mid-priced, compact and fully waterproof gold detector. Pre-production reviews on this machine have been excellent, with best-in-class detection performance for fine gold. The June 2014 release of this machine was eagerly awaited and has been well received by customers.

We are also developing a unique metal detecting platform that will position Minelab at the lower end of the coin and treasure price scale — a new market space for Minelab. This product, to be released in the second half of FY15, will introduce features, levels of performance and value that haven't previously been seen in this market.

Minelab has invested heavily in new product development in recent years, and these products are coming to market in FY15 and will drive the next wave of success for the business.

## Countermine

Minelab's detectors are also considered to be the best in the world for locating landmines and explosive remnants of war. Consequently, Minelab has become the detector of choice for many humanitarian demining organisations, and military and government bodies.

The countermine business remains strategically important in order to maintain our position as the world's number one provider of metal detection technologies and solutions. Supporting our continuing market lead are the recent awards of technology development contracts comprising:

- Australian Department of Defence - Development contract issued for the provision of a Counter Improvised Explosive Device Handheld Detector to satisfy ADF operational requirements;
- US Department of Defense - Development contract for potentially the next generation of handheld dual-sensor mine detectors for the US Army; and
- US Department of Defense - Development contract to integrate Minelab's vehicle-mounted metal detection array with the ground-penetrating radar sensor currently operational with the Husky Mine Detection System used in tactical route clearance activities.

Minelab's countermine detectors are manufactured in Adelaide and exported to more than 55 countries around the world where landmines remain a threat. These include Cambodia, Angola, Sri Lanka, Vietnam, Mozambique, Colombia, Lebanon and Afghanistan.

## CASE STUDIES

### Minelab is changing people's FORTUNES in Gold

In January 2014, Minelab featured in a six-minute news report broadcast across 50 countries worldwide. Filmed in Burkina Faso, Africa and Dubai, UAE, the news report outlined the innovative and practical genuine-product verification systems developed by Minelab in the fight against counterfeit dealers who target and exploit small-scale miners with fake product. It also tells of the meaningful impact of gold-finding success through the real-life stories and experiences of Minelab customers who use genuine Minelab product.

One such customer, **Badra Ali Ouattara,** shared his story. *"Finding gold changed many things in my life. I built a house and now I can get by in life quite well. It allows me to make a good living."* Badra's haul of gold netted him over US$60,000. In a country where the average annual income is US$300, Badra is now considered a very wealthy man indeed!

**Sulieman Ouedraogo** from Burkina Faso shared his story with Minelab. *"With the harvest of nuggets that I have found, I was able to buy 3 plots of land, 3 motorbikes and 3 more detectors and, most importantly, I can now afford to send all 10 of my children to school."*

Full report can be viewed on: *https://www.youtube.com/watch?v=zUeNozYadNU.*

Every day, genuine Minelab products find gold in ALL sizes, from sub-gram to kilograms across ALL gold zones!

### Consumer business find story of the year

#### Minelab CTX 3030 unearths major treasure in Mexico

**March 2014 Guerrero, Mexico**


A large silver cache, which is possibly dated from the early 19th century Spanish trade, was unearthed at nearly 6 feet (1.8m) below the surface in southern Mexico using a Minelab CTX 3030 metal detector.

The finder reported to Minelab, *"I have used other metal detectors in the past and they did not work. Only the Minelab CTX 3030 was able to pick up the signal and without it, I would never have found this cache."*

The current market value of silver is approximately US$21 per troy ounce, which puts the estimated value of the cache at over US$100,000. However, if the cache is confirmed to have historical significance, the estimated amount would likely result in an even higher value.

# MINING TECHNOLOGY

**Minetec has developed industry-leading communications systems for the mining sector, aimed at improving mine productivity and safety.**

## FY14 SUMMARY

- Difficult economic environment for the Australian mining industry
- Successfully broadened our customer base outside of Australia
- Won competitive tender processes
- Major investment in product and technology road-maps
- Introduction of non-GPS based collision-avoidance and proximity-detection technology for surface mining operations

## FY15 OBJECTIVES

- Deliver on opportunities with key global mining customers
- Stabilise the financial performance of the business
- Continue to develop best-in-class products and technologies

MINETEC

**The acquisition of Perth-based company, Minetec Pty Ltd, in January 2012 has allowed Codan to enter the mining communications and technology services industry. While this new business continues to require significant investment to position it for future growth, much has been achieved to advance the technology and strengthen the international customer base.**

FY14 sales declined compared to last year, as Minetec made the decision to transition from the supply of more traditional, low-margin mining services to the commercialisation of its own technology solutions. In response to the challenges faced by the Australian mining industry, Minetec has taken its technology to global blue-chip miners and successfully completed a number of proof-of-concept trials and demonstrations which were won in open competition. We are now focused on transitioning this success into a number of full mine roll-outs during FY15.

Minetec's technology suite includes mine management and control systems (SMARTS™), a tracking system that can locate miners and machinery in real time (Trax+Tags™) and also collision avoidance systems (SafeDetect™).

Minetec has extended its product portfolio from applications in underground hard-rock mines to collision-avoidance and proximity-detection technologies for open-pit mining. During trials, Minetec's collision avoidance systems have set a new benchmark in the marketplace, offering high levels of precision and performance that cannot be met with legacy GPS-based solutions. The majority of the world's mining production is from open-pit mining, and this has opened up a significantly larger addressable market for Minetec.

As the mining industry becomes more regulated, Minetec is well placed to take advantage of the legislation that is driving demand for enhanced collision avoidance and proximity detection systems. While the current economic environment has miners focused on short-term cost control, the mine-management and asset-tracking systems developed by Minetec are seen as a medium-term to long-term solution to reducing operating costs as miners move to more mechanised and automated mining-production techniques.

## Collision Avoidance and Proximity Detection for Surface-Mining Operations

Minetec successfully introduced its latest version of SafeDetect II™ to provide collision avoidance and proximity detection for open-pit, surface-mining operations. This technology has been developed for mining in partnership with the Australian Government CSIRO, and delivers real-time, peer-to-peer safety for personnel, vehicles and machinery.

SafeDetect II features state-of-the-art high-precision tracking to sub-metre accuracy, and delivers a number of critical advantages over legacy GPS-based techniques, where satellite channel availability is typically limited to 60%. Advantages include the ability to operate under and around obstacles, differentiate vertical spatial distance and operate in bad weather (foggy) conditions. Minetec has delivered this technology within proof-of-concept programmes to a number of customers and has gained significant interest as a solution to a current capability gap in surface-mining operations.


## CASE STUDY

### Barrick Porgera Gold Mine — Communications and Infrastructure Upgrade

Aerial view of Porgera Gold Mine

The Porgera open-pit and underground gold mine is a joint venture operation located in the Enga Province in Papua New Guinea (PNG). The mine is located 600 kilometres northwest of the capital, Port Moresby. The Porgera operation is 95% owned and operated by a subsidiary of Barrick Gold Corporation, in partnership with the PNG government. Headquartered in Toronto, Canada, and with operations extending across the globe, Barrick is the largest gold mining company in the world.

As part of the company's portfolio optimisation plan, Barrick has revised its mine plan and operation at Porgera to focus on the higher grade gold ore found in the underground portion of the mine. Critical to this plan was the need to invest in infrastructure to provide effective communications and asset-tracking capabilities for daily mining operations. Minetec was selected through a competitive tender process to deliver its market-leading technology.

Delivered as a suite of integrated Minetec products, the system comprised ELF™, Trax+Tags and Mine Office™. This provided a range of critical capabilities including real-time situational awareness and high-accuracy tracking for continuous monitoring of mine operations and mobile/personnel assets. The installed leaky feeder system provided a complete underground mine infrastructure solution, supporting full 60MB Ethernet WiFi data and advanced digital radio communications. The system was completed and commissioned in May 2014 and quickly proved its ability to significantly increase mine efficiency and provide critical vehicle fleet management and asset tracking.

*"Minetec was our partner of choice for this project for its ability to deliver critical capability against tight timelines and budget. Delivery to an offshore mine site such as Porgera presents many operational and logistical issues and I commend Minetec for its professionalism and commitment to make this happen. Fleet management and dispatch are critical for productivity and safety in any underground mine operation. Minetec's ELF and Trax+Tags technology delivers this capability and enables our team to maintain real time asset management and 24/7 visibility of the operation."*

**Barrick Porgera Operations**

# FUTURE

## SUSTAINABILITY \ PROFITABILITY \ GROWTH

Focus investment in our people, technology and brand to maintain our leadership position across our chosen markets and deliver sustainable, profitable growth

# MARKETS

## DIVERSITY \ INTIMACY \ REACH

Bring customer-defined solutions to market by continuing to grow our international presence and distribution channels globally

# OUR PEOPLE, VALUES AND PROCESSES

## Core Values

Core values are what support Codan's vision and culture, and reflect what the business values.

In 2013 the Codan Core Values were refreshed, and have been embraced by employees globally as guiding principles to assist with forming the foundation on which we perform work and conduct business.

The values underlie our work, how we interact with each other, and which strategies we employ to fulfill our mission. They are the practices we use every day in everything we do.

For Codan, the company's core values underpin our core purpose of delivering superior shareholder value by growing a lasting and innovative organisation that consistently creates outstanding customer experiences.

An awards programme has been implemented to recognise those employees who have demonstrated that they embrace the core values and apply them in their daily work.

**The 4 Codan Core Values are:**

- Can-Do
- High Performing
- Customer Driven
- Openness & Integrity

## CAN-DO

"The **can-do** core value represents a willingness to go the extra mile to help my colleagues and customers, adopting a positive approach to challenging tasks to achieve success for all concerned."

**Bronwyn Blake**
Commercial Administrator
Codan Group Operations

## CUSTOMER DRIVEN

"Being **customer driven** isn't just a profession, or a role for me – it's a lifestyle. Having the ability to delight someone is very gratifying."

**Nadia J. Mosley**
Customer Care Administrator
Minelab Americas

## HIGH PERFORMING

"To me **high performance** comes from within my team – having their respect and trust brings out the best, not just in me but in the whole team – I could not ask for better mates!"

**Gabriele Iannella**
NPI Buyer
Codan Group Operations

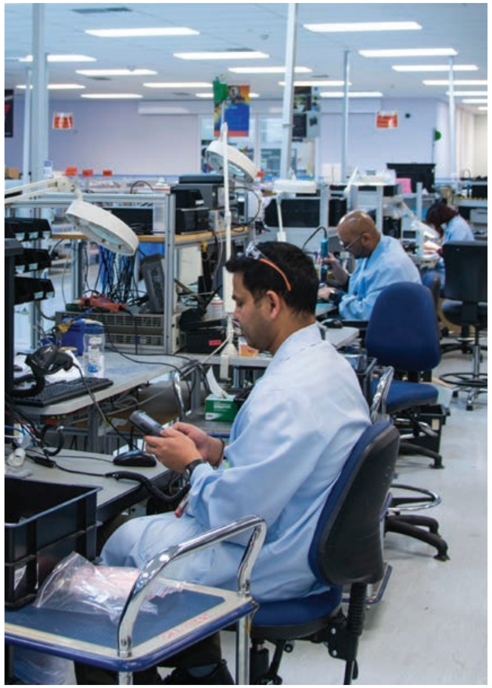
## OPENNESS & INTEGRITY

"I was honored to win the award for **openness and integrity**. Openness and integrity to me is being considerate to others in all aspects of my day and being able to adapt to new ideas while respecting others' views."

**Larry Freeman**
System Administration
Codan Radio Communications Canada

## Manufacturing

The ability of Codan to manufacture high-level, high-quality electronics products and associated software remains a sustainable competitive advantage in its future growth. The company is committed to pursuing ongoing efficiencies, flexibility and investment in its supply chain and production capabilities for global markets.



Manufacturing facility at Newton, South Australia

Codan's Adelaide manufacturing facility remains an integral and strategic element of the company's operations, serving as a technology hub, particularly for new product development and the manufacture of "IP-sensitive" and high-complexity products. Of particular note are Codan's security-featured radios and Minelab's landmine detectors, which retain local manufacture.

Codan's relationship with one of the world's leading sub-contract electronics manufacturers, Plexus Corp, expanded in FY14. While the vast majority of manufacturing continues to take place in Malaysia, Codan has recently commenced the manufacture of land mobile radio products in a Plexus facility in Chicago, Illinois, for supply into the US market.

The partnership with Plexus, a US-owned company specialising in defence, aerospace and medical electronics manufacturing, will ensure that Codan's well-proven manufacturing processes and exceptional performance, quality and delivery standards continue.

Codan has adopted stringent testing and quality control procedures, and both Codan and Plexus maintain quality assurance systems approved to International Standard ISO9001.

## Continuous improvement

Continuous improvement remains core to the company's success, and is a key strategy in the company's commitment to supplying high-quality electronics solutions, competitive pricing, excellent customer service and on-time delivery.

For 15 years, Codan's continuous improvement ethos has been underpinned by the Codan Production System, our own highly successful version of lean manufacturing, which harnesses the ideas and creativity of all employees in order to generate continuous improvement in systems, processes and culture. The implementation of thousands of individual initiatives has enabled Codan to dramatically lower product costs and reduce delivery lead times, and continues to this day, including improvements to global manufacturing sites run by Plexus and other key suppliers.

## Occupational Health and Safety

Codan is committed to a philosophy of zero harm to all persons in all areas of the business and the environment during the manufacture, distribution, use and disposal of our products. We are particularly conscious of exposing employees to critical risk, especially with respect to employees travelling to remote locations. As such, Codan engages experts to ensure the safety and welfare of its travellers.

## Environment

While the business is a "low-impact industry" from an environmental point of view, Codan continues to look at ways to minimise its impact on the environment. A result of this focus will be the formal accreditation to ISO14001, Environmental Management Systems, which will be achieved in FY15.

## Facilities

Consideration is being given to the consolidation of Codan's South Australian operations into an alternative leased location. If this proceeds, the South Australian properties at Newton and Torrensville, with carrying values of $10 million, would be sold. Proceeds from the potential sale of these properties would be used to further strengthen our balance sheet and better position us to pursue our strategic initiatives.

# BOARD OF DIRECTORS

## DR DAVID KLINGNER

B.Sc (Hons), PhD, FAusIMM

**Chairman, Independent Non-Executive Director**

Dr Klingner was appointed by the board as Chairman in May 2007 and has been a director with Codan since December 2004. Dr Klingner, a geologist, was previously employed by Rio Tinto in a number of senior roles involving business leadership, project development and worldwide exploration activities, gaining extensive experience in the establishment and management of overseas operations. He is a former chairman of Coal & Allied Industries Ltd, Bougainville Copper Limited, the World Coal Institute and Energy Resources of Australia Limited. He was appointed Chairman of the board of Turquoise Hill Resources Ltd (formerly Ivanhoe Mines Ltd), Canada in May 2012.

