

17 August 2022

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

FULL YEAR RESULTS 2022

Codan delivers Record Sales, Profit and Dividend

Highlights

- Record underlying net profit after tax of \$100.5 million, representing an increase of 3% over FY21
- Codan group sales increased 16% to \$506 million
- More balanced and stable revenues across the Codan group
- DTC and Zetron exceeded first year acquisition targets achieving \$19 million and \$15 million EBITDA respectively
- DTC secured largest contract award in the company's history
- Annual dividend 28.0 cents, fully franked (interim 13.0 cents, final 15.0 cents)
- Statutory earnings per share 56 cents
- Return on equity of 30%

Australian-based technology company, Codan Limited (ASX:CDA), today announced a record underlying and statutory net profit after tax of \$100.5 million for the year ended 30 June 2022.

Directors announced a final dividend of 15.0 cents per share, fully franked, bringing the full-year dividend to 28.0 cents, up 4% for the year. This dividend has a record date of 26 August 2022 and will be paid on 7 September 2022.

Chief Executive Alf Ianniello said "Despite a challenging operating environment, Codan delivered another record profit year. We have been able to successfully execute on our strategy and as a result, the business has grown and diversified its sales base. The business today has much stronger foundations and with a well-balanced portfolio of sales, there is more stability in the business."

"It is very pleasing to see DTC and Zetron both delivering results exceeding our year one expectations. The DTC and Zetron acquisition and integration processes have been a success and we now have a framework that is proven and repeatable."

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FY22 in summary:

- Maintained 20% NPAT margins despite global inflationary pressures;
- In-country business development and geographic expansion initiatives are underway post covid travel restrictions;
- Maintained continuous supply to customers despite global supply chain challenges;
- Minelab achieved its second highest sales result despite ongoing geo-political disruptions and an unprecedented level of demand during FY21;
- Minelab Countermine business achieved record sales of \$22 million;
- Development of several new metal detector products has progressed well and we are on track for late first half FY23 product releases;
- Codan, via DTC, was awarded its largest ever contract with a leading global technology company and we have delivered against the first purchase order;
- Further strengthened our Communications segment by acquiring Broadcast Wireless Systems;
- Zetron exceeded \$100 million in sales as a result of securing numerous large contracts; and
- Increased the Communications orderbook by 23% to \$149 million.

	FY22		FY21	
	\$m	% of sales	\$m	% of sales
Revenue				
Communications	241.7	48%	95.5	22%
Metal Detection	262.3	52%	326.5	75%
Other	2.1	0%	15.0	3%
Total revenue	506.1	100%	437.0	100%
Business performance				
EBITDA	162.0	32%	158.8	36%
EBIT	137.4	27%	139.8	32%
Interest	(1.7)		(1.1)	
Net profit before tax	135.7	27%	138.7	32%
Taxation (excluding tax on restructuring expenses)	(35.2)		(41.4)	
Underlying net profit after tax	100.5	20%	97.3	22%
Non-recurring income/(expenses) after tax*:				
Acquisition related expenses	-		(5.2)	
Restructuring expenses	-		(1.9)	
Net profit after tax	100.5		90.2	
Underlying earnings per share, basic	55.6 cents		54.0 cents	
Statutory earnings per share, basic	55.6 cents		50.1 cents	
Ordinary dividend per share	28.0 cents		27.0 cents	

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

The decision to invest in production capacity and inventory across all business units impacted cash generation in FY22. As inventory levels have reached targeted levels and supply chains normalise, cash generation will gradually improve in FY23. Notwithstanding the substantial inventory investment, the second half cash generation improved significantly, generating \$65 million of cash from operating activities in comparison to cash outflow of \$13 million in the first half.

Metal Detection

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

Covid has had an unprecedented impact on people and economies worldwide and the restrictions and government stimulus impacted consumer demand patterns, particularly in FY21 and the early months of FY22. So, while FY22 sales of \$262 million did not reach the record highs of FY21, they were Minelab's second best year and represented growth of 11% over FY20. In FY22, Minelab had a clear focus on improving profit margins and cost efficiencies by passing on price increases to customers and reducing freight expenses. As a result, Minelab increased its profit margin percentage from 44% in FY21 to 46% in FY22, which was a remarkable achievement given the operating environment.

Gold mining sales in FY22 did not reach the record highs of FY21. This was primarily due to lower sales into the Northeast African market. This market was impacted by a number of factors, including geopolitical unrest and a decline in the number of artisanal miners as they returned to more traditional forms of employment post covid. With travel restrictions being lifted, business development activities have fully resumed and we are confident of continuing Minelab's historical success of establishing new regions and countries to sell our market leading gold detectors, but it will take some time as we have effectively been out of the market for over 2 years.

Recreational markets held up throughout FY22 and were remarkably resilient despite returning to a normalised demand profile post covid, growing inflationary pressures impacting consumer sentiment and the cessation of sales into Russia. Despite these headwinds, sales in North America grew 9% and LATAM grew 35%, largely attributable to the on-going success in penetrating retail distribution channels and the establishment of e-commerce channels. The business remains well positioned to drive further market share growth with new product releases in FY23, new geographies being established and e-commerce distribution channels continuing to develop.

As a result of winning numerous large tenders in both established and emerging markets, Countermine achieved record sales in FY22. The new products that have been introduced in recent years have been very well accepted, particularly by a number of global humanitarian demining agencies.

The challenging business conditions outlined above have continued into the start of FY23. In FY22, we experienced a very strong start to the year through a combination of the tail end of abnormal covid related demand and the supply of some orders that could not be fulfilled due to stock shortages. These factors increased sales in July 2021 by approximately \$15 million. This, coupled with the fact that sales into Russia have ceased, means that FY23 first half sales may not reach the \$138 million achieved in FY22. We do however expect improvement in the second half of FY23, as we generate sales from new product releases and realise the benefits of our business development and marketing initiatives. There is a clear global strategy that will be executed over the next three years focussed on marketing, business development and the introduction of our next generation range of products. Since FY18, Minelab sales achieved a compound annual growth rate of 12% and we are confident that the business will continue to grow as we enter new geographies and introduce our world leading metal detection technology.

Communications

Codan Communications comprises our Tactical (including DTC) and Zetron businesses which designs and manufactures mission-critical communications solutions for global military, public safety and commercial applications. Its solutions allow customers to save lives, enhance security and support communications activities worldwide.

Codan Communications sales increased by \$146 million on FY21, with this increase driven by our newly acquired businesses. Both DTC and Zetron exceeded year one EBITDA targets of \$14 million and \$8 million, achieving \$19 million and \$15 million respectively. The business remains well positioned as we enter FY23 with a strong order book of \$149 million, representing a 23% increase from June 2021.

The Communications division is now a much more globally relevant, robust and diversified business and is well positioned to serve high growth markets. This division will continue to evolve and grow by penetrating new geographies, introducing new products, leveraging technologies into adjacent markets and continuing with a clear acquisition strategy.

The business completed the acquisition of Broadcast Wireless Systems (BWS) on 1 December 2021 for a total consideration of \$8.4 million inclusive of a \$4.8 million earn-out. BWS is exceeding our year one expectations under DTC's ownership.

Tactical Communications (including DTC)

The acquisition of DTC has been a strategically important one for Tactical Communications, transitioning us from a traditional voice only platform to now include data and video. A key differentiator of Tactical Communication's technology relates to the tailored waveforms and the size, weight, and power of our products. This technology also allows us to access several market segments outside of Codan's traditional markets. These include Law Enforcement and Intelligence, Unmanned (drones) and Broadcast. Tactical Communications is well positioned to serve these growing market segments from participating in large military programs of record through to servicing the remote broadcast production industry.

During FY22, there has been strong demand in military markets with Tactical Communications being awarded the largest ever order in Codan's history for the supply of software defined mesh radios. This first order for approximately \$38 million is part of a multi-year framework agreement, of which \$13 million was delivered in FY22.

Zetron

Zetron is one of only two providers globally that offers a full suite of integrated emergency response technologies, with an exceptionally strong brand in North America. Like Tactical, Zetron's technology is applicable to a wide range of market segments including transportation, utilities, domestic security, natural resources and institutions.

Zetron has successfully integrated the legacy LMR business and the acquired Zetron business and this combined business exceeded \$100 million in sales in FY22, which was a great achievement. The business secured numerous large contracts including the upgrade and expansion of our emergency response system for Delta Air Lines and a renewal of up to 10 years for our contract with the State of Iowa for a hosted Next Generation 911 emergency call taking solution. FY22 focussed on the consolidation and integration of the business, and as we enter FY23, we expect to realise greater sales synergies by investing in marketing and the go-to market strategy.

Sustainability

Developing a more sustainable business is at the heart of what we do, as is demonstrated by our ongoing investment in innovation and our people for over 60 years. Codan continues to execute on its sustainability strategy and during FY22, the group established a sustainability committee dedicated to identifying and managing risks, issues and opportunities that are important to the business and our stakeholders. In FY23, additional areas of focus include specific objectives to promote and develop diversity amongst students pursuing a career in STEM (including females and students from low socio-economic backgrounds) and to establish a targeted approach to giving back to the disadvantaged groups in the communities in which our businesses operate.

Now in its third year of production, Codan's Sustainability Report continues its evolution and will be published as part of Codan's Annual report on 21 September 2022.

Outlook

While general business conditions remain challenging, we continue to focus on building a more predictable and diversified sales base, delivering long term shareholder value. In relation to the FY23 outlook:

- Sales and marketing initiatives and global business development activities have resumed across all businesses;
- The business conditions Minelab experienced in the second half of FY22 are expected to continue into the first half of FY23;
- We expect Minelab's second half sales to improve as business development activities continue and additional new Minelab products are released;
- We have a strong Communications orderbook of \$149 million and a growing pipeline of quality opportunities;
- Tactical Communications is focussed on business development opportunities, in particular military programs, given the increased instability in the world;
- Zetron is now successfully integrated and the business expects to realise greater sales synergies in FY23; and
- The business will continue to manage inflationary pressures to maintain profitability, maximise cash generation and seek to execute on its acquisition strategy.

We believe that our Communications business will achieve strong growth in FY23. As explained above, Minelab's sales in the first half of FY23 may not reach the level achieved in FY22, however with new product releases we are confident of a stronger second half.

The Board will provide a further business update at the Annual General Meeting on October 26, 2022, which will be a hybrid meeting with in-person and virtual attendance, to provide all shareholders with the ability to participate.

Live Webcast – FY22 Full-Year Financial Results Announcement A results briefing will be hosted by Managing Director, Alf Ianniello, at 11:00am (Australian Eastern Standard Time) on 18 August 2022. This briefing will be available via the following link – [2022 Full Year Results Announcement](#).

On behalf of the Board



Michael Barton
Company Secretary

This announcement was authorised by the Board of Directors.

Codan is a technology company that develops robust technology solutions to solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:

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Codan Limited

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

For the year ended 30 June 2022

ABN	Previous corresponding period		
77 007 590 605	30 June 2021		
Results for announcement to the market			
\$A'000			
Revenue from ordinary activities	Up	16%	to 506,145
Profit after tax	Up	11%	to 100,530
Underlying profit after tax	Up	3%	to 100,530
Profit from ordinary activities after tax attributable to members	Up	11%	to 100,736
Net profit for the period attributable to members	Up	11%	to 100,736
Dividends	Amount per security		Franked amount per security at 30% tax
Final ordinary dividend	15.0 cents		15.0 cents
Interim ordinary dividend	13.0 cents		13.0 cents
Record date for determining entitlements to dividends:	26 August 2022		
<p><i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i></p> <p>The 30 June 2022 Financial Report and the Market Announcement dated 17 August 2022 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).</p> <p>Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.</p>			
<p>This report is based on financial statements that have been audited. The audit report is included in the 30 June 2022 Financial Report.</p>			

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**Codan Limited
ABN 77 007 590 605
and its Controlled Entities**

**Financial Report
30 June 2022**

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The directors present their report together with the financial statements of the group comprising Codan Limited ("the company") and its subsidiaries for the financial year ended 30 June 2022 and the auditor's report thereon.

