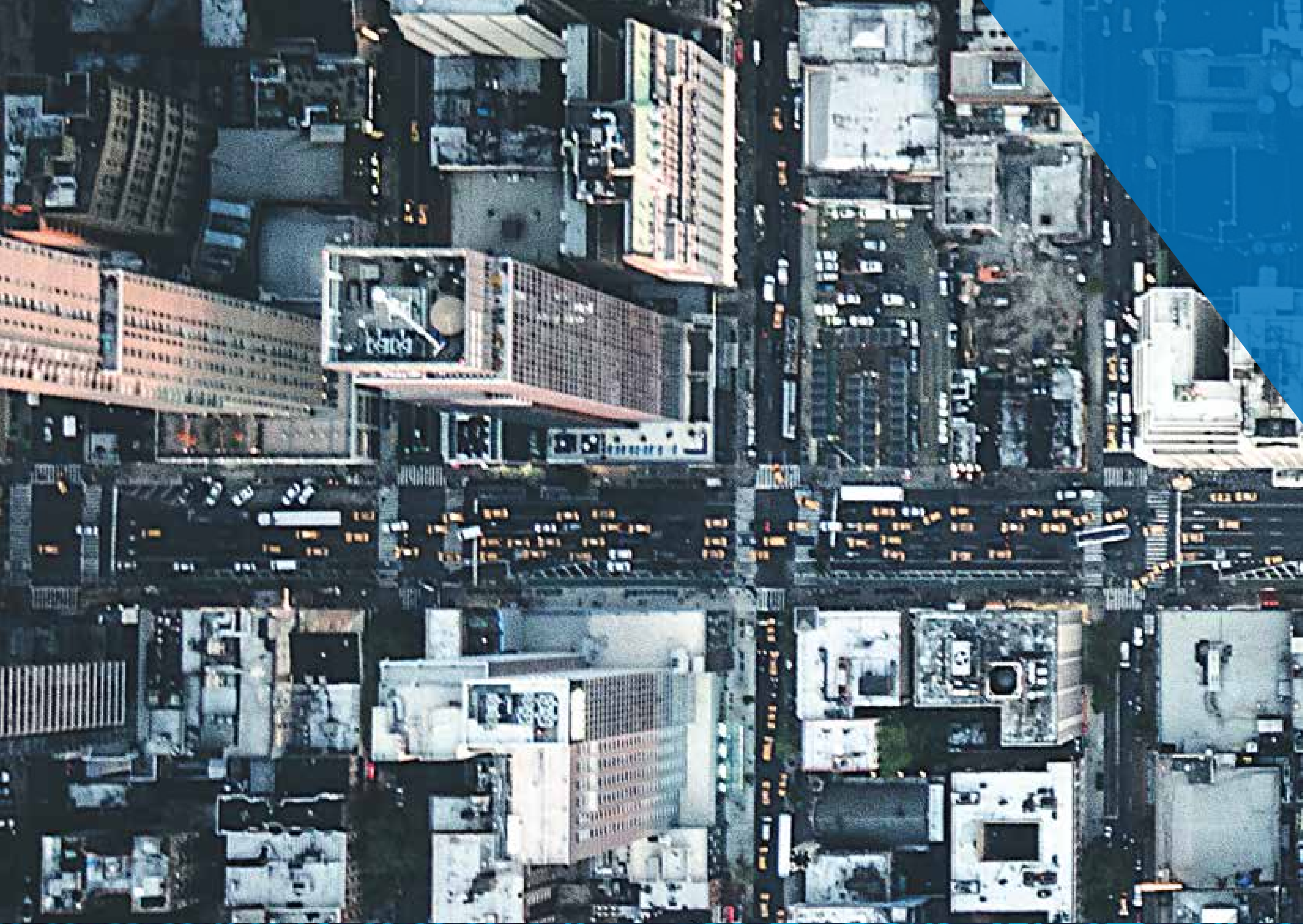
CODAN
ANNUAL REPORT
2017

CODAN

INNOVATION WHEREVER YOU ARE



Innovation wherever you are

At Codan, our purpose is to create long-term shareholder value through the design, development and manufacture of innovative technology solutions.

We work with customers in over 150 countries, solving communications, security and productivity problems in some of the harshest environments on earth.

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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, 25 October 2017 at Codan Limited, 2 Second Avenue, Mawson Lakes, South Australia.

CODAN ANNUAL REPORT 2017

FY17 Summary

Total revenue	Underlying net profit after tax
$226.1m	**$44.7m**

Annual ordinary dividend	Annual special dividend
7.0c	**6.0c**

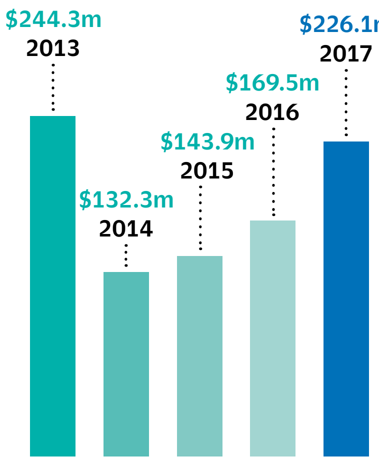
- **Underlying net profit after tax of $44.7 million, up 112% on 33% higher sales**
- **Statutory net profit after tax of $43.5 million, up 181%**
- **Increased annual dividend to 7.0 cents, up 17%, fully franked (interim 3.0, final 4.0)**
- **Annual special dividend of 6.0 cents, fully franked (interim 3.0, final 3.0)**
- **Underlying earnings per share of 24.9 cents, up 109%**
- **Strong balance sheet – $21.4 million net cash**
- **Radio Communications produced its best result in eight years; sales increased 9% and profit increased 14%**
- **Metal Detection produced its second highest result ever; sales increased 49% and profit increased 106% due to strong gold detector sales into Africa and other markets outside Australia**
- **Minetec delivered a small contribution to profit as miners recognised the value of our underground tracking solutions**

Codan Limited

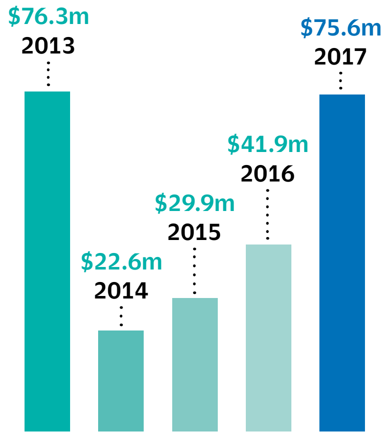
Founded in 1959 and headquartered in South Australia, Codan Limited (ASX:CDA) is an international company that develops rugged and reliable electronics solutions for government, corporate, NGO and consumer markets across the globe.

Codan's technologies include radio communications, metal detection and tracking solutions.

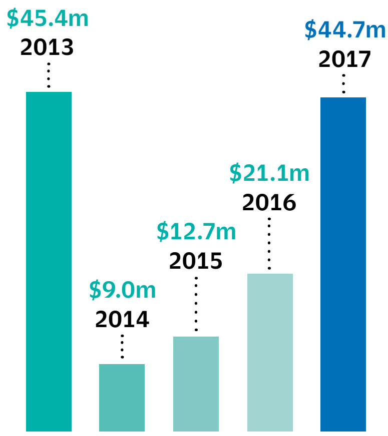
We have approximately 380 employees located in Australia, New Zealand, Canada, the USA, Ireland, China, the UAE and South Africa. Our marketing reach embraces activity in over 150 countries, with exports accounting for more than 85% of our sales.



Operating revenue



Underlying EBITDA *



Underlying NPAT *

Underlying results for the year ended 30 June		2017	% of sales	2016	% of sales	2015	% of sales	2014	% of sales	2013	% of sales
Revenue	**Note**										
Communications											
– HF and LMR		**$70.9m**	**31%**	$65.0m	38%	$63.8m	44%	$53.9m	41%	$47.5m	20%
– Discontinued Satcom										$10.5m	4%
Metal detection		**$148.0m**	**66%**	$99.2m	59%	$73.3m	51%	$69.9m	53%	$166.3m	68%
Tracking solutions		**$7.2m**	**3%**	$5.3m	3%	$4.8m	3%	$4.0m	3%	$14.5m	6%
Other						$2.0m	2%	$4.5m	3%	$5.5m	2%
Total revenue		**$226.1m**	**100%**	$169.5m	100%	$143.9m	100%	$132.3m	100%	$244.3m	100%
EBITDA		**$75.6m**	**33%**	$41.9m	25%	$29.9m	21%	$22.6m	17%	$76.3m	31%
EBIT		**$61.5m**	**27%**	$29.2m	17%	$19.3m	13%	$13.6m	10%	$64.7m	26%
Interest		**($0.8)m**		($1.7)m		($2.5)m		($2.8)m		($1.7)m	
Net profit before tax		**$60.7m**	**27%**	$27.5m	16%	$16.8m	12%	$10.8m	8%	$63.0m	26%
Taxation		**($16.0)m**		($6.4)m		($4.1)m		($1.8)m		($17.6)m	
Net profit after tax		**$44.7m**	**20%**	$21.1m	12%	$12.7m	9%	$9.0m	7%	$45.4m	19%
Earnings per share		**24.9c**		11.9c		7.1c		5.1c		25.8c	
Ordinary dividend per share		**7.0c**		6.0c		3.5c		3.0c		13.0c	
Special dividend per share		**6.0c**									
Return on equity	1	**29%**		16%		10%		7%		41%	
Gearing	2	**0%**		8%		22%		28%		17%	

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 2017, non-recurring items related to impairment of property. For the prior year, non-recurring items related to restructuring costs, and impairment of property and Minetec assets.*

Chairman's letter to shareholders

In the year to June 2013, Codan reported an underlying net profit after tax (NPAT) of $45.4 million, followed by an underlying NPAT of $9 million in the following year. This year's underlying NPAT of $44.7 million was very close to the record result reported in 2013, but the dynamics were very different. As in 2013, Minelab was the dominant contributor to profit; however, unlike 2013, the near-record results were not influenced by gold surges in Africa. Rather, what we experienced was the gradual acceptance of the world-leading GPZ 7000® gold detector outside of Australia, which allowed us to achieve good, consistent sales over an extended period of time.

With any new model release, sales eventually peak and then return to a more sustainable level. We expect this to occur with the sales of the GPZ 7000® into Africa, but we are very confident that we will not experience the dramatic reduction in revenues that we experienced in 2014. Donald will explain what is different this time around and why we are confident that our gold detector business in Africa is more resilient, but one thing is clear to me. If we continue to innovate and invest in engineering excellence, we will maintain and grow our market share across all business units and across all product platforms.

Our number-one priority remains the broadening of our addressable markets. We made good progress during the year on a number of fronts, but it is fair to say that we continually seek to push technical boundaries and provide even more innovative solutions to solve our customers' problems, and this can sometimes result in things taking longer than we originally planned. This was particularly the case in Radio Communications, where a combination of the difficulty in recruiting the right engineering resources and a review of the product features for our new Cascade™ Land Mobile Radio (LMR) network solution meant that we ended the year behind where we expected to be. This year we will turn these delays into positives, as we have now found and hired the additional engineers required and have an even better understanding of our customers' requirements, ensuring that our final product offering will be significantly enhanced.

This year, we have reinforced the distinction between our base-level business and the outperformance that can occur from time-to-time by declaring two special dividends. Market valuations suggest that investors now clearly understand this distinction.

We will provide an update on our current-year trading performance at the AGM. We do not expect to achieve the same level of profitability this year as we did in 2017, but we do expect a good result (as measured against our benchmark return on equity of 18%), and we will achieve a further diversification of our revenue base.

We will continue to focus on cash generation given another year of high engineering/product development spend (expected to be in the order of $25 million) and the payment of the special dividend to acknowledge our outstanding "surprise-on-the-upside" results for this year.

I look forward to welcoming you to our AGM in October.

David Simmons
Chairman

“If we continue to innovate and invest in engineering excellence, we will maintain and grow our market share across all business units and across all product platforms.”

David Simmons, Chairman

CEO's report

I am pleased to report that the company has returned to near-record levels of profitability after three successive years of strong profit growth.

We invested more than ever in new product development this year, and this will increase again in FY18 as we continue to invest in ourselves in order to diversify and grow our sustainable revenue base. The business remains focused on developing leading-edge solutions that solve our customers' safety, security and productivity problems.

Underlying net profit after tax increased 112% to $44.7 million for the year on group sales of $226.1 million. The company declared a fully franked final dividend of 4.0 cents per share, following on from the 3.0 cents per share fully franked interim dividend. This resulted in a total dividend of 7.0 cents for the full year, an increase of 17% over FY16.

In recognition of the outperformance of the company this year, the directors have also announced a special dividend of 3.0 cents per share for the second half, fully franked, bringing the full-year special dividend to 6.0 cents.

Strong cash generation during FY17 resulted in a net cash position of $21.4 million at 30 June 2017. A portion of this will be used to pay the company's FY17 tax liability of $16.1 million, which becomes payable in December 2017.

During the year, the board elected to reduce the company's debt facility from $85 million to $55 million. This undrawn facility remains available to fund further organic growth or a strategic acquisition.

Radio Communications

Radio Communications had another excellent year, increasing both sales and profitability. This division has a base level of sales in the range of $65 million to $75 million per annum, with large HF projects often taking us to the top of this range. In FY17, Radio Communications revenue increased 9% to $70.9 million, and segment profit increased 14% to $19.9 million.

While FY17 was another excellent result for the division, we remain focused on our strategy to broaden our revenue base by transitioning to complete communications solutions for our customers and expanding our technology platforms into more attractive, adjacent markets.

One example of how we are achieving broader market appeal is through the release of two new handheld tactical radios for the global military market, Sentry-V™ and Sentry-H™. These products are modelled on Codan's leading-edge software-defined Envoy® HF radio and, along with the recent investment in the Stealth antenna range, will expand our offering to military customers and assist our transition from a product to a solutions business.

The company has accelerated development of the new Cascade™ Land Mobile Radio (LMR) product platform in order to grow the business. Cascade™ was released to the market in July 2017, with further features to be released during the course of FY18. The LMR sales force has also been bolstered to ensure that we maximise international distribution.

With a range of new products supported by a stronger sales team and a growing sales pipeline, we expect Radio Communications to deliver another solid performance in FY18.


SENTRY-H
CODAN
envoy
RF Unit
Type 2210
envoy
RF Unit
Type 2210

Metal Detection

In FY17, Minelab revenue increased 49% to $148.0 million, and segment profit increased 106% to $61.5 million. While all parts of the Minelab business performed well, the growth was dominated by gold detector sales.

The baseline business for Minelab is comprised of recreational products sold into Australia, Europe and the USA, a level of gold detector sales into Africa, Asia-Pacific and Latin America, and sales of countermine products (detecting and clearing improvised explosive devices) globally. These activities typically deliver revenues in the order of $80 million per annum. Periods of stronger demand for gold detectors in Africa can push these revenues significantly higher.

The new GPZ 7000® has exceeded our expectations, particularly in Africa, where the product has gained a reputation for being the best gold detector in the world due to its superior performance.

We remain confident in the future success of our gold detector business in Africa. We have the world's best gold detecting technology; our detectors have better anti-counterfeit protection and are being distributed more widely throughout Africa as a result of continuous market development.

In May 2017, Minelab released the Gold Monster®. This new gold detector was designed to fill a gap in our product range and provide an entry-level detector specifically designed for the African market. Initial demand has been strong.

Minelab's established recreational markets outside Africa have also performed well, with sales into developed markets increasing across Australia, North America and Europe/Russia by more than 20% collectively. We expect to launch a significant new product for the mainstream coin and treasure market in FY18.

Minelab continues to fast-track development of our next generation dual-sensing countermine detector, which incorporates metal detection with ground-penetrating radar. The company has received $6.7 million in government funding towards this project, which is targeted for completion in FY19. Although this development is technically challenging, success will bring sales opportunities to the Australian Army and other allied first-world armies.

Our strategy for Minelab is to maintain our competitive advantage across gold, recreational and countermine markets by continually investing and innovating our technology platforms, while at the same time expanding our international routes to market.