## MR DONALD MCGURK

HNC (Mech Eng), MBA, FAICD

**Managing Director and Chief Executive Officer**

Mr McGurk was appointed to the board as Director in May 2010, and was appointed as Managing Director in November 2010. Mr McGurk joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. In addition to his manufacturing role, from 2005 to 2007 Mr McGurk held executive responsibility for sales of the company's communications products, and from 2007 to 2010, executive responsibility for the business performance of the company's HF radio products. Mr McGurk came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries. Mr McGurk holds a Masters Degree in Business Administration from Adelaide University and completed the Advanced Management Program at Harvard University in 2010. He is a member of the South Australian Government's Advanced Manufacturing Council and a board member of the Phoenix Society.

## MR PETER GRIFFITHS

B.Ec (Hons), CPA, FAICD

**Independent Non-Executive Director**

Mr Griffiths was appointed to the Codan board in July 2001. He is a former senior executive of Coca-Cola Amatil Limited, with 10 years of experience working in Central and Eastern Europe and South East Asia. He had previously held the positions of Company Secretary, Chief Financial Officer and Managing Director of C-C Bottlers Limited, and held board positions in Australia, New Zealand and the USA. Mr Griffiths is a Certified Practising Accountant and a former President of the South Australian branch of the Financial Executives Institute, as well as State and Federal President of the Australian Softdrink Association Ltd. Mr Griffiths has also been a director of several not-for-profit organisations.

## MR DAVID KLINGBERG AO

FTSE, BTech (Civil), DUniSA, FIEAust, FAusIMM, FAICD

**Independent Non-Executive Director**

Mr Klingberg was appointed to the board in July 2005. He is an engineer with extensive national and international experience, having been Managing Director of Kinhill Limited from 1986 to 1998, where he played a major role in developing the small, Adelaide-based group into one of the largest and most successful firms of professional engineers in Australia and South East Asia. Mr Klingberg was Chancellor of the University of South Australia for 10 years, retiring in 2008. He is Chairman of Centrex Metals Limited and a director of E & A Limited.
He has previously held the positions of Chairman of Barossa Infrastructure Limited and the South Australian Premier's Climate Change Council, and was a member of the boards of Snowy Hydro Limited and Invest in SA. He is a patron of the Cancer Council of South Australia and the St Andrew's Hospital Foundation.
In 2009 Mr Klingberg was made an Officer of the Order of Australia for his contributions to governance policy in the tertiary education sector and to commercial and economic development and infrastructure projects.

# BOARD OF DIRECTORS

## MR DAVID SIMMONS

BA (Acc)

**Independent Non-Executive Director**

Mr Simmons was appointed to the board in May 2008. Mr Simmons has worked in the manufacturing industry throughout his career and has extensive financial and general management experience. Mr Simmons joined Hills Industries Limited in 1984, where he was appointed Finance Director in 1987 and Managing Director in 1992. He retired from Hills Industries Limited in June 2008. He is Chairman of Commercial Motor Vehicles Group and a board member of Lighting Investments Australia Holdings Pty Ltd and the Detmold Group.

## LT-GEN PETER LEAHY AC

BA (Military Studies), MMAS, GAICD

**Independent Non-Executive Director**

Lieutenant General Leahy was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37-year career and 6 years as Chief of Army. His distinguished service was recognised with his 2007 appointment as Companion of the Order of Australia. Since leaving the Army he has been appointed as Professor and Foundation Director of the National Security Institute at the University of Canberra. He is a member of the Defence South Australia Advisory Board, a director of the Kokoda Foundation and a director of Electro Optic Systems Holdings Limited. Lieutenant General Leahy holds a Master of Military Arts and Science from the US Army Command and General Staff College, where he also served as an instructor, and is a graduate of the Australian Institute of Company Directors.

## MR SCOTT DAVIES

LLB

**Independent Non-Executive Director**

Mr Davies resigned from the board on 31 December 2013. He was appointed to the board in May 2011. In July 2011 he was appointed to the position of Global Head of Infrastructure for AMP Capital Investors. A commercial lawyer by profession, Mr Davies was Chief Executive Officer of Macquarie Communications Infrastructure Group, a leading global provider of communications infrastructure, from 2002 to 2009. Prior to that, Mr Davies held roles with Macquarie Capital and Hambros Bank, where he gained valuable experience in relation to business development and mergers and acquisitions. Mr Davies is an alternate director of Australia Pacific Airports Corporation Limited and a former director of the DUET Group.

## MRS CORINNE NAMBLARD

PhD (Pol Sci), HEC CAP

**Independent Non-Executive Director**

Mrs Namblard retired from the board on 30 June 2014. She was appointed to the board in August 2011. Mrs Namblard has had more than 30 years of experience in large projects in finance, infrastructure and related industries and has worked in the USA, Canada, Australia and Europe. Mrs Namblard was Chief Executive Officer of Galaxy Fund, a dedicated transportation infrastructure equity fund. Prior to that, Mrs Namblard spent 19 years with Banque Nationale de Paris, rising to the role of Vice President and Head of Financial Advisory in the Project Finance team, before becoming the Executive Vice President of leading international French engineering firm, Egis Group, where she led their worldwide strategy and business development activities. Mrs Namblard previously held a number of board positions including Flinders Ports Pty Ltd, Qantas Airways Ltd, Invest in SA and Chair of the Geneva-based United Nations PPP Alliance. She also sits on the Council of the University of South Australia and the board of the National Heart Foundation of Australia, and is a former member of the Economic Development Board of South Australia.

# LEADERSHIP TEAM

## MR DONALD MCGURK

HNC (Mech Eng), MBA, FAICD

**Managing Director and Chief Executive Officer**

Donald was appointed to the board as Director in May 2010, and was appointed as Managing Director in November 2010. Mr McGurk joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO.

*For more details of Mr McGurk's qualifications and experience please see page 22.*

## MR MICHAEL BARTON

BA (Acc), CA

**Chief Financial Officer and Company Secretary**

Michael holds a Bachelor of Arts in Accountancy from the University of South Australia and is a member of the Institute of Chartered Accountants in Australia. He was appointed to the position of Company Secretary in May 2008. Reporting to the Chief Financial Officer, Mr Barton had responsibility for the areas of Finance and Business Systems across the Codan group. In September 2009, Mr Barton was appointed to the position of Chief Financial Officer and Company Secretary, and has responsibility for the financial control and reporting across the Codan group. Prior to joining Codan in May 2004, he was a senior manager with KPMG Chartered Accountants.

## MR PETER CHARLESWORTH

BEEE (Hons), MBA, GAICD

**Executive General Manager, Minelab**

Peter holds a Degree in Electrical and Electronic Engineering with First Class Honours and a Masters Degree in Business Administration, both from Adelaide University, and is a Graduate Member of the Australian Institute of Company Directors. He was appointed General Manager of the subsidiary, Minelab Electronics Pty Limited, in 2008 following the Codan acquisition of Minelab that same year. Peter joined Codan in 2003 as General Manager of Engineering, and subsequently held various roles such as New Business Manager and HF Radio Business Development Manager. Prior to Codan, he was a business unit manager at Tenix Defence - Electronic Systems Division and he has worked in the electronics industry for more than 25 years.

## MR MATTHEW CSORTAN

BEng (Mech Eng) (Hons), MEng (Mfg Mgmt)

**General Manager Group Operations**

Matthew holds a Degree in Mechanical Engineering with Honours and a Masters Degree in Manufacturing Management, both from the University of South Australia. In 2009, he was appointed Codan's General Manager for Group Operations. Matthew joined Codan in 1999 and held various roles in manufacturing and production, until his appointment as Production Manager of Communications Products in 2004. In 2006, Matthew became Manufacturing Manager of Codan, and was appointed General Manager of Parketronics in 2008. Prior to joining Codan, Matthew gained experience in manufacturing and project engineering through his employment at Gerard Industries and ASC Engineering.

## MR RORY LINEHAN

BSc (Hons), MSc, PhD

**Executive General Manager, Business Development and Minetec**

Rory joined Codan in 2014, working across the group to leverage technology and market strategies. He has a technical background, with qualifications in physics, engineering and mathematics, coupled with a range of commercial skills including strategy, sales, marketing and business development. Prior to Codan, Rory held a number of business development positions for blue-chip companies, including McLaren, Cobham and Goodrich. He lived for 5 years in Seattle, working for Boeing on the product development for Sonic Cruiser and 787 flight control systems.

## MR PAUL MCCARTER

BEng (Hons), MBA, CEng, MIET

**Executive General Manager, Codan Radio Communications**

Paul is an entrepreneurial executive and communications professional with over 24 years of experience in the technology and communications sectors. He served 12 years in the military as a Royal Signals Officer, and has since held executive positions in operations, strategy, marketing and general management with several large multinational companies, including British Telecom, Racal, Thales and Cobham. He has a Bachelor Degree in Software Engineering, a Masters Degree/MBA from London Business School, and is a Chartered Engineer with the IET. Prior to Codan, Paul was Managing Director of the Technology Group, and the Group Managing Director of Tactical Communications and Surveillance International at Cobham. Paul also advises and provides communication equipment for expeditions. In 2013 he was the Technology Advisor for Sir Ranulph Fiennes in the ground-breaking attempt to cross the Antarctic during polar winter.

# FINANCIAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2014



# DIRECTORS' REPORT

## CODAN LIMITED AND ITS CONTROLLED ENTITIES

The directors present their report together with the financial statements of the group comprising Codan Limited ("the company") and its subsidiaries for the financial year ended 30 June 2014 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:

Dr David Klingner
Donald McGurk
Peter Griffiths
David Klingberg AO
David Simmons
Lt-Gen Peter Leahy AC
Scott Davies
Corinne Namblard

Details of directors and their qualifications and experience are set out on pages 22 to 25.

## COMPANY SECRETARY

**Mr Michael Barton** BA (Acc), CA

Mr Barton was appointed to the position of Company Secretary in May 2008. Reporting to the Chief Financial Officer, Mr Barton had responsibility for the areas of Finance and Business Systems across the Codan group. In September 2009, Mr Barton was appointed to the position of Chief Financial Officer and Company Secretary, and has responsibility for the financial control and reporting across the Codan group. Prior to joining Codan in May 2004, he was a senior manager with KPMG Chartered Accountants.

## DIRECTORS' MEETINGS

The number of directors' meetings of the company, and of meetings of board committees held, and the number of those meetings attended by each of the directors of the company during the financial year are:

## CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

### *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 the overall corporate governance of the group, including formulating its 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

| | Board meetings | | Board Audit, Risk and Compliance Committee meetings | | Remuneration Committee meetings | | Nomination Committee meetings | |
|---|---|---|---|---|---|---|---|---|
| **DIRECTOR** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| Dr G D Klingner | 11 | 11 | - | - | 2 | 2 | - | - |
| Mr D S McGurk | 11 | 11 | - | - | - | - | - | - |
| Mr P R Griffiths | 11 | 11 | 4 | 4 | - | - | 1 | 1 |
| Mr D J Klingberg | 11 | 11 | 4 | 4 | - | - | 1 | 1 |
| Mr D J Simmons | 11 | 11 | - | - | 2 | 2 | 1 | 1 |
| Lt-Gen P F Leahy | 11 | 11 | - | - | 2 | 2 | - | - |
| Mr S W Davies | 6 | 6 | - | - | - | - | - | - |
| Mrs C S Namblard | 10 | 11 | 3 | 4 | - | - | - | - |

A - Number of meetings attended B – Number of meetings held during the time the director held office during the year control, 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 Nomination Committee, a Remuneration Committee and a Board Audit, Risk and Compliance Committee. These 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.

### 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. The director must consult with an adviser suitably qualified in the relevant field. 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 mirrors the environment in which the group operates.

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 is regularly addressing succession in order to ensure that its composition going forward is appropriate.

## *Nomination Committee*

The Nomination Committee assists the board in reviewing 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 the size and composition of the board, and succession plans, to enable an appropriate mix of skills, experience, expertise and diversity to be maintained;

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## *Nomination Committee (continued)*

- 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 and carrying out 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 is appropriate succession planning for the chief executive officer and the executive positions reporting to the chief executive officer.

The members of the Nomination Committee during the year were:

- Mr D J Klingberg (Chairman)
  Independent Non-Executive Director
  (appointed 23 April 2014)
- Mr P R Griffiths
  Independent Non-Executive Director
  (appointed 23 April 2014)
- Mr D J Simmons
  Independent Non-Executive Director
  (appointed 23 April 2014)

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

## *Remuneration report - audited*

### Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the managing director, senior executives and directors themselves. It is also responsible for share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The members of the Remuneration Committee during the year were:

- Mr D J Simmons (Chairman)
  Independent Non-Executive Director
- Dr G D Klingner
  Independent Non-Executive Director
- Lt-Gen P F Leahy
  Independent Non-Executive Director

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

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

### 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 Committee may obtain independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

There were no increases in executive salary packages in the year ended 30 June 2014.

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

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

Certain executives may receive incentive payments based on the achievement of performance hurdles. The performance hurdles relate to measures of profitability. The bonus payable to certain executives may relate to the qualitative performance of the executive against objectives agreed as part of the budget and strategic planning processes. The potential incentive payable to certain executives is based on up to 60% of the executives' fixed salary inclusive of superannuation, but can exceed this level if performance hurdles are exceeded.

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2014 the above performance-linked remuneration structure was appropriate.

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

The directors resolved to reduce their fees by 10% effective 1 January 2014.

## Service contracts

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

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

## Performance rights

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

The number of performance rights issued represents 40% 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.

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

| | Number of performance rights granted during year | Grant date | Fair value per right at grant date (cents) | Exercise price per right (cents) | Expiry date | Number of rights vested during year |
|---|---|---|---|---|---|---|
| **DIRECTORS** | | | | | | |
| Mr D S McGurk | 111,655 | 22 November 2013 | 110.8 | - | 30 June 2017 | - |
| **EXECUTIVES** | | | | | | |
| Mr M Barton | 52,813 | 22 November 2013 | 110.8 | - | 30 June 2017 | - |
| Mr P D Charlesworth | 72,575 | 22 November 2013 | 110.8 | - | 30 June 2017 | - |
| Mr P McCarter | 89,919 | 22 November 2013 | 110.8 | - | 30 June 2017 | - |

The performance rights granted on 22 November 2013 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 the group's earnings per share for the year ended 30 June 2013 as the base. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share. The threshold level of the group's earnings per share before vesting is an increase in aggregate of 10% per annum over the three-year period from the base earnings per share. A pro-rata vesting will occur between the 10% and 15% levels of earnings per share for the three-year period.