DIRECTORS

The directors of the company at any time during or since the end of the financial year are:

Name and qualifications	Experience
Mr David Simmons BA (Acc) Chairman, Independent Non- Executive Director, Chair of Remuneration and Nomination Committee	<p>David was appointed Chairman of the board in 2015 and has been a director of Codan since 2008. Prior to joining the Codan board, David was the Managing Director of Hills Industries Limited (Hills) for 16 years. On appointment, Hills had a turnover of around \$200 million. On his retirement in 2008, Hills turnover and market capitalisation were both in excess of \$1 billion. Hills was in the ASX200 index and under David's leadership, profit increased every year for 16 years. Hills grew through a combination of internal growth and via acquisitions. During his time as Managing Director, David led around 30 successful acquisitions and joint ventures. David has strong people, financial, capital markets and M&A skills and has significant international experience, particularly focused on China, the USA and the UK. Hills employed 4,000 people globally at its peak.</p> <p>Since David was appointed Chairman, Codan's net profit after tax has grown from less than \$16 million to more than \$100 million. This has been achieved by investing in people, having a commitment to continuous learning, encouraging entrepreneurship, rewarding performance and sensible diversification via acquisitions. In his role on the Board Audit Risk and Compliance Committee, David has a particular focus on the ever-present cyber threats and will continue to push and support best in class defenses.</p> <p>David has chaired several charitable and government related organisations since retiring from Hills. He is currently the Chair of the Kickstart for Kids charity based in South Australia and is a former Chair of the South Australian Economic Development board.</p>
Mr Alf Ianniello Wharton GCP, GradCertMgmt, BEng (Electronics) Managing Director and Chief Executive Officer	<p>Alf joined Codan as the Managing Director and CEO in January 2022, bringing with him extensive international experience in the packaging, defence and automotive industries, most notably holding senior positions with Schefenacker Vision Systems and British Aerospace. This international experience saw Alf manage major facilities in China, Vietnam, Singapore, Indonesia, and South Africa.</p> <p>Prior to this appointment, Alf was CEO of the Adelaide-based Detmold Group for 14 years and positioned Detmold to become a leading international packaging solutions provider with revenues reaching US\$450 million. Alf has also held board positions with SME's, Tertiary Institutions and Local Government.</p> <p>Alf attended the Wharton Business School Global CEO Program at the University of Pennsylvania in 2012. He also holds a Graduate Certificate in Management and Bachelor of Engineering (Electronic Engineering) from the University of South Australia.</p>
Mr Donald McGurk HNC (Mech Eng), MBA, FAICD, Harvard AMP Managing Director and Chief Executive Officer	<p>Donald joined Codan in December 2000 and had executive responsibility for group-wide operations until his transition into the role of CEO in 2010. From 2005 to 2007, he also held executive responsibility for sales of the company's communications products and, from 2007 to 2010, executive responsibility for the business performance of the communications business. He was appointed to the board as a director in May 2010 and became Managing Director in November 2010. He retired as Managing Director of Codan on 28 February 2022.</p>
Lt-Gen Peter Leahy AC BA (Military Studies), MMAS, GAICD Independent Non- Executive Director	<p>Peter Leahy retired from the Australian Army in 2008 as a Lieutenant General after a six-year appointment as Chief of Army. He was appointed to the Codan board in September 2008. In his board appointments since then he has been on the boards of Codan, Electro Optic Systems Holdings Limited and Citadel Group Limited, including one year as Chair of CGL prior to its acquisition to go private. He is the current Chair of Electro Optic Systems Holdings Limited.</p> <p>In addition, to his board activities, he has been an advisor to both the Queensland and South Australian Governments, was a member of the First Principles Review of the Department of Defence, Chair of the Invictus Games in Australia and is an active supporter of veteran's charities. As a Professor at the University of Canberra he lectures on National Security, which includes terrorism, cybersecurity, and digital disruption. He will retire as a director of Codan effective on 26 October 2022.</p>

DIRECTORS (CONTINUED)

Name and qualifications Experience

Mr Graeme Barclay

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

Graeme Barclay is a former CEO and qualified chartered accountant with more than 37 years' experience in professional services, investment banking, broadcast and telecommunications infrastructure businesses.

Over the past 21 years Graeme has held Executive Chairman or Group CEO roles at BAI Communications, Transit Wireless LLC (New York), Nextgen Group (including Nextgen Networks & Metronode data centres) and Axicom (formerly Crown Castle Australia), and for 8 years was also an executive director in Macquarie Group's infrastructure team. In these roles, Graeme was responsible for all aspects of strategy, M&A, sales and business development, contract delivery and operations, as well as implementing the appropriate capital structure and raising third party debt for these businesses in Australia, UK, Hong Kong, Singapore, Canada, USA and New Zealand. Over the past 21 years in these businesses, Graeme led and completed more than 20 acquisition and divestment transactions including the sale of Nextgen Networks to Vocus for \$820 million in 2016 and the sale of Metronode to Equinix for \$1.04 billion in 2018.

Included in his prior board appointments are Arqiva Limited (institutionally owned UK telecommunications infrastructure, BSA Limited (ASX:BSA, until December 2019) and Chairman of the main board and of the audit and risk committee for the Nextgen group (Ontario Teachers' majority owned telecommunications infrastructure business).

His current public company board appointments are Codan (ASX:CDA, since 2015) and until August 2022 he was chairman of Uniti Group Limited (ASX:UWL). As chairman of Uniti, Graeme oversaw an IPO in 2019, ten business acquisitions and several associated equity and debt capital raisings and significant organic growth. In just over 3 years as a public company, Uniti grew from a loss making business to circa \$145 million in EBITDA and its enterprise value grew from around \$30 million at the time of listing to \$3.8 billion in August 2022 when the business was sold to a consortium of financial investors. Uniti's principal business was the ownership and operation of a private fibre to the premise network in Australia, delivering super fast wholesale broadband services to connected premises.

Graeme holds an honours economics degree, is a qualified CA, a fellow of FINSIA and a member of AICD.

Ms Kathy Gramp

BA (Acc), FCA, FAICD
Independent Non-
Executive Director,
Chair of Board Audit, Risk
and Compliance
Committee

Kathy was appointed to the board of Codan in November 2015. She has had a long and distinguished executive career and over 24 years of board experience across a diverse range of complex organisations and industry sectors. She has significant experience as Chair of Audit & Risk Committees.

Prior to joining Codan, Kathy was CFO of Austereo Ltd. Joining in 1989, retiring June 2011. In that time the company grew from 2 radio stations to the largest commercial radio network in Australia, and the leader in Digital and Online Media. Leadership roles and responsibilities included business planning & re-engineering, debt & equity raising, acquisitions & integration, capital investment, major IT projects, corporate governance, risk management, financial management, tax & accounting, change management and investor & key stakeholder relations. Further experience was gained through exposure to international markets such as Greece, UK, USA, South Africa, Argentina, Malaysia, and New Zealand.

Kathy was a Director of Uniti Group Limited (ASX:UWL), Chair of Audit & Risk Committee and member of the Nomination & Remuneration Committee until August 2022. Uniti, a diversified provider of telecommunication services, listed in February 2019 and through acquisition and organic growth, increased its enterprise value from around \$30 million at the time of listing to \$3.8 billion in August 2022 when the business was sold to a consortium of financial investors. She is also a Director of QANTM IP Limited (ASX: QIP), appointed 11 May 2022. QANTM is the owner of a group of leading intellectual property and trademark services businesses operating in Australia, New Zealand, Singapore, and Malaysia. Kathy is a Council member of Flinders University and Chair of its Audit & Risk Committee.

Kathy holds a BA Accounting, is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia & New Zealand and is a member of Chief Executive Women.

COMPANY SECRETARY

Mr Michael Barton BA (Acc), FCA

Michael joined Codan in May 2004 as Group Finance Manager after a 14-year career with KPMG in their assurance division. He was appointed Company Secretary in May 2008 and in September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary. Michael leads a team responsible for managing Codan's financial operations as well as legal and commercial matters, investor relations, information technology and business systems. He holds a Bachelor of Arts in Accountancy from the University of South Australia and was recently made a fellow of Chartered Accountants Australia and New Zealand.

DIRECTORS' MEETINGS

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

Director	Board meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration and Nomination Committee meetings	
	A	B	A	B	A	B
Mr A Ianniello	5	5				
Mr D J Simmons	10	10	5	5	2	2
Mr D S McGurk	6	6				
Lt-Gen P F Leahy	10	10			2	2
Mr G R C Barclay	10	10	5	5	2	2
Ms K J Gramp	10	10	5	5		

A – Number of meetings attended

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

REMUNERATION REPORT – AUDITED

Principles of remuneration

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

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced executives. The Remuneration and Nomination Committee has reference to trends in comparative companies both locally and internationally and may obtain independent advice on the appropriateness of remuneration packages. Remuneration packages include a mix of fixed remuneration and performance-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to achieve the broader outcome of increasing the group's net profit over the longer term and to ensure that Codan continues to operate in a manner that is aligned to our Core Values and our Sustainability objectives. The remuneration structures consider:

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

REMUNERATION REPORT – AUDITED (CONTINUED)

Principles of remuneration (continued)

In 2020 the Remuneration and Nomination Committee completed a review of executive remuneration packages to ensure alignment with shareholders' interests. This review resulted in the establishment of a new short-term incentive (STI) plan for Executives. The STI plan is based on a pooled approach with a percentage of Codan group EBIT being contributed to an STI pool with key Executives then sharing in that pool subject to achieving a threshold level of profitability. From the board's perspective, what was most pleasing with this STI plan structure in its first year of operation in FY21 was the heightened level of teamwork and camaraderie across our executive team, which resulted in a significant increase in co-operation across business units.

In FY21 the STI pool was calculated at 2.4% of the Codan group EBIT, with this percentage being in line with the average of total executive STI's to EBIT over the preceding 2 to 3 years. In FY22 the STI pool percentage was reduced to 2.0% and the individual cap for each executive (which was one times fixed salary) was removed.

Our key executives share, in the STI pool, at different percentages and these percentages are set by the Remuneration and Nomination Committee each year. No STI's are paid to executives unless a minimum threshold level of profitability is achieved, with this threshold currently being set at 80% of the record level of EBIT that was achieved in the prior year.

A key improvement to the STI program in FY22 has been the inclusion of stage gates for each executive, the achievement of which will determine what percentage of that executives STI will be paid. The stage gates have 50% of each executive's STI being at risk and dependent on the achievement of clearly defined objectives for the individual's business unit or the company overall. The remaining 50% of the STI for each executive is based on group EBIT achievement as detailed above. In FY22 the stage gates related to the integration and success of the DTC and Zetron businesses and a threshold level of profitability for Minelab. Pleasingly all stage gates were achieved. It is not our intention to publish the specific stage gates each year for each executive as they will largely reflect key strategic and other competitively sensitive initiatives. We will however report the reasoning behind any decisions to pay an element of STI, in the event that a stage gate is not achieved.

As always, the payment of an STI to an executive is subject to the Board's overriding discretion, having considered the executives compliance with Codan's core values, objectives, and policies.

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

Service contracts

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

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

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights

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

The number of performance rights issued represents 50% of the nominated executives' fixed pay divided by the volume weighted average of the company's share price in the five days after the release of the group's annual results.

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

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

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

The Board conducted a review of the performance rights plan in 2021 and has made the following changes to the plan for FY22 and following years.

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

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

	Number of performance rights granted during year	Grant date	Average fair value per right at grant date (\$)	Exercise price per right (\$)	Expiry date	Number of rights vested during year
DIRECTORS						
Mr A Ianniello*	-	-	-	-	-	-
EXECUTIVES						
Mr M Barton	10,124	6 December 2021	8.17	-	30 June 2025	-
Mr P D Charlesworth	13,774	6 December 2021	8.17	-	30 June 2025	-
Mr S A French	12,688	6 December 2021	8.34	-	30 June 2025	-
Mr S P Sangster	12,126	6 December 2021	8.17	-	30 June 2025	-

* Mr A Ianniello was appointed as a director on 4 January 2022.

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*	91,972	16 November 2018	100	-	2022
	63,647	15 November 2019	-	-	2023
	27,809	13 November 2020	-	-	2024
EXECUTIVES					
Mr M Barton	48,421	16 November 2018	100	-	2022
	33,509	15 November 2019	-	-	2023
	14,641	13 November 2020	-	-	2024
	10,124	6 December 2021	-	-	2025
Mr P D Charlesworth	59,881	16 November 2018	100	-	2022
	41,431	15 November 2019	-	-	2023
	18,102	13 November 2020	-	-	2024
	13,774	6 December 2021	-	-	2025
Mr S A French	42,696	15 November 2019	-	-	2023
	17,788	13 November 2020	-	-	2024
	12,688	6 December 2021	-	-	2025
Mr S P Sangster	31,208	16 November 2018	100	-	2022
	35,996	15 November 2019	-	-	2023
	17,536	13 November 2020	-	-	2024
	12,126	6 December 2021	-	-	2025

* Mr D S McGurk ceased to be a director on 28 February 2022.

Performance rights issued on 15 November 2019

The company issued 257,897 performance rights in November 2019 to executives. The fair value of the rights was on average \$5.22 based on the Black-Scholes formula. The model inputs were: the share price of \$6.31, no exercise price, expected volatility 31%, dividend yield 2.2%, a term of three years and a risk-free rate of 1.2%. During FY22, 40,618 performance rights have been cancelled.