While we are confident of continued success in FY18, the unpredictable nature of our sales into Africa makes forecasting difficult. The Minelab business has a base level of sales in the range of $85 to $95 million; however, if strong demand for gold detectors continues, sales can exceed this level.

Tracking Solutions – Minetec

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations which, in turn, allow miners to visualise the whole mine, enabling them to optimise productivity and enhance safety.

Minetec has deployed its solutions into several operational mines, which are now realising tangible improvements to both productivity and safety. This has led to an increased level of interest from miners as the message continues to spread throughout the industry.

Our strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability levels that are significant to the Codan group. This includes forming strategic relationships with global miners and major suppliers to the mining industry.

Minetec delivered a small operating profit in FY17. The challenge is to grow profitability to meaningful levels in the future.

Codan Defence Electronics

Codan Defence Electronics offers high-level design and adaptation, advanced manufacturing, training and through-life support to the Australian defence industry.

Codan has a long history of supplying the defence sector, with the company's HF radio systems and landmine detectors used by military organisations worldwide. Our large engineering base has a core technical competency in radio and sensor design, which will be required for upcoming Australian Defence Force projects including the upgrade of the Jindalee over-the-horizon radar known as JORN, Land 400 (military vehicles) and SEA 5000 (future frigate) programmes.

These capabilities have the company well placed to provide further engineering solutions and manufacturing expertise to the Australian Defence Force and defence prime contractors operating in Australia.

While we are yet to win significant orders, we continue to build a pipeline of future opportunities. Defence contracts have long sales cycles and, as a result, we have not planned for significant sales in FY18.

Our people

Our sales people and engineers are required to travel to some of the most remote and dangerous places in the world in order to support our customers' operations. They need to be aware of emerging technologies in order to ensure that our products remain relevant and continue to offer outstanding value. Our systems and processes need to support the delivery of customer solutions and continue to provide a competitive edge in all of the support areas of the business.

I cannot speak highly enough of our people and the contribution they have made to the positive culture that has made Codan a unique, inclusive and results-oriented organisation.

On behalf of the board, I would like to acknowledge the significant efforts of our people and formally thank them for their contribution to the outstanding results achieved this year.

Donald McGurk
Managing Director and CEO

"We remain focused on our strategy to broaden our revenue base by transitioning to complete communications solutions for our customers."

Donald McGurk, CEO

Our people and values

Codan's core values are a shared set of values that shape our strong company culture and ultimately enable us to achieve our organisational goals.

Our core values drive our behaviours and interactions with one another. We strive for values that guide our day-to-day decisions and provide the framework for not only what we do, but how we do it.

Our 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.

Codan has an awards programme that provides an opportunity to recognise and reward employees who readily demonstrate these values within their daily work.

Our Core Values are:

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

List of recipients

Can-Do

AGM Team
Leanne Bennett, Wayne Hingston, Gloria Owen, Dave Pilcher and Julieann Telford, Australia

Cadia PC2 Deployment Team
Jake Alamdar, Greg Niedzwiadek-Sanecki, Sunil Sanganbatte and Jade Sciberras, Minetec, Australia

Trevor Engh
Radio Communications, Canada

Fraser Kendall
Minelab, Australia

Nathaniel Quirante
Minelab, Australia

Andrea Stone
Corporate Services, Australia

Lieu Vu
Group Operations, Australia

Roy Wharton
Radio Communications, Canada

High Performing

Radha Agali-Krishnamurthy
Minelab, Australia

Diane Grayston
Radio Communications, Canada

Steve Hilton
Radio Communications, Australia

Daniel Parsons
Group Operations, Australia

Jin Peng
Minelab, Australia

Customer Driven

Terri Finn-O'Heggarty
Minelab, Ireland

Jeff Hall
Radio Communications, Australia

Cathy Marrapodi
Minelab, Australia

James Renfrew
Radio Communications, Canada

Social Club
Cathy Marrapodi, Adam Diggens, Lina Iuliano, Australia

Rene Tud
Radio Communications, Australia

Mark Williams
Group Operations, Australia

Sonia Young
Minelab, Australia

Openness & Integrity

Steve Chipok
Radio Communications, USA

James Harris
Minelab, Australia

Dave Pilcher
Group Operations, Australia

“Our company’s core values underpin our core purpose of delivering superior shareholder value by growing a lasting and innovative organisation that consistently creates oustanding customer experiences.”

Awards

Can-Do

Trevor Engh
Radio Communications, Canada

High Performing

Radha Agali-Krishnamurthy
Minelab, Australia

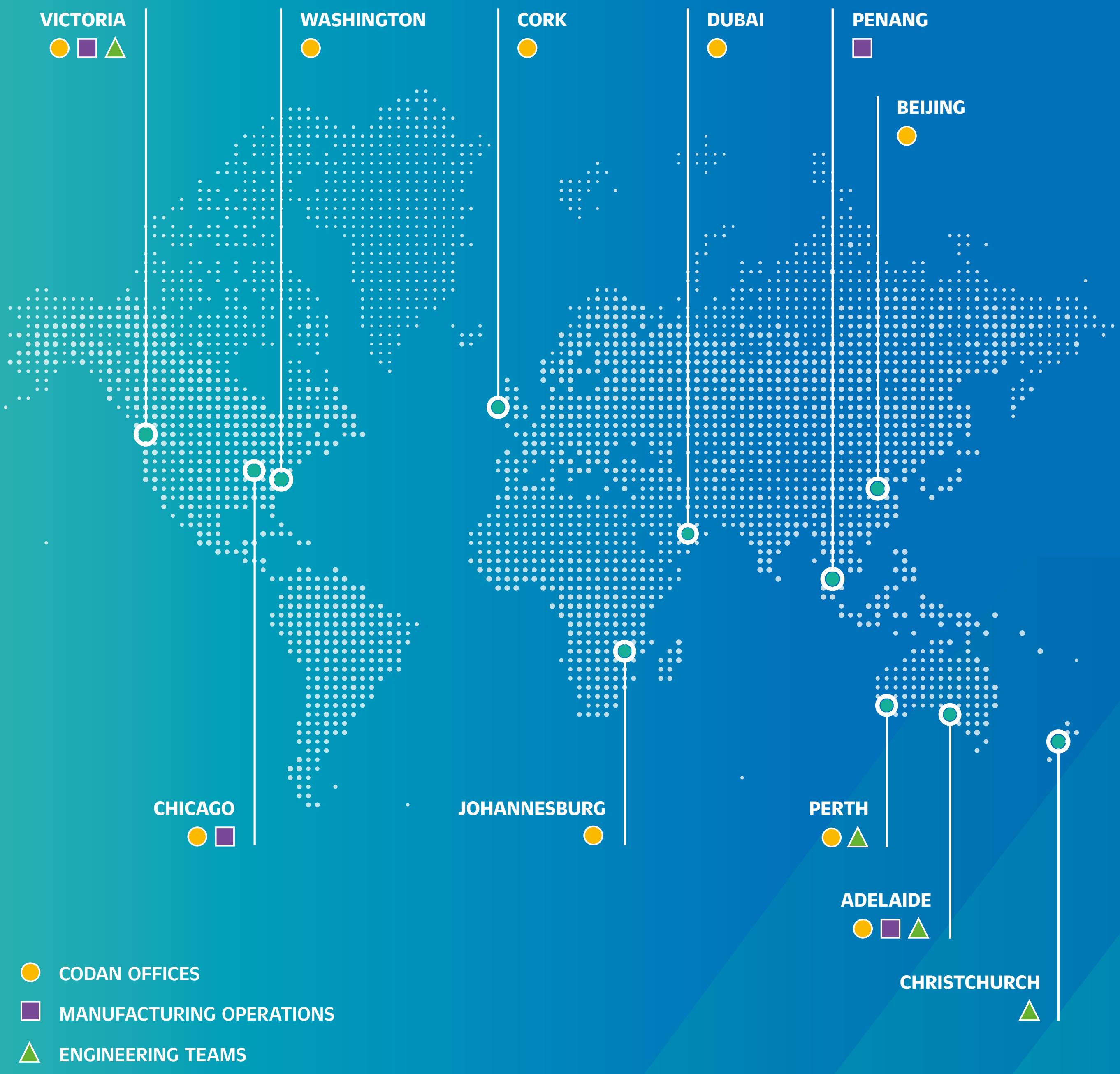
Customer Driven

Cathy Marrapodi
Minelab, Australia

Openness & Integrity

Dave Pilcher
Group Operations, Australia

Global locations



Selling into 150 countries with operations across the globe

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Tracking Solutions 20
Defence Electronics 22
Engineering and Operations 24

Radio Communications

CODAN RADIO COMMUNICATIONS

Codan Radio Communications is a leading international designer and manufacturer of premium communications solutions. We deliver our capability worldwide for the military, defence, humanitarian, security and public safety markets. Our mission is to provide communications solutions that enable our customers to be heard so that they can save lives, create security and support peacekeeping worldwide. With almost 60 years in the business, Codan Radio Communications has garnered a reputation for quality, reliability and customer satisfaction, producing innovative and industry-leading technology solutions.

FY17 Summary

- World-class performance on all major programmes
- Launched multiple new products
- Increased solution offering to address customer requirements
- Bolstered sales-support focus on solutions-oriented customers
- Increased sales by 9% and contribution to profit by 14%

FY18 Objectives

- Focus on providing high-value communications solutions
- Expand global market opportunities through key alliances
- Capitalise on newly released products in new and existing markets
- Continue to invest in the development of new products and solutions

Now with deployments in more than 150 countries, Codan Radio Communications continues to enhance its world-class product and solution design, development and implementation capability. We believe and are committed to flawless execution of our solutions, and our focus is firmly on delivery to our customers. We enable our customers to be heard in the most testing conditions, with unique challenges, in the moments that matter.

Codan Radio Communications has a base level of sales in the range of $65 million to $75 million per annum, with large HF projects often taking us to the top of this range. In FY17 Radio Communications delivered its best result in eight years, with revenue increased 9% to $70.9 million, and segment profit increased 14% to $19.9 million.

We are focused on our strategy to broaden our revenue base by transitioning to complete communications solutions for our customers and expanding our technology platforms into attractive, adjacent markets.

Our recent contract win for a P25 Digital Land Mobile Radio infrastructure solution for RiverCom 911, a civilian-staffed emergency communications centre based in Washington State, USA is a good example of our transition to a communications solutions provider. The end-to-end solution will provide critical coverage over the varied and vast terrain of Douglas and Chelan counties, while maintaining frequency efficiency and allowing full control from RiverCom 911's central facility.

We made significant progress in FY17 on the expansion of our technology platforms. The development of the new Cascade™ LMR product platform will be a key driver of our future growth, and this was released to the market in July 2017, with further features to be released during the course of FY18.

We also released two new handheld tactical radios for the global military market, Sentry-V™ and Sentry-H™. These products, along with our investment in the Stealth antenna range, have expanded our offering to military customers.

With a range of new products supported by a stronger sales team and a growing sales pipeline, we expect to deliver another solid performance in FY18.

Codan Radio Communications ensures emergency response communication coverage for US Department of Veterans Affairs.

Through our partnership with US-based By Light Professional IT Services LLC, Codan Radio Communications has worked with the US Department of Veterans Affairs (VA) to deliver a fully functional, turnkey, resilient HF radio network.

This network utilises Codan's Envoy® radio systems and ensures essential last-resort communications during emergencies and natural disasters for VA hospitals nationwide.

Under the five-year contract, Codan supplies the Envoy® base-station and mobile HF systems and accessories, with installation, training and support services provided by By Light.

"Codan and By Light are honoured to provide the government with a resilient and reliable HF Radio Network that uses the most advanced commercial HF technology to support operations and security needs nationwide," stated Charlie Stuff, Executive General Manager of Codan Radio Communications.

"The combination of proven, turnkey HF product offerings and expert, vendor-certified support ensures robust, cost-effective and sustainable emergency communications solutions to VA hospitals. By Light is pleased to continue its long-standing relationship with Codan and to deliver its technology to this important US Government customer," said Jeff Adelman, By Light Vice President.

About By Light

By Light Professional IT Services LLC is an ISO 9001:2008, 20000-1:2001, 27001:2013 registered business specialising in network design and implementation, software systems engineering, contingency communications, federal healthcare IT support, satellite communications and information assurance. By Light serves defence, civilian and commercial customers worldwide.

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.

FY17 Summary

- Second-best financial performance in Minelab's history
- Strong demand in Africa for our top-of-the-range GPZ 7000® gold detector
- Our Dubai base continues to bring us closer to the African market
- Successful release of new products, including the Gold Monster 1000® gold detector
- Sales growth across our recreational markets
- Continued significant investment in new product development

FY18 Objectives

- Launch an exciting new product for the coin and treasure market
- Establish the recently released Gold Monster® as the gold machine entry-level product of choice
- Continue strong sales and support into the African market
- Continue to expand our retail distribution channels
- Take our GO-FIND® detector series to the next level
- Substantially complete the Countermine dual-sensor development programme

Minelab is the world leader in handheld metal detection technologies for recreational, small-scale gold miners and for demining needs. Over the past 30 years, Minelab has introduced more innovative technology than any of its competitors and has taken metal detection technology to new levels of technical excellence.

While the 2017 financial year did not exceed the record sales year of FY13, in many ways it was a more successful year for Minelab.

We have developed the world's best gold detector and have gone to great lengths to protect this technology. The acceptance of the newly developed GPZ 7000® gold detector by the African market was very pleasing and was critical to our success.

Compared to FY13, we have much greater control and understanding of our distribution channels into the large African market, and we are selling our products into more African countries. The establishment of our distribution facility in Dubai has been a great success for the company.

Minelab's profit contribution in FY17 increased 106% over the prior year from sales of $148.0 million. While all parts of the Minelab business performed well, the growth was dominated by gold detector sales.

Minelab employs the largest and world's best metal detection product research and development team, developing technologies that are consistently superior to those of our competitors. Our new products, including the GPZ® 19 Super D Coil and the Gold Monster 1000® gold detector, were a great success in FY17 and are a reflection of the world-leading engineering development that is undertaken at Minelab.

While we are confident of continued success in FY18, the unpredictable nature of our sales into Africa makes forecasting difficult. Our Minelab business has a base level of sales in the range of $85 million to $95 million, with strong demand for gold detectors, as experienced in FY17, pushing sales above this level.

Recreation – adventure, treasure and gold

Minelab is built on the success of selling metal detectors into the major world economies of Australia, the USA, Europe and Russia. Our customers metal detect for the fun of it, with metal detecting being an interest, a hobby and passion,a sport, or in some cases, a source of income.

Our comprehensive range includes gold detectors and coin and treasure detectors used to find jewellery and artefacts. This part of the business represents a significant portion of the total Minelab business and is well placed for growth as Minelab continues to release new and improved technology and products into this market.

Minelab's established recreational markets performed strongly in FY17, with sales increasing across Australia, North America, Europe and Russia by more than 20% collectively.

The GPZ® Super D coil was released in November 2016, with strong demand from our gold prospecting market here in Australia. With up to 30% improvement in the depth at which gold can be detected, this coil maximises the performance of the top-of-the-range GPZ 7000® gold detector. With a retail price of $1,795 for the coil, this was a meaningful new product for us over the year.

Minelab entered the lower-price end of the coin and treasure market in 2015 with the release of the GO-FIND® series of detectors. As a new entrant into this market, we have been pleased with our sales, and while these detectors sell from only US$150 per unit, the volumes and revenue we have achieved are significant and incremental to the business. We have learnt a great deal from entering this product category and believe that we can further expand our distribution through large retail chains in the USA, Europe, Russia and Australia to do even better in the future.

While recent years have seen our engineering team focused on new products for our gold detecting markets, we have been investing in a new technology for the mainstream coin and treasure market and are on track to release this exciting new product in FY18.

Small-scale gold mining – prospecting, community and environment

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

The strongest demand for gold detectors comes from Africa, with the primary driver being the adoption of metal detection technology by a large number of small-scale gold miners and the demonstrated success they have in finding gold with our detectors. 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.

In recent years, the company has taken steps to re-establish Minelab as the dominant player in the African gold detecting market. To be successful in this market, we needed to have a differentiated and superior gold detector, and we also needed more control of our distribution channels.