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

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

| | Performance rights granted Number | Performance rights granted Date | Percentage vested in year | Percentage forfeited in year | Financial years in which shares will be issued if vesting achieved |
|---|---|---|---|---|---|
| **DIRECTORS** | | | | | |
| Mr D S McGurk | 161,551 | 7 November 2011 | - | 100% | n/a |
| | 139,981 | 5 November 2012 | - | - | 2016 |
| | 111,655 | 22 November 2013 | - | - | 2017 |
| **EXECUTIVES** | | | | | |
| Mr M Barton | 76,414 | 7 November 2011 | - | 100% | n/a |
| | 66,211 | 5 November 2012 | - | - | 2016 |
| | 52,813 | 22 November 2013 | - | - | 2017 |
| Mr P D Charlesworth | 105,008 | 7 November 2011 | - | 100% | n/a |
| | 90,988 | 5 November 2012 | - | - | 2016 |
| | 72,575 | 22 November 2013 | - | - | 2017 |
| Mr P McCarter | 89,919 | 22 November 2013 | - | - | 2017 |

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## *Remuneration report - audited (continued)*

### Performance rights (continued)

The performance rights granted on 7 November 2011 lapsed on 30 June 2014, as the three-year aggregate performance target was not reached.

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 2013 | Issued | Vested | Lapsed | Held at 30 June 2014 |
|---|---|---|---|---|---|
| **DIRECTORS** | | | | | |
| Mr D S McGurk | 301,532 | 111,655 | - | 161,551 | 251,636 |
| **EXECUTIVES** | | | | | |
| Mr M Barton | 142,625 | 52,813 | - | 76,414 | 119,024 |
| Mr P D Charlesworth | 195,996 | 72,575 | - | 105,008 | 163,563 |
| Mr P McCarter | - | 89,919 | - | - | 89,919 |

### 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.

## 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 2013 | Received on exercise of rights | Other changes* | Held at 30 June 2014 |
|---|---|---|---|---|
| **DIRECTORS** | | | | |
| Dr G D Klingner | 534,983 | - | - | 534,983 |
| Mr D S McGurk | 312,517 | - | - | 312,517 |
| Mr P R Griffiths | 199,416 | - | - | 199,416 |
| Mr D J Klingberg | 120,908 | - | - | 120,908 |
| Mr D J Simmons | - | - | - | - |
| Lt-Gen P F Leahy | 57,708 | - | - | 57,708 |
| Mr S W Davies | 12,420 | - | - | n/a |
| Mrs C S Namblard | - | - | - | n/a |
| **SPECIFIED EXECUTIVES** | | | | |
| Mr M Barton | 5,000 | - | - | 5,000 |
| Mr P D Charlesworth | 312,790 | - | - | 312,790 |
| Mr R D Linehan | n/a | - | - | - |
| Mr P McCarter | - | - | - | - |

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

Mr S W Davies resigned as a director on 31 December 2013 and Mrs C S Namblard retired as a director on 30 June 2014.
Mr R D Linehan was appointed to the position of Executive General Manager, Business Development on 31 March 2014.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## *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 & fees | Short-term incentives | Other short term | Post-employment and superannuation contributions |
|---|---|---|---|---|---|
| **NON-EXECUTIVE** | | **$** | **$** | **$** | **$** |
| Dr G D Klingner | **2014** | **164,211** | **-** | **-** | **15,190** |
| | 2013 | 172,562 | - | - | 15,531 |
| Mr P R Griffiths | **2014** | **89,570** | **-** | **-** | **8,285** |
| | 2013 | 102,596 | - | - | - |
| Mr D J Klingberg | **2014** | **82,106** | **-** | **-** | **7,595** |
| | 2013 | 86,281 | - | - | 7,766 |
| Mr D J Simmons | **2014** | **87,082** | **-** | **-** | **8,055** |
| | 2013 | 91,510 | - | - | 8,236 |
| Lt-Gen P F Leahy | **2014** | **82,106** | **-** | **-** | **7,595** |
| | 2013 | 86,281 | - | - | 7,766 |
| Mr S W Davies | **2014** | **43,214** | **-** | **-** | **3,997** |
| | 2013 | 86,281 | - | - | 7,766 |
| Mrs C S Namblard | **2014** | **82,106** | **-** | **-** | **7,595** |
| | 2013 | 86,281 | - | - | 7,766 |
| **Total non-executives' remuneration** | **2014** | **630,395** | **-** | **-** | **58,312** |
| | 2013 | 711,792 | - | - | 54,831 |
| **EXECUTIVE** | | **$** | **$** | **$** | **$** |
| Mr D S McGurk | **2014** | **497,281** | **-** | **-** | **17,775** |
| | 2013 | 488,644 | 469,401 | - | 16,470 |
| **Total directors' remuneration** | **2014** | **1,127,676** | **-** | **-** | **76,087** |
| | 2013 | 1,200,436 | 469,401 | - | 71,301 |

| Other long term | Termination benefits | Performance rights | Total | Proportion of remuneration performance related | Value of performance rights as proportion of remuneration |
|---|---|---|---|---|---|
| $ | $ | $ | $ | % | % |
| **-** | **-** | **-** | **179,401** | **-** | **-** |
| - | - | - | 188,093 | - | - |
| **-** | **-** | **-** | **97,855** | **-** | **-** |
| - | - | - | 102,596 | - | - |
| **-** | **-** | **-** | **89,701** | **-** | **-** |
| - | - | - | 94,047 | - | - |
| **-** | **-** | **-** | **95,137** | **-** | **-** |
| - | - | - | 99,746 | - | - |
| **-** | **-** | **-** | **89,701** | **-** | **-** |
| - | - | - | 94,047 | - | - |
| **-** | **-** | **-** | **47,211** | **-** | **-** |
| - | - | - | 94,047 | - | - |
| **-** | **-** | **-** | **89,701** | **-** | **-** |
| - | - | - | 94,047 | - | - |
| **-** | **-** | **-** | **688,707** | **-** | **-** |
| - | - | - | 766,623 | - | - |
| $ | $ | $ | $ | % | % |
| **12,422** | **-** | **(219,234)*** | **308,244** | **(71.1)** | **(71.1)** |
| 17,635 | - | 96,864 | 1,089,014 | 52.0 | 8.9 |
| **12,422** | **-** | **(219,234)** | **996,951** | **-** | **-** |
| 17,635 | - | 96,864 | 1,855,637 | - | - |

Mr S W Davies resigned as a director on 31 December 2013 and Mrs C S Namblard retired as a director on 30 June 2014.

* The expense relating to unvested performance rights granted to key management personnel was reversed in the current year, as the rights are not expected to vest.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## *Remuneration report - audited (continued)*

### Directors' and senior executives' remuneration (continued)

| Executive officers | Year | Salary & fees | Short-term incentives | Other short term | Post-employment and superannuation contributions |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Mr M Barton (Chief Financial Officer and Company Secretary) | **2014** | **219,398** | **-** | **-** | **20,958** |
| | 2013 | 228,038 | 222,026 | - | 20,332 |
| Mr P D Charlesworth (Executive General Manager, Minelab) | **2014** | **310,842** | | **-** | **17,775** |
| | 2013 | 331,745 | 378,788 | - | 16,470 |
| Mr R D Linehan (Executive General Manager, Business Development) | **2014** | **81,043** | **42,425** | **400** | **1,886** |
| Mr P McCarter (Executive General Manager, Codan Radio Communications) | **2014** | **426,183** | **305,789** | **2,129** | **35,368** |
| | 2013 | 96,713 | - | - | - |
| **Total executive officers' remuneration** | **2014** | **1,037,466** | **348,214** | **2,529** | **75,987** |
| | 2013 | 656,496 | 600,814 | - | 36,802 |

| Other long term | Termination benefits | Performance rights | Total | Proportion of remuneration performance related | Value of performance rights as proportion of remuneration |
|---|---|---|---|---|---|
| $ | $ | $ | $ | % | % |
| **5,545** | **-** | **(103,698)*** | **142,203** | **(72.9)** | **(72.9)** |
| 7,908 | - | 45,817 | 524,121 | 51.1 | 8.7 |
| **7,741** | **-** | **(142,503)*** | **193,855** | **(73.5)** | **(73.5)** |
| 11,721 | - | 62,962 | 801,686 | 55.1 | 7.9 |
| **-** | **-** | **-** | **125,754** | **33.7** | **-** |
| **-** | **-** | **-** | **769,469** | **39.7** | **-** |
| - | - | - | 96,713 | - | - |
| **13,286** | **-** | **(246,201)** | **1,231,281** | **-** | **-** |
| 19,629 | - | 108,779 | 1,422,520 | - | - |

* The expense relating to unvested performance rights granted to key management personnel was reversed in the current year, as the rights are not expected to vest.

Mr P McCarter was appointed to the position of Executive General Manager, Codan Radio Communications on 3 June 2013. Mr R D Linehan was appointed to the position of Executive General Manager, Business Development on 31 March 2014.

Short-term incentives which vested during the year are as follows: Mr D S McGurk 0% (100% forfeited), Mr M Barton 0% (100% forfeited), Mr P D Charlesworth 0% (100% forfeited), Mr R D Linehan 100% and Mr P McCarter 100%.

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 GOVERNANCE STATEMENT (CONTINUED)

## *Remuneration report - audited (continued)*

### Corporate Performance

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

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Net profit after tax | 9,196,580 | 45,416,716 | 23,146,736 | 21,792,328 | 14,394,218 |
| Dividends paid | 15,039,383 | 20,343,012 | 14,773,138 | 13,952,408 | 11,490,222 |
| Share price at 30 June | 0.75 | 1.52 | 1.40 | 1.20 | 1.46 |
| Change in share price at 30 June | (0.77) | 0.12 | 0.20 | (0.26) | 0.82 |

## *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:

- Mr P R Griffiths (Chairman)
  Independent Non-Executive Director
- Mr D J Klingberg
  Independent Non-Executive Director
- Mrs C S Namblard
  Independent Non-Executive Director
  (retired on 30 June 2014)

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 to 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, 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.

### 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.

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.

### Financial reporting

The managing director and the chief financial officer have provided assurance in writing to the board that the company's financial reports are founded on a sound system of internal compliance and control and risk management practices 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.

### Environmental regulation

The group's operations are not subject to significant environmental regulation under either Commonwealth or State legislation. However, it is expected that formal accreditation to ISO14001, Environmental Management Systems, will be achieved in the 2014-15 financial year. 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 an internal audit function 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.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## *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 for seeking 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 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 from time to time; 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; 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 and in the announcements provided to the ASX.

## *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 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.

All of the above information, including that of the previous years, is made available 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 board gender diversity objectives and performance against those objectives.

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

| | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| **Gender representation** | **Female (%)** | **Male (%)** | **Female (%)** | **Male (%)** |
| Board representation | 17% | 83% | 14% | 86% |
| Executive & senior management representation | 22% | 78% | 18% | 82% |
| Group representation | 24% | 76% | 26% | 74% |
| Group graduate programme | 0% | 0% | 0% | 100% |

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

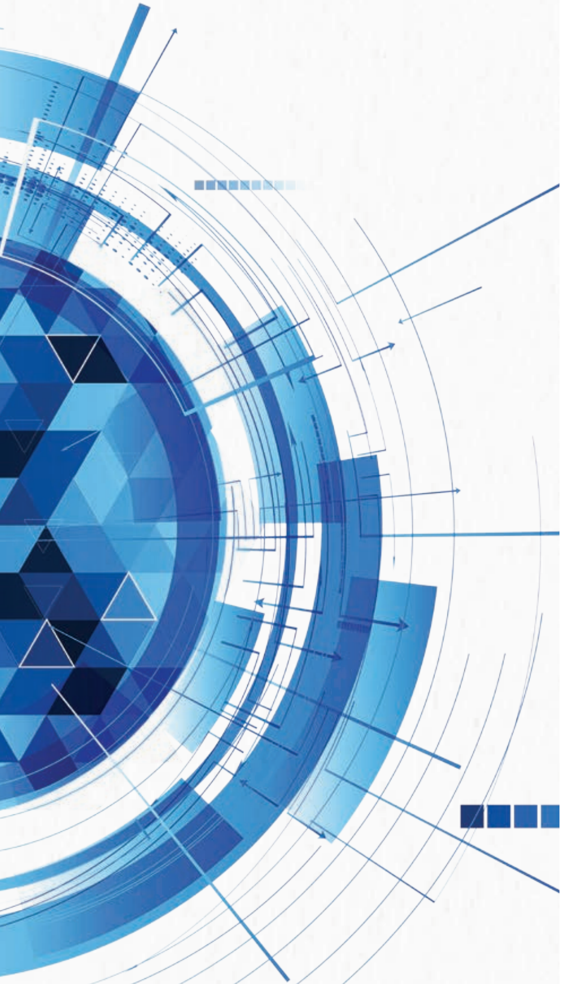
- qualified candidates considered for any new board, executive or senior management positions will include both genders;
- a target of at least 30% female candidates interviewed for all salaried positions in the group;
- an equal balance of genders in the Group Graduate Programme; and
- the provision of an Accelerated Leadership Development Programme for identified female employees and senior managers.

As a result of the introduction of a number of cost-cutting initiatives during the year, the group is not currently running a Graduate or Accelerated Leadership Development Programme.

The board will report on progress in achieving its objectives on an annual basis.

# DIRECTORS' REPORT

## CODAN LIMITED AND ITS CONTROLLED ENTITIES



## OPERATING AND FINANCIAL REVIEW

Codan is a group of electronics-based businesses that capitalise on their fundamental design and manufacturing skills to provide best-in-class electronics solutions to global markets. Codan employs approximately 375 people, located in Australia, USA, UK, Ireland, Canada, China and United Arab Emirates, and has a network of dealerships across the world.

Our marketing reach embraces over 150 countries and our customers include gold prospectors, metal detection hobbyists, aid agencies, miners, businesses and governments, including public safety, military and security organisations. We work closely with our customers to seek innovative ways to solve their problems and add value to their operations.

### *FY14 highlights*

- Reported profit of $9.2 million
- Earnings per share of 5.2 cents
- Annual dividend of 3.0 cents
- The business has stabilised and our new product pipeline is strong
- Significant reduction in inventory and debt achieved in the second half of FY14
- Management took early action to restructure the cost base of the organisation in the first half and maintained a cost focus during the year
- Radio Communications business delivered a much stronger second half and goes into FY15 with good momentum
- FY15 will see major new product releases across the Minelab product range
- Key strategic relationships have been developed with global blue-chip miners for mining productivity and safety solutions
- Strong action taken to compete hard against the supply of counterfeit and second-hand gold detectors in Africa

The net profit after tax was $9.2 million for the year ended 30 June 2014, compared to the prior year of $45.4 million. The prior year was a record for the company, following unprecedented demand for our gold detector products in the African market. Underlying net profit after tax for the year ended 30 June 2014 was $9.0 million from $132 million of revenue.

### *Dividend*

The company announced a final dividend of 1.5 cents per share, fully franked, bringing the full-year dividend to 3.0 cents. The dividend has a record date of 12 September 2014 and will be paid on 1 October 2014.

The board's objective is to continue to pay a dividend that is considered sustainable and that has a payout ratio of at least 50%.