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

As the earnings per share target has been exceeded to 30 June 2022, it is expected that the performance rights will vest and be converted into shares before the end of August 2022.

REMUNERATION REPORT – AUDITED (CONTINUED)

Performance rights (continued)

Performance rights issued on 13 November 2020

The company issued 113,623 performance rights in November 2020 to executives. The fair value of the rights was on average \$10.18 based on the Black-Scholes formula. The model inputs were: the share price of \$11.17, no exercise price, expected volatility 60%, dividend yield 1.7%, a term of three years and a risk-free rate of 0.9%. During FY22, 17,747 performance rights have been cancelled.

The performance rights become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share of 27.8 cents as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 10% per annum over the three-year period from the base earnings per share.

Performance rights issued on 6 December 2021

The company issued 48,712 performance rights in December 2021 to executives. The fair value of the rights was on average \$8.20 based on the Black-Scholes formula. The model inputs were: the share price of \$9.11, no exercise price, expected volatility 45%, dividend yield 3.0%, a term of three years and a risk-free rate of 1.6%.

The performance rights become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share of 38.15 cents as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 8% per annum over the three-year period from the base earnings per share. The threshold earnings per share will be calculated using a 2% per annum growth rate.

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 2021	Issued	Vested	Lapsed	Held at 30 June 2022
DIRECTORS					
Mr A Ianniello*	-	-	-	-	-
Mr D S McGurk**	183,428	-	91,972	-	91,456
EXECUTIVES					
Mr M Barton	96,571	10,124	48,421	-	58,274
Mr P D Charlesworth	119,414	13,774	59,881	-	73,307
Mr S A French	60,484	12,688	-	-	73,172
Mr S P Sangster	84,740	12,126	31,208	-	65,658

* Mr A Ianniello was appointed as a director on 4 January 2022.

** Mr D S McGurk ceased to be a director on 28 February 2022. The closing balance disclosed reflects the numbers held the day he ceased being a director.

REMUNERATION REPORT – AUDITED (CONTINUED)

Other transactions with key management personnel

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

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

Director share ownership

The Directors' Shareholding Policy requires directors to build a minimum shareholding in the company. For non-executive directors this minimum shareholding should equate to their annual director fee and for executive directors, their annual fixed remuneration. Under the policy, directors have five years to reach the minimum holding.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Codan Limited, held directly, indirectly, or beneficially by each key management person, including their related parties, is as follows:

	Held at 1 July 2021	Received on exercise of rights	Other changes *	Held at 30 June 2022
Directors				
Mr D J Simmons	86,636	-	13,364	100,000
Mr A Ianniello**	N/A	-	41,120	41,120
Mr D S McGurk***	600,948	91,972	-	692,920
Lt-Gen P F Leahy	57,708	-	-	57,708
Mr G R C Barclay	38,829	-	24,923	63,752
Ms K J Gramp	12,500	-	3,000	15,500
Specified executives				
Mr M Barton	207,145	48,421	(45,000)	210,566
Mr P D Charlesworth	445,891	59,881	(53,221)	452,551
Mr S A French	-	-	-	-
Mr S P Sangster	4,377	31,208	2,613	38,198

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

** Mr A Ianniello was appointed as a director on 4 January 2022.

*** Mr D S McGurk ceased to be a director on 28 February 2022. The closing balance disclosed reflects the numbers held the day he ceased being a director.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

REMUNERATION REPORT - AUDITED (CONTINUED)

Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration paid or payable to each director of the company and other key management personnel of the group are:

Directors	Year	Salary and fees	Short-term incentives	Other short-term	Post-employment and superannuation contributions	Other long-term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
NON-EXECUTIVE										
Mr D J Simmons	2022	189,935	-	-	18,993	-	-	-	208,928	-
	2021	185,751	-	-	17,646	-	-	-	203,397	-
Lt-Gen P F Leahy	2022	94,968	-	-	9,497	-	-	-	104,465	-
	2021	92,876	-	-	8,823	-	-	-	101,699	-
Mr G R C Barclay	2022	94,968	-	-	9,497	-	-	-	104,465	-
	2021	92,876	-	-	8,823	-	-	-	101,699	-
Ms K J Gramp	2022	103,601	-	-	10,360	-	-	-	113,961	-
	2021	101,319	-	-	9,625	-	-	-	110,944	-
Total non-executives' remuneration	2022	483,472	-	-	48,347	-	-	-	531,819	-
	2021	472,822	-	-	44,917	-	-	-	517,739	-
EXECUTIVE										
Mr A Ianniello*	2022	518,872	150,308	-	13,750	11,850	-	30,000	724,780	24.9
	2021	-	-	-	-	-	-	-	-	-
Mr D S McGurk**	2022	350,148	563,657	-	15,712	10,092	-	154,050	1,093,659	65.6
	2021	585,031	609,153	-	23,502	17,469	-	280,087	1,515,242	58.7
Total directors' remuneration	2022	1,352,492	713,965	-	77,809	21,942	-	184,050	2,350,258	-
	2021	1,057,853	609,153	-	68,419	17,469	-	280,087	2,032,981	-

* Mr A Ianniello was appointed as a director on 4 January 2022. Subject to shareholder approval at the 2022 AGM, performance rights to the value of 15% of fixed remuneration will be issued under the FY22 performance rights plan.

** Mr D S McGurk ceased to be a director on 28 February 2022.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

REMUNERATION REPORT - AUDITED (CONTINUED)**Directors' and senior executives' remuneration (continued)**

Executive officers	Year	Salary and fees	Short-term incentives	Other short-term*	Post-employment and superannuation contributions	Other long-term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
Mr M Barton (Chief Financial Officer and Company Secretary)	2022	306,042	409,932	-	27,500	11,084	-	139,816	894,374	61.5
	2021	289,069	320,708	-	27,551	10,408	-	147,460	795,196	58.7
Mr P D Charlesworth (Executive General Manager, Minelab)	2022	422,791	478,254	-	23,568	34,361	-	175,123	1,134,097	57.6
	2021	365,471	396,525	-	21,694	12,438	-	182,332	978,460	58.9
Mr S A French (Executive General Manager, Zetron)	2022	406,025	409,932	22,760	20,912	-	-	188,812	1,048,441	57.1
	2021	398,514	383,604	21,743	-	-	-	144,974	948,835	55.7
Mr S P Sangster (Executive General Manager, Tactical Communications)	2022	406,607	409,932	2,809	-	10,730	-	159,394	989,472	57.5
	2021	400,615	384,131	24,993	-	12,661	-	146,892	969,292	54.8
Total executive officers' remuneration	2022	1,541,465	1,708,050	25,569	71,980	56,175	-	663,145	4,066,384	-
	2021	1,453,669	1,484,968	46,736	49,245	35,507	-	621,658	3,691,783	-

* Other short-term benefits relate to costs incurred for arrangements made following the executives' relocation from an overseas country to the location of their employment with Codan.

REMUNERATION REPORT - AUDITED (CONTINUED)

Directors' and senior executives' remuneration (continued)

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

Short-term incentives which vested during the year are as follows: Mr A Ianniello 50%, Mr D S McGurk 75%, Mr M Barton 100%, Mr P D Charlesworth 100%, Mr S A French 100%, and Mr S P Sangster 100%.

Codan conducts an annual salary review process with an effective date of 1 January. As part of this process, Directors and Executives received a 2.5% pay increase on 1 January 2022.

The remuneration amounts disclosed above have been calculated based on the expense to the company for the financial year. Therefore, items such as performance rights, annual leave and long service leave taken and provided for have been included in the calculations. As a result, the remuneration disclosed may not equal the salary package as agreed with the executive in any one year.

Other than performance rights, no options or shares were issued during the year as compensation for any key management personnel.

Corporate performance

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

	2022	2021	2020	2019	2018
Profit attributable to shareholders (\$000)	\$100,736	\$90,351	\$63,795	\$45,665	\$41,575
Dividends paid (\$000)	\$53,361	\$38,809	\$26,999	\$26,873	\$19,593
Share price at 30 June	\$6.96	\$18.03	\$7.09	\$3.47	\$3.00
Change in share price at 30 June	(\$11.07)	\$10.94	\$3.62	\$0.47	\$0.66
Earnings per share, fully diluted	55.6c	49.8c	35.3c	25.3c	22.1c

OPERATING AND FINANCIAL REVIEW

Codan is a technology company that provides robust technology solutions that solve customers' communications, safety, security, and productivity problems in some of the harshest environments around the world. Our customers include United Nations organisations, mining companies, security and military groups, government departments, major corporates as well as individual consumers and small-scale miners.

FY22 Highlights:

- Record underlying net profit after tax of \$100.5 million, representing an increase of 3% over FY21
- Codan group sales increased 16% to \$506 million
- More balanced and stable revenues across the Codan group
- DTC and Zetron exceeded first year acquisition targets achieving \$19 million and \$15 million EBITDA respectively
- DTC secured largest contract award in the company's history
- Annual dividend 28.0 cents, fully franked (interim 13.0 cents, final 15.0 cents)
- Statutory earnings per share 56 cents
- Return on equity of 30%

Despite a challenging operating environment, Codan delivered another record profit year. We have been able to successfully execute on our strategy and as a result, the business has grown and diversified its sales base. The business today has much stronger foundations and with a well-balanced portfolio of sales, there is more stability in the business.

DTC and Zetron both delivered results exceeding our year one expectations. The DTC and Zetron acquisition and integration processes have been a success and we now have a framework that is proven and repeatable.

FY22 in summary:

- Maintained 20% NPAT margins despite global inflationary pressures;
- In-country business development and geographic expansion initiatives are underway post covid travel restrictions;
- Maintained continuous supply to customers despite global supply chain challenges;
- Minelab achieved its second highest sales result despite ongoing geo-political disruptions and an unprecedented level of demand during FY21;
- Minelab Countermine business achieved record sales of \$22 million;
- Development of several new metal detector products has progressed well and we are on track for late first half FY23 product releases;
- Codan, via DTC, was awarded its largest ever contract with a leading global technology company and we have delivered against the first purchase order;
- Further strengthened our Communications segment by acquiring Broadcast Wireless Systems;
- Zetron exceeded \$100 million in sales as a result of securing numerous large contracts; and
- Increased the Communications orderbook by 23% to \$149 million.

Dividend

The company announced a final dividend of 15.0 cents per share, fully franked, bringing the full-year dividend to 28.0 cents, up 4% for the year. This dividend has a record date of 26 August 2022 and will be paid on 7 September 2022.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters

	FY22		FY21	
	\$m	% of sales	\$m	% of sales
Revenue				
Communications	241.7	48%	95.5	22%
Metal Detection	262.3	52%	326.5	75%
Other	2.1	0%	15.0	3%
Total revenue	506.1	100%	437.0	100%
Business performance				
EBITDA	162.0	32%	158.8	36%
EBIT	137.4	27%	139.8	32%
Interest	(1.7)		(1.1)	
Net profit before tax	135.7	27%	138.7	32%
Taxation (excluding tax on restructuring expenses)	(35.2)		(41.4)	
Underlying net profit after tax	100.5	20%	97.3	22%
Non-recurring income/(expenses) after tax*:				
Acquisition related expenses	-		(5.2)	
Restructuring expenses	-		(1.9)	
Net profit after tax	100.5		90.2	
Underlying earnings per share, basic	55.6 cents		54.0 cents	
Statutory earnings per share, basic	55.6 cents		50.1 cents	
Ordinary dividend per share	28.0 cents		27.0 cents	

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

The decision to invest in production capacity and inventory across all business units impacted cash generation in FY22. As inventory levels have reached targeted levels and supply chains normalise, cash generation will gradually improve in FY23. Notwithstanding the substantial inventory investment, the second half cash generation improved significantly, generating \$65 million of cash from operating activities in comparison to cash outflow of \$13 million in the first half.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Performance by business unit:

Metal Detection

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

Covid has had an unprecedented impact on people and economies worldwide and the restrictions and government stimulus impacted consumer demand patterns, particularly in FY21 and the early months of FY22. So, while FY22 sales of \$262 million did not reach the record highs of FY21, they were Minelab's second best year and represented growth of 11% over FY20. In FY22, Minelab had a clear focus on improving profit margins and cost efficiencies by passing on price increases to customers and reducing freight expenses. As a result, Minelab increased its profit margin percentage from 44% in FY21 to 46% in FY22, which was a remarkable achievement given the operating environment.

Gold mining sales in FY22 did not reach the record highs of FY21. This was primarily due to lower sales into the Northeast African market. This market was impacted by a number of factors, including geopolitical unrest and a decline in the number of artisanal miners as they returned to more traditional forms of employment post covid. With travel restrictions being lifted, business development activities have fully resumed and we are confident of continuing Minelab's historical success of establishing new regions and countries to sell our market leading gold detectors, but it will take some time as we have effectively been out of the market for over 2 years.