Development of the GPZ 7000® gold detector was the first step. This was a major financial investment for our company, with the product delivering up to a 40% depth improvement. This detector was released into the African market in 2016 and, over time, it has become widely accepted as the best detector for finding gold in Africa. Our engineering team went to great lengths to protect this technology from counterfeits, and sales have exceeded our initial expectations. The sales over FY17 have been relatively consistent and are being driven, in part, by customers upgrading their gold detecting equipment.

Minelab made a critical move in 2015 by establishing a showroom and distribution centre in Dubai to service the large African market. This has continued to pay dividends this year; we have much greater control of our distribution channels and have continued to broaden our customer base. We are now closer than ever to the end users of our detectors. The establishment of this facility and the customer relationships we are developing are critical to ensuring that Minelab succeeds in the African region over the medium term, and this is a major contributor to our success.

In May 2017, we released our first gold detector that has been developed with the artisanal mining market specifically in mind. The Gold Monster 1000® is an entry-level gold detector that is fully automatic and is easy to use. With a retail price point of $1,099 per unit in Australia, we believe this detector is competitively priced to take significant market share from our competitors, who have in the past enjoyed little competition from Minelab in this entry-level price range.

We continue to invest in the development of small-scale gold mining markets worldwide and, while they are coming off a relatively low base, our markets in Central and Latin America and the Asia-Pacific continue to grow significantly.

Countermine – all mines, all soils, all conditions

Minelab's detectors are widely recognised for locating landmines and the explosive remnants of war.
The Countermine business is strategically important to Minelab, with our continual development of leading-edge technology to rid the world of landmines and improvised explosive devices carrying over to the business' other products.

The world-leading engineering capability of the Countermine team is highlighted by the fact that Minelab won funding of $6.7 million from the Australian Army to fast-track the development of the next-generation, dual-sensing countermine detector. This programme to incorporate metal detection with ground-penetrating-radar technology was a key focus of our engineering team in FY17, with great progress being achieved and completion expected in FY19. Although this development is technically challenging, success will open up sales opportunities to the Australian Army and other allied first-world armies.

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, to name but a few.

With the recent development of the new GOLD MONSTER 1000® detector, Minelab's engineers went back to the drawing board to assess the working needs of artisanal gold miners and develop a systems solution, rather than just an easy-to-use, entry-level gold detector for individual use.

In Africa, gold detecting is an occupation, not a hobby, so product versatility and gold-recovery productivity are key requirements. The GOLD MONSTER 1000®, through the use of a universal shaft adaptor, a choice of coils, battery/charging systems and headphones, may be configured in several different ways to suit various uses.

A minimum configuration could comprise the control box, AA battery holder, small GM 05 coil and the universal shaft adaptor. These components are connected on a broomstick (or any other non-metallic shaft), and the parts can also be purchased separately to either configure a detector or as spares.

A maximum configuration could comprise the control box, rechargeable battery, larger GM 10 coil and the standard two-piece shaft, as supplied, as a complete detector. If a shaft breaks or parts go missing, then system adaptability allows for the "broomstick detector" configuration to keep detecting going, without having to travel long distances for replacement parts.

The ultra-sensitive GOLD MONSTER 1000® was introduced to the market in May 2017 and is proving to be very popular with both artisanal miners and recreational detectorists alike.

Tracking Solutions

Minetec provides unique high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations, which in turn allow miners to visualise the whole mine in order to optimise productivity and enhance safety.

FY17 Summary

- Achieved successful deployments spanning all market sectors
- Quantified improvements to mine productivity and safety
- Progressed strategic opportunities to scale the business
- Delivered a small operating profit
- Identified additional opportunities to further exploit our core technology

FY18 Objectives

- Deliver improved financial performance
- Form strategic partnerships to scale the business
- Gain industry acceptance of our technology and its operational benefits
- Continue to develop opportunities for our core technology

Minetec has a long history of providing communications services to the mining industry, but in recent years has been transitioning to a high-value-add technology solutions provider.

Minetec has developed a range of core technologies to deliver innovative, data-driven mining systems that combine world-class high-precision tracking of assets underground, wireless mesh data communications and task-management software specific to the challenges of underground mining.

These technologies combine to offer a range of safety and productivity capabilities to our customers:

Safety:

- Proximity awareness: increased visibility of machines and vehicles
- Traffic management: control of physical access within congested areas
- Proximity detection: audio and visual alerts of machinery, vehicles or other miners in close proximity
- Collision avoidance: the ability to automatically slow or stop a vehicle in response to nearby threats.

Productivity:

- Machine data: provision of real-time data to support production and maintenance planning
- Development, production and maintenance scheduling: automated shift planning for underground operations
- Short interval control: the ability to modify the shift plan in real time.

Minetec's technology solutions are now delivering tangible improvements to safety and productivity that are driving increased production output.

RUC Cementation Mining credits the Minetec system with increasing output from 70,000 tonnes per month to 100,000 tonnes per month. This increase in production equates to over $3 million per month.

Minetec's integrated suite of productivity, safety, tracking and communications solutions is delivering significant improvements for underground mines and provides technology that is critical in the move toward autonomous mine operations.

Our strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability that are of a level that is significant to the Codan group. This is expected to include the formation of strategic relationships with global miners and major suppliers to the mining industry so that we can broaden our sales base and global reach.

Minetec helps RUC Cementation to "stop working in the dark" - innovation and collaboration deliver a step-change in production output for mining contractor

RUC Cementation Mining (RUC) is a member of the Murray & Roberts group of companies. RUC is a diversified, underground-mining contractor with an extensive portfolio of projects throughout Australia and the Asia-Pacific. RUC Mining has gained a reputation for successfully tackling the most complex and challenging assignments.

In 2016, RUC secured a 12-month contract to operate an underground gold mine in Kalgoorlie. With a short window to deliver a return on investment, RUC invested in Minetec's unique technologies to drive productivity and safety improvements underground. In less than four months, Minetec deployed the world's first real-time, high-precision, three-dimensional tracking and integrated task-management system.

RUC Managing Director, Barry Upton, attests to the significant impact of this technology. "It is irrefutable that this technology has delivered a 45% to 50% increase in RUC production," said Mr Upton.

RUC has chosen to manage the change process by implementing a staged release of technology. In this way, the Minetec solution can be deployed subject to the customer's short-term targets and longer-term strategy.

In the first instance, Minetec deployed the TRAX product to deliver high-precision tracking and wireless mesh data communications. The combination of mesh communications directly to the operating mine-face and live visualisation for all assets produced an immediate return on investment. Machine operators were given live proximity-awareness in the cab, allowing them to make operational decisions based upon the environment around them. The simple delivery of mine-wide visibility allowed them to make better decisions based upon events in that moment.

The Minetec system has enabled greater safety, efficiency and increased output. The ability to decongest traffic by knowing where all the "moving parts" are, or ensuring that maintenance vehicles go to the right place with the right equipment, brings immediate returns.

Mine operators are now able to deploy state-of-the-art Minetec technology that delivers increased safety and productivity, as well as a quick return on investment.

Defence Electronics

Codan Defence Electronics offers design and product development, advanced manufacturing and through-life support to the Australian defence industry.

Codan has a long history of supplying the defence sector, with the company's HF radio systems and landmine detectors used by military organisations worldwide. We have a core technical competency in RF subsystem design, which is the basis of our metal detection and HF radio technologies.

These capabilities have the company well placed to provide further engineering solutions and manufacturing expertise to the Australian defence sector.

Codan Defence Electronics was created to capitalise on favourable Australian defence industry policy settings that ensure prime contractors offer meaningful Australian Industry Capability (AIC) to the Australian Government. Codan is working with prime contractors across multiple opportunities to offer quality, cost-effective contract manufacturing and support services as part of their AIC commitment.

Codan Defence Electronics has a strong offering into this market, through its surface-mount manufacturing capability, mature supply chain management and the financial robustness of the Codan group.

Engineering and Operations

Engineering and Operations enhance Codan's growth and continuous improvement by driving technical excellence across the company. We operate highly disciplined and efficient engineering, advanced manufacturing and supply chain management to ensure programme success.

Engineering

Codan maintains a world-class team of research, engineering and technical staff, employing more than 140 engineers across the globe.

With teams in Adelaide, Perth, Christchurch and Victoria, our capabilities span a cross section of engineering disciplines, including software, electronics and mechanical engineering. We have a number of PhD-qualified physicists and software, electronics and signal processing engineers on staff, recruited from Australia and overseas. Our engineering teams ensure that technology is released to specification, on schedule and with appropriate intellectual property (IP) protection.

We also utilise a number of field testers from around the world, as well as a network of service providers when required.

This combination of core competencies allows us to continuously develop unique IP to solve our customers' communications, security and productivity problems in some of the harshest environments.

Advanced manufacturing

The ability to manufacture precision electronics products and associated software is a core competency of Codan's, and remains a sustainable competitive advantage driving our future growth. The company is committed to pursuing ongoing efficiencies, flexibility and investment in its production capabilities.

Codan's Adelaide manufacturing facility continues to be 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, remains a cornerstone of the company's manufacturing strategy. The majority of manufacturing is still carried out in Malaysia, while manufacture of land mobile radio products takes place at 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.

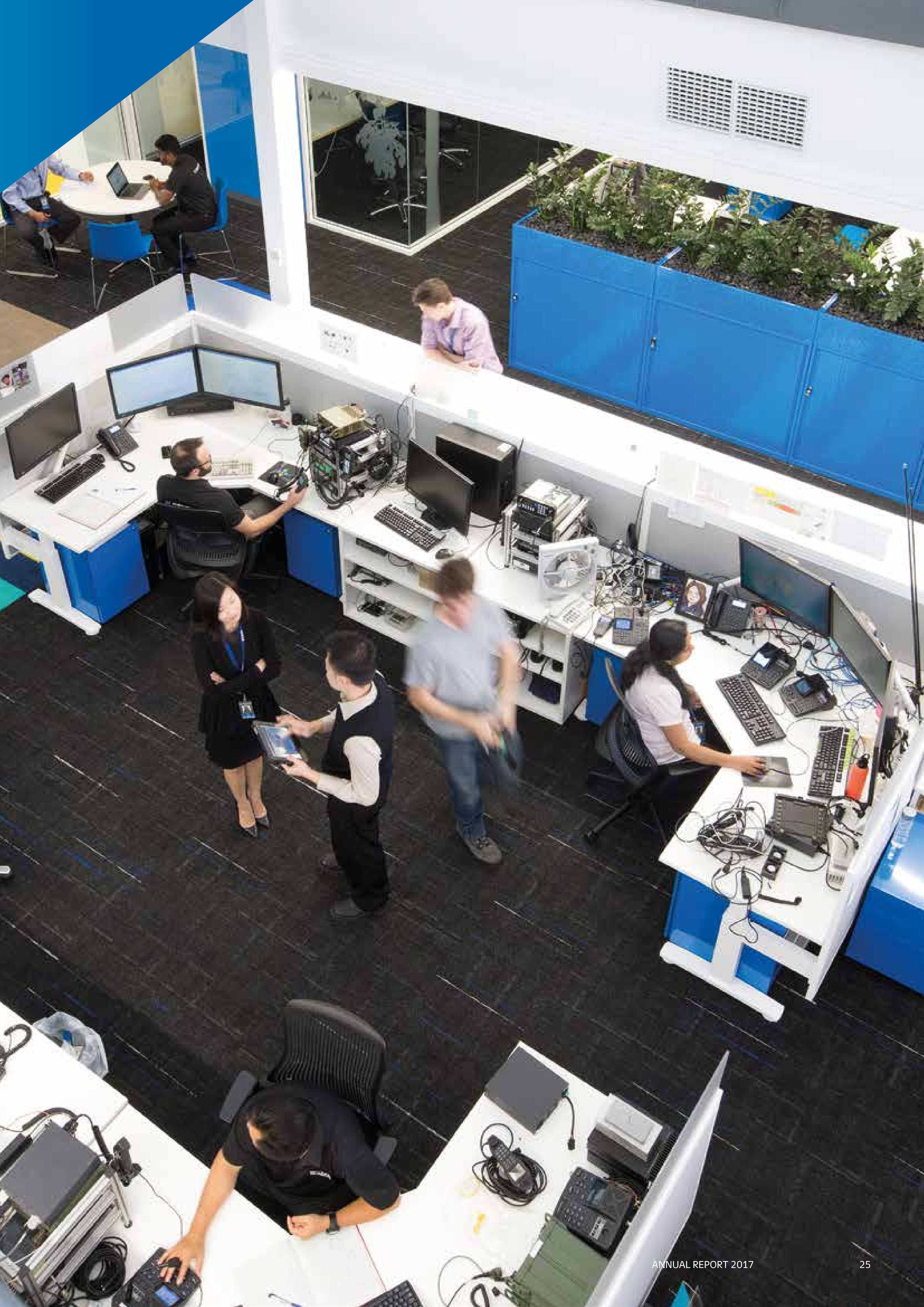
Codan has adopted stringent testing and quality control procedures, and both Codan and Plexus maintain quality assurance systems approved to International Standard ISO 9001.

Supply chain management

Codan has an extensive global supply chain in place, sourcing product and material from most regions in the world. We work with suppliers who meet stringent quality standards, are innovative and work in safe and responsible ways. Our dealings with our suppliers reflect Codan's core values, and, as such, we have built collaborative, honest and trusting relationships which have resulted in reliable supply over the long term.

Our supply chain is responsive to the changing needs of our customers and markets. All Codan suppliers must provide agility, flexibility and speed to market. At the end of our supply chain are global distribution centres located in Dubai, Chicago, Penang and Adelaide, which ensure product is regionally distributed for the fastest route to market.

Manufacturing and distributing our world-class products demands a strong, cohesive and responsive supply chain, and at Codan we have experienced professionals dedicated to the delivery of supply chain excellence.




STAFF

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. 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. Thousands of individual initiatives have been implemented, enabling Codan to dramatically lower production costs and reduce delivery lead-times. Initiatives continue to this day, including improvements to global manufacturing sites run by Plexus and other key suppliers.

Workplace health, safety and environment

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 those travelling to remote locations. As such, Codan engages experts to ensure the safety and welfare of its travellers.

We maintain an effective Work Health, Safety and Environmental Management System that is integral to our business processes and are accredited to OHSAS 18001 Occupational Health and Safety and ISO 14001 Environmental Management Systems.

Facilities

Codan's global head office is located in the Technology Park precinct at Mawson Lakes, South Australia, where around 200 Codan, Minelab and Minetec staff are located.

The facility houses the company's world-class advanced manufacturing facilities, focusing on new product development and manufacture of its security-featured radios and mine-clearance products. It allows capacity for future growth and includes extensive training and demonstration facilities which are used to showcase our products to a global customer base.

Board of Directors

David Simmons BA (Acc)
Chairman, Independent Non-Executive Director

David was appointed by the board as Chairman in February 2015 and has been a director of Codan since May 2008. He worked in the manufacturing industry throughout his career and has extensive financial and general management experience. David 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.

Donald McGurk HNC (Mech Eng), MBA, FAICD, Harvard AMP
Managing Director and Chief Executive Officer

Donald was appointed to the board as a director in May 2010, and was appointed as Managing Director in November 2010. Donald 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 Donald 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. Donald came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries. Donald holds a Masters Degree in Business Administration from Adelaide University and completed the Advanced Management Program at Harvard University in 2010.

Peter Leahy AC BA (Military Studies), MMAS, GAICD
Independent Non-Executive Director

Peter was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37-year career and six years as Chief of Army. His distinguished service was recognised with his 2007 appointment as 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, has been a director of Electro Optic Systems Holdings Limited since May 2009 and a director of Citadel Group Limited since June 2014. Peter 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. In August 2014, he was appointed to the Australian Federal Government's First Principles Review Team, an initiative designed to ensure that the Australian Department of Defence is fit for purpose and able to promptly respond to future challenges.