### *Financial Performance*

Significant growth in sales of metal detectors into Africa drove record sales and profitability over the four years to FY13. Unfortunately, counterfeiters were attracted by the same opportunity, and when demand slowed in the absence of gold rushes, there was excess supply in the market, with second-hand machines adding further to the oversupply. This, along with a number of other factors, reduced demand for our metal detection products in Africa late in FY13 and this continued throughout FY14. The lower level of gold detector sales into Africa was the primary reason for the decline in the company's profitability in FY14.

Margins also decreased over the prior year due to stronger competition in the market, which resulted in lower prices on our high-end gold detector products in Africa.

In response to the lower sales performance in the first half, management restructured the expense base of the company. Expense reductions of $10 million per annum were implemented during the restructure, and these took effect early in the first half. In addition to these savings, a number of variable expense reductions were also realised.

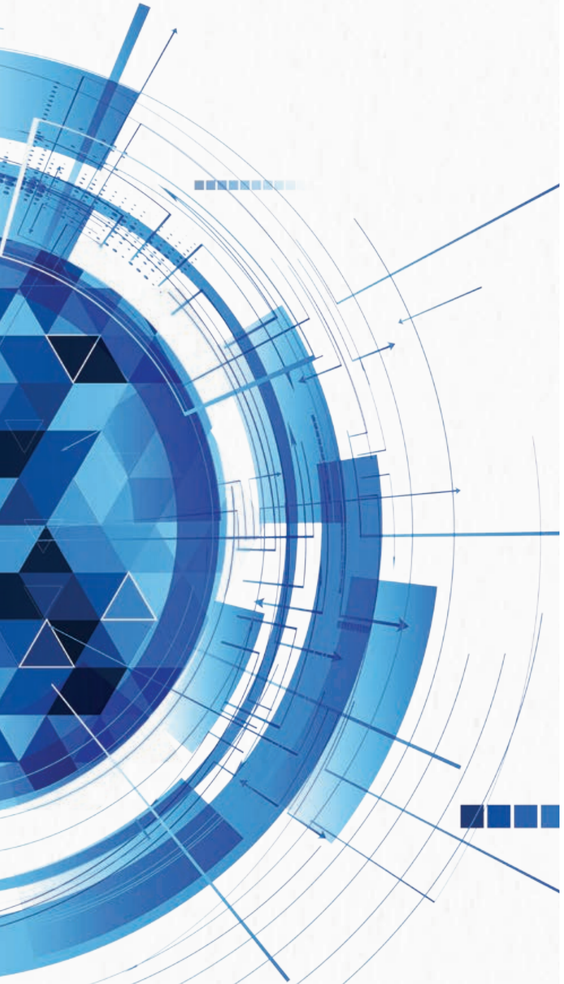
Despite this restructure, investment in new product development was maintained to ensure that we continue to bring our extensive suite of new product platforms to market as soon as possible.

In the second half of FY14, inventory has been reduced by $12 million and net debt has been reduced by $18 million. As at 30 June 2014, net debt was $47 million, which is well inside the company's debt facility of $85 million. This debt facility was renegotiated during the year and has an expiry date of 31 October 2016.

The company has previously announced the intention to redevelop the Newton, South Australia head office of Codan Limited. This project, which resulted in the demolition of a run-down building, is currently on hold as the company considers consolidating its South Australian operations into an alternative leased location. If this were to proceed, the South Australian owned properties at Newton and Torrensville, with carrying values of $10 million, would be sold. Proceeds from the potential sale of these properties would be used to further strengthen our balance sheet and better position the company to pursue its strategic initiatives.

| | FY14 | | FY13 | |
|---|---|---|---|---|
| | $m | % of sales | $m | % of sales |
| **REVENUE** | | | | |
| Communications products – HF and LMR | **53.9** | **41%** | 47.5 | 20% |
| Communications products – Discontinued Satcom | **-** | **-** | 10.5 | 4% |
| Metal detection products | **69.9** | **53%** | 166.3 | 68% |
| Mining technology | **4.0** | **3%** | 14.5 | 6% |
| Other | **4.5** | **3%** | 5.5 | 2% |
| **Total revenue** | **132.3** | **100%** | 244.3 | 100% |
| **UNDERLYING BUSINESS PERFORMANCE** | | | | |
| **EBITDA** | **22.6** | **17%** | 76.3 | 31% |
| **EBIT** | **13.6** | **10%** | 64.7 | 26% |
| Interest | **(2.8)** | **-** | (1.7) | - |
| **Net profit before tax** | **10.8** | **8%** | 63.0 | 26% |
| **Underlying net profit after tax** | **9.0** | **7%** | 45.4 | 19% |
| **Non-recurring income/(expenses) after tax:*** | **0.2** | **-** | - | - |
| **Net profit after tax** | **9.2** | **-** | 45.4 | - |
| **Underlying earnings per share, fully diluted** | **5.1 cents** | **-** | 25.8 cents | - |
| **Dividend per share** | **3.0 cents** | **-** | 13.0 cents | - |

** Non-underlying income/(expenses) are considered to be outside of normal business activities of the group and for comparability reasons have been separately identified. The methodology of identifying and quantifying these items is consistently applied from year to year. Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to review or audit. For the years ended 30 June 2014 and 30 June 2013, the net impact of non-recurring items on the profits of the company was immaterial.*



# OPERATING AND FINANCIAL REVIEW (CONTINUED)

## *Financial Performance* *(continued)*

An update on the trading conditions being experienced by each of the company's key business units is as follows:

### Radio Communications – High Frequency (HF) Radios and Land Mobile Radios (LMR)

Our radio communications business delivered a much improved segment result of $11.5 million compared to $8.9 million in FY13, an improvement of 29%. This result was achieved on sales of $53.9 million, an improvement of 13% on the prior year.

The new senior management team has implemented a full restructure of the business, which has resulted in a more customer-focused, solutions-based approach. This has helped to fast track acceptance of our new Envoy HF radio platform and, together with the cost reduction associated with the restructure, contributed to the profit improvement in FY14. We enter FY15 with strong momentum and a strategic plan for success.

Demand for our new Envoy HF radio continues to grow as customers recognise the benefits associated with the quality of our digital voice and simple user interface over conventional HF radio solutions. We are excited by the opportunity that this new technology provides to expand the HF radio market, as we demonstrate what a modern HF radio system can do to solve a new range of communications needs.

Sales of land mobile radio products have been impacted by the well-publicised cuts in US government spending, causing us to work hard to reduce the expense base of the business. Although our entry into LMR provides a large opportunity, we will not reap the benefits without further investment in next generation product technology to broaden our offering and ensure we remain relevant over the longer term.

We continue to see significant opportunities to grow the radio communications business by integrating LMR and HF radio communications, which will enable expansion into new geographical regions and provide the platform to offer a range of new and different communications solutions.

### Metal Detection

The Minelab business operates in three different markets: gold mining metal detection (artisanal small-scale mining), consumer (gold prospecting and coin, relic & treasure hunting) and countermine (land mine detection).

Minelab faced a new level of threat in its African markets from competitors who used our brand and our gold detector product technology against us. While the threat from counterfeiters is not a new one, it became increasingly aggressive during the past 12 months, particularly in the area of pricing.

Minelab gold detector sales into Africa reduced significantly following the record demand across the previous four years and particularly FY13. The variability in demand from multiple gold rushes and the increasingly aggressive competition from counterfeiters are challenges we will continue to face in Africa. These factors limit our ability to accurately forecast demand in this market.

The combination of all these factors resulted in our gold detector sales being approximately $80 million (or 70%) down on the prior year.

Minelab has taken a number of actions to strengthen our position in Africa. These actions have seen us significantly increase the volume of detectors sold over the last few months of FY14, albeit at reduced price and margin.

The Minelab consumer business remains strong and is more predictable, as its primary markets are located in the regulated legal environments of Australia, United States, Europe and Russia. This market supplies hobbyists and prospectors who seek genuine and best-in-class metal detection products and solutions.

Since 2009, Minelab has invested heavily in new product development and, as a result, the consumer business is well positioned for growth as a range of exciting new products are released to the market.

These new products include a mid-priced, compact and fully waterproof gold detector. Pre-production reviews on this machine have been excellent, with best-in-class detection performance for fine gold.

The June 2014 release of this machine was eagerly awaited and has been well received by the market.

We are also developing a unique metal detecting platform that will position Minelab in the lower end of the price scale, a new market space for Minelab. This consumer product, to be released in the second half of FY15, will introduce features, levels of performance and value that haven't previously been seen in this market.

The countermine business remains strategically important in order to maintain our position as the world's number one provider of metal detection technologies and solutions. Minelab has recently won a number of Defence contracts in the USA and Australia to develop new handheld and vehicle-mounted, dual-sensor detectors that combine ground-penetrating radar.

More than half of Minelab's sales last year came from the more predictable consumer and countermine business segments.

We are at the beginning of a period of new product releases for Minelab and, while the decline in FY14 sales has been dramatic, the Minelab business remains our most profitable business segment.

### Mining Technology

Minetec has developed industry-leading communications systems to the mining sector, aimed at improving mine productivity and safety. While this new business continues to require significant investment to position it for future growth, much has been achieved to advance the technology and strengthen the international customer base.

FY14 sales declined versus last year as Minetec made the strategic decision to transition from the supply of more traditional mining services to the commercialisation of its own technology solutions.

In response to the challenges faced by the Australian mining industry, Minetec has taken its technology to global blue-chip miners and successfully completed a number of proof-of-concept demonstrations, which were won in open competition. We are now focused on transitioning this success into a number of full mine roll-outs during FY15.

Minetec has extended its product portfolio from underground hard-rock mines to wireless technologies for open-pit mining. During trials, Minetec's collision avoidance systems have set a new benchmark in the marketplace, offering performance that cannot be met with legacy GPS-based solutions. The majority of the world's production is from open-pit mining, and this has opened up a significantly larger addressable market for Minetec.

As the global mining industry becomes more regulated, Minetec is well placed to take advantage of the legislation that is driving demand for enhanced collision-avoidance systems.

While the current economic environment has miners focused on short-term cost control, the mine-management and asset-tracking systems developed by Minetec are seen as a long-term solution to reduce operating costs as miners move to more mechanised and automated mining-production techniques.

## Outlook

While results in FY14 fell well short of our expectations, clear and strong actions have been taken to respond to the changing market conditions.

Inventory and net debt have been reduced significantly in the second half of FY14 resulting in a much stronger balance sheet, and this has us better positioned to pursue strategic initiatives.

Progress has been made to strengthen our position in Africa for the sale of gold detectors, and significant investment in new metal detecting products has us positioned for growth.

Radio Communications delivered a much improved result and enters FY15 with strong momentum and a plan to further grow the business.

Minetec has developed technologies that are being recognised by world-leading miners as best-in-class, and significant opportunities are expected to progress over FY15.

Our gold detecting business remains very difficult to forecast. However we have a solid baseline business from which to grow, and we continue to supplement this with significant investment in new product development and professional marketing.

While management and the board are focused on increasing profit, FY15 is expected to be a year of consolidation with all the benefit of actions taken during the past 12 months and a full year of new product sales to be realised in FY16.

The challenge presented by some of our markets makes it difficult to provide profit guidance.

## 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 2014:** | | | | |
| Final 2013 ordinary | 7.0 | 12,385 | 100% | 1 October 2013 |
| Interim 2014 ordinary | 1.5 | 2,654 | 100% | 1 April 2014 |
| **DECLARED AFTER THE END OF THE YEAR:** | | | | |
| Final 2014 ordinary | 1.5 | 2,654 | 100% | 1 October 2014 |

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

## EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

## LIKELY DEVELOPMENTS

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

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 |
|---|---|
| Dr G D Klingner | **534,983** |
| Mr D S McGurk | **312,517** |
| Mr P R Griffiths | **199,416** |
| Mr D J Klingberg | **120,908** |
| Mr D J Simmons | **-** |
| Lt-Gen P F Leahy | **57,708** |

# 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.

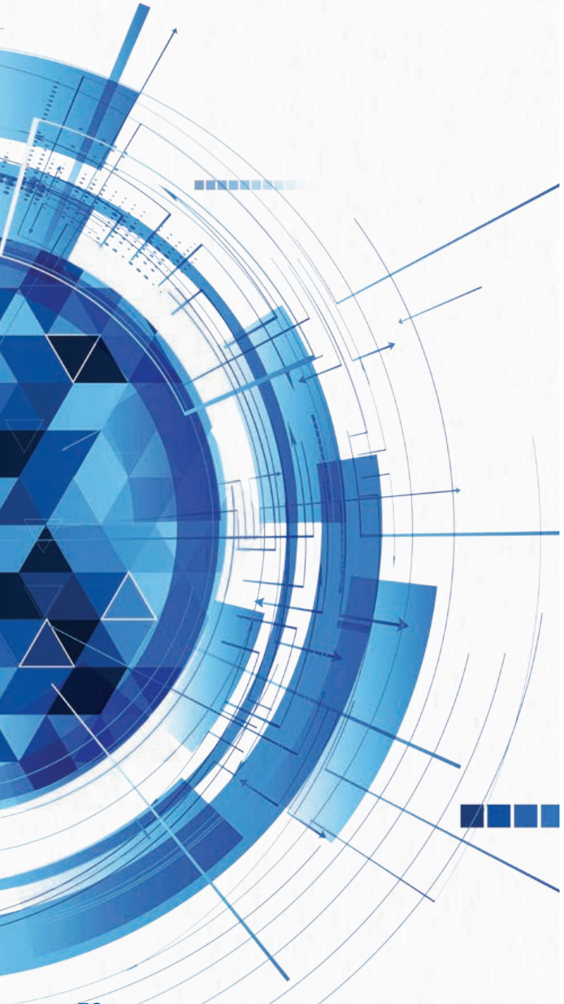
The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the 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 51 for a copy of the auditor's independence declaration as required under Section 307C of the Corporations Act.

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 2014 $ | 2013 $ |
|---|---|---|
| **STATUTORY AUDIT** | | |
| Audit and review of financial reports (KPMG Australia) | **185,000** | 242,450 |
| Audit of financial reports (overseas KPMG firms) | **39,604** | 37,091 |
| | **224,604** | 279,541 |
| **SERVICES OTHER THAN STATUTORY AUDIT** | | |
| **Other assurance services** | | |
| Due diligence and corporate finance services | - | 312,503 |
| Other | - | 12,000 |
| **Other services** | | |
| Taxation compliance services (KPMG Australia) | **231,650** | 268,215 |
| Taxation compliance services (overseas KPMG firms) | **164,818** | 346,519 |
| | **396,468** | 939,237 |



## ROUNDING OFF

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, 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:

**Dr G D Klingner**
**Director**

**D S McGurk**
**Director**

Dated at Newton this
20th day of August 2014.