Recreational markets held up throughout FY22 and were remarkably resilient despite returning to a normalised demand profile post covid, growing inflationary pressures impacting consumer sentiment and the cessation of sales into Russia. Despite these headwinds, sales in North America grew 9% and LATAM grew 35%, largely attributable to the on-going success in penetrating retail distribution channels and the establishment of e-commerce channels. The business remains well positioned to drive further market share growth with new product releases in FY23, new geographies being established and e-commerce distribution channels continuing to develop.

As a result of winning numerous large tenders in both established and emerging markets, Countermine achieved record sales in FY22. The new products that have been introduced in recent years have been very well accepted, particularly by a number of global humanitarian demining agencies.

The challenging business conditions outlined above have continued into the start of FY23. In FY22, we experienced a very strong start to the year through a combination of the tail end of abnormal covid related demand and the supply of some orders that could not be fulfilled due to stock shortages. These factors increased sales in July 2021 by approximately \$15 million. This, coupled with the fact that sales into Russia have ceased, means that FY23 first half sales may not reach the \$138 million achieved in FY22. We do however expect improvement in the second half of FY23, as we generate sales from new product releases and realise the benefits of our business development and marketing initiatives. There is a clear global strategy that will be executed over the next three years focussed on marketing, business development and the introduction of our next generation range of products. Since FY18, Minelab sales achieved a compound annual growth rate of 12% and we are confident that the business will continue to grow as we enter new geographies and introduce our world leading metal detection technology.

Communications

Codan Communications comprises our Tactical (including DTC) and Zetron businesses which designs and manufactures mission-critical communications solutions for global military, public safety and commercial applications. Its solutions allow customers to save lives, enhance security and support communications activities worldwide.

Codan Communications sales increased by \$146 million on FY21, with this increase driven by our newly acquired businesses. Both DTC and Zetron exceeded year one EBITDA targets of \$14 million and \$8 million, achieving \$19 million and \$15 million respectively. The business remains well positioned as we enter FY23 with a strong order book of \$149 million, representing a 23% increase from June 2021.

The Communications division is now a much more globally relevant, robust and diversified business and is well positioned to serve high growth markets. This division will continue to evolve and grow by penetrating new geographies, introducing new products, leveraging technologies into adjacent markets and continuing with a clear acquisition strategy.

The business completed the acquisition of Broadcast Wireless Systems (BWS) on 1 December 2021 for a total consideration of \$8.4 million inclusive of a \$4.8 million earn-out. BWS is exceeding our year one expectations under DTC's ownership.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance and other matters (continued)

Performance by business unit (continued)

Communications (continued)

Tactical Communications (including DTC)

The acquisition of DTC has been a strategically important one for Tactical Communications, transitioning us from a traditional voice only platform to now include data and video. A key differentiator of Tactical Communication's technology relates to the tailored waveforms and the size, weight, and power of our products. This technology also allows us to access several market segments outside of Codan's traditional markets. These include Law Enforcement and Intelligence, Unmanned (drones) and Broadcast. Tactical Communications is well positioned to serve these growing market segments from participating in large military programs of record through to servicing the remote broadcast production industry.

During FY22, there has been strong demand in military markets with Tactical Communications being awarded the largest ever order in Codan's history for the supply of software defined mesh radios. This first order for approximately \$38 million is part of a multi-year framework agreement, of which \$13 million was delivered in FY22.

Zetron

Zetron is one of only two providers globally that offers a full suite of integrated emergency response technologies, with an exceptionally strong brand in North America. Like Tactical, Zetron's technology is applicable to a wide range of market segments including transportation, utilities, domestic security, natural resources and institutions.

Zetron has successfully integrated the legacy LMR business and the acquired Zetron business and this combined business exceeded \$100 million in sales in FY22, which was a great achievement. The business secured numerous large contracts including the upgrade and expansion of our emergency response system for Delta Air Lines and a renewal of up to 10 years for our contract with the State of Iowa for a hosted Next Generation 911 emergency call taking solution. FY22 focussed on the consolidation and integration of the business, and as we enter FY23, we expect to realise greater sales synergies by investing in marketing and the go-to market strategy.

Sustainability

Developing a more sustainable business is at the heart of what we do, as is demonstrated by our ongoing investment in innovation and our people for over 60 years. Codan continues to execute on its sustainability strategy and during FY22, the group established a sustainability committee dedicated to identifying and managing risks, issues and opportunities that are important to the business and our stakeholders. In FY23, additional areas of focus include specific objectives to promote and develop diversity amongst students pursuing a career in STEM (including females and students from low socio-economic backgrounds) and to establish a targeted approach to giving back to the disadvantaged groups in the communities in which our businesses operate.

Now in its third year of production, Codan's Sustainability Report continues its evolution and will be published as part of Codan's Annual report on 21 September 2022.

Outlook

While general business conditions remain challenging, we continue to focus on building a more predictable and diversified sales base, delivering long term shareholder value. In relation to the FY23 outlook:

- Sales and marketing initiatives and global business development activities have resumed across all businesses;
- The business conditions Minelab experienced in the second half of FY22 are expected to continue into the first half of FY23;
- We expect Minelab's second half sales to improve as business development activities continue and additional new Minelab products are released;
- We have a strong Communications orderbook of \$149 million and a growing pipeline of quality opportunities;
- Tactical Communications is focussed on business development opportunities, in particular military programs, given the increased instability in the world;
- Zetron is now successfully integrated and the business expects to realise greater sales synergies in FY23; and
- The business will continue to manage inflationary pressures to maintain profitability, maximise cash generation and seek to execute on its acquisition strategy.

We believe that our Communications business will achieve strong growth in FY23. As explained above, Minelab's sales in the first half of FY23 may not reach the level achieved in FY22, however with new product releases we are confident of a stronger second half.

The Board will provide a further business update at the Annual General Meeting on October 26, 2022, which will be a hybrid meeting with in-person and virtual attendance, to provide all shareholders with the ability to participate.

DIVIDENDS

Dividends paid or declared by the company to members since the end of the previous financial year were:

	Cents per share	Total amount	Franked	Date of payment
		\$000		
DECLARED AND PAID DURING THE YEAR ENDED 30 JUNE 2022:				
FY21 final	16.5	29,846	100%	10 September 2021
FY22 interim	13.0	23,515	100%	10 March 2022
DECLARED AFTER THE END OF THE YEAR:				
FY22 final	15.0	27,133	100%	7 September 2022

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

EVENTS SUBSEQUENT TO REPORTING DATE

Except for the declaration of the FY22 final dividend detailed in note 5, 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	100,000
Mr A Ianniello	41,120
Lt-Gen P F Leahy	57,708
Mr G R C Barclay	63,752
Ms K J Gramp	15,500

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

The company has agreed to indemnify the current and former directors and officers of the company and certain controlled entities against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors and secretaries of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Deed of Access, Indemnity and Insurance stipulates that the company and certain controlled entities will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

NON-AUDIT SERVICES

During the year, KPMG, the company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the Board Audit, Risk and Compliance Committee to ensure that they do not have an impact on the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

Refer page 19 for a copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001*.

Details of the amounts paid or payable to the auditor of the company, KPMG, and its related practices for audit and non-audit services provided during the year are below. Included in the audit fees for the year ended 30 June 2022 is an amount of \$49,975 related to the acquisitions of DTC and Zetron which was agreed after completion of the 30 June 2021 Directors' Report.

	Consolidated	
	2022	2021
	\$	\$
STATUTORY AUDIT		
Audit and review of financial reports	327,551	218,644
	327,551	218,644
SERVICES OTHER THAN STATUTORY AUDIT		
Taxation advice and compliance services	24,607	22,997
	24,607	22,997

DIRECTORS' REPORT
Codan Limited and its Controlled Entities

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



A Ianniello
Director

Dated at Mawson Lakes this 17th day of August 2022.

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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 2022 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.



Paul Cenko
Partner

Adelaide

17 August 2022

Consolidated income statement for the year ended 30 June 2022

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2022	2021
		\$000	\$000
CONTINUING OPERATIONS			
Revenue	2	506,145	437,049
Cost of sales		(219,796)	(193,911)
Gross profit		286,349	243,138
Other income	4	1,744	49
Administrative expenses		(36,151)	(23,151)
Sales and marketing expenses		(78,864)	(53,463)
Engineering expenses		(33,288)	(26,234)
Net financing costs	3	(2,396)	(1,612)
Other expenses	4	(1,727)	(7,913)
Profit before tax		135,667	130,814
Income tax expense	7	(35,137)	(40,617)
Profit for the period		100,530	90,197
Attributable to:			
Equity holders of the company		100,736	90,351
Non-controlling interests		(206)	(154)
		100,530	90,197
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share	6	55.7 cents	50.1 cents
Diluted earnings per share	6	55.6 cents	49.8 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 57.

Consolidated statement of comprehensive income
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

	Note	Consolidated	
		2022 \$000	2021 \$000
Profit for the period		100,530	90,197
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		(2,339)	(1,441)
less tax effect		702	433
Changes in fair value of cash flow hedges, net of income tax	20	(1,637)	(1,008)
Exchange differences on translation of foreign operations	20	17,837	4,097
Other comprehensive income/(loss) for the period, net of income tax		16,200	3,089
Total comprehensive income for the period		116,730	93,286
Attributable to:			
Equity holders of the company		116,936	93,440
Non-controlling interests		(206)	(154)
		116,730	93,286

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 57.

Consolidated balance sheet as at 30 June 2022

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2022	2021
		\$000	\$000
CURRENT ASSETS			
Cash and cash equivalents	8	22,613	22,362
Trade and other receivables	11	59,775	34,189
Inventory	12	102,488	62,770
Current tax assets	7	767	122
Assets held for sale		-	17,762
Other assets	13	17,852	15,273
Total current assets		203,495	152,478
NON-CURRENT ASSETS			
Property, plant and equipment	14	19,732	17,580
Right-of-use assets	31	25,067	26,989
Product development	15	92,261	74,569
Intangible assets	16	250,377	231,229
Total non-current assets		387,437	350,367
Total assets		590,932	502,845
CURRENT LIABILITIES			
Trade and other payables	17	95,812	101,542
Lease liabilities	31	4,592	6,950
Current tax payable	7	6,806	14,785
Liabilities held for sale		-	1,043
Provisions	18	14,987	13,214
Total current liabilities		122,197	137,534
NON-CURRENT LIABILITIES			
Trade and other payables	17	5,676	4,973
Lease liabilities	31	25,651	25,170
Loans and borrowings	9	52,000	24,000
Deferred tax liabilities	7	9,482	4,746
Provisions	18	7,970	2,812
Total non-current liabilities		100,779	61,701
Total liabilities		222,976	199,235
Net assets		367,956	303,610
EQUITY			
Share capital	19	47,059	45,842
Reserves	20	86,431	70,471
Retained earnings		234,466	187,297
Total equity		367,956	303,610
Total equity attributable to the equity holders of the company		368,276	303,724
Non-controlling interests		(320)	(114)
		367,956	303,610

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 57.

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

Consolidated statement of changes in equity
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

2022	Consolidated						Total
	Share capital	Foreign currency translation reserve	Hedging reserve	Equity based payment reserve	Profit reserve	Retained earnings*	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 1 July 2021	45,842	8,649	(655)	3,496	58,981	187,297	303,610
Profit for the period	-	-	-	-	-	100,530	100,530
Performance rights expensed	-	-	-	750	-	-	750
Change in fair value of cash flow hedges	-	-	(1,637)	-	-	-	(1,637)
Exchange differences on translation of foreign operations	-	17,837	-	-	-	-	17,837
	45,842	26,486	(2,292)	4,246	58,981	287,827	421,090
Transactions with owners of the company							
Dividends recognised during the period	-	-	-	-	-	(53,361)	(53,361)
Issue of shares from performance rights	990	-	-	(990)	-	-	-
Employee share plan, net of issue costs	227	-	-	-	-	-	227
	1,217	-	-	(990)	-	(53,361)	(53,134)
Balance at 30 June 2022	47,059	26,486	(2,292)	3,256	58,981	234,466	367,956

*The amounts in retained earnings includes the portion for non-controlling interests with an opening retained loss as at 1 July 2021 of \$0.114 million, FY22 loss after tax of \$0.206 million (FY21 loss: \$0.154 million) which results in a closing balance of \$0.320 million retained loss as at 30 June 2022.

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 57.