Jim McDowell LLB (Hons)
Independent Non-Executive Director

Jim was appointed to the board in September 2014. He joined British Aerospace in Singapore in August 1996 and, during his time with British Aerospace, served as the Managing Director – Asia and Chief Executive Officer of BAE Systems Australia Limited. He was Chief Executive Officer of BAE Systems Saudi Arabia from September 2011 until December 2013. Jim is Chair of Australian Nuclear Science and Technology Organisation, Chair of Defence Co-operative Research Centre in Trusted Autonomous Systems and, in August 2014, was appointed to the Australian Federal Government's First Principles Review Team, an initiative designed to ensure that the Australian Department of Defence is fit for purpose and able to promptly respond to future challenges. He has been a director of Austal Limited since December 2014 and is Chancellor of the University of South Australia.

Graeme Barclay MAICD, F Fin, CA, MA (Hons)
Independent Non-Executive Director

Graeme was appointed to the board in February 2015. He has 30 years of international business experience in professional services, broadcast and telecommunications, and extensive knowledge of business in the communications services, technology and infrastructure markets. He was Group Chief Executive Officer of the Broadcast Australia group for 11 years, following three years as Chief Financial Officer and Chief Operating Officer, retiring in April 2013. In his time with Broadcast Australia, the business grew domestically and expanded internationally, and diversified into private networks, transit location communications and data centre operation and managed hosting services. From July 2010 until September 2013, he was Chairman of Transit Wireless LLP, which has the exclusive rights to install and operate cellular and Wi-Fi systems in the New York subway. From 2002 to 2009, he was an executive director in Macquarie Group's infrastructure team and was involved in several acquisitions and capital raising transactions for the then listed Macquarie Communications Infrastructure Group. He has been a Non-Executive Director of BSA Limited since June 2015 and is the founder and Executive Director of First Horizon Advisory. Graeme is a chartered accountant, holding membership of the Institute of Chartered Accountants of Scotland and of Chartered Accountants Australia and NZ.

Kathy Gramp BA (Acc), CA, FAICA, FAICD
Independent Non-Executive Director

Kathy was appointed to the board in November 2015. She has had a long and distinguished executive career and over 17 years of board experience across a diverse range of Australian organisations and industry sectors. She has had exposure to international markets and has a wealth of experience in corporate finance at both strategic and operational levels. In 1989, Kathy joined Austereo Ltd, Australia's largest commercial radio network, at a senior corporate level, and her career with Austereo spanned 22 years. As Chief Financial Officer and a member of the Executive Committee, she was closely involved in Austereo's national and international expansion and its successful move into digital and online radio. Kathy was previously a director and member of the Audit & Risk and Remuneration Committees of Southern Cross Media Group Limited and has significant audit committee experience. Kathy is a chartered accountant and a Fellow of the Australian Institute of Company Directors and Chartered Accountants Australia and New Zealand.

Leadership Team

Donald McGurk HNC (Mech Eng), MBA, FAICD, Harvard AMP
Managing Director and Chief Executive Officer

Donald is a motivator of people, with extensive knowledge and experience in the areas of change management and strategy formulation.

Donald joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. From 2005 to 2007, he also held executive responsibility for sales of the company's communications products and, from 2007 to 2010, executive responsibility for the business performance of HF radio products.

Donald was appointed to the board as a director in May 2010 and became Managing Director in November 2010.

For more details of Donald's qualifications and experience, please see page 28.

Michael Barton BA (Acc), CA
Chief Financial Officer and Company Secretary

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

Rory Linehan BSc (Hons), MSc, PhD
Executive General Manager, Minetec

Rory brings a unique mix of technical knowledge, diverse commercial skills and broad experience to Codan, delivering insightful leadership across the business.

He joined Codan in 2014, working across the group to leverage technology and innovation in developing strategies for growth. In addition to this group role, Rory is Executive General Manager of Minetec.

Rory holds degrees in Physics and Engineering and a PhD in Mathematics from Coventry University (UK). He has skills in strategy, marketing, business development, systems engineering and programme management gained across a wide range of projects, including development of the Boeing 787 primary flight-control system.

Prior to Codan, Rory held a number of senior positions with blue-chip firms in the UK, including McLaren, Cobham and Goodrich.

Charlie Stuff MBA, BSc
Executive General Manager, Radio Communications

Charlie brings unique knowledge to Codan through his background as a US Army Officer and extensive senior management experience at Rockwell Collins and Cobham PLC.

Charlie was appointed to the role of Executive General Manager, Radio Communications, in 2015. Based in Victoria, British Columbia, he has been integral to the success of Codan's Land Mobile Radio business since the acquisition of Daniels Electronics in 2012.

Charlie holds a Masters of Business Administration from Central Michigan University, and a Bachelor of Science in Business from Auburn University.

Peter Charlesworth BEEEng (Hons), MBA, GAICD, Harvard AMP

Executive General Manager, Minelab and Codan Defence

Peter brings extensive knowledge and experience to Codan from more than 30 years in the electronics industry, including 15 years at Codan and formerly in management and technical roles at Tenix Defence and Vision Systems.

Peter joined Codan in 2003 as General Manager of Engineering and subsequently held various roles including New Business Manager and HF Radio Business Development Manager. He was appointed Executive General Manager of Minelab in 2008, following its acquisition by Codan in that same year. In addition to Minelab, Peter is Executive General Manager of Codan Defence Electronics.

Peter holds a degree in Electrical and Electronic Engineering with First Class Honours, and a Masters of Business Administration, both from Adelaide University. He is also a Graduate Member of the Australian Institute of Company Directors and completed the Advanced Management Program at Harvard University in 2014. He was Chairman of the Technology Industry Association from 2006 to 2011 and was on the Adelaide University ARI Advisory Board from 2009 to 2015. He is presently on the board of the charity, United Way SA, and is a member of the SA Government, Department of State Development grant review committee.


CODA

Financial report

for the year ended 30 June 2017

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Directors' Report

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 2017 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:

David Simmons
Donald McGurk
Peter Leahy AC
Jim McDowell
Graeme Barclay
Kathy Gramp

Details of directors and their qualifications and experience are set out on pages 28 to 31.

Company Secretary

Mr Michael Barton *BA (Acc), CA*

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

Directors' Meetings

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

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

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

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

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

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

Director and executive education

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

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

Director performance evaluation

The Remuneration and Nomination Committee is responsible for developing the board evaluation process. A performance evaluation took place during the year ended 30 June 2017.

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 mirror the environment in which the group operates. The board uses a skills matrix to ensure that the directors collectively have a combination of skills and experience in the areas of leadership, general management, listed company, finance, accounting, risk management, international business, equity markets and major transactions, as well as relevant industry and business knowledge in the areas of technology and engineering, communications, military and security, mining and government. The board

Directors' Report (continued)

Corporate Governance Statement (continued)

Board of Directors (continued)

Composition of the board (continued)

considers that collectively the directors have the range of skills, knowledge, personal attributes and experience necessary to direct the company.

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

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

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

Company secretary

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

Remuneration and Nomination Committee

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

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

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

Mr D J Simmons (Chair)
Independent Non-Executive Director

Lt-Gen P F Leahy
Independent Non-Executive Director

Mr J W McDowell
Independent Non-Executive Director

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

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

Remuneration Report – Audited

Principles of remuneration

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

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced executives. The Remuneration and Nomination Committee 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.

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

The remuneration structures take into account:

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

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. For FY17, the potential incentive payable to certain executives is based on 60% of the executives' fixed salaries inclusive of superannuation, but can exceed this level if performance hurdles are exceeded, subject to a 200% cap.

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2017 the above performance-linked remuneration structure was appropriate.

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

Service contracts

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

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

Performance rights

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

The number of performance rights issued represents 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. For executives not participating in the performance rights plan, other benefits may be offered to encourage long-term performance.

The performance rights granted on 23 November 2016 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 2016 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 in the twelve-month period following the vesting date.

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	173,959	23 November 2016	127.7	–	30 June 2020	–
Executives						
Mr M Barton	91,586	23 November 2016	127.7	–	30 June 2020	–
Mr P D Charlesworth	113,237	23 November 2016	127.7	–	30 June 2020	–
Mr R D Linehan	113,237	23 November 2016	127.7	–	30 June 2020	–

Directors' Report (continued)

Corporate Governance Statement (continued)

Remuneration Report – Audited (continued)

Performance rights (continued)

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

	Performance rights granted		Percentage vested in year	Percentage forfeited in year	Financial years in which shares will be issued if vesting achieved
	Number	Date			
Directors					
Mr D S McGurk	296,877	26 November 2014	–	–	2018
	236,948	25 November 2015	–	–	2019
	173,959	23 November 2016	–	–	2020
Executives					
Mr M Barton	145,638	26 November 2014	–	–	2018
	120,709	25 May 2016	–	–	2019
	91,586	23 November 2016	–	–	2020
Mr P D Charlesworth	193,250	26 November 2014	–	–	2018
	154,240	25 May 2016	–	–	2019
	113,237	23 November 2016	–	–	2020
Mr R D Linehan	187,998	26 November 2014	–	–	2018
	154,240	25 May 2016	–	–	2019
	113,237	23 November 2016	–	–	2020

In relation to the performance rights granted on 26 November 2014, the performance requirements were based on cumulative annual compounding growth of the group's earnings per share over a three-year performance period, with a maximum earnings per share target of 20.37 cents per share. As the maximum earnings per share target has been exceeded to 30 June 2017, it is expected that the performance rights will vest and be converted into shares before the end of September 2017.

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 2016	Issued	Vested	Lapsed	Held at 30 June 2017
Directors					
Mr D S McGurk	533,825	173,959	–	–	707,784
Executives					
Mr M Barton	266,347	91,586	–	–	357,933
Mr P D Charlesworth	347,490	113,237	–	–	460,727
Mr R D Linehan	342,238	113,237	–	–	455,475

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 2016	Received on exercise of rights	Other changes *	Held at 30 June 2017
Directors				
Mr D J Simmons	61,636	–	25,000	86,636
Mr D S McGurk	312,517	–	–	312,517
Lt-Gen P F Leahy	57,708	–	–	57,708
Mr J W McDowell	–	–	–	–
Mr G R C Barclay	21,052	–	–	21,052
Ms K J Gramp	–	–	10,000	10,000
Specified executives				
Mr M Barton	5,000	–	–	5,000
Mr P D Charlesworth	312,790	–	(25,000)	287,790
Mr R D Linehan	135,825	–	–	135,825
Mr C P Stuff	–	–	–	–

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

Directors' Report (continued)

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					
Mr D J Simmons	**2017**	**172,459**	**–**	**–**	**16,384**
	2016	162,974	–	–	15,483
Lt-Gen P F Leahy	**2017**	**86,230**	**–**	**–**	**8,192**
	2016	81,487	–	–	7,741
Mr J W McDowell	**2017**	**86,230**	**–**	**–**	**8,192**
	2016	81,487	–	–	7,741
Mr G R C Barclay	**2017**	**86,230**	**–**	**–**	**8,192**
	2016	81,487	–	–	7,741
Ms K J Gramp	**2017**	**94,069**	**–**	**–**	**8,936**
	2016	50,972	–	–	4,842
Total non-executives' remuneration	**2017**	**525,218**	**–**	**–**	**49,896**
	2016	458,407	–	–	43,548
Executive					
Mr D S McGurk	**2017**	**566,793**	**616,679**	**–**	**19,916**
	2016	516,203	410,088	–	18,337
Total directors' remuneration	**2017**	**1,092,011**	**616,679**	**–**	**69,812**
	2016	974,610	410,088	–	61,885

Ms K J Gramp was appointed as a director on 18 November 2015.

Other long term $	Termination benefits $	Performance rights $	Total $	Proportion of remuneration performance related %
–	**–**	**–**	**188,843**	**–**
–	–	–	178,457	–
–	**–**	**–**	**94,422**	**–**
–	–	–	89,228	–
–	**–**	**–**	**94,422**	**–**
–	–	–	89,228	–
–	**–**	**–**	**94,422**	**–**
–	–	–	89,228	–
–	**–**	**–**	**103,005**	**–**
–	–	–	55,814	–
–	**–**	**–**	**575,114**	**–**
–	–	–	501,955	–
16,174	**–**	**197,282**	**1,416,844**	**57.4**
16,933	–	165,503	1,127,064	51.1
16,174	**–**	**197,282**	**1,991,958**	**–**
16,933	–	165,503	1,629,019	–

Directors' Report (continued)

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	**2017**	**270,871**	**324,670**	**–**	**25,580**
(Chief Financial Officer and Company Secretary)	2016	256,802	208,913	–	23,362
Mr P D Charlesworth	**2017**	**349,883**	**437,449**	**–**	**19,916**
(Executive General Manager, Minelab & Codan Defence)	2016	335,496	322,920	–	19,308
Mr R D Linehan	**2017**	**371,882**	**298,042**	**91,321***	**–**
(Executive General Manager, Minetec)	2016	402,137	240,250	46,694	15,652
Mr C P Stuff	**2017**	**332,775**	**208,863**	**3,675**	**–**
(Executive General Manager, Radio Communications)	2016	287,518	221,783	673	–
Total executive officers' remuneration	**2017**	**1,325,411**	**1,269,024**	**94,996**	**45,496**
	2016	1,281,953	993,866	47,367	58,322

** Other short-term benefits for Mr R D Linehan relate to costs incurred for arrangements made following his relocation from overseas to Australia.*

Mr C P Stuff was appointed to the position of Executive General Manager, Radio Communications on 1 September 2015.

Executive officers outside of Australia are paid in their local currencies. The Australian dollar equivalents are calculated using average exchange rates.

Short-term incentives which vested during the year are as follows: Mr D S McGurk 92% (8% forfeited), Mr M Barton 92% (8% forfeited), Mr P D Charlesworth 100% (0% forfeited), Mr R D Linehan 68% (32% forfeited) and Mr C P Stuff 57% (43% forfeited).

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.

Other long term $	Termination benefits $	Performance rights $	Total $	Proportion of remuneration performance related %
10,627	**–**	**115,171**	**746,919**	**58.9**
11,711	–	95,167	595,955	51.0
10,344	**–**	**147,814**	**965,406**	**60.6**
12,665	–	124,112	814,501	54.9
9,170	**–**	**151,928**	**922,343**	**48.9**
4,002	–	135,014	843,749	44.5
61,200	**–**	**–**	**606,513**	**34.4**
–	–	–	509,974	43.5
91,341	**–**	**414,913**	**3,241,181**	
28,378	–	354,293	2,764,179	

Directors' Report (continued)

Corporate Governance Statement (continued)

Remuneration Report – Audited (continued)

Corporate performance

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

	2017 $	2016 $	2015 $	2014 $	2013 $
Profit attributable to shareholders	**43,514,938**	15,494,607	12,507,609	9,196,580	45,416,716
Dividends paid	**17,723,725**	7,082,530	5,310,509	15,039,383	20,343,012
Share price at 30 June	**2.34**	1.18	1.15	0.75	1.52
Change in share price at 30 June	**1.16**	0.03	0.40	(0.77)	0.12

Board Audit, Risk and Compliance Committee

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

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

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

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

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

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

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

- discuss the external audit plan, identifying any significant changes in structure, operations, internal controls or accounting policies likely to affect the financial statements, and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and 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 and counterfeiters, government policy changes, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, environment, occupational health and safety, property, product quality, interruptions to production, changes in international quality standards, financial reporting and the purchase, development and use of information systems.

Oversight of the risk management system

The board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the establishment of committees, regular budget, financial and management reporting, established organisational structures, procedures, manuals and policies, external financial and safety audits, insurance programmes and the retention of specialised staff and external advisers.

The Board Audit, Risk and Compliance Committee considers risk management in order to ensure risks are identified, assessed and appropriately managed. The committee reports to the board on these matters on an ongoing basis. During the year ended 30 June 2017, the committee reviewed the company's risk management framework in order to ensure the effective management of the group's material business risks.

Risk management and compliance and control

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

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

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

Quality and integrity of personnel

Appraisals are conducted at least annually for all senior employees. Training and development, and appropriate remuneration and incentives, with regular performance reviews, create an environment of co-operation and constructive dialogue with employees and senior management. A performance evaluation of all executives and senior employees took place during the year ended 30 June 2017.