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

## FOR THE YEAR ENDED 30 JUNE 2014

**CODAN LIMITED AND ITS CONTROLLED ENTITIES**

KPMG

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

To: the directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 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

Scott Fleming
*Partner*

Adelaide

20 August 2014

# CONSOLIDATED INCOME STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2014

## CODAN LIMITED AND ITS CONTROLLED ENTITIES

| | Note | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | 3 | **132,268** | 233,836 |
| Cost of sales | | **(67,792)** | (90,722) |
| **Gross profit** | | **64,476** | 143,114 |
| | | | |
| Administrative expenses | | **(14,464)** | (19,116) |
| Sales and marketing expenses | | **(29,646)** | (42,029) |
| Engineering expenses | | **(9,327)** | (15,741) |
| Net financing costs | 5 | **(3,291)** | (1,941) |
| Other (expenses)/income | 6 | **2,522** | (766) |
| **Profit before tax** | | **10,270** | 63,521 |
| Income tax expense | 8 | **(1,073)** | (17,749) |
| **Profit from continuing operations** | | **9,197** | 45,772 |
| **DISCONTINUED OPERATION** | | | |
| Satellite communications operating results, net of income tax | 4 | **-** | (355) |
| **Profit for the period** | | **9,197** | 45,417 |
| **Earnings per share for profit attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 28 | **5.2 cents** | 25.9 cents |
| Diluted earnings per share | 28 | **5.2 cents** | 25.8 cents |
| **Earnings per share from continuing operations:** | | | |
| Basic earnings per share | 28 | **5.2 cents** | 26.1 cents |
| Diluted earnings per share | 28 | **5.2 cents** | 26.0 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 57 to 100.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2014

### CODAN LIMITED AND ITS CONTROLLED ENTITIES

| | Note | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|---|
| **Profit for the period** | | **9,197** | 45,417 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Changes in fair value of cash flow hedges | | **1,607** | (2,087) |
| less tax effect | | **(482)** | 626 |
| Changes in fair value of cash flow hedges, net of income tax | 20 | **1,125** | (1,461) |
| Exchange differences on translation of foreign operations | 20 | **589** | 3,697 |
| Recognised through sale of discontinued operation | 20 | **-** | 979 |
| **Other comprehensive income for the period, net of income tax** | | **1,714** | 3,215 |
| **Total comprehensive income for the period** | | **10,911** | 48,632 |

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 57 to 100.

# CONSOLIDATED BALANCE SHEET

## AS AT 30 JUNE 2014

### CODAN LIMITED AND ITS CONTROLLED ENTITIES

| | Note | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 9 | **13,031** | 8,638 |
| Trade and other receivables | 10 | **22,141** | 21,137 |
| Inventory | 11 | **31,298** | 43,336 |
| Current tax assets | 8 | **1,112** | 226 |
| Other assets | 12 | **1,847** | 2,244 |
| **Total current assets** | | **69,429** | 75,581 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **20,128** | 19,940 |
| Product development | 14 | **34,879** | 27,498 |
| Intangible assets | 15 | **87,993** | 88,519 |
| **Total non-current assets** | | **143,000** | 135,957 |
| **TOTAL ASSETS** | | **212,429** | 211,538 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 16 | **23,391** | 29,357 |
| Loans and borrowings | 17 | **33** | 201 |
| Current tax payable | 8 | **57** | 11,370 |
| Provisions | 18 | **6,426** | 10,448 |
| **Total current liabilities** | | **29,907** | 51,376 |
| **NON-CURRENT LIABILITIES** | | | |
| Other payables | | **-** | 600 |
| Loans and borrowings | 17 | **59,947** | 33,641 |
| Deferred tax liabilities | 8 | **1,601** | 332 |
| Provisions | 18 | **683** | 857 |
| **Total non-current liabilities** | | **62,231** | 35,430 |
| **TOTAL LIABILITIES** | | **92,138** | 86,806 |
| **Net assets** | | **120,291** | 124,732 |
| **EQUITY** | | | |
| Share capital | 19 | **41,560** | 41,873 |
| Reserves | 20 | **50,475** | 34,953 |
| Retained earnings | | **28,256** | 47,906 |
| **Total equity** | | **120,291** | 124,732 |

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 57 to 100.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2014

**CODAN LIMITED AND ITS CONTROLLED ENTITIES**

| 2014 | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $000 | Translation reserve $000 | Hedging reserve $000 | Profit reserve $000 | Retained earnings $000 | Total $000 |
| Balance as at 1 July 2013 | 41,873 | 1,405 | (1,125) | 34,673 | 47,906 | 124,732 |
| Profit for the period | - | - | - | - | 9,197 | 9,197 |
| Performance rights expensed/reversed | (391) | - | - | - | - | (391) |
| Change in fair value of cash flow hedges | - | - | 1,125 | - | - | 1,125 |
| Exchange differences on translation of foreign operations | - | 589 | - | - | - | 589 |
| Transfers to and from reserves | - | - | - | 13,808 | (13,808) | - |
| | 41,482 | 1,994 | - | 48,481 | 43,295 | 135,252 |
| **Transactions with owners of the company** | | | | | | |
| Dividends recognised during the period | - | - | - | - | (15,039) | (15,039) |
| Employee share plan, net of issue costs | 78 | - | - | - | - | 78 |
| | 78 | - | - | - | (15,039) | (14,961) |
| **Balance at 30 June 2014** | 41,560 | 1,994 | - | 48,481 | 28,256 | 120,291 |

| 2013 | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $000 | Translation reserve $000 | Hedging reserve $000 | Profit reserve $000 | Retained earnings $000 | Total $000 |
| Balance as at 1 July 2012 | 24,839 | (3,271) | 336 | - | 57,505 | 79,409 |
| Profit for the period | - | - | - | - | 45,417 | 45,417 |
| Performance rights expensed | 204 | - | - | - | - | 204 |
| Change in fair value of cash flow hedges | - | - | (1,461) | - | - | (1,461) |
| Reserves through sale of discontinued operation | - | 979 | - | - | - | 979 |
| Exchange differences on translation of foreign operations | - | 3,697 | - | - | - | 3,697 |
| Transfers to and from reserves | - | - | - | 34,673 | (34,673) | - |
| | 25,043 | 1,405 | (1,125) | 34,673 | 68,249 | 128,245 |
| **Transactions with owners of the company** | | | | | | |
| Dividends recognised during the period | - | - | - | - | (20,343) | (20,343) |
| Issue of share capital, net of issue costs | 16,660 | - | - | - | - | 16,660 |
| Employee share plan, net of issue costs | 170 | - | - | - | - | 170 |
| **Balance at 30 June 2013** | 41,873 | 1,405 | (1,125) | 34,673 | 47,906 | 124,732 |

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 57 to 100.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2014

### CODAN LIMITED AND ITS CONTROLLED ENTITIES

| | Note | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | **142,037** | 258,221 |
| Cash paid to suppliers and employees | | **(115,524)** | (209,498) |
| Interest received | | **67** | 206 |
| Interest paid | | **(2,832)** | (1,896) |
| Income taxes paid | | **(12,326)** | (10,751) |
| **Net cash from operating activities** | 24(II) | **11,422** | 36,282 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of a subsidiary | | **-** | (23,417) |
| Proceeds from disposal of property, plant and equipment | | **27** | 1,060 |
| Payments for capitalised product development | | **(12,467)** | (10,248) |
| Payments for intellectual property | | **(2,251)** | (3,669) |
| Acquisition of property, plant and equipment | | **(3,112)** | (4,340) |
| Acquisition of intangibles (computer software and licences) | | **(1,014)** | (1,706) |
| **Net cash used in investing activities** | | **(18,817)** | (42,320) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Drawdowns/(repayments) of borrowings | | **26,800** | (5,439) |
| Issue of share capital | | **-** | 16,660 |
| Dividends paid | | **(15,039)** | (20,343) |
| **Net cash provided by/(used in) financing activities** | | **11,761** | (9,122) |
| **Net increase/(decrease) in cash held** | | **4,366** | (15,160) |
| Cash and cash equivalents at the beginning of the financial year | | **8,638** | 23,081 |
| Effects of exchange rate fluctuations on cash held | | **27** | 717 |
| **Cash and cash equivalents at the end of the financial year** | 24(I) | **13,031** | 8,638 |

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 57 to 100.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

CODAN LIMITED AND ITS CONTROLLED ENTITIES

## 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 2014 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 20 August 2014.

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) 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) and interpretations 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.

A number of new standards, amendments to standards and interpretations, effective for annual periods beginning after 1 July 2014, were available for early adoption but only Accounting Standard AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets was applied in preparing these consolidated financial statements. The amendments remove the requirement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated, when first adopting AASB 13 Fair Value Measurement. The amendments result in the recoverable amount of a cash-generating unit with significant goodwill or indefinite-lived intangible assets being disclosed only when an impairment loss has been recognised or reversed.

None of the other standards are expected to have a significant effect on the consolidated financial statements of the group except for AASB 9 Financial Instruments, which could change the classification and measurement of financial assets. AASB 9 is applicable for annual reporting periods beginning on or after 1 January 2015, with early adoption permitted. AASB 9 will supersede AASB 139 from 1 January 2015.

The group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with the Class Order, 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 judgments 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.

#### Changes in accounting policies

For the year ended 30 June 2014, the group has not changed any of its significant accounting policies.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by group entities.

### (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

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Basis of consolidation (continued)

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.

### (d) Revenue recognition

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

#### Sale of goods

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

#### Construction contracts

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

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

#### Rendering of services

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

### (e) Expenses

#### Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, and are spread over the lease term.

#### Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### Net financing costs

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

## (f) Foreign currency

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

### Foreign operations

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

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

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

## (g) Derivative financial instruments

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

### Hedging

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

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

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the unrealised gain or loss recognised in equity is recognised immediately in the income statement.

## (h) Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, adjusted for any prior year under or over provision. The movement in deferred tax assets and liabilities results in the 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 current 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 current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

# 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (h) Taxation (continued)

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

### Tax consolidation

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

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

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

## (i) Goods and services tax

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

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

Cash flows are included in the 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 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 impairment losses. Impairment of receivables is not recognised until objective evidence is available that a loss event may occur. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed; instead impairment testing is performed by considering the risk profile of that group of receivables. All impairment losses are recognised in the income statement.

## (l) Inventories

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

## (m) Project work in progress

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

## (n) Intangible assets

### Product development costs

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

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

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

### Goodwill

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

#### *Measuring goodwill*

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

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

#### *Contingent liabilities*

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

#### *Non-controlling interest*

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

#### *Transaction costs*

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

### Licences and other intangible assets

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

### Subsequent expenditure

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

### Amortisation

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

| | |
|---|---|
| Product development, licences and intellectual property: | 2 - 15 years |
| Computer software: | 3 - 7 years |

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

## (o) Property, plant and equipment

### Owned assets

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

Land and buildings that had been revalued to fair value prior to the transition to AIFRS, being 1 July 2004, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

### Subsequent costs

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

# 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (o) Property, plant and equipment (continued)

### Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the balance sheet.

### Depreciation

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

Depreciation is charged to the income statement on property, plant and equipment on a straight-line basis over the estimated useful life of the assets. Capitalised leased assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the group will obtain ownership of the asset, the life of the asset. Land is not depreciated.

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

| | |
|---|---|
| Buildings | 4% |
| Leasehold property | 10% |
| Plant and equipment | 5% to 40% |

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

## (p) Impairment

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

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

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

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

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

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

## (q) 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.

## (r) 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.

## (s) Employee benefits

### Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries, incentives and annual leave represent present obligations resulting from employees' services provided to the reporting date, calculated at undiscounted amounts based on remuneration rates that the group expects to pay as at the reporting date, including related on-costs such as workers' compensation insurance and payroll tax.

### Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows resulting from the employees' services provided to the reporting date. The provision is calculated using expected future increases in wage and salary rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using the rates attaching to Commonwealth Government bonds 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.

## (t) Provisions

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

### Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

### Restructuring and employee termination benefits

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

### Warranty

A provision is made for the group's estimated liability on all products sold and still under warranty, and includes claims already received. The estimate is based on the group's warranty cost experience over previous years.

### Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

## (u) 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.

## (v) 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 for which the related service and non-market vesting conditions are expected to be met.

## (w) Discontinued operations

Classification as a discontinued operation occurs on disposal or when the operation is determined to be held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

## 2. DIVIDENDS

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| i. An ordinary final dividend of 7.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2013 | **12,385** | - |
| ii. An ordinary interim dividend of 1.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2014 | **2,654** | - |
| iii. An ordinary final dividend of 5.5 cents per share, franked to 100% with 30% franking credits, was paid on 2 October 2012 | **-** | 9,727 |
| iv. An ordinary interim dividend of 6.0 cents per share, franked to 100% with 30% franking credits, was paid on 2 April 2013 | **-** | 10,616 |
| | **15,039** | 20,343 |

### Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 1.5 cents per share, franked to 100% with 30% franking credits. Based upon the shares on issue at 30 June 2014, the dividend would be $2,654,549 and is expected to be paid on 1 October 2014. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2014 and will be recognised in subsequent financial reports.

### Dividend franking account

| | | |
|---|---|---|
| Franking credits available to shareholders for subsequent financial years (30%) | **14,052** | 22,104 |

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 $1,137,664 (2013: $5,307,783 ).

# \ 3. 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, including revenues and expenses that relate to transactions with any of the group's other components. 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, and for which discrete financial information is available.

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

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

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

## Business segments

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The group comprises four business segments. The communications equipment 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. The mining technology segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector. The "other" business segment includes the manufacture and marketing of printed circuit boards.