Consolidated statement of cash flows for the year ended 30 June 2022

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2022	2021
		\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		486,313	450,231
Cash paid to suppliers and employees		(394,657)	(281,501)
Interest received		14	385
Interest paid		(1,063)	(741)
Finance charge on lease liabilities	31	(686)	(718)
Income taxes paid (net)		(38,200)	(36,356)
Net cash from operating activities	10	51,721	131,300
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries (net of cash acquired)	32	(3,606)	(159,774)
Proceeds from disposal of property, plant and equipment		240	2
Proceeds from sale of Tracking Solutions business	4	17,773	-
Payments for capitalised product development	15	(27,572)	(18,566)
Acquisition of property, plant and equipment		(6,087)	(4,139)
Acquisition of intangibles (computer software and licences)		(501)	(244)
Net cash used in investing activities		(19,753)	(182,721)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdowns/(repayments) of borrowings	9	28,000	24,000
Payment of lease liabilities (principle)	31	(7,317)	(4,195)
Dividends paid	5	(53,361)	(38,809)
Net cash provided by/(used in) financing activities		(32,678)	(19,004)
Net increase/(decrease) in cash held		(710)	(70,425)
Cash and cash equivalents at the beginning of the financial year		22,362	92,830
Effects of exchange rate fluctuations on cash held		961	351
Cash reclassified to asset held for sale		-	(394)
Cash and cash equivalents at the end of the financial year	8	22,613	22,362

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 57.

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES

Codan Limited (the "company") is a company domiciled in Australia and is a for-profit entity. The consolidated financial report of the company as at and for the year ended 30 June 2022 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 17 August 2022.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The consolidated financial report of the group complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The consolidated financial report is prepared in Australian dollars (the company's functional currency and the functional currency of the majority of the group) on the historical costs basis except that derivative financial instruments are stated at their fair value.

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

Use of estimates and judgements

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

- impairment assessments of non-current assets, including product development and goodwill (refer note 16).
- measurement of inventory net realisable value (refer note 1 (l))
- measurement of expected credit loss allowance for trade receivables (refer note 26(a))

Changes in accounting policies

The accounting policies applied in these financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 30 June 2021.

(c) Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

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

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

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

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

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

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition

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

Sale of goods

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

Construction contracts

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

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

Rendering of services

Revenue from rendering services is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed by reference to costs incurred comparing with total estimated costs. If the services are provided under a single arrangement, then the consideration is allocated based on their relative stand-alone selling prices. The stand-alone selling price is determined based on the list prices at which the group sells the services in separate transactions.

(e) Net financing costs

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

(f) Foreign currency

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

Foreign operations

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

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

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

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

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

Hedging

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

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

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

(h) Taxation

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

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

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

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

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

Tax consolidation

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

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

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

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Goods and services tax

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

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

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recovered from, or payable to, the ATO are classified as operating cash flows.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts form an integral part of the group's cash management and are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

(k) Trade and other receivables

Trade debtors are to be settled within agreed trading terms, typically less than 60 days, and are initially recognised at fair value and then subsequently at amortised cost, less any expected credit loss allowances. Under the "lifetime expected credit loss" model, the allowance for credit losses is calculated by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability weighted outcomes. Significant receivables are individually assessed. Non-significant receivables are not individually assessed; instead, credit loss testing is performed by considering the risk profile of that group of receivables. All allowances for credit losses are recognised in the income statement.

(l) Inventories

Raw materials and stores, work in progress and finished goods are measured at the lower of cost (determined on a first-in first-out basis) and net realisable value. Net realisable value represents the selling price that could be achieved in the ordinary course of business, and is calculated having regard to the quantity of stock on hand in comparison to past usage. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

(m) Project work in progress

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

(n) Intangible assets

Product development costs

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

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

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

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

Goodwill

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

Measuring goodwill

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

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

Contingent liabilities

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

Licences and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

	Straight-line	Units of production
Product development, licences and intellectual property	2 - 15 years	5 - 10 years
Computer software	3 - 7 years	
Brand names	20 years	
Customer relationships	5 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.

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Assets held for sale (continued)

Owned assets

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

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

(p) Property, plant and equipment

Subsequent costs

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

Depreciation

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

Depreciation is charged to the income statement on property, plant and equipment on a straight-line basis over the estimated useful life of the assets. Capitalised leased assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the group will obtain ownership of the asset, the life of the asset. The main depreciation rates used for each class of asset for current and comparative periods are as follows:

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

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

(q) Impairment

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

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

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

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

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

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

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Payables

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

(s) Interest bearing borrowings

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

(t) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Defined contribution superannuation plans

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

(u) Provisions

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

Restructuring and employee termination benefits

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

Warranty

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

(v) Leases

A lease arrangement is one that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group does not recognise lease arrangements in respect of intangible assets. The payments associated with short-term lease arrangements and leases of low-value assets are recognised on a straight-line basis in the Income Statement. Short-term leases are leases with a lease term of 12 months or less. The group applies the requirements of the leasing standard on a lease-by-lease basis. The main type of leases of the group are leases for offices, warehouses and manufacturing facilities.

Right-of-use assets

The group recognises a right-of-use asset and a lease liability at the commencement date of the lease arrangement. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to dismantle or remediate the underlying asset, less any lease incentives received. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. In addition, the right-of-use asset may be adjusted periodically due to remeasurements of the lease liability.

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Leases (continued)

Lease liabilities

The lease liability is initially measured at the present value of the outstanding lease payments at the commencement date of the arrangement, discounted using the borrowing rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally, the group uses its incremental borrowing rate as the discount rate.

Some property leases contain extension options exercisable by the group. The group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

The lease liability is subsequently measured through increasing the carrying amount to reflect interest on the lease liability, less lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

(w) Share capital - ordinary shares

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

(x) Share-based payment transactions

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

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

(y) Future Australian Accounting Standards requirements

A number of new standards are effective after 2022 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these consolidated financial statements. The group does not expect that these new accounting standards will have a material impact on the consolidated financial statements.

Notes to and forming part of the financial statements

for the year ended 30 June 2022

Codan Limited and its Controlled Entities

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 cash balances), corporate expenses, other income and expense, and income tax assets and liabilities.

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

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

Business segments

The group comprises three business segments. The communications segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The "Other" business segment relates to the Tracking Solutions business that was sold on 1 July 2021 and the ongoing manufacturing and sale of tracking products to Caterpillar Inc.

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

Geographical areas

In presenting information on the basis of geographical areas, segment revenue has been based on the geographic location of the invoiced customer. Segment assets are based on the geographic location of the assets. The group has manufacturing and corporate offices in Australia, Canada, Denmark, United Kingdom and United States, with overseas representative offices in Brazil, India, Ireland, Mexico, Singapore and the United Arab Emirates.

Notes to and forming part of the financial statements for the year ended 30 June 2022

Codan Limited and its Controlled Entities

GROUP PERFORMANCE (continued)

2. SEGMENT ACTIVITIES (CONTINUED)

Information about reportable segments	Communications		Metal detection		Other		Consolidated	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Revenue								
External segment revenue	241,736	95,490	262,252	326,564	2,157	14,995	506,145	437,049
Result								
Segment result	49,952	16,206	121,372	142,384	865	3,111	172,189	161,701
Unallocated net financing costs							(1,710)	(895)
Unallocated income and expenses							(34,812)	(22,079)
Underlying Profit from operating activities							135,667	138,727
Income tax expense (excluding tax on restructuring expenses)							(35,137)	(41,438)
Underlying net profit							100,530	97,289
Acquisition related expenses							-	(5,177)
Restructuring expenses							-	(1,915)
Statutory net profit							100,530	90,197
Non-cash items included above								
Depreciation and amortisation	14,184	7,743	9,467	9,461	-	1,071	23,651	18,275
Unallocated depreciation and amortisation							949	754
Total depreciation and amortisation							24,600	19,029
Assets								
Capital expenditure	2,059	335	2,578	2,226	-	16	4,637	2,577
Unallocated capital expenditure							1,450	1,541
Total capital expenditure							6,087	4,118
Segment assets	351,409	294,043	190,558	130,879	1,998	17,762	543,965	442,684
Unallocated corporate assets							46,967	60,875
Consolidated total assets							590,932	503,559

The group derived its revenues from a number of countries. The two significant countries where revenue was 10% or more of total revenue were the United States of America totalling \$198.754 million (2021: \$102.134 million) and United Arab Emirates totalling \$69.650 million (2021: \$133.487 million).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: the United States of America \$172.882 million (2021: \$151.371 million), Australia \$141.295 million (2021: \$137.902 million), Canada \$51.882 million (2021: \$47.694 million), United Kingdom \$18.568 million (2021: \$2.948 million), Denmark \$2.554 million (2021: \$1.463 million), United Arab Emirates \$0.137 million (2021: \$0.268 million), Brazil \$0.103 million (2021: \$0.150 million) and Ireland \$0.016 million (2021: \$0.019 million).

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

	Note	Consolidated	
		2022	2021
		\$000	\$000
GROUP PERFORMANCE (CONTINUED)			
3 EXPENSES			
Net financing costs:			
Interest income		(14)	(385)
Net foreign exchange (gain)/loss		661	538
Interest expense		1,063	741
Finance charge on lease liabilities		686	718
		2,396	1,612
Depreciation of:			
Right-of-use assets		7,281	3,554
Leasehold property		292	119
Plant and equipment		3,853	3,023
		11,426	6,696
Amortisation of:			
Product development - straight-line		7,478	7,746
Product development - units of production		4,120	3,678
Intellectual property		410	409
Computer software		417	306
Licences		178	168
Customer Relationships		247	-
Brand names		324	26
		13,174	12,333
Personnel expenses:			
Wages and salaries		85,039	55,766
Other associated personnel expenses		13,794	4,425
Contributions to defined contribution superannuation plans		8,119	4,943
Long service leave expense		(45)	856
Annual leave expense		5,605	3,198
Performance rights plan		750	1,537
Employee share plan		228	253
		113,490	70,978
4 OTHER EXPENSES / INCOME			
Other income:			
Gain on sale of Tracking Solutions business		1,582	-
Other income		162	49
		1,744	49
As disclosed in the 30 June 2021 annual financial report, Codan Limited sold 100% of the shares in its wholly-owned subsidiary Minetec Pty Ltd to Caterpillar Holdings Australia Pty. Ltd on 1 July 2021. The consideration comprised cash received of \$17.773 million and a holdback amount of \$1.662 million, and the net assets disposed were \$17.853 million, which resulted in a gain on sale of \$1.582 million.			
Other expenses:			
Acquisition related expenses		-	5,177
Restructuring expenses		1,610	2,736
Loss on sale of property, plant and equipment		117	-
		1,727	7,913

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

Consolidated
2022 **2021**
\$000 **\$000**

GROUP PERFORMANCE (CONTINUED)

5 DIVIDENDS

Codan Limited has provided or paid for dividends as follows:

- ordinary final fully-franked dividend of 16.5 cents per ordinary share paid on 10 September 2021	29,846	-
- ordinary interim fully-franked dividend of 13.0 cents per ordinary share paid on 10 March 2022	23,515	-
- ordinary final fully-franked dividend of 11.0 cents per ordinary share paid on 11 September 2020	-	19,856
- ordinary interim fully-franked dividend of 10.5 cents per ordinary share paid on 11 March 2021	-	18,953
	53,361	38,809

Subsequent events

Since the end of the financial year, the directors declared a final ordinary fully franked dividend of 15.0 cents per share, payable on 7 September 2022. The financial impact of this final dividend of \$27.133 million has not been brought to account in the group financial statements for the year ended 30 June 2022 and will be recognised in subsequent financial reports.

Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%)	69,191	64,894
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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 \$11.628 million (2021: \$12.764 million).

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.

Net profit used for the purpose of calculating basic and diluted earnings per share	100,736	90,351
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The weighted average number of shares used as the denominator number for basic earnings per share was 180,826,994 (2021: 180,424,509). The movement in the year is as a consequence of the shares issued under the performance rights plan and employee shares plan.

The calculation of diluted earnings per share at 30 June 2022 was based on a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares of 181,312,097 (2021: 181,255,390). The movement in the year relates to the shares issued under the performance rights granted and employee share plan.