Financial reporting

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

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

Economic, environmental and social sustainability risks

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

Environmental regulation

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

Directors' Report (continued)

Corporate Governance Statement (continued)

Risk management (continued)

Internal audit

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

Assessment of effectiveness of risk management

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

Ethical standards

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

Conflict of interest

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

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

Code of conduct

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

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of professionalism, product quality and service;
- acting at all times with fairness, honesty, consistency and integrity;
- employment practices such as occupational health and safety and anti-discrimination;
- responsibilities to the community, such as environmental protection;
- responsibilities to the individual in respect of the use of confidential information;
- compliance with legislation including compliance in countries where the legal systems and protocols are significantly different from Australia's;
- conflicts of interest;
- responsible and proper use of company property and funds; and
- reporting of unlawful behaviour.

Trading in general company securities by directors and employees

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

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

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

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

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

Diversity

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

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

The key elements of the policy include:

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

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

Gender representation	30 June 2017 Female (%)	Male (%)	30 June 2016 Female (%)	Male (%)
Board representation	**17%**	**83%**	17%	83%
Senior executive representation *	**0%**	**100%**	0%	100%
Senior management representation	**29%**	**71%**	26%	74%
Group representation	**25%**	**75%**	26%	74%

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

Directors' Report (continued)

Corporate Governance Statement (continued)

Diversity (continued)

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

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

The board assesses the performance against its objectives on an annual basis.

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 380 people, located in Australia, USA, Ireland, Canada, China, United Arab Emirates, South Africa and New Zealand, 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.

FY17 highlights:

- Underlying net profit after tax of $44.7 million, up 112% on 33% higher sales
- Statutory net profit after tax of $43.5 million, up 181%
- Increased annual dividend to 7.0 cents, up 17%, fully franked (interim 3.0, final 4.0)
- Annual special dividend of 6.0 cents, fully franked (interim 3.0, final 3.0)
- Underlying earnings per share of 24.9 cents, up 109%
- Strong balance sheet – $21.4 million net cash
- Radio Communications produced its best result in eight years; sales increased 9% and profit increased 14%
- Metal Detection produced its second-highest result ever; sales increased 49% and profit increased 106% due to strong gold detector sales into Africa and other markets outside Australia
- Minetec delivered a small contribution to profit as miners recognised the value of our underground tracking solutions

The statutory net profit after tax attributable to shareholders increased by 181% to $43.5 million for the year ended 30 June 2017. Group sales of $226.1 million were 33% higher than in the prior year. Underlying net profit after tax for the year ended 30 June 2017 was $44.7 million, a 112% increase over FY16.

In the 2017 financial year, the company delivered a near record profit, demonstrating Codan's ability to deliver world-class, robust technology for our customers in more than 150 countries.

The company spent more than ever on new product development this year, and this will increase again in FY18 as we continue to invest in order to diversify and grow our base business.

Codan remains focused on developing leading-edge solutions that solve our customers' safety, security and productivity problems. For example, this year we:

- completed first release of our new Cascade™ Land Mobile Radio (LMR) product platform, broadening our addressable market for LMR solutions;
- expanded our High Frequency (HF) military offering with the release of two new handheld, tactical radios for the global military market and acquisition of the Stealth antenna range; and
- continued to fast-track development of the next-generation dual-sensing countermine detector, targeted for completion in FY19.

These three examples demonstrate the progress we are making in taking Codan to a solutions-based business which will provide more stable revenue, continuing high margins and a closer relationship with our customers.

Dividend

The company announced a final dividend of 4.0 cents per share, fully franked, bringing the full-year dividend to 7.0 cents. The dividend has a record date of 15 September 2017 and will be paid on 3 October 2017.

In recognition of the outperformance of the company for the year, the company also announced a special dividend of 3.0 per share, fully franked, bringing the full-year special dividend to 6.0 cents. The special dividend has a record date of 15 September 2017 and will be paid on 3 October 2017.

Financial performance and other matters

	FY17		FY16	
	$m	**% of sales**	**$m**	**% of sales**
Revenue				
Communications	**70.9**	**31%**	65.0	38%
Metal detection	**148.0**	**66%**	99.2	59%
Tracking solutions	**7.2**	**3%**	5.3	3%
Total revenue	**226.1**	**100%**	169.5	100%
Underlying business performance				
EBITDA	**75.6**	**33%**	41.9	25%
EBIT	**61.5**	**27%**	29.2	17%
Interest	**(0.8)**		(1.7)	
Net profit before tax	**60.7**	**27%**	27.5	16%
Taxation	**(16.0)**		(6.4)	
Underlying net profit after tax	**44.7**	**20%**	21.1	12%
Non-recurring (expenses) after tax:*				
Restructuring expenses	**–**		(1.8)	
Impairment of Newton property	**(1.2)**		(1.0)	
Minetec asset impairment	**–**		(2.8)	
Net profit after tax	**43.5**		15.5	
Underlying earnings per share, fully diluted	**24.9 cents**		11.9 cents	
Statutory earnings per share, fully diluted	**24.2 cents**		8.7 cents	
Ordinary dividend per share	**7.0 cents**		6.0 cents	
Special dividend per share	**6.0 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 audit.*

EBITDA and EBIT margins increased as a result of stronger gross margins in Metal Detection and improved expense ratios on higher FY17 sales.

Strong cash generation during FY17 resulted in a net cash position of $21.4 million at 30 June 2017. A portion of this will be used to pay the company's FY17 tax liability of $16.1 million, which becomes payable in December 2017.

During the year, the board elected to reduce the company's debt facility from $85 million to $55 million. This undrawn facility remains available to fund further organic growth or a strategic acquisition.

The company continues to pursue the sale of its vacant site at Newton, South Australia. While a number of discussions were held during the year, we have not yet successfully concluded a transaction. As a result, the board has decided to write down the Newton property from $5 million to $3.75 million. Management intends to clear the buildings from the site to prepare it for a land sale in FY18.

Directors' Report (continued)

Operating and Financial Review (continued)

Financial performance and other matters (continued)

PERFORMANCE BY BUSINESS UNIT

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

Radio Communications designs and manufactures communications equipment for HF and LMR applications. It provides communications solutions that allow customers to save lives, enhance security and support peacekeeping activities worldwide.

This division has a base level of sales in the range of $65 million to $75 million per annum, with large HF projects often taking us to the top of this range. In FY17, Radio Communications revenue increased 9% to $70.9 million, and segment profit increased 14% to $19.9 million.

While FY17 was another excellent result for the division, we remain focused on our strategy to broaden our revenue base by transitioning to complete communications solutions for our customers and expanding our technology platforms into more attractive adjacent markets.

We have released two new handheld, tactical radios for the global military market, Sentry-V™ and Sentry-H™. These products expanded our offering to military customers and, along with our investment in the Stealth antenna range, are assisting our transition from a product to a solutions business.

As previously announced, the company accelerated development of the new Cascade™ LMR product platform in order to grow the business. Cascade™ was released to the market in July 2017, with further features to be released during the course of FY18. The LMR sales force has also been bolstered with a focus on selling radio network solutions into the North American market. Sales cycles can be anywhere from six to eighteen months and therefore we expect to see sales growth from the Cascade™ product range fully reflected in revenue from FY19.

On 1 August, Radio Communications was pleased to announce its first significant LMR end-to-end solution sale, having secured a US$4.3 million order from RiverCom 911, a civilian-staffed emergency communications centre based in Washington State, USA. The order includes a ten-year sustainment contract, and therefore approximately two-thirds of the contract value is expected to be recognised as revenue in FY18.

With a range of new products supported by a stronger sales team and a growing sales pipeline, we expect to deliver another solid performance in FY18.

Metal Detection – Recreational, Gold Mining and Countermine

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

In FY17, Minelab revenue increased 49% to $148.0 million, and segment profit increased 106% to $61.5 million. While all parts of the Minelab business performed well, the growth was dominated by gold detector sales.

The baseline business for Minelab is comprised of recreational products sold into Australia, Europe and the USA, a level of gold detector sales into Africa, Asia Pacific and Latin America and sales of countermine products (detecting and clearing improvised explosive devices) globally. These activities will typically deliver revenues in the range of $85 million to $95 million per annum for the Minelab business. Periods of stronger demand for gold detectors in Africa and new product introductions can push these revenues significantly higher.

This year saw significant growth in gold detector sales from our African markets, where demand is being driven by the superior performance of our products rather than from gold surges. This increased demand is primarily the result of customers upgrading their GPX® gold detecting equipment.

We remain confident in the future success of our gold detector business in Africa. We have the world's best gold detecting technology, our detectors have better anti-counterfeit protection and are being distributed more widely throughout Africa as a result of continuous market development.

Minelab's established recreational markets outside Africa have also performed well, with sales into developed markets increasing across Australia, North America and Europe/Russia by more than 20% collectively. We are on target to launch a significant new product for the mainstream coin and treasure market in FY18.

In May 2017, Minelab released the Gold Monster®. This new detector was designed to fill a gap in our product range and provide an entry-level detector specifically designed for the African market. Initial demand has been strong.

Minelab continues to fast-track development of the next-generation dual-sensing countermine detector, which incorporates metal detection with ground-penetrating radar. As previously announced, the company received $6.7 million in Australian government funding towards this project, which is targeted for completion in FY19. Although this development is technically challenging, success will bring sales opportunities to the Australian Army and to other allied first-world armies.

Our strategy for Minelab is to maintain our competitive advantage across gold, recreational and countermine markets by continually investing and innovating our technology platforms, while at the same time expanding our critical routes to market.

While we are confident of continued success in FY18, the unpredictable nature of our sales into Africa makes forecasting difficult. As detailed above, the Minelab business has a base level of sales in the range of $85 million to $95 million, however if strong demand for gold detectors continues, sales can exceed this level.

Tracking Solutions – Minetec

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations, which in turn allow miners to visualise the whole mine to optimise productivity and enhance safety.

Minetec has deployed its solutions into several operational mines, which are now realising tangible improvements to both productivity and safety. This has lead to an increased level of interest from miners as the message spreads throughout the industry.

Our strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability levels that will make a significant contribution to the Codan group. These include forming strategic relationships with global miners and major suppliers to the mining industry.

Minetec delivered a small operating profit in FY17. The challenge is to grow the profitability to meaningful levels in the future.

Codan Defence Electronics

Codan Defence Electronics offers high-level design and adaptation, advanced manufacturing, training and through-life support to the Australian defence industry.

Codan has a long history of supplying the defence sector, with the company's HF radio systems and landmine detectors being used by military organisations worldwide. Our large engineering base has a core technical competency in radio and sensor design, which will allow us to bid for upcoming Australian Defence Force projects including the JORN (over-the-horizon radar) upgrade, Land 400 (military vehicles) and SEA 5000 (future frigate) programmes.

These capabilities have the company well placed to provide further engineering solutions and manufacturing expertise to the Australian Defence Force and defence prime contractors operating in Australia.

While we are yet to win significant orders, we continue to build a pipeline of future opportunities. Defence contracts have long sales cycles and, as a result, we have not planned for sales in FY18.

Outlook

Codan's base business has revenues in the range of $160 million to $180 million per annum and, at this level of sales, is expected to generate net profit after tax in the range of $20 million to $25 million. This year, we have reinforced the distinction between our base-level business and the outperformance that can occur from time-to-time by declaring two special dividends. Market valuations suggest that investors now clearly understand this distinction. Strategic initiatives are underway to grow the base business by developing innovative, new product platforms, broadening our customer base and seeking further investment opportunities.

Codan has the ability to sometimes surprise on the upside as a result of increased demand for gold detectors and large project wins in our radio communications division, both of which are difficult to predict. The board and management remain committed to maximising these opportunities while growing the company's base business over the medium term.

The board intends to provide a further business update at the Annual General Meeting in October, when trading results for the first quarter will be known.

Directors' Report (continued)

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 2017:				
FY16 final	4.0	7,088	100%	4 October 2016
FY17 interim ordinary	3.0	5,318	100%	3 April 2017
FY17 interim special	3.0	5,318	100%	3 April 2017
Declared after the end of the year:				
FY17 final ordinary	4.0	7,092	100%	3 October 2017
FY17 final special	3.0	5,319	100%	3 October 2017

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

Events subsequent to reporting date

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

Likely developments

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

Further information about likely developments in the operations of the group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the group.

Directors' interests

The relevant interest of each director in the shares issued by the company as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Ordinary shares
Mr D J Simmons	86,636
Mr D S McGurk	312,517
Lt-Gen P F Leahy	57,708
Mr J W McDowell	–
Mr G R C Barclay	21,052
Ms K J Gramp	10,000

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 54 for a copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001*.

Details of the amounts paid or payable to the auditor of the company, KPMG, and its related practices for audit and non-audit services provided during the year are as follows:

	Consolidated	
	2017 $	**2016 $**
Statutory audit		
Audit and review of financial reports (KPMG Australia)	**195,651**	192,667
Audit of financial reports (overseas KPMG firms)	–	15,077
	195,651	207,744
Services other than statutory audit		
Other assurance services		
Other	**35,290**	2,430
Other services		
Taxation compliance services (KPMG Australia)	**62,100**	87,111
Taxation compliance services (overseas KPMG firms)	**186,627**	135,683
	284,017	225,224

Rounding off

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

This report is made with a resolution of the directors:

D J Simmons
Director

D S McGurk
Director

Dated at Mawson Lakes this 30th day of August 2017.

Lead auditor's independence declaration

under Section 307c of the *Corporations Act 2001*

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 of Codan Limited for the financial year ended 30 June 2017 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

30 August 2017

Consolidated income statement

for the year ended 30 June 2017

	Note	Consolidated 2017 $000	Consolidated 2016 $000
Continuing operations			
Revenue	2	**226,095**	169,540
Cost of sales		**(89,874)**	(74,609)
Gross profit		**136,221**	94,931
Administrative expenses		**(21,677)**	(19,457)
Sales and marketing expenses		**(35,169)**	(34,167)
Engineering expenses		**(17,280)**	(13,750)
Net financing costs	3	**(894)**	(2,187)
Other (expenses)/income	4	**(1,718)**	(5,944)
Profit before tax		**59,483**	19,426
Income tax expense	7	**(15,970)**	(3,923)
Profit for the period		**43,513**	15,503
Attributable to:			
Equity holders of the company		**43,515**	15,495
Non-controlling interests		**(2)**	8
		43,513	15,503
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	6	**24.6 cents**	8.8 cents
Diluted earnings per share	6	**24.2 cents**	8.7 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 60 to 94.

Consolidated statement of comprehensive income

for the year ended 30 June 2017

	Note	Consolidated 2017 $000	2016 $000
Profit for the period		**43,513**	15,503
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		**719**	(66)
less tax effect		**(216)**	20
Changes in fair value of cash flow hedges, net of income tax	21	**503**	(46)
Exchange differences on translation loss of foreign operations	21	**(1,542)**	1,444
Other comprehensive (loss)/income for the period, net of income tax		**(1,039)**	1,398
Total comprehensive income for the period		**42,474**	16,901
Attributable to:			
Equity holders of the company		**42,476**	16,893
Non-controlling interests		**(2)**	8
		42,474	16,901

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 60 to 94.

Consolidated balance sheet

as at 30 June 2017

	Note	Consolidated 2017 $000	2016 $000
Current assets			
Cash and cash equivalents	8	**21,421**	14,333
Trade and other receivables	11	**20,557**	19,099
Inventory	12	**31,027**	28,478
Current tax assets	7	**47**	279
Assets held for sale	14	**3,750**	5,003
Other assets	13	**3,493**	1,500
Total current assets		**80,295**	68,692
Non-current assets			
Property, plant and equipment	15	**11,985**	10,799
Product development	16	**54,189**	45,336
Intangible assets	17	**86,206**	87,639
Total non-current assets		**152,380**	143,774
Total assets		**232,675**	212,466
Current liabilities			
Trade and other payables	18	**36,619**	30,438
Loans and borrowings	9	**–**	13
Current tax payable	7	**16,136**	2,177
Provisions	19	**7,167**	6,577
Total current liabilities		**59,922**	39,205
Non-current liabilities			
Loans and borrowings	9	**–**	26,922
Deferred tax liabilities	7	**7,237**	6,808
Provisions	19	**521**	609
Total non-current liabilities		**7,758**	34,339
Total liabilities		**67,680**	73,544
Net assets		**164,995**	138,922
Equity			
Share capital	20	**43,928**	42,605
Reserves	21	**62,004**	63,043
Retained earnings		**59,063**	33,274
Total equity		**164,995**	138,922
Total equity attributable to the equity holders of the company		**165,087**	139,012
Non-controlling interests		**(92)**	(90)
		164,995	138,922

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 60 to 94.