## Geographical segments

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

## 3. SEGMENT ACTIVITIES (CONTINUED)

### Information about reportable segments

| | Communications | | Metal detection | |
|---|---|---|---|---|
| | 2014 $000 | 2013 $000 | 2014 $000 | 2013 $000 |
| **REVENUE** | | | | |
| External segment revenue | **53,875** | 47,581 | **69,895** | 166,258 |
| Discontinued operation (refer Note 4) | **-** | 10,500 | **-** | - |
| Inter-segment revenue | **716** | - | **-** | - |
| **Total segment revenue** | **54,591** | 58,081 | **69,895** | 166,258 |
| **RESULT** | | | | |
| Segment result | **11,474** | 8,891 | **16,029** | 78,645 |
| Unallocated income and expenses | | | | |
| Profit from operating activities | | | | |
| Income tax expense | | | | |
| **Net Profit** | | | | |
| **NON-CASH ITEMS INCLUDED ABOVE** | | | | |
| Depreciation and amortisation | **3,200** | 3,041 | **4,374** | 7,035 |
| Unallocated depreciation and amortisation | | | | |
| **Total depreciation and amortisation** | | | | |
| **ASSETS** | | | | |
| Segment assets | **52,828** | 56,951 | **109,382** | 113,658 |
| Unallocated corporate assets | | | | |
| **Consolidated total assets** | | | | |

| Mining technology | | Other | | Elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|
| 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| | | | | | | | |
| 4,007 | 14,480 | 4,491 | 5,517 | - | - | 132,268 | 233,836 |
| - | - | - | - | - | - | - | 10,500 |
| - | - | 267 | 369 | (983) | (369) | - | - |
| 4,007 | 14,480 | 4,758 | 5,886 | (983) | (369) | 132,268 | 244,336 |
| | | | | | | | |
| (2,917) | (2,577) | (122) | 172 | - | - | 24,464 | 85,131 |
| | | | | | | (14,194) | (22,117) |
| | | | | | | 10,270 | 63,014 |
| | | | | | | (1,073) | (17,597) |
| | | | | | | 9,197 | 45,417 |
| | | | | | | | |
| 239 | 247 | 146 | 151 | - | - | 7,959 | 10,474 |
| | | | | | | 1,072 | 1,169 |
| | | | | | | 9,031 | 11,643 |
| | | | | | | | |
| 14,170 | 14,885 | 2,296 | 2,621 | - | - | 178,676 | 188,115 |
| | | | | | | 33,752 | 23,423 |
| | | | | | | 212,428 | 211,538 |

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were Australia totalling $15,334,118 (2013: $29,972,235), the United States of America totalling $31,087,193 (2013: $38,041,994) and Turkey totalling $28,750,323 (2013: $86,682,585).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: Australia $120,244,534 (2013: $114,193,645), the United States of America $178,892 (2013: $220,232), Ireland $528,480 (2013: $594,559), United Kingdom $76,061 (2013: $93,421), Canada $22,102,419 (2013: $20,854,850) and Middle East $141,440 (2013:Nil).

## 4. DISCONTINUED OPERATION

Effective 30 June 2012, Codan sold its satellite communications assets to Communications & Power Industries Canada Inc and its related corporate entities (collectively CPI). The sale consisted of Codan's Australian-based satellite communications assets and 100% of the shares of Locus Microwave, Inc.

Through most of the prior financial year, Codan assisted CPI with manufacturing, training and support to ensure continuous supply to customers.

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **RESULTS OF DISCONTINUED OPERATION** | | |
| Revenue | - | 10,500 |
| Expenses | - | (11,007) |
| **Loss from operating activities** | - | (507) |
| Tax | - | 152 |
| **Loss from operating activities, net of tax** | - | (355) |
| Basic earnings/(loss) per share (cents) | - | (0.2) |
| Diluted earnings/(loss) per share (cents) | - | (0.2) |
| **CASH FLOWS FROM/(USED IN) DISCONTINUED OPERATION** | | |
| Net cash from operating activities | - | 224 |
| Net cash used in investing activities | - | - |
| Net cash from financing activities | - | - |
| **Net cash flows for the year** | - | 224 |

# \ 5. EXPENSES

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| **Net financing costs:** | | |
| Interest income | **(67)** | (206) |
| Net foreign exchange (gain)/loss | **511** | 251 |
| Interest expense | **2,847** | 1,896 |
| | **3,291** | 1,941 |
| **Depreciation of:** | | |
| Buildings | **543** | 531 |
| Leasehold property | **36** | 15 |
| Plant and equipment | **2,042** | 1,906 |
| | **2,621** | 2,452 |
| **Amortisation of:** | | |
| Product development | **4,312** | 4,430 |
| Intellectual property | **1,170** | 3,694 |
| Computer software | **498** | 615 |
| Licences | **430** | 452 |
| | **6,410** | 9,191 |
| **Personnel expenses:** | | |
| Wages and salaries | **33,163** | 40,804 |
| Other associated personnel expenses | **2,578** | 3,134 |
| Contributions to defined contribution superannuation plans | **2,660** | 3,128 |
| Increase in liability for long service leave | **117** | 336 |
| Increase in liability for annual leave | **1,604** | 2,314 |
| | **40,122** | 49,716 |
| **Additional expenses disclosed:** | | |
| Impairment of trade receivables | **(294)** | 504 |
| Operating lease rental expense | **2,634** | 2,265 |
| (Gain)/loss on sale of property, plant and equipment | **(10)** | (42) |
| Acquisition, integration and restructuring | **2,701** | 1,784 |

## 6. OTHER EXPENSES (INCOME)

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| Insurance recoveries | **(38)** | (1,009) |
| Mining technology earn-out liability no longer required | **(600)** | (2,465) |
| Communications earn-out liability no longer required | **-** | (1,789) |
| Communications acquisition retention recovery | **(328)** | - |
| Impairment of building | **272** | 1,100 |
| Provision for onerous contract no longer required | **(990)** | 1,310 |
| Provision for legal dispute no longer required | **(1,284)** | 1,450 |
| Impairment of mining technology product development | **774** | 1,606 |
| Impairment of acquired communications brand name | **-** | 510 |
| Product development income | **(255)** | - |
| Other expenses/(income) | **(73)** | 53 |
| | **(2,522)** | 766 |

# \ 7. AUDITOR'S REMUNERATION

| | Consolidated 2014 $ | 2013 $ |
|---|---|---|
| **Audit services:** | | |
| KPMG Australia - audit and review of financial reports | **185,000** | 242,450 |
| Overseas KPMG firms - audit of financial reports | **39,604** | 37,091 |
| **Other services:** | | |
| KPMG Australia - taxation services | **231,650** | 268,215 |
| KPMG Australia - other assurance services | **-** | 12,000 |
| Overseas KPMG firms - taxation services | **164,818** | 346,519 |
| KPMG related practices - due diligence and corporate finance services | **-** | 312,503 |
| | **621,072** | 1,218,778 |

# \ 8. INCOME TAX

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| **A. INCOME TAX EXPENSE** | | |
| **Current tax expense:** | | |
| Current tax paid or payable for the financial year | **701** | 17,672 |
| Adjustments for prior years | **(587)** | (185) |
| | **114** | 17,487 |
| **Deferred tax expense:** | | |
| Origination and reversal of temporary differences | **959** | 110 |
| **Total income tax expense in income statement** | **1,073** | 17,597 |
| | | |
| Income tax expense from continuing operations | **1,073** | 17,749 |
| Income tax recovery from discontinuing operation | **-** | (152) |
| | **1,073** | 17,597 |

## 8. INCOME TAX (CONTINUED)

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **Reconciliation between tax expense and pre-tax net profit:** | | |
| The prima facie income tax expense calculated at 30% on the profit from ordinary activities (including discontinued operations) | **3,081** | 18,904 |
| **Decrease in income tax expense due to:** | | |
| Additional deduction for research and development expenditure | **964** | 961 |
| Over/(under) provision for taxation in previous years | **587** | 185 |
| Non-assessable income | **635** | 1,276 |
| Sundry items | **29** | 63 |
| | **866** | 16,419 |
| **Increase in income tax expense due to:** | | |
| Non-deductible expenses | **127** | 1,010 |
| Effect of tax rates in foreign jurisdictions | **80** | 168 |
| **Income tax expense** | **1,073** | 17,597 |

### B. CURRENT TAX LIABILITIES / ASSETS

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| Balance at the beginning of the year | **(11,144)** | (4,151) |
| Acquired through business combination | **-** | (250) |
| Net foreign currency differences on translation of foreign entities | **(13)** | (7) |
| Income tax paid | **12,326** | 10,751 |
| Adjustments from prior year | **587** | 185 |
| Current year's income tax paid or payable on operating profit | **(701)** | (17,672) |
| | **1,055** | (11,144) |
| **Disclosed in balance sheet as:** | | |
| Current tax asset | **1,112** | 226 |
| Current tax payable | **(57)** | (11,370) |
| | **1,055** | (11,144) |

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **C. DEFERRED TAX LIABILITIES** | | |
| **Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:** | | |
| Expenditure currently tax deductible but deferred and amortised for accounting | **9,899** | 8,605 |
| Sundry items | **(131)** | (25) |
| Hedging reserve | **-** | (482) |
| Difference in depreciation of property, plant and equipment | **(119)** | (242) |
| **Set-off of tax in relation to deferred tax assets:** | | |
| Payments for intellectual property not currently deductible | **(2,969)** | (2,939) |
| Provisions for employee benefits not currently deductible | **(1,641)** | (2,104) |
| Provisions and accruals not currently deductible | **(1,922)** | (2,481) |
| Carry forward tax losses | **(1,516)** | - |
| | **1,601** | 332 |

## \ 9. CASH AND CASH EQUIVALENTS

| | 2014 $000 | 2013 $000 |
|---|---|---|
| Petty cash | **27** | 28 |
| Cash at bank | **13,004** | 8,610 |
| | **13,031** | 8,638 |

## 10. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 2014 $000 | 2013 $000 |
| **CURRENT** | | |
| Trade receivables | **22,326** | 23,196 |
| Less: Provision for impairment losses | **(741)** | (2,424) |
| | **21,585** | 20,772 |
| Other debtors | **556** | 365 |
| | **22,141** | 21,137 |

## 11. INVENTORY

| | | |
|---|---|---|
| Raw materials | **2,678** | 4,861 |
| Work in progress | **10,859** | 10,489 |
| Finished goods | **17,761** | 27,986 |
| | **31,298** | 43,336 |

## 12. OTHER ASSETS

| | | |
|---|---|---|
| Prepayments | **1,327** | 573 |
| Project work in progress | **267** | 785 |
| Other | **253** | 886 |
| | **1,847** | 2,244 |

# \ 13. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| Freehold land and buildings at cost | **16,263** | 15,554 |
| Accumulated depreciation | **(5,837)** | (6,239) |
| | **10,426** | 9,315 |
| Leasehold property at cost | **675** | 532 |
| Accumulated amortisation | **(423)** | (386) |
| | **252** | 146 |
| Plant and equipment at cost | **30,486** | 31,281 |
| Accumulated depreciation | **(22,403)** | (22,350) |
| | **8,083** | 8,931 |
| Capital work in progress at cost | **1,367** | 1,548 |
| **Total property, plant and equipment** | **20,128** | 19,940 |

**Reconciliations**

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

| | 2014 $000 | 2013 $000 |
|---|---|---|
| *Freehold land and buildings* | | |
| Carrying amount at beginning of year | **9,315** | 10,508 |
| Additions | **1,438** | 438 |
| Transfers | **488** | - |
| Impairment of building | **(272)** | (1,100) |
| Disposals | **-** | - |
| Depreciation | **(543)** | (531) |
| **Carrying amount at end of year** | **10,426** | 9,315 |
| *Leasehold property improvements* | | |
| Carrying amount at beginning of year | **146** | 109 |
| Acquisitions through entity acquired | **-** | 45 |
| Additions | **132** | 5 |
| Transfers | **7** | - |
| Depreciation | **(36)** | (15) |
| Net foreign currency differences on translation of foreign entities | **3** | 2 |
| **Carrying amount at end of year** | **252** | 146 |

## \ 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| *Plant and equipment* | | |
| Carrying amount at beginning of year | **8,931** | 7,458 |
| Acquisitions through entity acquired | **-** | 847 |
| Additions | **857** | 2,512 |
| Transfers | **371** | - |
| Disposals | **(17)** | (120) |
| Depreciation | **(2,042)** | (1,906) |
| Net foreign currency differences on translation of foreign entities | **(17)** | 140 |
| **Carrying amount at end of year** | **8,083** | 8,931 |
| *Capital work in progress at cost* | | |
| Carrying amount at beginning of year | **1,548** | 163 |
| Additions, net of transfers | **(181)** | 1,385 |
| **Carrying amount at end of year** | **1,367** | 1,548 |
| **Total carrying amount at end of year** | **20,128** | 19,940 |

## \ 14. PRODUCT DEVELOPMENT

| | | |
|---|---|---|
| Product development at cost | **72,974** | 60,508 |
| Accumulated amortisation | **(38,095)** | (33,010) |
| | **34,879** | 27,498 |
| **Reconciliation** | | |
| Carrying amount at beginning of year | **27,498** | 23,286 |
| Capitalised in current period | **12,467** | 10,248 |
| Impairment of mining technology product development | **(774)** | (1,606) |
| Amortisation | **(4,312)** | (4,430) |
| | **34,879** | 27,498 |

# \ 15. INTANGIBLE ASSETS

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| Goodwill | **82,396** | 83,130 |
| Intellectual property at cost | **12,872** | 11,790 |
| Accumulated amortisation | **(11,377)** | (10,417) |
| | **1,495** | 1,373 |
| Computer software at cost | **12,474** | 12,125 |
| Accumulated amortisation | **(11,658)** | (11,301) |
| | **816** | 824 |
| Licences at cost | **4,503** | 3,979 |
| Accumulated amortisation | **(1,217)** | (787) |
| | **3,286** | 3,192 |
| **Total intangible assets** | **87,993** | 88,519 |
| **Reconciliations** | | |
| ***Goodwill*** | | |
| Carrying amount at beginning of year | **83,130** | 62,748 |
| Acquisitions through entity acquired | **-** | 19,352 |
| Adjustment on prior year's acquisition | **-** | (253) |
| Net foreign currency differences on translation of foreign entities | **(734)** | 1,283 |
| | **82,396** | 83,130 |
| ***Intellectual property*** | | |
| Carrying amount at beginning of year | **1,373** | 742 |
| Acquisitions through entity acquired | **-** | 1,210 |
| Additions | **1,348** | 3,608 |
| Amortisation | **(1,170)** | (3,694) |
| Net foreign currency differences on translation of foreign entities | **(56)** | 17 |
| Impairment of acquired Communications brand name | **-** | (510) |
| | **1,495** | 1,373 |

## 15. INTANGIBLE ASSETS (CONTINUED)

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| *Computer software* | | |
| Carrying amount at beginning of year | **824** | 1,281 |
| Acquisitions through entity acquired | **-** | 17 |
| Additions | **199** | 177 |
| Transfers from capital work in progress | **291** | 49 |
| Amortisation | **(498)** | (615) |
| Disposals | **-** | (87) |
| Net foreign currency differences on translation of foreign entities | **-** | 2 |
| | **816** | 824 |
| *Licences* | | |
| Carrying amount at beginning of year | **3,192** | 2,115 |
| Acquisitions | **524** | 1,529 |
| Amortisation | **(430)** | (452) |
| | **3,286** | 3,192 |
| The following segments have significant carrying amounts of goodwill: | | |
| Mining technology | **8,538** | 8,538 |
| Metal detection | **53,957** | 53,957 |
| Communications | **19,901** | 20,635 |
| | **82,396** | 83,130 |

## Goodwill

The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. The value-in-use calculations use cash flow projections based on the oncoming year's budget. Key assumptions for future years relate to sales, gross margin and expense levels. Sales are based on management assessments which allow for future growth. Gross margins and expense levels are largely consistent with past experience. A terminal value has been determined at the conclusion of five years assuming a growth rate of 3.0%. Pre-tax discount rates of 10% to 13% (2013: 12% to 13%) have been used in discounting the projected cash flows.