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

Consolidated
2022 2021
\$000 \$000

TAXATION

7 INCOME TAX

A. Income tax expense

Current tax expense:

Current tax paid or payable for the financial year	30,922	39,675
Adjustments for prior years	(610)	(70)
	30,312	39,605

Deferred tax expense:

Origination and reversal of temporary differences	4,825	1,012
Total income tax expense in income statement	35,137	40,617

Reconciliation between tax expense and pre-tax net profit:

The prima facie income tax expense calculated at 30% on the profit from ordinary activities	40,700	39,244
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	(1,531)	(958)
Effect of tax rates in foreign jurisdictions	(1,769)	-
(Over)/under provision for taxation in previous years	(610)	(70)
Non-assessable amounts	(475)	-
Other deductible expenses	(825)	-
Recognition of tax losses	(468)	(47)
	35,022	38,169
Increase in income tax expense due to:		
Capital expenses relating to acquisitions and disposals	18	1,633
Non-deductible expenses	97	556
Non-assessable amounts	-	121
Effect of tax rates in foreign jurisdictions	-	138
Income tax expense	35,137	40,617

B. Current tax liabilities / assets

Balance at the beginning of the year	(14,663)	(11,615)
Net foreign currency differences on translation of foreign entities	(19)	(124)
Income tax paid (net)	38,200	36,356
Adjustments from prior year	1,365	395
Current year's income tax paid or payable on operating profit	(30,922)	(39,675)
	(6,039)	(14,663)
Disclosed in balance sheet as:		
Current tax asset	767	122
Current tax payable	(6,806)	(14,785)
	(6,039)	(14,663)

C. Deferred tax liabilities

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

Expenditure currently tax deductible but deferred and amortised for accounting (intangible assets)	23,922	21,277
Liabilities recognised from the identifiable intangible assets acquired from business combination	2,299	2,351
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	(780)	(776)
Payments for intellectual property not currently deductible	(591)	(1,183)
Provisions for employee benefits not currently deductible	(2,305)	(2,552)
Provisions and accruals not currently deductible	(5,327)	(6,820)
Sundry items	(1,538)	(747)
Carry forward overseas tax losses	(247)	(2,082)
Carry forward overseas R&D tax credits	(5,951)	(4,722)
	9,482	4,746

Comparative information were restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

D. Effective tax rates

	2022	2021
Global operations - total consolidated tax expense	26%	31%
Australian operations - Australian company income tax expense	27%	31%

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

Consolidated
2022 **2021**
\$000 **\$000**

CASH MANAGEMENT

8 CASH AND CASH EQUIVALENTS

Cash on hand	192	179
Cash at bank	22,421	22,183
	22,613	22,362

9 LOANS AND BORROWINGS

Non-Current

Cash advance	52,000	24,000
	52,000	24,000

The group has access to the following lines of credit:

Total facilities available at balance date:

Multi-option facility	100,921	80,645
Commercial credit card	1,307	1,133
	102,228	81,778

Facilities utilised at balance date:

Multi-option facility - cash advance	52,000	24,000
Multi-option facility - guarantees	1,464	1,427
Commercial credit card	344	230
	53,808	25,657

Facilities not utilised at balance date:

Multi-option facility	47,457	55,218
Commercial credit card	962	903
	48,419	56,121

In addition to these facilities, the group has cash at bank and short-term deposits of \$22.613 million as set out in note 8.

Bank Facilities

The multi-option facility has a number of components that are supported by interlocking guarantees between Codan Limited and its subsidiaries and are subject to compliance with certain financial covenants. The first multi-option facility is for \$80 million and has a term of three years expiring in April 2024 and the second facility is for \$20 million and has a term of 12 months expiring in March 2023. A third multi-option facility for \$20 million may be available subject to our financial institution's approval.

Consolidated
2022 **2021**
% **%**

Weighted average interest rates:

Cash at bank	0.22	0.42
Cash advance	1.36	1.35

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

	Note	Consolidated	
		2022	2021
		\$000	\$000

CASH MANAGEMENT (CONTINUED)

10 NOTES TO THE STATEMENT OF CASH FLOWS

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

Profit after income tax		100,530	90,197
Add/(less) items classified as investing or financing activities:			
Gain on sale of Tracking Solutions business		(1,582)	-
(Gain)/loss on sale of non-current assets		117	(2)
Add/(less) non-cash items:			
Depreciation		11,426	6,696
Amortisation		13,174	12,333
Performance rights and employee share plan expensed		977	1,790
Increase/(decrease) in income taxes		(3,063)	4,261
Increase/(decrease) in net assets affected by foreign currency translation		1,977	(747)
Net cash from operating activities before changes in assets and liabilities		123,556	114,528
Change in assets and liabilities during the financial year:			
Reduction/(increase) in receivables		(24,466)	9,239
Reduction/(increase) in inventories		(39,718)	(16,441)
Reduction/(increase) in other assets		(2,579)	(418)
Increase/(reduction) in trade and other payables		(7,168)	24,205
Increase/(reduction) in provisions		2,096	187
Net cash from operating activities		51,721	131,300

OPERATING ASSETS AND LIABILITIES

11 TRADE AND OTHER RECEIVABLES

Current

Trade receivables		60,939	37,185
Less: expected credit loss provision		(2,950)	(3,019)
Other debtors		1,786	23
		59,775	34,189

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

12 INVENTORY

Raw materials		35,944	29,325
Work in progress		18,287	16,146
Finished goods		48,257	17,299
		102,488	62,770

In FY22, inventories of \$179.483 million (2021: \$169.540 million) were recognised as an expense and included in cost of sales. As at 30 June 2022, \$52.511 million of inventory has been written down to net realisable value less cost to sell.

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

13 OTHER ASSETS

Prepayments		10,258	7,334
Project work in progress		5,231	4,392
Other		2,363	3,547
		17,852	15,273

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

Consolidated
2022 **2021**
\$000 **\$000**

OPERATING ASSETS AND LIABILITIES

14 PROPERTY, PLANT AND EQUIPMENT

Leasehold property at cost	6,659	7,149
Accumulated depreciation	(6,049)	(6,321)
	610	828
Plant and equipment at cost	57,610	58,254
Accumulated depreciation	(42,406)	(43,282)
	15,204	14,972
Capital work in progress at cost	3,918	1,780
Total property, plant and equipment	19,732	17,580

Reconciliations

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

Leasehold property improvements

Carrying amount at beginning of year	828	522
Acquisitions through entities acquired (net value)	-	607
Adjustment on prior year's acquisitions	-	(183)
Additions	8	10
Transfers	-	5
Disposals	-	-
Depreciation	(292)	(119)
Net foreign currency differences on translation of foreign entities	66	(14)
Carrying amount at end of year	610	828

Plant and equipment

Carrying amount at beginning of year	14,972	11,696
Acquisitions through entities acquired (net value)	-	1,701
Additions	3,465	3,060
Transfers	578	1,799
Reclassification to asset held for sale	-	(315)
Disposals	(357)	-
Depreciation	(3,853)	(3,023)
Net foreign currency differences on translation of foreign entities	399	54
Carrying amount at end of year	15,204	14,972

Capital work in progress at cost

Carrying amount at beginning of year	1,780	1,958
Acquisitions through entities acquired (net value)	-	557
Additions	2,614	1,069
Transfers	(578)	(1,804)
Net foreign currency differences on translation	102	-
Carrying amount at end of year	3,918	1,780
Total carrying amount at end of year	19,732	17,580

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

Note	Consolidated	
	2022	2021
	\$000	\$000
OPERATING ASSETS AND LIABILITIES (CONTINUED)		
15 PRODUCT DEVELOPMENT		
Product development at cost	201,402	171,739
Accumulated amortisation and impairment losses	(109,141)	(97,170)
	92,261	74,569
Reconciliation		
Carrying amount at beginning of year	74,569	67,777
Acquisitions through entities acquired (net value)	-	1,455
Capitalised in current period	27,572	18,566
Reclassification to asset held for sale	-	(2,094)
Amortisation	(11,598)	(11,424)
Net foreign currency differences on translation of foreign entities	1,718	289
	92,261	74,569
16 INTANGIBLE ASSETS		
Intellectual property at cost	22,051	21,986
Accumulated amortisation	(21,245)	(20,740)
	806	1,246
Computer software at cost	15,439	15,096
Accumulated amortisation	(14,569)	(14,296)
	870	800
Licences at cost	5,396	5,442
Accumulated amortisation	(4,935)	(4,826)
	461	616
Brand names	7,335	6,674
Accumulated amortisation	(418)	(26)
	6,917	6,648
Customer relationships	1,161	1,064
Accumulated amortisation	(261)	-
	900	1,064
Goodwill	240,423	220,855
Total intangible assets	250,377	231,229
Reconciliations		
Intellectual property		
Carrying amount at beginning of year	1,246	1,704
Amortisation	(410)	(409)
Net foreign currency differences on translation of foreign entities	(30)	(49)
	806	1,246
Computer software		
Carrying amount at beginning of year	800	753
Acquisitions through entities acquired (net value)	-	403
Adjustment on prior year's acquisitions	-	(275)
Additions	501	237
Transfers from capital work in progress	-	-
Amortisation	(417)	(306)
Net foreign currency differences on translation of foreign entities	(14)	(12)
	870	800

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

Consolidated
2022 2021
\$000 \$000

OPERATING ASSETS AND LIABILITIES (CONTINUED)

16 INTANGIBLE ASSETS (CONTINUED)

Licences

Carrying amount at beginning of year	616	473
Acquisitions through entities acquired (net value)	-	312
Additions	-	7
Reclassification to asset held for sale	-	(9)
Amortisation	(178)	(168)
Net foreign currency differences on translation of foreign entities	23	1
	461	616

Brand names

Carrying amount at beginning of year	6,648	-
Acquisitions through entities acquired (net value)	-	6,442
Amortisation	(324)	(26)
Net foreign currency differences on translation of foreign entities	593	232
	6,917	6,648

Customer Relationships

Carrying amount at beginning of year	1,064	-
Acquisitions through entities acquired (net value)	-	1,064
Amortisation	(247)	-
Net foreign currency differences on translation of foreign entities	83	-
	900	1,064

Goodwill

Carrying amount at beginning of year	220,855	83,816
Acquisitions through entities acquired (net value)	7,826	138,047
Adjustment on prior year's acquisitions	-	4,177
Reclassification to asset held for sale	-	(8,538)
Net foreign currency differences on translation of foreign entities	11,742	3,353
	240,423	220,855

The following divisions have significant carrying amounts of goodwill:

Tactical Communications*	124,906	108,826
Zetron	61,560	58,072
Minelab	53,957	53,957
	240,423	220,855

*Tactical Communications goodwill includes \$7.416 million that relates to the BWS acquisition (refer note 32). The BWS goodwill is also tested for impairment annually.

Goodwill

The recoverable amount of cash generating units or groups of cash generating units has been determined using value-in-use calculations. The approach to the value-in-use calculations for these units or groups of 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 assessment having regard to the demand expected from customers, the global economy and the businesses' competitive position. Other assumptions relate to the level of gross margins achieved on sales and the level of expense required to run the business, these assumptions reflect past experience. A terminal value has been determined at the conclusion of five years assuming a long-term growth rate of 3%. A pre-tax discount rate of 12% (FY21: 10%) has been applied to the forecast cash flows. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating units.

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

OPERATING ASSETS AND LIABILITIES (CONTINUED)

Consolidated
2022 **2021**
\$000 **\$000**

17 TRADE AND OTHER PAYABLES

Current

Trade payables	41,705	42,423
Other payables and accruals*	50,831	58,183
Net foreign currency hedge payable	3,276	936
	95,812	101,542

Non-Current

Other payables and accruals*	5,676	4,973
------------------------------	-------	-------

* In the prior year financial report deferred income was classified as current liabilities in full. In the current year \$5.676 million of the deferred income has been classified as non-current liabilities. The prior period non-current other payables and accruals has been increased and the current portion decreased by \$4.973 million for comparability purposes.