Consolidated statement of changes in equity

for the year ended 30 June 2017

2017	Consolidated Share capital $000	Translation reserve $000	Hedging reserve $000	Profit reserve $000	Retained earnings $000	Total $000
Balance as at 1 July 2016	**42,605**	**4,176**	**(114)**	**58,981**	**33,274**	**138,922**
Profit for the period attributable to:						
Equity holders of the company	–	–	–	–	**43,515**	**43,515**
Non-controlling interests	–	–	–	–	**(2)**	**(2)**
Performance rights expensed	**1,137**	–	–	–	–	**1,137**
Change in fair value of cash flow hedges	–	–	**503**	–	–	**503**
Exchange differences on translation of foreign operations	–	**(1,542)**	–	–	–	**(1,542)**
	43,742	**2,634**	**389**	**58,981**	**76,787**	**182,533**
Transactions with owners of the company						
Dividends recognised during the period	–	–	–	–	**(17,724)**	**(17,724)**
Employee share plan, net of issue costs	**186**	–	–	–	–	**186**
	186	–	–	–	**(17,724)**	**(17,538)**
Balance at 30 June 2017	**43,928**	**2,634**	**389**	**58,981**	**59,063**	**164,995**

2016	Consolidated Share capital $000	Translation reserve $000	Hedging reserve $000	Profit reserve $000	Retained earnings $000	Total $000
Balance as at 1 July 2015	41,856	2,732	(68)	58,981	24,853	128,354
Profit for the period attributable to:						
Equity holders of the company	–	–	–	–	15,495	15,495
Non-controlling interests	–	–	–	–	8	8
Performance rights expensed	567	–	–	–	–	567
Change in fair value of cash flow hedges	–	–	(46)	–	–	(46)
Exchange differences on translation of foreign operations	–	1,444	–	–	–	1,444
	42,423	4,176	(114)	58,981	40,356	145,822
Transactions with owners of the company						
Dividends recognised during the period	–	–	–	–	(7,082)	(7,082)
Employee share plan, net of issue costs	182	–	–	–	–	182
	182	–	–	–	(7,082)	(6,900)
Balance at 30 June 2016	42,605	4,176	(114)	58,981	33,274	138,922

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 60 to 94

Consolidated statement of cash flows

for the year ended 30 June 2017

	Note	Consolidated 2017 $000	2016 $000
Cash flows from operating activities			
Cash receipts from customers		**230,959**	175,299
Cash paid to suppliers and employees		**(153,059)**	(125,369)
Interest received		**80**	44
Interest paid		**(874)**	(2,013)
Income taxes paid (net)		**(1,526)**	(50)
Net cash from operating activities	10	**75,580**	47,911
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**4**	275
Payments for capitalised product development		**(16,418)**	(11,971)
Payments for intellectual property		**(2,905)**	(1,569)
Acquisition of property, plant and equipment		**(4,064)**	(4,658)
Acquisition of intangibles (computer software and licences)		**(277)**	(222)
Net cash used in investing activities		**(23,660)**	(18,145)
Cash flows from financing activities			
Drawdowns/(repayments) of borrowings		**(26,935)**	(15,536)
Dividends paid		**(17,724)**	(7,082)
Net cash provided by/(used in) financing activities		**(44,659)**	(22,618)
Net increase/(decrease) in cash held		**7,261**	7,148
Cash and cash equivalents at the beginning of the financial year		**14,333**	7,156
Effects of exchange rate fluctuations on cash held		**(173)**	29
Cash and cash equivalents at the end of the financial year	8	**21,421**	14,333

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 60 to 94.

Notes to and forming part of the financial statements

for the year ended 30 June 2017

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 2017 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 30 August 2017.

(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.

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Legislative Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to impairment assessments of non-current assets, including product development and goodwill (refer note 17).

Changes in accounting policies

For the year ended 30 June 2017, 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 activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

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

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

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

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

(d) Revenue recognition

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

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable (net of rebates, returns, discounts and other allowances). Revenue is recognised when 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.

Notes to and forming part of the financial statements

for the year ended 30 June 2017 (continued)

1. Significant Accounting Policies (continued)

(f) Foreign currency (continued)

Foreign operations

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

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

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

(g) Derivative financial instruments

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

Hedging

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

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

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

(h) Taxation

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

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

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

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

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

Tax consolidation

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

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

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

(i) Goods and services tax

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

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

Cash flows are included in the 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.

Notes to and forming part of the financial statements

for the year ended 30 June 2017 (continued)

1. Significant Accounting Policies (continued)

(n) Intangible assets

Product development costs

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

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

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

Goodwill

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

Measuring goodwill

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

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

Contingent liabilities

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

Non-controlling interest

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

Transaction costs

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

Licences and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

Amortisation is charged to the income statement on 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) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

(p) Property, plant and equipment

Owned assets

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

Land and buildings that had been revalued to fair value prior to the transition to AIFRS, being 1 July 2004, 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.

Leased assets

Leases where 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:

Leasehold property	6% to 10%
Plant and equipment	7% to 40%

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

(q) Impairment

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

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

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

Notes to and forming part of the financial statements

for the year ended 30 June 2017 (continued)

1. Significant Accounting Policies (continued)

(q) Impairment (continued)

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

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

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

(r) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(s) Interest bearing borrowings

Interest bearing borrowings are recognised initially at their fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

(t) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Defined contribution superannuation plans

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

(u) Provisions

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

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.

(v) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(w) Share-based payment transactions

Share-based payments in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained from the group.

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards which vest.

(x) Future Australian Accounting Standards requirements

A number of new standards, amendments to standards and interpretations, effective for annual periods beginning after 1 July 2017, were available for early adoption, but have not been applied in preparing these consolidated financial statements.

AASB 9 *Financial Instruments* – The company has completed an assessment of the impact of the standard on the company's results, financial position and disclosures and has determined that it will not have a material impact. The standard will be effective for the company's financial report for the year ended 30 June 2019, with early adoption permitted. The company does not, however, intend on adopting this new standard before the mandatory effective date.

AASB 15 *Revenue from Contracts with Customers* – The company has completed an assessment of the impact of the standard on the company's results, financial position and disclosures and has determined that it will not have a material impact. The standard will be effective for the company's financial report for the year ended 30 June 2019, with early adoption permitted. The company does not, however, intend on adopting this new standard before the mandatory effective date.

AASB 16 *Leases* – The company has not yet completed its assessment of the impact of the standard on the company's results, financial position and disclosures. The standard will be effective for the company's financial report for the year ended 30 June 2020, with early adoption permitted. The company does not, however, intend on adopting this new standard before the mandatory effective date.

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

GROUP PERFORMANCE

2. Segment activities

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

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

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

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

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

Business segments

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The group comprises three business segments. The communications 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. Lastly, the tracking solutions segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector.

Geographical segments

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

Information about reportable segments	Communications		Metal detection		Tracking solutions		Consolidated	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Revenue								
External segment revenue	**70,922**	64,996	**147,957**	99,203	**7,216**	5,341	**226,095**	169,540
Result								
Segment result	**19,947**	17,428	**61,524**	29,819	**330**	(1,229)	**81,801**	46,018
Impairment							**(1,219)**	(5,535)
Restructure costs							**–**	(2,512)
Net financing cost							**(894)**	(2,187)
Unallocated corporate expenses and other income							**(20,205)**	(16,358)
Profit from operating activities							**59,483**	19,426
Income tax expense							**(15,970)**	(3,923)
Net Profit							**43,513**	15,503
Non-cash items included above								
Depreciation and amortisation	**5,311**	4,380	**7,768**	7,290	**410**	209	**13,489**	11,879
Unallocated depreciation and amortisation							**576**	830
Impairment							**1,219**	5,535
Total depreciation, amortisation and impairment							**15,284**	18,244
Assets								
Capital Expenditure	**2,077**	1,183	**1,339**	987	**196**	150	**3,612**	2,320
Unallocated capital expenditure							**452**	2,338
Total capital expenditure							**4,064**	4,658
Segment assets	**77,107**	72,098	**110,317**	98,099	**16,706**	15,343	**204,130**	185,540
Unallocated corporate assets							**28,545**	26,926
Consolidated total assets							**232,675**	212,466

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 $30,973,976 (2016: $26,239,966), the United States of America totalling $43,351,228 (2016: $42,397,860) and United Arab Emirates totalling $58,605,275 (2016: $40,536,369).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: Australia $116,833,668 (2016: $113,894,137), the United States of America $136,001 (2016: $175,780), Ireland $3,640 (2016: $13,078), England $1,598 (2016: $30,113), Canada $33,931,551 (2016: $29,511,819) and United Arab Emirates $254,600 (2016: $148,764).

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

GROUP PERFORMANCE (continued)

3. Expenses

	Consolidated 2017 $000	Consolidated 2016 $000
Net financing costs:		
Interest income	**(80)**	(44)
Net foreign exchange (gain)/loss	**97**	459
Interest expense	**877**	1,772
	894	2,187
Depreciation of:		
Buildings	**–**	3
Leasehold property	**105**	131
Plant and equipment	**2,313**	2,164
	2,418	2,298
Amortisation of:		
Product development	**7,438**	7,311
Intellectual property	**3,035**	1,849
Computer software	**276**	588
Licences	**898**	663
	11,647	10,411
Personnel expenses:		
Wages and salaries	**37,923**	36,355
Other associated personnel expenses	**3,095**	3,090
Contributions to defined contribution superannuation plans	**3,160**	2,982
Long service leave expense	**402**	438
Annual leave expense	**1,562**	1,293
	46,142	44,158
Additional expenses disclosed:		
Impairment of trade receivables	**159**	272
Operating lease rental expense	**5,631**	4,056
Restructuring expenses	**–**	2,512

	Consolidated 2017 $000	Consolidated 2016 $000

4. Other expenses / (income)

	2017 $000	2016 $000
Impairment of asset held for sale – Newton property	**1,219**	1,379
Impairment of Minetec property, plant and equipment	–	524
Impairment of Minetec inventory	–	1,287
Impairment of Minetec product development	–	1,753
Impairment of Minetec product intellectual property	–	592
(Gain)/loss on sale of property, plant and equipment	**521**	364
Other expenses/(income)	**(22)**	45
	1,718	5,944

5. Dividends

	2017 $000	2016 $000
i. An ordinary final dividend of 4.0 cents per share, franked to 100% with 30% franking credits, was paid on 4 October 2016	**7,088**	–
ii. An ordinary interim dividend of 3.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2017	**5,318**	–
iii. A special interim dividend of 3.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2017	**5,318**	–
iv. An ordinary final dividend of 2.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2015	–	3,541
v. An ordinary interim dividend of 2.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2016	–	3,541
	17,724	7,082

Subsequent events

Since the end of the financial year, the directors declared a final ordinary fully franked dividend of 4.0 cents per share and a fully franked special dividend of 3.0 cents per share, bringing total final dividends to 7.0 cents fully franked, payable on 3 October 2017 (2016: 4.0 cents). The financial impact of this final dividend of $12,410,733 has not been brought to account in the group financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

Dividend franking account

	2017 $000	2016 $000
Franking credits available to shareholders for subsequent financial years (30%)	**19,983**	11,954

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 $5,318,886 (2016: $3,037,925).

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

GROUP PERFORMANCE (continued)

6. Earnings per share

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

	Consolidated	
	2017 $000	**2016 $000**
Net profit used for the purpose of calculating basic and diluted earnings per share	**43,515**	15,495

The weighted average number of shares used as the denominator number for basic earnings per share was 177,226,317 (2016: 177,066,095). The movement in the year is as a consequence of the shares issued under the employee share plan.

The calculation of diluted earnings per share at 30 June 2017 was based on a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares of 179,520,965 (2016: 178,134,784). The movement in the year relates to the shares issued under the employee share plan and the performance rights granted.

TAXATION

7. Income tax

A. Income tax expense		
Current tax expense:		
Current tax paid or payable for the financial year	**16,803**	2,286
Adjustments for prior years	**(715)**	(1,067)
	16,088	1,219
Deferred tax expense:		
Origination and reversal of temporary differences	**(118)**	2,704
Total income tax expense in income statement	**15,970**	3,923
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**17,845**	5,828
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**(1,424)**	(845)
(Over)/under provision for taxation in previous years	**(715)**	(1,067)
Effect of tax rates in foreign jurisdictions	**-**	(319)
Utilisation of overseas carried-forward R&D tax credits	**-**	(323)
Sundry items	**(211)**	-
	15,495	3,274

	Consolidated	
	2017 $000	**2016 $000**
Increase in income tax expense due to:		
Non-deductible expenses	**40**	86
Non-deductible capital loss	**366**	413
Effect of tax rates in foreign jurisdictions	**69**	–
Sundry items	**–**	150
Income tax expense	**15,970**	3,923
B. Current tax liabilities / assets		
Balance at the beginning of the year	**(1,898)**	418
Net foreign currency differences on translation of foreign entities	**(3)**	10
Income tax paid (net)	**1,526**	(50)
Adjustments from prior year	**1,089**	10
Current year's income tax paid or payable on operating profit	**(16,803)**	(2,286)
	(16,089)	(1,898)
Disclosed in balance sheet as:		
Current tax asset	**47**	279
Current tax payable	**(16,136)**	(2,177)
	(16,089)	(1,898)
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	**15,090**	13,658
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	**(264)**	(412)
Payments for intellectual property not currently deductible	**(2,919)**	(2,430)
Provisions for employee benefits not currently deductible	**(1,742)**	(1,652)
Provisions and accruals not currently deductible	**(2,898)**	(2,147)
Sundry items	**(30)**	(209)
	7,237	6,808

CASH MANAGEMENT

8. Cash and cash equivalents

Petty cash	**159**	52
Cash at bank	**21,262**	14,281
	21,421	14,333

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

CASH MANAGEMENT (continued)

9. Loans and borrowings

	Consolidated 2017 $000	Consolidated 2016 $000
Current		
Finance lease liabilities	–	13
	–	13
Non-Current		
Cash advance	–	26,922
	–	26,922
The group has access to the following lines of credit:		
Total facilities available at balance date:		
Multi-option facility	**55,000**	85,000
Commercial credit card	**200**	200
	55,200	85,200
Facilities utilised at balance date:		
Multi-option facility - cash advance	–	26,922
Multi-option facility - other	**2,537**	3,528
Commercial credit card	**10**	78
	2,547	30,528
Facilities not utilised at balance date:		
Multi-option facility	**52,463**	54,550
Commercial credit card	**190**	122
	52,653	54,672

In addition to these facilities, the group has cash at bank and short-term deposits of $21,421,000 as set out in note 8.

Bank Facilities

Facilities are supported by interlocking guarantees between the company and its subsidiaries. The facilities have a term of three years expiring in January 2019, and are subject to compliance with certain financial covenants over that term.