In assessing the recoverable amount of the Mining Technology business, a number of valuation scenarios have been considered. The recoverable amount has been estimated to exceed the business unit's carrying amount of $14 million by $5 million. Given the products and technologies developed by this business are at the early stage of adoption by the mining industry, the key variable to the recoverable amount assessments is the level of future sales. FY15 will continue to see the key technologies developed by Minetec being evaluated by a number of global miners. The success of these trials will be a key determinant in establishing the global acceptance and hence future sales of Minetec's solutions. If sales beyond the FY15 plan do not grow by 15% per annum the business unit may be impaired.

## Intellectual Property

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

## Licences

The company entered into a licence agreement on 30 June 2011 with a leading provider of advanced technology for high frequency radio communication products. Licence payments are being made as technology is delivered to the company. The licenced technology allows the company access to next-generation radio waveforms for high-speed data transmission, automatic link establishment and digital voice.

## \ 16. TRADE AND OTHER PAYABLES

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| **CURRENT** | | |
| Trade payables | **11,670** | 13,909 |
| Other payables and accruals | **11,721** | 13,719 |
| Net foreign currency hedge payable | **-** | 1,729 |
| | **23,391** | 29,357 |

## \ 17. LOANS AND BORROWINGS

| | 2014 $000 | 2013 $000 |
|---|---|---|
| **CURRENT** | | |
| Finance lease liabilities | **33** | 201 |
| | **33** | 201 |
| **NON-CURRENT** | | |
| Cash advance | **59,898** | 33,559 |
| Finance lease liabilities | **49** | 82 |
| | **59,947** | 33,641 |
| **The group has access to the following lines of credit:** | | |
| **Total facilities available at balance date:** | | |
| Multi-option facility | **85,000** | 10,000 |
| Commercial credit card | **200** | 200 |
| Cash advance facility | **-** | 75,000 |
| | **85,200** | 85,200 |
| **Facilities utilised at balance date:** | | |
| Multi-option facility - cash advance | **59,898** | - |
| Multi-option facility - other | **2,686** | 2,371 |
| Commercial credit card | **15** | 13 |
| Cash advance facility | **-** | 33,559 |
| | **62,599** | 35,943 |

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **Facilities not utilised at balance date:** | | |
| Multi-option facility | **22,416** | 7,629 |
| Commercial credit card | **185** | 187 |
| Cash advance facility | **-** | 41,441 |
| | **22,601** | 49,257 |

In addition to these facilities, the group has cash at bank and short-term deposits of $13,031,000 as set out in note 9.

| | Consolidated 2014 % | Consolidated 2013 % |
|---|---|---|
| **WEIGHTED AVERAGE INTEREST RATES:** | | |
| Cash at bank | **1.59** | 1.84 |
| Cash advance | **3.55** | 3.51 |

### Bank Facilities

Facilities are supported by interlocking guarantees between the company and its subsidiaries. The facilities have a term of three years expiring October 2016, and are subject to compliance with certain financial covenants over that term.

## \ 18. PROVISIONS

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **CURRENT** | | |
| Employee benefits | **5,005** | 6,296 |
| Warranty repairs | **1,101** | 2,842 |
| Other | **320** | 1,310 |
| | **6,426** | 10,448 |
| **NON-CURRENT** | | |
| Employee benefits | **683** | 857 |
| **Reconciliation of warranty provision** | | |
| Carrying amount at beginning of year | **2,842** | 2,760 |
| Provisions released | **(596)** | 846 |
| Payments made | **(1,145)** | (764) |
| | **1,101** | 2,842 |

## \ 18. PROVISIONS (CONTINUED)

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| **Reconciliation of other provision** | | |
| Carrying amount at beginning of year | **1,310** | - |
| Provisions made/(reversed) during the year | **(990)** | 1,310 |
| | **320** | 1,310 |

## \ 19. SHARE CAPITAL

| SHARE CAPITAL | | |
|---|---|---|
| Opening balance (176,926,104 ordinary shares fully paid) | **41,873** | 24,839 |
| Performance rights expensed/(reversed) | **(391)** | 204 |
| Issue of share capital, net of $619,000 in issue costs | **-** | 16,660 |
| Issue of share capital through employee share plan | **78** | 170 |
| **Closing balance (176,969,924 ordinary shares fully paid)** | **41,560** | 41,873 |

### 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.

## \ 20. RESERVES

| | | |
|---|---|---|
| Foreign currency translation | **1,994** | 1,405 |
| Hedging reserve | **-** | (1,125) |
| Profit reserve | **48,481** | 34,673 |
| | **50,475** | 34,953 |

### 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 | **1,405** | (3,271) |
| Reserves recognised through sale of discontinued operation | **-** | 979 |
| Net translation adjustment | **589** | 3,697 |
| **Balance at end of year** | **1,994** | 1,405 |

### 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.

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| Balance at beginning of year | **(1,125)** | 336 |
| Gains/(losses) on cash flow hedges taken to/from hedging reserve | **1,125** | (1,461) |
| **Balance at end of year** | **-** | (1,125) |

### Profit reserve

The profit reserve comprises Codan Limited's accumulated profits.

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | **34,673** | - |
| Current year profit after tax attributed to the parent entity | **13,808** | 34,673 |
| **Balance at end of year** | **48,481** | 34,673 |

## \ 21. COMMITMENTS

| I. CAPITAL EXPENDITURE COMMITMENTS | | |
|---|---|---|
| **Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:** | | |
| Within one year | **988** | 3,348 |
| One year or later and no later than five years | **1,216** | 800 |
| | **2,204** | 4,148 |

| II. NON-CANCELLABLE OPERATING LEASE EXPENSE AND OTHER COMMITMENTS | | |
|---|---|---|
| **Future operating lease commitments not provided for in the financial statements which are payable:** | | |
| Within one year | **2,588** | 2,796 |
| One year or later and no later than five years | **4,893** | 6,769 |
| Later than five years | **552** | 1,227 |
| | **8,033** | 10,792 |

The group leases property under non-cancellable operating leases expiring from one to seven years. Leases generally provide the group with a right of renewal, at which time all terms are renegotiated. Lease payments comprise a base amount and an adjustment for the consumer price index.

## 21. COMMITMENTS (CONTINUED)

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **III. FINANCE LEASE AND HIRE PURCHASE PAYMENT COMMITMENTS** | | |
| Within one year | **39** | 218 |
| One year or later and no later than five years | **52** | 91 |
| Later than five years | **-** | - |
| | **91** | 309 |
| Less: future finance charges | **(9)** | (26) |
| | **82** | 283 |
| **Finance lease and hire purchase liabilities provided for in the financial statements:** | | |
| Current | **33** | 201 |
| Non-current | **49** | 82 |
| | **82** | 283 |

Finance leases and hire purchase agreements are entered into as a means of funding the acquisition of plant and equipment. Repayments are generally fixed and no leases have escalation clauses other than in the event of payment default. No lease arrangements create restrictions on other financing transactions.

# 22. 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 management 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, sand arises principally from the group's receivables from customers.

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

The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. For the year ended 30 June 2014, the group had one customer in the Metal Detection segment with sales of $28.8 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, has less of an influence on credit risk.

The group has established a credit policy under which each new customer is analysed individually for credit worthiness before the group's standard 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 impairment that represents its estimate of incurred 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 respect of losses that have been incurred but not yet identified.

### Guarantees

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

# \ 22. 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 | Carrying amount Consolidated 2014 $000 | 2013 $000 |
|---|---|---|---|
| Cash and cash equivalents | 9 | **13,031** | 8,638 |
| Trade and other receivables | 10 | **22,141** | 21,137 |

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

| | | |
|---|---|---|
| Australia/Oceania | **3,962** | 5,958 |
| Europe | **2,753** | 3,362 |
| Americas | **7,322** | 6,133 |
| Asia | **1,212** | 1,847 |
| Africa/Middle East | **7,077** | 5,896 |
| | **22,326** | 23,196 |

### Impairment losses

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

| | Consolidated Gross 2014 $000 | Impairment 2014 $000 | Gross 2013 $000 | Impairment 2013 $000 |
|---|---|---|---|---|
| Not past due | **13,564** | **(38)** | 14,999 | (182) |
| Past due 0-30 days | **6,145** | **(23)** | 2,622 | (86) |
| Past due 31-120 days | **1,024** | **(4)** | 3,499 | (11) |
| More than 120 days | **1,593** | **(676)** | 2,076 | (2,145) |
| | **22,326** | **(741)** | 23,196 | (2,424) |

Trade receivables that are not past due 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 2014 $000 | 2013 $000 |
|---|---|---|
| Balance at 1 July | **2,424** | 506 |
| Provision for legal dispute | **(1,284)** | 1,450 |
| Impairment loss/(reversal) recognised | **(294)** | 504 |
| Trade receivables written off to the allowance for impairment | **(105)** | (36) |
| **Balance at 30 June** | **741** | 2,424 |

## (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, as far as possible, 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 17 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

| 30 June 2014 | 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 | **23,391** | **(23,391)** | **(23,391)** | **-** | **-** |
| Finance leases | **82** | **(91)** | **(39)** | **(52)** | **-** |
| Cash advance | **59,898** | **(62,192)** | **(2,294)** | **(59,898)** | **-** |
| | **83,371** | **(85,674)** | **(25,724)** | **(59,950)** | **-** |
| **Derivative financial liabilities** | | | | | |
| Net foreign currency hedge payable | **-** | **-** | **-** | **-** | **-** |
| | **-** | **-** | **-** | **-** | **-** |
| **30 June 2013** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | 28,228 | (28,228) | (27,628) | (600) | - |
| Finance leases | 283 | (309) | (218) | (91) | - |
| Cash advance | 33,559 | (34,806) | (1,247) | (33,559) | - |
| | 62,070 | (63,343) | (29,093) | (34,250) | - |

## \ 22. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

### (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.

#### *Profile*

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

| | Carrying amount Consolidated | |
|---|---|---|
| | 2014 $000 | 2013 $000 |
| **FIXED RATE INSTRUMENTS** | | |
| Financial assets | **-** | - |
| Financial liabilities | **(91)** | (309) |
| | **(91)** | (309) |
| **VARIABLE RATE INSTRUMENTS** | | |
| Financial assets | **13,031** | 8,638 |
| Financial liabilities | **(59,898)** | (33,559) |
| | **(46,867)** | (24,921) |

#### *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 2013.

| | Profit/(loss) before tax | | Reserve | |
|---|---|---|---|---|
| | 100 bp increase $000 | 100 bp decrease $000 | 100 bp increase $000 | 100 bp decrease $000 |
| **30 JUNE 2014** | | | | |
| Variable rate instruments | **(469)** | **469** | - | - |
| **30 JUNE 2013** | | | | |
| Variable rate instruments | (249) | 249 | - | - |

## 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, EUR, CAD and GBP.

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 USD and EUR). The terms of these commitments are usually less than 12 months. As at the reporting date, the group has not entered into any hedging instruments.

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 | GBP $000 | USD $000 | CAD $000 |
| **30 JUNE 2014** | | | | |
| Cash and cash equivalents | **464** | **5** | **7,601** | **-** |
| Trade receivables | **78** | **(1)** | **16,377** | **9** |
| Trade payables | **(5)** | **(18)** | **(6,328)** | **(37)** |
| **Gross balance sheet exposure** | **537** | **(14)** | **17,650** | **(28)** |
| Hedge transactions relating to balance sheet exposure | **-** | **-** | **-** | **-** |
| **Net exposure at the reporting date** | **537** | **(14)** | **17,650** | **(28)** |
| **30 JUNE 2013** | | | | |
| Cash and cash equivalents | 703 | 43 | 4,567 | 668 |
| Trade receivables | 355 | 2 | 12,663 | 924 |
| Trade payables | (293) | (44) | (10,004) | (195) |
| Cash advance | | | | |
| **Gross balance sheet exposure** | 765 | 1 | 7,226 | 1,397 |
| Hedge transactions relating to balance sheet exposure | - | - | (1,855) | - |
| **Net exposure at the reporting date** | 765 | 1 | 5,371 | 1,397 |

## \ 22. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

### (c) Market risk (continued)

*Sensitivity analysis*

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

| | Consolidated | |
|---|---|---|
| | Reserve credit/(debit) $000 | Profit/(loss) before tax $000 |
| **2014** | | |
| EUR | **-** | **(49)** |
| GBP | **-** | **1** |
| USD | **-** | **(1,605)** |
| CAD | **-** | **3** |
| | **-** | **(1,650)** |
| **2013** | | |
| EUR | - | (70) |
| GBP | - | - |
| USD | 812 | (590) |
| CAD | - | (127) |
| | 812 | (787) |

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 nil.

# \ 23. GROUP ENTITIES

| Name | Country of incorporation | Class of share | Interest held 2014 % | Interest held 2013 % |
|---|---|---|---|---|
| **PARENT ENTITY** | | | | |
| Codan Limited | Australia | Ordinary | | |
| **CONTROLLED ENTITIES** | | | | |
| IMP Printed Circuits Pty Ltd | Australia | Ordinary | **100** | 100 |
| Codan (UK) Limited | England | Ordinary | **100** | 100 |
| Codan (Qld) Pty Ltd | Australia | Ordinary | **100** | 100 |
| Codan (US) Inc | United States of America | Ordinary | **100** | 100 |
| Codan Radio Communications Pty Ltd | Australia | Ordinary | **100** | 100 |
| Daniels Electronics Ltd | Canada | Ordinary | **100** | 100 |
| Codan Radio Communications ME JLT | United Arab Emirates | Ordinary | **100** | 100 |
| Minetec Pty Ltd | Australia | Ordinary | **100** | 100 |
| Minetec Wireless Technologies Pty Ltd | Australia | Ordinary | **100** | 100 |
| Minelab Electronics Pty Limited | Australia | Ordinary | **100** | 100 |
| Minelab Americas Inc | United States of America | Ordinary | **100** | 100 |
| Minelab International Limited | Ireland | Ordinary | **100** | 100 |
| Parketronics Pty Ltd | Australia | Ordinary | **100** | 100 |
| Codan Holdings US Inc | United States of America | Ordinary | **100** | 100 |
| Codan Executive Share Plan Pty Ltd | Australia | Ordinary | **100** | 100 |

# 24. NOTES TO THE STATEMENT OF CASH FLOWS

## I. Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | Consolidated | |
|---|---|---|
| | 2014 $000 | 2013 $000 |
| Petty cash | **27** | 28 |
| Cash at bank | **13,004** | 8,610 |
| Short-term deposits | **-** | - |
| | **13,031** | 8,638 |

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

| | 2014 | 2013 |
|---|---|---|
| **Profit after income tax** | **9,197** | 45,417 |
| **Add/(less) items classified as investing or financing activities:** | | |
| Insurance recoveries | **-** | (1,009) |
| (Gain)/loss on sale of non-current assets | **(10)** | (42) |
| **Add/(less) non-cash items:** | | |
| Depreciation of: | | |
| Buildings | **543** | 531 |
| Leasehold property | **36** | 15 |
| Plant and equipment | **2,042** | 1,906 |
| Impairment of building | **273** | 1,100 |
| Amortisation | **6,410** | 9,191 |
| Performance rights and employee share plan expensed/(reversed) | **(312)** | 374 |
| Impairment of mining technology product development | **774** | 1,606 |
| Impairment of acquired communications brand name | **-** | 510 |
| Increase/(decrease) in income taxes | **(11,530)** | 6,491 |
| Increase/(decrease) on net assets affected by translation | **705** | (717) |
| **Net cash from operating activities before changes in assets and liabilities** | **8,128** | 65,373 |

| | Consolidated 2014 $000 | Consolidated 2013 $000 |
|---|---|---|
| **Change in assets and liabilities during the financial year:** | | |
| Reduction/(increase) in receivables | **(1,004)** | 5,411 |
| Reduction/(increase) in inventories | **12,037** | (27,663) |
| Reduction/(increase) in other assets | **397** | (544) |
| Increase/(reduction) in trade and other payables | **(3,940)** | (6,859) |
| Increase/(reduction) in provisions | **(4,196)** | 565 |
| **Net cash from operating activities** | **11,422** | 36,283 |

## \ 25. EMPLOYEE BENEFITS

| | 2014 | 2013 |
|---|---|---|
| **Aggregate liability for employee benefits, including on-costs:** | | |
| Current - other creditors and accruals | **1,971** | 4,993 |
| Current - employee entitlements | **5,005** | 6,296 |
| Non-current - employee entitlements | **683** | 857 |
| | **7,659** | 12,146 |

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:

| | 2014 | 2013 |
|---|---|---|
| Assumed rate of increase in wage and salary rates | **3.50%** | 4.00% |
| Discount rate | **3.47%** | 3.55% |
| Settlement term | **10 years** | 10 years |

## 25. EMPLOYEE BENEFITS (CONTINUED)

### Employee Share Plan

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

### ESP shares issued in financial year 2013

The company issued 63,531 shares to eligible employees in February 2013. The fair value of the shares was $2.75 per share, based on the volume weighted average price at which Codan shares were traded on the ASX for the five days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in 2013 in relation to the ESP shares issued was $174,710. The shares are restricted from sale until the earlier of three years from the acquisition date, or upon the date on which an employee is no longer employed by the group.