18 PROVISIONS

Current

Employee benefits	10,142	9,774
Warranty repairs	3,914	3,440
Other	931	-
	14,987	13,214

Reconciliation of warranty provision

Carrying amount at beginning of year	3,440	1,921
Acquisitions through entities acquired (net value)	-	627
Provisions made	2,020	2,039
Payments made	(1,546)	(1,147)
	3,914	3,440

Non-Current

Employee benefits	1,046	1,469
Other	6,924	1,343
	7,970	2,812

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

CAPITAL MANAGEMENT

19 SHARE CAPITAL

Share capital

Opening balance (180,506,054 ordinary shares fully paid)	45,842	44,746
Issue of share capital through vested performance rights	990	843
Issue of share capital through employee share plan	227	253
Closing balance (180,883,935 ordinary shares fully paid)	47,059	45,842

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 2022
Codan Limited and its Controlled Entities

Consolidated
2022 2021
\$000 \$000

CAPITAL MANAGEMENT (CONTINUED)

20 RESERVES

Foreign currency translation reserve	26,486	8,649
Hedging reserve	(2,292)	(655)
Equity based payment reserve	3,256	3,496
Profit reserve	58,981	58,981
	86,431	70,471

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	8,649	4,552
Net translation adjustment	17,837	4,097
Balance at end of year	26,486	8,649

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	(655)	353
Gains/(losses) on cash flow hedges taken to/from hedging reserve	(1,637)	(1,008)
Balance at end of year	(2,292)	(655)

Equity based payment reserve

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

Balance at beginning of year	3,496	2,802
Performance rights expensed	750	1,537
Performance rights vested	(990)	(843)
Balance at end of year	3,256	3,496

Profit reserve

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

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

21 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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

GROUP STRUCTURE

22 GROUP ENTITIES

Name	Country of incorporation	Class of share	Interest held	
			2022 %	2021 %
Parent Entity				
Codan Limited	Australia	Ordinary		
Controlled Entities				
Broadcast Wireless Systems Limited*	UK	Ordinary	100	-
Codan Defence Electronics Pty Ltd	Australia	Ordinary	100	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	100	100
Codan Radio Communications ME DMCC	UAE	Ordinary	100	100
Codan Radio Communications Pty Ltd	Australia	Ordinary	100	100
Codan RSA (Pty) Ltd	South Africa	Ordinary	100	100
Codan (UK) Limited	UK	Ordinary	100	100
Codan (US), Inc	USA	Ordinary	100	100
Corp Ten International, Inc.	USA	Ordinary	100	100
Daniels Electronics Ltd	Canada	Ordinary	100	100
Domo Tactical Communications (DTC) Limited	UK	Ordinary	100	100
Domo Tactical Communications (DTC) PTE limited	Singapore	Ordinary	100	100
DTC Communications, Inc	USA	Ordinary	100	100
DTC Group Holdings, LLC	USA	Ordinary	100	100
DTC International Holdings Ltd	UK	Ordinary	100	100
DTC North America Holdings, LLC	USA	Ordinary	100	100
MEP Surveillance Midco, Inc	USA	Ordinary	100	100
Minelab Americas, Inc	USA	Ordinary	100	100
Minelab de Mexico SA de CV	Mexico	Ordinary	100	100
Minelab do Brasil Equipamentos Para Mineração Ltda	Brazil	Ordinary	100	100
Minelab Electronics Pty Limited	Australia	Ordinary	100	100
Minelab India Private Limited**	India	Ordinary	100	-
Minelab International Limited	Ireland	Ordinary	100	100
Minelab MEA General Trading LLC	UAE	Ordinary	49	49
Minetec Pty Ltd***	Australia	Ordinary	-	100
Spectronic Denmark A/S	Denmark	Ordinary	100	100
Zetron Air Systems Pty Ltd	Australia	Ordinary	100	100
Zetron Australasia Pty Ltd	Australia	Ordinary	100	100
Zetron, Inc. (US)	USA	Ordinary	100	100
Zetron Inc. (UK)	UK	Ordinary	100	100
Zetron Limited	UK	Ordinary	100	100

* Broadcast Wireless Systems Limited was acquired by the group on 1 December 2021. Refer note 32 for details.

** Minelab India Private Limited was incorporated on 13 October 2021.

*** Minetec Pty Ltd was disposed on 1 July 2022. Refer note 4 for details.

23 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, the wholly-owned subsidiary listed below is relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial and directors' reports.

It is a condition of the Class Order that the company and its subsidiary enter into a Deed of Cross Guarantee. The effect of the Deed is that the company guarantees to each creditor payment in full of any debt in the event of the winding up of the subsidiary under certain provisions of the Corporations Act 2001. If a winding up occurs under the provisions of the Act, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiary has also given similar guarantees in the event that the company is wound up.

Minelab Electronics Pty Limited is the only subsidiary subject to the Deed. Minelab Electronics Pty Limited became a party to the Deed on 22 June 2009, by virtue of a Deed of Assumption.

A summarised consolidated income statement and a consolidated balance sheet, comprising the company and controlled entity which is a party to the Deed, after eliminating all transactions between the parties to the Deed of Cross Guarantee, is set out as follows:

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

GROUP STRUCTURE (CONTINUED)

23 DEED OF CROSS GUARANTEE (CONTINUED)

	Consolidated	
	2022	2021
	\$000	\$000
Summarised income statement and retained earnings		
Revenue	243,783	308,476
Net finance costs	(1,918)	(149)
Other expenses	(120,091)	(197,221)
Profit before tax	121,774	111,106
Income tax expense	(30,353)	(38,634)
Profit after tax	91,421	72,472
Retained earnings at beginning of year	148,248	114,585
Retained earnings at end of year	186,308	148,248
Balance sheet		
CURRENT ASSETS		
Cash and cash equivalents	7,380	4,834
Trade and other receivables	50,000	20,835
Inventories	64,455	34,527
Other assets	3,210	1,303
Total current assets	125,045	61,499
NON-CURRENT ASSETS		
Investments	202,262	207,088
Right-of-use assets	19,006	21,264
Property, plant and equipment	14,177	13,215
Product development	52,336	47,537
Intangible assets	54,651	54,958
Total non-current assets	342,432	344,062
Total assets	467,477	405,561
CURRENT LIABILITIES		
Trade and other payables	76,071	68,650
Current tax payable	3,610	14,401
Lease Liability	4,592	6,950
Provisions	9,070	9,321
Total current liabilities	93,343	99,322
NON-CURRENT LIABILITIES		
Loans and borrowings	52,000	24,000
Lease Liability	19,441	19,266
Deferred tax liabilities	6,652	4,201
Provisions	182	613
Total non-current liabilities	78,275	48,080
Total liabilities	171,618	147,402
Net assets	295,859	258,159
EQUITY		
Share capital	47,059	45,842
Reserves	62,492	64,069
Retained earnings	186,308	148,248
Total equity	295,859	258,159

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

GROUP STRUCTURE (CONTINUED)

24 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2022, the parent company of the group was Codan Limited.

	Company	
	2022	2021
	\$000	\$000
Result of parent entity		
Profit after tax for the period	94,003	81,092
Other comprehensive income/(loss)	(2,135)	(568)
Total comprehensive income for the period	91,868	80,524
Financial position of parent entity at year end		
Current assets	127,920	48,818
Total assets	442,687	370,503
Current liabilities	75,427	67,452
Total liabilities	155,813	123,113
Total equity of the parent entity comprising:		
Share capital	47,059	45,842
Reserves	60,022	62,397
Retained earnings	179,793	139,151
Total equity	286,874	247,390

As at 30 June 2022, Codan Limited entered into contracts to purchase plant and equipment for \$0.789 million (2021: \$1.857 million).

	Consolidated	
	2022	2021
	\$	\$

OTHER NOTES

25 AUDITOR'S REMUNERATION

Audit services:		
KPMG - audit and review of financial reports - Group	327,551	218,644
Other firms - audit and review of financial reports	311,741	64,916
Other Services		
KPMG - taxation advice and compliance services	24,607	22,997
KPMG - other services	-	-
Other firms - taxation advice and compliance services	83,275	13,802
Other firms - other services	25,799	12,061
	772,973	332,420

OTHER NOTES (CONTINUED)

26 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

Financial risk management

Overview

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

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

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

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

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

The Board Audit, Risk and Compliance Committee oversees how management monitors compliance with the group's risk management policies and procedures, and reviews the adequacy of the risk framework in relation to the risks faced by the group.

(a) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers and bank accounts.

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

The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. As at 30 June 2022, the customer with the group's highest trade and other receivable balance accounted for \$5.3 million (2021: \$2.2 million)

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

The group has established a credit policy under which new customers are analysed for credit worthiness before the group's payment and delivery terms and conditions are offered.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the group may have a secured claim. The group does not normally require collateral in respect of trade and other receivables.

The group has established an allowance for expected credit losses (ECL) based on the lifetime ECL approach that represents its estimate of losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets. In determining the lifetime ECL, management uses both historical credit loss experience and forecasts of future economic conditions for trade receivables. The need to consider forward-looking information means that the group exercises judgement as to how changes in macroeconomic factors will affect the ECL on trade receivables.

Guarantees

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

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

26 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

The carrying amount of the group's financial assets represents the maximum credit exposure. The group's maximum exposure to credit risk at the reporting date was:

	Note	Consolidated	
		2022	2021
		\$000	\$000
Cash and cash equivalents	8	22,613	22,362
Trade and other receivables	11	59,775	34,189
Project work in progress	13	5,231	4,392

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

Australia/Oceania	3,091	3,173
Europe	9,044	5,608
Americas	36,334	20,411
Asia	3,253	4,178
Africa/Middle East	9,217	3,815
	60,939	37,185

Impairment losses

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

	Consolidated		Gross 2021 \$000	Impairment 2021 \$000
	Gross 2022 \$000	Impairment 2022 \$000		
Not past due	48,272	(1,276)	24,476	(1,438)
Past due 0-30 days	7,310	(26)	4,362	(24)
Past due 31-60 days	2,056	(188)	2,992	(16)
Past due 61-120 days	1,660	(195)	2,415	(25)
More than 120 days	1,641	(1,265)	2,940	(1,516)
	60,939	(2,950)	37,185	(3,019)

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	
	2022	2021
	\$000	\$000
Balance at 1 July	3,019	2,234
Acquisition through entities acquired	-	692
Adjustment on prior year's acquisitions	-	303
Impairment loss/(reversal) recognised	93	(164)
Trade receivables written off to the allowance for impairment	(162)	(46)
Balance at 30 June	2,950	3,019

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

OTHER NOTES (CONTINUED)

26 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(b) Liquidity risk

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

The following are the contractual maturities of financial liabilities:

	Carrying amount \$000	Contractual cash flows \$000	12 months or less \$000	1-5 years \$000	More than 5 years \$000
30 June 2022					
Non-derivative financial liabilities					
Trade and other payables	98,212	(98,212)	(92,536)	(5,676)	-
Lease liabilities	30,243	(30,243)	(4,592)	(14,004)	(11,647)
Cash advance	52,000	(52,708)	(708)	(52,000)	-
	<u>180,455</u>	<u>(181,163)</u>	<u>(97,836)</u>	<u>(71,680)</u>	<u>(11,647)</u>
Derivative financial liabilities					
Net foreign currency hedge payables	3,276	(3,276)	(3,276)	-	-
	<u>3,276</u>	<u>(3,276)</u>	<u>(3,276)</u>	<u>-</u>	<u>-</u>
30 June 2021					
Non-derivative financial liabilities					
Trade and other payables	105,579	(105,579)	(100,606)	(4,973)	-
Lease liabilities	32,120	(36,395)	(6,950)	(14,666)	(14,778)
Cash advance	24,000	(24,312)	(312)	(24,000)	-
	<u>161,699</u>	<u>(166,286)</u>	<u>(107,868)</u>	<u>(43,639)</u>	<u>(14,778)</u>
Derivative financial liabilities					
Net foreign currency hedge payables	936	(936)	(936)	-	-
	<u>936</u>	<u>(936)</u>	<u>(936)</u>	<u>-</u>	<u>-</u>

(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 2022
Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

26 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Market risk (continued)

Interest rate risk

Profile

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

	Consolidated	
	2022	2021
	\$000	\$000
Fixed rate instruments		
Financial assets	-	416
Financial liabilities	-	-
	-	416
Variable rate instruments		
Financial assets	22,613	21,946
Financial liabilities	(52,000)	(24,000)
	(29,387)	(2,054)

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 2022.

	Profit/(loss) before tax		Reserve	
	100 bp increase \$000	100 bp decrease \$000	100 bp increase \$000	100 bp decrease \$000
30 June 2022				
Variable rate instruments	(294)	294	-	-
30 June 2021				
Variable rate instruments	(21)	21	-	-

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 number of forward exchange contracts which will limit the foreign exchange risk on USD \$71.900 million of FY22 cash flows. The average forward exchange contract rate is 1AUD:0.71USD.

Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities

OTHER NOTES (CONTINUED)

26 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Currency risk (continued)

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

	Consolidated EUR \$000	USD \$000
30 June 2022		
Cash and cash equivalents	986	8,177
Trade receivables	747	15,490
Trade payables	(19)	(28,163)
Gross balance sheet exposure	1,714	(4,496)
Hedge transactions relating to balance sheet exposure	-	(7,258)
Net exposure at the reporting date	1,714	(11,754)
30 June 2021		
Cash and cash equivalents	1,192	4,890
Trade receivables	2,250	13,498
Trade payables	(1,059)	(22,085)
Gross balance sheet exposure	2,383	(3,697)
Hedge transactions relating to balance sheet exposure	-	(3,990)
Net exposure at the reporting date	2,383	(7,687)

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
2022		
EUR	-	(156)
USD	298	1,069
	298	913
2021		
EUR	-	(217)
USD	85	699
	85	482

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

(d) Fair value hierarchy

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year, financial instruments valued at fair value were limited to net foreign currency hedge payable of \$3.276 million, 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 2022
Codan Limited and its Controlled Entities**

Consolidated
2022 **2021**
\$000 **\$000**

OTHER NOTES (CONTINUED)

27 EMPLOYEE BENEFITS

Aggregate liability for employee benefits, including on-costs:

Current - short-term incentives and other accruals	11,465	9,097
Current - employee entitlements	10,142	9,774
Non-current - employee entitlements	1,046	1,254
	22,653	20,125

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

Assumed rate of increase in wage and salary rates	3.00%	3.00%
Discount rate	5.07%	2.46%
Settlement term	10 years	10 years

Employee Share Plan

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

The company issued 13,908 shares to eligible employees in August 2021. The fair values of the shares was \$16.34 per share, based on the volume weighted average price at which Codan shares were traded on the ASX for the five trading days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in FY22 in relation to the ESP shares issued was \$227,000. The shares are restricted from sale until the earlier of three years from the issue date or the date an employee is no longer employed by the group.