	Consolidated 2017 %	Consolidated 2016 %
Weighted average interest rates:		
Cash at bank	**0.48**	0.49
Cash advance	**2.54**	3.04

10. Notes to the statement of cash flows

	Consolidated 2017 $000	2016 $000
Reconciliation of profit after income tax to net cash provided by operating activities		
Profit after income tax	**43,513**	15,503
Add/(less) items classified as investing or financing activities:		
(Gain)/loss on sale of non-current assets	**521**	364
Add/(less) non-cash items:		
Depreciation of:		
Buildings	**–**	3
Leasehold property	**105**	131
Plant and equipment	**2,313**	2,164
Impairment of asset held for sale - Newton property	**1,219**	1,379
Amortisation	**11,647**	10,411
Performance rights and employee share plan expensed	**1,323**	749
Impairment of Minetec assets	**–**	4,156
Increase/(decrease) in income taxes	**14,620**	3,925
Increase/(decrease) in net assets affected by translation	**67**	1,575
Net cash from operating activities before changes in assets and liabilities	**75,328**	40,360
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**(1,458)**	1,338
Reduction/(increase) in inventories	**(2,549)**	1,544
Reduction/(increase) in other assets	**(1,993)**	93
Increase/(reduction) in trade and other payables	**5,750**	4,716
Increase/(reduction) in provisions	**502**	(140)
Net cash from operating activities	**75,580**	47,911

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

OPERATING ASSETS AND LIABILITIES

	Consolidated	
	2017 $000	2016 $000

11. Trade and other receivables

	2017 $000	2016 $000
Current		
Trade receivables	21,105	19,859
Less: Provision for impairment losses	(833)	(808)
	20,272	19,051
Other debtors	285	48
	20,557	19,099

12. Inventory

	2017 $000	2016 $000
Raw materials	5,593	4,546
Work in progress	10,922	12,156
Finished goods	14,512	11,776
	31,027	28,478

13. Other assets

	2017 $000	2016 $000
Prepayments	2,306	1,301
Net foreign currency hedge receivable	556	–
Project work in progress	217	–
Other	414	199
	3,493	1,500

14. Assets held for sale

	2017 $000	2016 $000
Freehold land and buildings	3,750	5,003
Reconciliation		
Carrying amount at beginning of year	5,003	–
Transfer	–	6,382
Disposals	(34)	–
Impairment	(1,219)	(1,379)
Carrying amount at end of year	3,750	5,003

	Consolidated 2017 $000	Consolidated 2016 $000

15. Property, plant and equipment

	2017 $000	2016 $000
Leasehold property at cost	**826**	1,190
Accumulated amortisation	**(347)**	(358)
	479	832
Plant and equipment at cost	**29,739**	27,552
Accumulated depreciation	**(19,932)**	(18,218)
	9,807	9,334
Capital work in progress at cost	**1,699**	633
Total property, plant and equipment	**11,985**	10,799
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Freehold land and buildings		
Carrying amount at beginning of year	**–**	6,088
Additions	**–**	141
Transfers	**–**	156
Asset held for sale transfer	**–**	(6,382)
Depreciation	**–**	(3)
Carrying amount at end of year	**–**	–
Leasehold property improvements		
Carrying amount at beginning of year	**832**	310
Additions	**119**	278
Transfers	**–**	404
Disposals	**(374)**	(34)
Depreciation	**(105)**	(131)
Net foreign currency differences on translation of foreign entities	**7**	5
Carrying amount at end of year	**479**	832
Plant and equipment		
Carrying amount at beginning of year	**9,334**	8,915
Additions	**2,272**	3,579
Transfers	**607**	123
Impairment	**–**	(524)
Disposals	**(45)**	(595)
Depreciation	**(2,313)**	(2,164)
Net foreign currency differences on translation of foreign entities	**(48)**	–
Carrying amount at end of year	**9,807**	9,334

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

OPERATING ASSETS AND LIABILITIES (continued)

	Consolidated 2017 $000	Consolidated 2016 $000
15. Property, plant and equipment (continued)		
Capital work in progress at cost		
Carrying amount at beginning of year	**633**	706
Additions, net of transfers	**1,066**	(73)
Carrying amount at end of year	**1,699**	633
Total carrying amount at end of year	**11,985**	10,799

16. Product development

	2017 $000	2016 $000
Product development at cost	**114,687**	97,835
Accumulated amortisation	**(60,498)**	(52,499)
	54,189	45,336
Reconciliation		
Carrying amount at beginning of year	**45,336**	42,429
Capitalised in current period	**16,418**	11,971
Impairment	**–**	(1,753)
Amortisation	**(7,438)**	(7,311)
Net foreign currency differences on translation of foreign entities	**(127)**	–
	54,189	45,336

17. Intangible assets

	2017 $000	2016 $000
Goodwill	**82,529**	83,274
Intellectual property at cost	**19,617**	16,328
Accumulated amortisation	**(17,401)**	(14,390)
	2,216	1,938
Computer software at cost	**10,258**	10,273
Accumulated amortisation	**(9,904)**	(9,851)
	354	422
Licences at cost	**5,098**	5,098
Accumulated amortisation	**(3,991)**	(3,093)
	1,107	2,005
Total intangible assets	**86,206**	87,639
Reconciliations		
Goodwill		
Carrying amount at beginning of year	**83,274**	83,525
Net foreign currency differences on translation of foreign entities	**(745)**	(251)
	82,529	83,274

	Consolidated	
	2017 $000	**2016 $000**
Intellectual property		
Carrying amount at beginning of year	**1,938**	1,725
Additions	**3,336**	2,096
Amortisation	**(3,035)**	(1,849)
Net foreign currency differences on translation of foreign entities	**(23)**	(34)
	2,216	1,938
Computer software		
Carrying amount at beginning of year	**422**	847
Additions	**277**	169
Transfers from capital work in progress	**-**	4
Amortisation	**(276)**	(588)
Disposals	**(72)**	(10)
Net foreign currency differences on translation of foreign entities	**3**	-
	354	422
Licences		
Carrying amount at beginning of year	**2,005**	3,157
Acquisitions	**-**	53
Transfers	**-**	50
Impairment	**-**	(592)
Amortisation	**(898)**	(663)
	1,107	2,005
The following segments have significant carrying amounts of goodwill:		
Communications	**20,034**	20,779
Metal detection	**53,957**	53,957
Tracking solutions	**8,538**	8,538
	82,529	83,274

Goodwill

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

The Communications and Metal detection cash-generating units are well established businesses, and the approach to the value-in-use calculations for these units is similar. The first year of the cash flow forecasts is based on the oncoming year's budget, and cash flows are forecast for a five-year period. The key assumption driving the value-in-use valuation is the level of sales, which is based on management assessments, having regard to the demand expected from customers, the global economy and the businesses' competitive position. Other assumptions relate to the level of gross margins achieved on sales and the level of expense required to run the business.

These assumptions reflect past experience. A terminal value has been determined at the conclusion of five years assuming a long-term growth rate of 3%. A pre-tax discount rate of 14% has been applied to the forecast cash flows.

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

Minetec has deployed its solutions into several operational mines, which are now realising tangible improvements to both productivity and safety. Having now proven the technology and demonstrated our solutions, the challenge is to secure further market acceptance and commitment to full-scale operational deployments. While the task has been made more difficult by volatile commodity prices and cuts to miners' capital expenditure budgets, the Minetec value proposition is well aligned to the challenges of sectors such as underground hard-rock mining, which is moving towards mechanisation.

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

OPERATING ASSETS AND LIABILITIES (continued)

17. Intangible assets (continued)

Goodwill (continued)

The strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability levels that will make a significant contribution to the Codan group. These include forming strategic relationships with global miners and major suppliers to the mining industry.

In performing the value-in-use calculations for the Minetec business, the first year of the cash flow forecasts is based on the oncoming year's budget. Cash flows are forecast for a five-year period. As the business is in the early stage of its development, historical data is not reflective of the possible future outcomes. A number of scenarios have been prepared in order to understand the range of valuation outcomes, and these alternatives have then been assessed to determine a weighted average recoverable amount. The key assumption to the valuation scenarios is the level of sales achieved by this business. To prepare the sales forecasts, management has determined the number of mines that are expected to adopt productivity and safety technology, the average sales value expected per mine and the market share that will be won by Minetec. Other assumptions relate to the level of gross margins achieved on sales, the level of expense to run the business and working capital requirements, and these assumptions are reflective of Codan's past experience with technology-based businesses. A terminal value has been determined at the conclusion of five years assuming a long term growth rate of 3%. A pre-tax discount rate of 17% has been applied to the forecast cash flows.

The key risk to the value-in-use calculations is that the mining industry does not adopt the productivity and safety solutions that are being developed and sold by Minetec, and this possibility has been included as one of the valuation scenarios.

The valuation scenarios identify the number of mines in the two most prospective countries for Minetec's safety and productivity solutions. Over the five-year forecast period, the weighted average valuation has Minetec achieving 6% of that market. If that share were to reduce to 3%, the recoverable amount of the Minetec cash-generating unit would be approximately equal to its carrying amount.

Intellectual Property

Subsequent to the acquisition of Minelab Electronics Pty Limited by Codan Limited in 2008, Minelab Electronics Pty Limited 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 Limited becomes liable for 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.

	Consolidated	
	2017 $000	**2016 $000**
18. Trade and other payables		
Current		
Trade payables	**18,918**	9,655
Other payables and accruals	**17,701**	20,620
Net foreign currency hedge payable	**–**	163
	36,619	30,438

	Consolidated	
	2017 $000	**2016 $000**

19. Provisions

Current		
Employee benefits	**5,574**	5,097
Warranty repairs	**1,593**	1,160
Other	**–**	320
	7,167	6,577
Non-Current		
Employee benefits	**521**	609
Reconciliation of warranty provision		
Carrying amount at beginning of year	**1,160**	1,077
Provisions made	**1,748**	1,437
Payments made	**(1,315)**	(1,354)
	1,593	1,160
Reconciliation of other provision		
Carrying amount at beginning of year	**320**	320
Provisions made/(reversed) during the year	**(320)**	–
	–	320

CAPITAL MANAGEMENT

20. Share capital

Share capital		
Opening balance (177,212,302 ordinary shares fully paid)	**42,605**	41,856
Performance rights expensed	**1,137**	567
Issue of share capital through employee share plan	**186**	182
Closing balance (177,296,186 ordinary shares fully paid)	**43,928**	42,605

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.

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

CAPITAL MANAGEMENT (continued)

	Consolidated 2017 $000	Consolidated 2016 $000
21. Reserves		
Foreign currency translation	**2,634**	4,176
Hedging reserve	**389**	(114)
Profit reserve	**58,981**	58,981
	62,004	63,043
Foreign currency translation		
The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.		
Balance at beginning of year	**4,176**	2,732
Net translation adjustment	**(1,542)**	1,444
Balance at end of year	**2,634**	4,176
Hedging reserve		
The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments		
(net of tax) related to hedged transactions that have not yet occurred.		
Balance at beginning of year	**(114)**	(68)
Gains/(losses) on cash flow hedges taken to/from hedging reserve	**503**	(46)
Balance at end of year	**389**	(114)
Profit reserve		
The profit reserve comprises Codan Limited's accumulated profits.		
Balance at beginning of year	**58,981**	58,981
Balance at end of year	**58,981**	58,981

22. Capital management

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

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

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

GROUP STRUCTURE

23. Group entities

Name	Country of incorporation	Class of share	Interest held 2017 %	Interest held 2016 %
Parent Entity				
Codan Limited	Australia	Ordinary		
Controlled Entities				
Codan (Qld) Pty Ltd *	Australia	Ordinary	–	100
Codan (UK) Limited	England	Ordinary	**100**	100
Codan Defence Electronics Pty Ltd	Australia	Ordinary	**100**	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	**100**	100
Codan US Inc	USA	Ordinary	**100**	100
Codan Radio Communications ME JLT	UAE	Ordinary	**100**	100
Codan Radio Communications Pty Ltd	Australia	Ordinary	**100**	100
Codan Holdings US Inc *	USA	Ordinary	**100**	100
Daniels Electronics Ltd	Canada	Ordinary	**100**	100
A.C.N. 007 912 558 Pty Ltd (previously IMP Printed Circuits Pty Ltd) *	Australia	Ordinary	–	100
Minelab Americas Inc	USA	Ordinary	**100**	100
Minelab Electronics Pty Limited	Australia	Ordinary	**100**	100
Minelab International Limited	Ireland	Ordinary	**100**	100
Minelab MEA General Trading LLC	UAE	Ordinary	**49**	49
Minelab Mining Pro FZE **	UAE	Ordinary	**100**	–
Minelab Mining Pro General Trading FZC **	UAE	Ordinary	**50**	–
Minetec Pty Ltd	Australia	Ordinary	**100**	100
Minetec RSA (Pty) Ltd	South Africa	Ordinary	**100**	100
Minetec Wireless Technologies Pty Ltd *	Australia	Ordinary	–	100
Parketronics Pty Ltd *	Australia	Ordinary	–	100

** A.C.N. 007 912 558 Pty Ltd, Codan Holdings US Inc, Codan (Qld) Pty Ltd, Minetec Wireless Technologies Pty Ltd and Parketronics Pty Ltd are inactive entities and were liquidated during the year.*

*** Minelab Mining Pro FZE was incorporated on 31 August 2016. Minelab Mining Pro General Trading FZC was incorporated on 4 December 2016.*

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

GROUP STRUCTURE (continued)

24. Deed of cross guarantee

Pursuant to ASIC Class Order 2016/785 (as amended) dated 29 September 2016, 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:

	Consolidated	
Summarised income statement and retained earnings	**2017 $000**	**2016 $000**
Profit before tax	**61,889**	27,862
Income tax expense	**(15,714)**	(3,632)
Profit after tax	**46,175**	24,230
Retained earnings at beginning of year	**18,191**	1,043
Retained earnings at end of year	**46,642**	18,191
Balance sheet		
Current assets		
Cash and cash equivalents	**17,338**	8,636
Trade and other receivables	**62,114**	69,091
Inventories	**26,076**	22,429
Assets held for sale	**3,750**	5,003
Other assets	**2,482**	1,103
Total current assets	**111,760**	106,262
Non-current assets		
Investments	**13,705**	26,458
Property, plant and equipment	**8,857**	9,185
Product development	**38,311**	36,036
Intangible assets	**56,374**	56,046
Total non-current assets	**117,247**	127,725
Total assets	**229,007**	233,987

	Consolidated	
	2017 $000	2016 $000
Current liabilities		
Trade and other payables	**31,845**	19,901
Other liabilities	**17,156**	69,914
Current tax payable	**15,938**	2,077
Provisions	**5,877**	5,103
Total current liabilities	**70,816**	96,995
Non-current liabilities		
Loans and borrowings	**-**	8,753
Deferred tax liabilities	**4,580**	5,015
Provisions	**430**	531
Total non-current liabilities	**5,010**	14,299
Total liabilities	**75,826**	111,294
Net assets	**153,181**	122,693
Equity		
Share capital	**45,041**	43,718
Reserves	**61,498**	60,784
Retained earnings	**46,642**	18,191
Total equity	**153,181**	122,693

25. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2017, the parent company of the group was Codan Limited.

	Company	
	2017 $000	2016 $000
Result of parent entity		
Profit after tax for the period	**28,670**	24,661
Other comprehensive income	**(280)**	(305)
Total comprehensive income for the period	**28,390**	24,356
Financial position of parent entity at year end		
Current assets	**83,285**	98,200
Total assets	**184,811**	214,205
Current liabilities	**47,229**	81,621
Total liabilities	**53,423**	97,635
Total equity of the parent entity comprising:		
Share capital	**45,041**	43,718
Reserves	**58,396**	55,846
Retained earnings	**27,951**	17,005
Total equity	**131,388**	116,569

During the year, Codan Limited entered into contracts to purchase plant and equipment for $1,159,651 (2016: $597,146).

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

OTHER NOTES

26. Auditor's remuneration

	Consolidated 2017 $	Consolidated 2016 $
Audit services:		
KPMG Australia - audit and review of financial reports	**195,651**	192,667
Overseas KPMG firms - audit of financial reports	**–**	15,077
Overseas other firms - audit of financial reports	**57,489**	56,437
Other services:		
KPMG Australia - taxation services	**62,100**	87,111
KPMG Australia - other services	**35,290**	2,430
Overseas KPMG firms - taxation services	**186,627**	135,683
Overseas other firms - taxation & other services	**36,753**	31,781
	573,910	521,186

27. Commitments

	Consolidated 2017 $000	Consolidated 2016 $000
I. Capital expenditure commitments		
Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:		
Within one year	**2,050**	1,353
One year or later and no later than five years	**–**	–
	2,050	1,353
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	**4,994**	3,149
One year or later and no later than five years	**15,066**	12,850
Later than five years	**26,514**	22,252
	46,574	38,251

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

	Consolidated 2017 $	Consolidated 2016 $
III. Finance lease and hire purchase payment commitments		
Within one year	–	13
One year or later and no later than five years	–	–
Later than five years	–	–
	–	13
Finance lease and hire purchase liabilities provided for in the financial statements:		
Current	–	13
Non-current	–	–
	–	13

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.