### ESP shares issued in financial year 2014

The company issued 43,820 shares to eligible employees in November 2013. The fair value of the shares was $1.78 per share, based on the volume weighted average price at which Codan shares were traded on the ASX for the five days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in 2014 in relation to the ESP shares issued was $78,000. The shares are restricted from sale until the earlier of three years from the acquisition date, or upon the date on which an employee is no longer employed by the group.

### Performance Rights Plan

At the 2004 AGM, shareholders approved the establishment of a Performance Rights Plan (Plan). The Plan is designed to provide 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.

### Performance rights issued in financial year 2011

The company issued 358,652 performance rights in December 2010 to certain executives. The fair value of the rights was on average $1.11 based on the Black-Scholes formula. The model inputs were: the share price of $1.46, no exercise price, expected volatility 48%, dividend yield 5%, a term of three years and a risk-free rate of 5.6%. The total expense recognised as employee costs in 2014 in relation to the performance rights issued was nil (2013: $188,346 recovery).

The group's earnings per share over the three-year period to 30 June 2013 did not meet the performance target and therefore these performance rights have lapsed and no shares were issued.

### Performance rights issued in financial year 2012

The company issued 426,979 performance rights in November 2011 to certain executives. The fair value of the rights was on average $0.98 based on the Black-Scholes formula. The model inputs were: the share price of $1.31, no exercise price, expected volatility 41%, dividend yield 7%, a term of three years and a risk-free rate of 4.3%. Due to the departure of an executive in FY13, 84,006 performance rights were cancelled. The total recovery recognised as employee costs in 2014 in relation to the performance rights issued was $267,792 (2013: $134,261 expense).

The group's earnings per share over the three-year period to 30 June 2014 has not met the performance target and therefore these performance rights have lapsed and no shares will be issued.

### Performance rights issued in financial year 2013

The company issued 369,970 performance rights in November 2012 to certain executives. The fair value of the rights was on average $1.77 based on the Black-Scholes formula. The model inputs were: the share price of $2.25, no exercise price, expected volatility 37%, dividend yield 4.2%, a term of three years and a risk-free rate of 3.1%. Due to the departure of an executive in FY13, 72,790 performance rights were cancelled. The total recovery recognised as employee costs in 2014 in relation to the performance rights issued was $197,643 (2013: $197,643 expense).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period. For executives 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.

## Additional performance rights issued in financial year 2013

The company issued 93,320 performance rights in December 2012 to an employee. The fair value of the rights was on average $1.95 based on the Black-Scholes formula. The model inputs were: the share price of $2.37, no exercise price, expected volatility 38.3%, dividend yield 4.01%, a term of two years and a risk-free rate of 3.3%. The total expense recognised as employee costs in 2014 in relation to the performance rights issued was $75,686 (2013: $60,549 expense).

The performance rights become exercisable if the employee remains with the group until 31 December 2014, and there is no performance hurdle.

## Performance rights issued in financial year 2014

The company issued 326,962 performance rights in November 2013 to certain executives. The fair value of the rights was on average $1.11 based on the Black-Scholes formula. The model inputs were: the share price of $1.51, no exercise price, expected volatility 86%, dividend yield 8.6%, a term of three years and a risk-free rate of 4.2%. The total expense recognised as employee costs in 2014 in relation to the performance rights issued was nil.

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. For executives to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company. No performance rights have been issued since the end of the financial year.

# \ 26. 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 | |
|---|---|---|
| | 2014 $ | 2013 $ |
| Short-term employee benefits | **2,515,885** | 3,235,799 |
| Post-employment benefits | **152,074** | 108,103 |
| Share-based payments | **(465,435)** | 179,371 |
| Other long term | **25,708** | 27,798 |
| Termination benefits | **-** | 295,210 |
| | **2,228,232** | 3,846,281 |

### (c) Key management personnel transactions

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

## \ 27. 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.

## \ 28. 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.

| | Consolidated | |
|---|---|---|
| | 2014<br>$000 | 2013<br>$000 |
| Net profit used for the purpose of calculating basic and diluted earnings per share | **9,197** | 45,417 |

The weighted average number of shares used as the denominator number for basic earnings per share was 176,955,157 (2013: 175,095,002).

The calculation of diluted earnings per share at 30 June 2014 was based on profit attributable to shareholders of $9.2 million and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 177,886,599 (2013: 176,039,493).

## \ 29. NET TANGIBLE ASSET / LIABILITY PER SHARE

| | 2014 | 2013 |
|---|---|---|
| Net tangible asset/(liability) per share | **(0.6 cents)** | 5.1 cents |

## 30. 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.

During the second half of the year the group's gearing level improved as inventory levels were reduced.

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

## 31. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiary listed below is relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' report.

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:

### Summarised income statement and retained earnings

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Profit before tax | **7,920** | 25,933 |
| Income tax expense | **(64)** | (18,648) |
| **Profit after tax** | **7,856** | 7,285 |
| **Retained earnings at beginning of the year** | **27,062** | 40,120 |
| **Retained earnings at end of the year** | **6,069** | 27,062 |

## Balance sheet

| | Consolidated 2014 $000 | 2013 $000 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **10,757** | 5,017 |
| Trade and other receivables | **36,854** | 36,354 |
| Inventories | **13,031** | 20,107 |
| Other assets | **2,120** | 2,046 |
| **Total current assets** | **62,762** | 63,524 |
| **NON-CURRENT ASSETS** | | |
| Investments | **26,388** | 26,388 |
| Property, plant and equipment | **18,256** | 16,941 |
| Product development | **32,951** | 28,720 |
| Intangible assets | **57,019** | 57,195 |
| Deferred tax assets | **7,542** | 7,069 |
| **Total non-current assets** | **142,156** | 136,313 |
| **Total assets** | **204,918** | 199,837 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | **15,849** | 23,864 |
| Other liabilities | **32,776** | 26,660 |
| Current tax payable | **-** | 12,474 |
| Provisions | **4,894** | 7,787 |
| **Total current liabilities** | **53,519** | 70,785 |
| **NON-CURRENT LIABILITIES** | | |
| Loans and borrowings | **42,000** | 15,000 |
| Deferred tax liabilities | **9,897** | 8,766 |
| Provisions | **596** | 757 |
| **Total non-current liabilities** | **52,493** | 24,523 |
| **Total liabilities** | **106,012** | 95,308 |
| **Net assets** | **98,906** | 104,529 |
| **EQUITY** | | |
| Share capital | **42,674** | 42,986 |
| Reserves | **50,163** | 34,481 |
| Retained earnings | **6,069** | 27,062 |
| **Total equity** | **98,906** | 104,529 |

## 32. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2014, the parent company of the group was Codan Limited.

| | Company 2014 $000 | Company 2013 $000 |
|---|---|---|
| **Result of parent entity** | | |
| Profit for the period | **13,808** | 34,673 |
| Other comprehensive income | **280** | (387) |
| **Total comprehensive income for the period** | **14,088** | 34,286 |
| **Financial position of parent entity at year-end** | | |
| Current assets | **71,718** | 50,999 |
| Total assets | **189,738** | 168,021 |
| Current liabilities | **45,966** | 51,349 |
| Total liabilities | **94,421** | 71,473 |
| **Total equity of the parent entity comprising:** | | |
| Share capital | **42,674** | 42,986 |
| Reserves | **48,374** | 33,392 |
| Retained earnings | **4,269** | 20,171 |
| **Total equity** | **95,317** | 96,549 |

# DIRECTORS' DECLARATION

## CODAN LIMITED AND ITS CONTROLLED ENTITIES

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

(a) the consolidated financial statements and notes, set out on pages 52 to 100, are in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2014 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a);

(c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standards AASB 124 Related Party Disclosures, the *Corporations Act 2001* and the *Corporations Regulations 2001;*

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

(e) there are reasonable grounds to believe that the company and the group entity identified in Note 31 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 the group entity pursuant to ASIC Class Order 98/1418; and

(f) the directors have been given the declaration required by Section 295A of the *Corporations Act 2001* by the chief executive officer and the chief financial officer for the financial year ended 30 June 2014.

Dated at Newton this 20th day of August 2014.

Signed in accordance with a resolution of the directors:

**Dr G D Klingner**
**Director**

**D S McGurk**
**Director**

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF CODAN LIMITED

**Independent auditor's report to the members of Codan Limited**

**Report on the financial report**

We have audited the accompanying financial report of Codan Limited (the company), which comprises the consolidated balance sheet as at 30 June 2014, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is 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 2014 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

## Report on the remuneration report

We have audited the Remuneration Report included in page 32 to 40 of the directors' report for the year ended 30 June 2014. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Codan Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Scott Fleming
*Partner*

Adelaide

20 August 2014

# ASX ADDITIONAL INFORMATION



Additional information required by the Australian Stock Exchange Limited Listing Rules not disclosed elsewhere in this report is set out below.

## Shareholdings as at 19 August 2014

### Substantial shareholders

The numbers of shares held by substantial shareholders and their associates are set out below:

| Shareholder | Number of ordinary shares |
|---|---|
| I B Wall and P M Wall | **34,808,151** |
| Interests associated with Starform Pty Ltd, Pinara Pty Ltd and Pinara Group Pty Ltd | **24,068,636** |
| Interests associated with Kynola Pty Ltd and Warren Glen Pty Ltd | **12,320,566** |

### Distribution of equity security holders

| Number of shares held | Number of equity security holders Ordinary shares |
|---|---|
| 1 - 1,000 | **1,345** |
| 1,001 - 5,000 | **1,968** |
| 5,001 - 10,000 | **995** |
| 10,001 - 100,000 | **1,113** |
| 100,001 - over | **103** |
| **Total** | **5,524** |

The number of shareholders holding less than a marketable parcel of ordinary shares is 945.

### Securities exchange

The company is listed on the Australian Securities Exchange. The home exchange is Sydney.

### Other information

Codan Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

### On-market buy-back

There is no current on-market buy-back.

## Twenty largest shareholders

| Name | Number of ordinary shares held | Percentage of capital held |
|---|---|---|
| I B Wall and P M Wall | 34,808,151 | 19.7% |
| Starform Pty Ltd | 11,404,224 | 6.4% |
| Kynola Pty Ltd | 9,118,356 | 5.2% |
| Dareel Pty Ltd | 8,854,251 | 5.0% |
| Griffinna Pty Ltd | 8,276,003 | 4.7% |
| M K and M C Heard | 4,764,585 | 2.7% |
| J P Morgan Nominees Australia Limited | 4,549,537 | 2.6% |
| G Bettison | 3,562,125 | 2.0% |
| A Bettison | 3,562,124 | 2.0% |
| RBC Investor Services Australia Nominees Pty Limited | 3,279,291 | 1.8% |
| National Nominees Limited | 3,246,086 | 1.8% |
| Warren Glen Pty Ltd | 3,202,210 | 1.8% |
| Orley Pty Ltd | 2,999,050 | 1.7% |
| Mitranikitan Pty Ltd | 2,522,458 | 1.4% |
| Bond Street Custodians Limited | 2,514,052 | 1.4% |
| Citicorp Nominees Pty Limited | 2,282,827 | 1.3% |
| Pinara Group Pty Ltd | 2,046,937 | 1.2% |
| HSBC Custody Nominees (Australia) Limited | 1,946,784 | 1.1% |
| Cedara Pty Ltd | 1,314,508 | 0.7% |
| J A Uhrig | 1,205,143 | 0.7% |
| **Total** | **115,458,702** | **65.2%** |

## Offices and officers

### Company Secretary

Mr Michael Barton BA (ACC), CA

### Principal registered office

81 Graves Street
Newton South Australia 5074
Telephone: (08) 8305 0311
Facsimile: (08) 8305 0411
Internet address: www.codan.com.au

### Location of share registry

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide South Australia 5001

# CORPORATE DIRECTORY

## CODAN LIMITED AND ITS CONTROLLED ENTITIES

## Directors

Dr David Klingner (Chairman)
Mr Donald McGurk (Managing Director and Chief Executive Officer)
Mr Peter Griffiths
Mr David Klingberg AO
Mr David Simmons
Lt-Gen Peter Leahy AC

## Company Secretary

Mr Michael Barton

## Principal registered office

81 Graves Street
Newton South Australia 5074

## Auditor

KPMG
151 Pirie Street
Adelaide South Australia 5000

## Location of share registry

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide South Australia 5001

*Our plan for growth is based on enhancing our unique intellectual property, putting that know-how into an expanding range of electronics-based product solutions, and then leveraging our operational excellence and marketing capability across the world*


CHANNEL 01
CODAN
F1
F2
F3

\ INVESTMENT

\ PEOPLE

\ TECHNOLOGY

\ BRAND

\ MARKETS

\ FUTURE

www.codan.com.au