28. Additional financial instruments disclosure

Financial risk management

Overview

The group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The Board Audit, Risk and Compliance Committee is responsible for developing and monitoring risk management policies. The committee reports regularly to the board on its activities.

Risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board Audit, Risk and Compliance Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk 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, and 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 2017, the group had two significant customers in the Metal Detection segment with sales of $32.3 million and $22.7 million respectively.

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.

Notes to and forming part of the financial statements
for the year ended 30 June 2017 (continued)

OTHER NOTES (continued)

28. Additional financial instruments disclosure (continued)

Trade and other receivables (continued)

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.

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:

		Carrying amount Consolidated	
	Note	2017 $000	2016 $000
Cash and cash equivalents	8	**21,421**	14,333
Trade and other receivables	11	**20,557**	19,099

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

	2017 $000	2016 $000
Australia/Oceania	**3,766**	4,403
Europe	**4,015**	4,012
Americas	**8,674**	7,484
Asia	**1,875**	1,471
Africa/Middle East	**2,775**	2,489
	21,105	19,859

Impairment losses

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

	Consolidated			
	Gross 2017 $000	Impairment 2017 $000	Gross 2016 $000	Impairment 2016 $000
Not past due	**16,058**	**(205)**	11,683	(49)
Past due 0-30 days	**3,881**	**(110)**	4,231	(150)
Past due 31-60 days	**175**	**–**	2,341	–
Past due 61-120 days	**470**	**(26)**	623	(27)
More than 120 days	**521**	**(492)**	981	(582)
	21,105	**(833)**	19,859	(808)

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

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

	Consolidated	
	2017 $000	2016 $000
Balance at 1 July	**808**	600
Impairment loss/(reversal) recognised	**159**	272
Trade receivables written off to the allowance for impairment	**(134)**	(64)
Balance at 30 June	**833**	808

(b) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and without incurring unacceptable losses or risking damage to the group's reputation. Refer to note 9 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

30 June 2017	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	**36,619**	**(36,619)**	**(36,619)**	–	–
Finance leases	–	–	–	–	–
Cash advance	–	–	–	–	–
	36,619	**(36,619)**	**(36,619)**	–	–
Derivative financial liabilities					
Net foreign currency hedge payables	–	–	–	–	–
	–	–	–	–	–
30 June 2016					
Non-derivative financial liabilities					
Trade and other payables	30,275	(30,275)	(30,275)	–	–
Finance leases	13	(13)	(13)	–	–
Cash advance	26,922	(27,439)	(518)	(26,922)	–
	57,210	(57,727)	(30,806)	(26,922)	–
Derivative financial liabilities					
Net foreign currency hedge payables	163	(163)	(163)	–	–
	163	(163)	(163)	–	–

(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.

Notes to and forming part of the financial statements

for the year ended 30 June 2017 (continued)

OTHER NOTES (continued)

28. Additional financial instruments disclosure (continued)

(c) Market risk (continued)

Interest rate risk

Profile

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

	Carrying amount Consolidated	
	2017 $000	2016 $000
Fixed rate instruments		
Financial assets	**2,011**	–
Financial liabilities	**–**	(13)
	2,011	(13)
Variable rate instruments		
Financial assets	**19,410**	14,333
Financial liabilities	**–**	(26,922)
	19,410	(12,589)

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 2016.

	Profit/(loss) before tax		Reserve	
	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 June 2017				
Variable rate instruments	**194**	**(194)**	**–**	**–**
30 June 2016				
Variable rate instruments	(126)	126	–	–

Currency risk

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

The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally in USD). The terms of these commitments are usually less than 12 months. As at the reporting date, the group has entered into a mix of forward exchange contracts and collar hedge instruments which will limit the foreign exchange risk on USD $16,269,015 of FY18 cash flows. On average, the collars give protection above 78 cents and enable participation down to 71 cents, and the average forward exchange contract rate is 74 cents.

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

	Consolidated	
	EUR $000	USD $000
30 June 2017		
Cash and cash equivalents	**338**	**2,986**
Trade receivables	**1,110**	**12,348**
Trade payables	**(15)**	**(13,230)**
Loans and borrowings	**–**	**–**
Gross balance sheet exposure	**1,433**	**2,104**
Hedge transactions relating to balance sheet exposure	**–**	**(1,666)**
Net exposure at the reporting date	**1,433**	**438**
30 June 2016		
Cash and cash equivalents	542	4,998
Trade receivables	643	12,656
Trade payables	(22)	(5,118)
Loans and borrowings	–	(8,753)
Gross balance sheet exposure	1,163	3,783
Hedge transactions relating to balance sheet exposure	–	(1,038)
Net exposure at the reporting date	1,163	2,745

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
2017		
EUR	**–**	**(130)**
USD	**(51)**	**(40)**
	(51)	**(170)**
2016		
EUR	–	(106)
USD	15	(250)
	15	(356)

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

(d) Fair value hierarchy

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year, financial instruments valued at fair value were limited to net foreign currency hedge receivable of $555,823, for which an independent valuation was obtained from the relevant banking institution.

Notes to and forming part of the financial statements

for the year ended 30 June 2017 (continued)

OTHER NOTES (continued)

	Consolidated 2017 $000	2016 $000

29. Employee benefits

Aggregate liability for employee benefits, including on-costs:	2017 $000	2016 $000
Current – other creditors and accruals	**6,035**	5,248
Current – employee entitlements	**5,574**	5,097
Non-current – employee entitlements	**521**	609
	12,130	10,954

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:

	2017	2016
Assumed rate of increase in wage and salary rates	**3.00%**	3.00%
Discount rate	**3.80%**	3.54%
Settlement term	**10 years**	10 years

Employee Share Plan

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

ESP shares issued in financial year 2017

The company issued 41,584 shares in March 2017 and 42,300 shares in June 2017 to eligible employees. The fair values of the shares were $2.21 and $2.22 per share respectively, based on the volume weighted average price at which Codan shares were traded on the ASX for the five trading days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in 2017 in relation to the ESP shares issued was $185,804. 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 employees with an incentive to maximise the return to shareholders over the long term, and to assist in the attraction and retention of key employees.

Performance rights issued in financial year 2015

The company has 823,763 performance rights on issue to certain employees from November 2014. The fair value of the rights was on average $0.67 based on the Black-Scholes formula. The model inputs were: the share price of $0.80, no exercise price, expected volatility 77%, dividend yield 3.75%, a term of three years and a risk-free rate of 3.1%. The total expense recognised as employee costs in 2017 in relation to the performance rights issued was $49,487 (2016: $241,605).

The group's earnings per share over the three-year period to 30 June have exceeded the performance target. Therefore, it is expected that 823,763 shares will be issued to the relevant employees by 30 September 2017.

Performance rights issued in financial year 2016

The company issued 236,948 performance rights in November 2015 to the chief executive officer. The fair value of the rights was $0.64 based on the Black-Scholes formula. The model inputs were: the share price of $0.80, no exercise price, expected volatility 43%, dividend yield 4.38%, a term of three years and a risk-free rate of 2.9%.

The company issued 312,447 performance rights in April 2016 and 429,189 performance rights in May 2016 to certain employees. The fair value of the rights was on average $0.89 based on the Black-Scholes formula. The average model inputs were: the share price of $1.08, no exercise price, expected volatility 53%, dividend yield 3.72%, a term of three years and a risk-free rate of 2.6%.

The total expense recognised as employee costs in 2017 in relation to the performance rights issued was $482,495 (2016: $325,210).

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

Performance rights issued in financial year 2017

The company issued 816,772 performance rights in November 2016 to certain employees. The fair value of the rights was on average $1.29 based on the Black-Scholes formula. The model inputs were: the share price of $1.57, no exercise price, expected volatility 52%, dividend yield 3.82%, a term of three years and a risk-free rate of 2.6%. The total expense recognised as employee costs in 2017 in relation to the performance rights issued was $604,286.

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

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

30. Key management personnel disclosures

Transactions with key management personnel

(a) Loans to directors

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

(b) Key management personnel compensation

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

	Consolidated	
	2017 $000	2016 $000
Short-term employee benefits	**4,398,121**	3,891,895
Post-employment benefits	**115,308**	138,674
Share-based payments	**612,195**	605,309
Other long term benefits	**107,515**	45,311
Termination benefits	–	82,046
	5,233,139	4,763,235

(c) Key management personnel transactions

From time to time, directors and specified executives, or their related parties, purchase goods from the group.

These purchases occur within a normal employee relationship and are considered to be trivial in nature.

Notes to and forming part of the financial statements

for the year ended 30 June 2017 (continued)

OTHER NOTES (continued)

31. Other related parties

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

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

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

32. Net tangible asset / liability per share

	2017	2016
Net tangible asset/(liability) per share	**17.7 cents**	7.2 cents

Directors' declaration

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

(a) the consolidated financial statements and notes, set out on pages 55 to 94, 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 2017 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;*

(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 24 will be able to meet any obligations or liabilities to which they are, or may become, subject 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 2017.

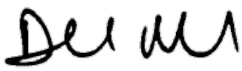
Dated at Mawson Lakes this 30th day of August 2017.

Signed in accordance with a resolution of the directors:

D J Simmons

Director

D S McGurk



Director

Independent auditor's report

Independent Auditor's Report

To the shareholders of Codan Limited

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of Codan Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

The Financial Report comprises the:

- Consolidated balance sheet as at 30 June 2017;
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Key audit matters

The Key Audit Matters we identified are:

- Recoverable value of goodwill in relation to the Minetec business; and
- Recoverability of product development costs.

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Recoverable value of goodwill in relation to the Minetec business

Minetec (tracking solutions) goodwill $8,538,000 – Refer to Note 17 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
The 'recoverable value of goodwill in relation to the Minetec business' is a Key Audit Matter due to the level of judgement required by us in evaluating the Group's assessment of the recoverable value of goodwill. The Minetec business is in the early stage of its development. The Group's ability to secure further market acceptance and full-scale operational deployment of its productivity and safety solutions has been impacted by reductions to capital expenditure in the mining sector. These conditions increase the possibility of goodwill being impaired, raising our audit focus. The Group's assessment of the recoverable value of the Minetec business, through its value in use model, contains significant judgements. We focused on the following areas: - Forecast market share, speed of adoption of the technology within target markets, and operating costs. The uncertainty as to when commodity prices will improve, and capital expenditure in the mining sector will increase, makes it challenging to forecast cash flows in this business; and - The discount rate applied to the forecast Minetec cash flows is judgemental and may vary according to the conditions and environment from time to time. To assess the significant judgements relating to this key audit matter, we involved senior audit team members, including valuation specialists, with experience in the industry.	Our procedures included: • We considered the appropriateness of the value in use method applied against the requirements of Australian Accounting Standards. • We assessed the integrity of the value in use model, including the accuracy of the underlying calculations. • We tested the controls for the Group's valuation of the Minetec business including board authorisation of key inputs to the value in use model such as forecast revenue, forecast operating costs and the discount rate. • We compared the forecast cash flows contained in the value in use model to these Board approved forecasts. • We performed sensitivity analysis on key judgements such as forecast market share, speed of adoption rates and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias and to focus our further procedures. • We critically evaluated the Group's key cash flow assumptions by: - Comparing the drivers of forecast revenue (including market share, speed of adoption and sales value) to published third party market research, known industry trends, Minetec's price lists and existing customer contracts. - Checking the consistency of the Group's forecast cash flows to the Group's stated plans and strategy; using our knowledge of the Minetec business model and its early stage of development, and reduction to capital expenditure in the mining sector. - Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts included in the value in use model. • Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities. • We assessed the appropriateness of the Group's disclosures based on the key observations arising from our testing and the requirements of Australian Accounting Standards.

Independent auditor's report (continued)

KPMG

Recoverability of product development costs

Product Development costs capitalised - $54,189,000. Refer to Note 16 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
The recoverability of capitalised product development costs is a key audit matter due to the size of the balance (being 23% of total assets) and the specialised nature of the Group's products, requiring us to exercise significant judgment in evaluating the Group's assessment of recoverability. We particularly focus on those judgments listed below which impact the recoverability assessment: ▪ Estimated development expenditure on completion of the products; ▪ Estimated product completion dates; ▪ Forecast sales and margin to be generated from both products under development and released products; ▪ Technical feasibility and maturity of products; and ▪ Product lifespan. In assessing this key audit matter, we used senior team members who understand the Group's business, industry and the relevant economic environment.	Our procedures included: ▪ We obtained an understanding of the status of significant product development projects, including the level of technical maturity, through discussion with project management and Directors. ▪ We tested the controls relevant to the Group's recoverability of capitalised product development costs, including the review and authorisation of product development budgets; technical feasibility and maturity of products; estimated product completion dates; and forecast sales and margin. ▪ For a sample of products, we challenged the Group's assessment of its ability to generate future cash flows greater than the capitalised costs, through: - Challenging the Group's assessment of forecast sales, margin and product lifespan by comparing them to the sales performance of the Group's other products in the market and recent sales and margins trends where the product has been released. We considered the consistency of key judgements with those applied by the Group and tested by us in assessing the recoverable value of goodwill. - Challenging the Group's assessment of technical maturity and estimated product completion dates against the costs incurred to date relative to approved budgets and the ageing profile of capitalised costs. - Analysed the accuracy of the previous Group forecasts of sales and margins to inform our evaluation of forecasts incorporated in the assessment. - Using our knowledge of the business and industry, we assessed the risk of products becoming obsolete due to products under development that will replace existing products.

KPMG

Other Information

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

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

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

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

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

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Independent auditor's report (continued)

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Codan Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Director's report for the year ended 30 June 2017.

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

KPMG

Scott Fleming
Partner

Adelaide
30 August 2017

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 17 August 2017

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, Dareel Pty Ltd and Pinara Group Pty Ltd	24,523,267
HSBC Custody Nominees (Australia) Limited	14,566,096
Interests associated with Kynola Pty Ltd and Warren Glen Pty Ltd	12,305,566

Distribution of equity security holders

Number of shares held	Number of equity security holders Ordinary shares
1 - 1,000	1,203
1,001 - 5,000	1,728
5,001 - 10,000	694
10,001 - 100,000	840
100,001 - over	109
Total	**4,574**

The number of shareholders holding less than a marketable parcel of ordinary shares is 395.

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.

ASX additional information (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
I B Wall and P M Wall	34,808,151	19.6%
HSBC Custody Nominees (Australia) Limited	14,566,096	8.2%
Starform Pty Ltd	11,404,224	6.4%
Kynola Pty Ltd	9,103,356	5.1%
Dareel Pty Ltd	8,854,251	5.0%
Citicorp Nominees Pty Limited	8,495,736	4.8%
J P Morgan Nominees Australia Limited	6,915,491	3.9%
RBC Investor Services Australia Nominees Pty Limited	4,452,459	2.5%
A Bettison	3,562,124	2.0%
Warren Glen Pty Ltd	3,202,210	1.8%
M K and M C Heard	3,084,899	1.7%
Griffinna Pty Ltd	3,000,000	1.7%
Mitranikitan Pty Ltd	2,522,458	1.4%
Fruehling Pty Ltd	2,000,000	1.1%
BNP Paribas Nominees Pty Ltd	1,955,169	1.1%
National Nominees Limited	1,905,818	1.1%
Pinara Group Pty Ltd	1,537,502	0.9%
Bond Street Custodians Limited	1,523,046	0.9%
G Bettison	1,371,199	0.8%
J A Uhrig	1,217,143	0.7%
Total	**125,481,332**	**70.7%**

Offices and officers

Company Secretary

Mr Michael Barton BA (ACC), CA

Principal registered office

Technology Park
2 Second Avenue
Mawson Lakes, South Australia 5095

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

Directors

- **David Simmons**
  (Chairman)
- **Donald McGurk**
  (Managing Director and Chief Executive Officer)
- **Peter Leahy AC**
- **Jim McDowell**
- **Graeme Barclay**
- **Kathy Gramp**

Company Secretary

- **Michael Barton**

Principal registered office

Technology Park
2 Second Avenue
Mawson Lakes, South Australia 5095

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

Innovation
wherever you are

CODAN ANNUAL REPORT 2017

"In the 2017 financial year, we delivered a near record profit, demonstrating Codan's ability to deliver world-class, robust technology for our customers in more than 150 countries."