Performance Rights Plan

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

Performance rights issued in financial year 2020

The company issued 349,991 performance rights in November 2019 to certain employees. The fair value of the rights was on average \$5.22 based on the Black-Scholes formula. The model inputs were: the share price of \$6.31, no exercise price, expected volatility 31%, dividend yield 2.2%, a term of three years and a risk-free rate of 1.2%. Due to the departure of employees, 47,347 performance rights have been cancelled. The total recovery recognised as employee costs in FY22 in relation to the performance rights issued was \$207,845.

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share as set by the board, which was 16.2 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

The group's earnings per share over the three-year period to 30 June have exceeded the performance target. Therefore, it is expected that 302,644 shares will be issued to the relevant employees by the end of August 2022.

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

OTHER NOTES (CONTINUED)

27 EMPLOYEE BENEFITS (CONTINUED)

Performance rights issued in financial year 2021

The company issued 154,830 performance rights in November 2020 to certain employees. The fair value of the rights was on average \$10.18 based on the Black-Scholes formula. The model inputs were: the share price of \$11.17, no exercise price, expected volatility 60%, dividend yield 1.7%, a term of three years and a risk-free rate of 0.9%. Due to the departure of employees, 17,747 performance rights have been cancelled. The total expense recognised as employee costs in FY22 in relation to performance rights issued was \$685,546.

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share as set by the board, which was 27.8 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 10% per annum over the three-year period.

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

Performance rights issued in financial year 2022

The company issued 80,011 performance rights in November 2021 to certain employees. The fair value of the rights was on average \$8.20 based on the Black-Scholes formula. The model inputs were: the share price of \$9.11, no exercise price, expected volatility 45%, dividend yield 3.0%, a term of three years and a risk-free rate of 1.6%. The total expense recognised as employee costs in FY22 in relation to performance rights issued was \$271,848.

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period using a non-statutory target earnings per share as set by the board, which was 38.15 cents. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 8% per annum over the three-year period. The threshold earnings per share will be calculated using a 2% per annum growth rate.

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

28 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	
	2022	2021
	\$	\$
Short-term employee benefits	5,341,541	5,416,210
Post-employment benefits	149,789	139,358
Share-based payments	847,195	1,080,489
Other long term benefits	78,117	62,915
	6,416,642	6,698,972

(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 2022
Codan Limited and its Controlled Entities**

OTHER NOTES (CONTINUED)

29 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.

30 NET TANGIBLE ASSET PER SHARE

	2022	2021
Net tangible asset per share (including right of use assets)	19.2 cents	1.4 cents
Net tangible asset per share (excluding right of use assets)	5.4 cents	(13.5) cents

Comparative information has been restated due to finalisation of fair values recognised in the balance sheet as at 30 June 2021 previously accounted for on a provisional basis, refer note 32.

31 LEASES AND COMMITMENTS

Reconciliations

	Consolidated	
	2022	2021
	\$000	\$000
Right-of-use assets at cost	43,058	37,565
Accumulated depreciation	(17,991)	(10,576)
	<u>25,067</u>	<u>26,989</u>

Right-of-use assets

Carrying amount at beginning of year	26,989	25,367
Acquisitions through entities acquired (net value)	-	5,183
Additions	4,671	-
Reclassification to asset held for sale	-	(103)
Depreciation	(7,281)	(3,554)
Net foreign currency differences on translation of foreign entities	688	96
Carrying amount at end of year	<u>25,067</u>	<u>26,989</u>

Lease Liabilities

Carrying amount at beginning of year	32,120	30,554
Assumed liabilities through entities acquired	-	5,871
Additions	5,140	-
Finance charge on lease liabilities	686	718
Reclassification to liabilities held for sale	-	(110)
Lease payments	(8,003)	(4,913)
Net foreign currency differences on translation	300	-
	<u>30,243</u>	<u>32,120</u>

of which are:

Current lease liabilities	4,592	6,950
Non-current lease liabilities	25,651	25,170

Capital expenditure commitments

Aggregate amount of contracts for capital expenditure

Within one year	6,184	2,034
One year or later and no later than five years	-	-
	<u>6,184</u>	<u>2,034</u>

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

OTHER NOTES (CONTINUED)

32 ACQUISITIONS OF SUBSIDIARIES

On 1 December 2021, Codan Limited's subsidiary Domo Tactical Communications (DTC) acquired all of the shares in UK-based company, Broadcast Wireless Systems Limited (BWS) for an upfront cost of \$5.475 million noting that cash of \$1.869 million was held by the business (net cash paid: \$3.606 million). If certain gross margin targets are achieved over the three-year period after completion, there is the possibility of additional earn-out payments of up to \$4.836 million. This potential earn-out (contingent consideration) is recognised as an other provision in the group's Consolidated Balance Sheet as at 30 June 2022.

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

Estimated fair value of consideration transferred	\$000
Cash paid	5,475
Contingent consideration	4,836
Acquiree's cash balance at acquisition date	(1,869)
	8,442
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	
Total assets	1,120
Total liabilities	(504)
	616
Estimated goodwill as a result of the acquisition	
Estimated fair value of consideration transferred	8,442
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	(616)
	7,826

The goodwill is mainly attributable to the synergies that will be realised by incorporating BWS into DTC's broadcasting business. BWS's technology enables access to the growing remote broadcast industry more quickly than developing this technology internally. The goodwill is not expected to be deductible for tax purposes.

The company acquired all of the shares in US-based company, Domo Tactical Communications (DTC) on 12 May 2021 and initially recognised the acquired assets and liabilities of DTC at their provisional fair values as disclosed in the FY21 annual report. Subsequently the company conducted detailed valuations of the assets and liabilities acquired as at the acquisition date which resulted in the following adjustments:

	Provisional fair value recognised	Fair value adjustment	Final fair value
	\$000	\$000	\$000
Consideration transferred			
Cash paid on completion	113,950	(899)	113,051
Acquiree's cash balance at acquisition date	(4,612)	-	(4,612)
	109,338	(899)	108,439
Identifiable assets acquired and liabilities assumed			
Trade and other receivables	5,031	(466)	4,565
Inventories	8,813	(316)	8,497
Other assets	5,042	-	5,042
Property, plant and equipment	1,551	(183)	1,368
Right-of-use assets	2,222	-	2,222
Product development	1,455	-	1,455
Intangible assets	5,716	(275)	5,441
Trade and other payables	(14,373)	-	(14,373)
Lease Liabilities	(2,489)	-	(2,489)
Provisions	(2,208)	(1,343)	(3,551)
Taxes	(755)	2,272	1,517
	10,005	(311)	9,694
Goodwill as a result of the acquisition			
Consideration transferred	109,338	(899)	108,439
Identifiable assets acquired and liabilities assumed	(10,005)	311	(9,694)
	99,333	(588)	98,745

**Notes to and forming part of the financial statements
for the year ended 30 June 2022
Codan Limited and its Controlled Entities**

OTHER NOTES (CONTINUED)

32 ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

The company acquired all of the shares in US-based company, Zetron on 30 April 2021 and initially recognised the acquired assets and liabilities of Zetron at their provisional fair values as disclosed in the FY21 annual report. Subsequently the company conducted detailed valuations of the assets and liabilities acquired as at the acquisition date which resulted in the following adjustments:

	Provisional fair value recognised	Fair value adjustment	Final fair value
Consideration transferred	\$000	\$000	\$000
Cash paid on completion	60,216	(1,114)	59,102
Acquiree's cash balance at acquisition date	(9,780)	-	(9,780)
	<u>50,436</u>	<u>(1,114)</u>	<u>49,322</u>
Identifiable assets acquired and liabilities assumed			
Trade and other receivables	19,151	(303)	18,849
Inventories	8,574	(3,347)	5,226
Other assets	4,415	-	4,415
Property, plant and equipment	1,314	-	1,314
Right-of-use assets	2,961	-	2,961
Intangible assets	2,505	-	2,505
Trade and other payables	(20,005)	-	(20,005)
Lease Liabilities	(3,382)	-	(3,382)
Provisions	(2,946)	(215)	(3,161)
Taxes	(865)	-	(865)
	<u>11,722</u>	<u>(3,865)</u>	<u>7,856</u>
Goodwill as a result of the acquisition			
Consideration transferred	50,436	(1,114)	49,322
Identifiable assets acquired and liabilities assumed	(11,722)	3,865	(7,856)
	<u>38,714</u>	<u>2,751</u>	<u>41,466</u>

As a result of the revision to the fair values recognised, the comparative information in the balance sheet at 30 June 2021 has been restated as follows:

Consolidated balance sheet at 30 June 2021	As previously reported \$000	Adjustment \$000	Restated \$000
CURRENT ASSETS			
Trade and other receivables	34,958	(769)	34,189
Inventory	66,433	(3,663)	62,770
NON-CURRENT ASSETS			
Property, plant and equipment	17,763	(183)	17,580
Intangible assets	227,328	3,901	231,229
Total assets	<u>503,559</u>	<u>(714)</u>	<u>502,845</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	7,018	(2,272)	4,746
Provisions	1,254	1,558	2,812
Total liabilities	<u>199,949</u>	<u>(714)</u>	<u>199,235</u>
Net assets	<u>303,610</u>	<u>-</u>	<u>303,610</u>


DIRECTORS' DECLARATION

Codan Limited and its controlled entities

1. In the opinion of the directors of Codan Limited ("the company"):
 - a) the consolidated financial statements and notes that are set out on pages 20 to 57 and the remuneration report on pages 3 to 11 in the directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
 - (ii) complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the company and the group entities identified in note 22 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those group entities pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2022.
4. The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at ~~Mawson~~ Lakes this 17th day of August 2022.



D J Simmons
Director



A Ianniello
Director



Independent Auditor's Report

To the shareholders of Codan Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated balance sheet as at 30 June 2022;
- Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 30 June 2022;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Key Audit Matters

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

The Key Audit Matter we identified was the valuation of goodwill relating to Tactical Communications and Zetron.

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

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Tactical Communications and Zetron Goodwill (\$186.5 million)

Refer to Note 16 to the financial report

The key audit matter

A key audit matter for us was the annual impairment testing of goodwill allocated to Tactical Communications and Zetron operating segments, given the size of the balance (being 32% of total assets) and the recency of the two significant acquisitions that resulted in the recognition of the large majority of this goodwill balance (\$140.2 million).

The Group acquired Domo Tactical Communications and Zetron in FY21. These acquisitions and subsequent integration into existing operations of the Group necessitate ongoing consideration of the Group's determination of cash generating units ("CGUs"), and the level at which goodwill should be allocated and measured for impairment testing purposes.

We focussed on the significant forward-looking assumptions the Group applied in the value in use models for Tactical Communications and Zetron, including:

- Forecast cashflows, growth rates and terminal growth rates – the Group's models are highly sensitive to small changes in these assumptions, reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the strategy of the Tactical Communications and Zetron operating segments.
- Forecast foreign exchange rates – the Tactical Communications and Zetron operating segments transact in several foreign countries therefore the Group uses forecast foreign exchange rates to translate these foreign operations into Australian Dollar.
- Discount rate – these are complicated in nature and vary according to the conditions and environment the specific CGU's are subject to from time to time.
- The Group's modelling is highly sensitive to small changes in the discount rate. We involve our valuations specialists with the assessment.

The Group uses complex models to perform their annual testing of goodwill for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

How the matter was addressed in our audit

Our procedures included:

- We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business, the impact of Zetron and Domo Tactical Communications acquisition, and, how independent cash inflows were generated, against the requirements of the accounting standards.
- We analysed the Group's internal reporting to assess the Group's monitoring and management of activities, and the consistency of the allocation of goodwill to CGUs or groups of CGU's.
- We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards.
- We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas.
- We assessed the Group's determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards.
- We compared the forecast cash flows contained in the value in use models to Board approved forecasts.
- We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models.
- We assessed the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the value in use model, for consistency with our understanding of the business and the criteria in the accounting standards.
- We assessed the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards.
- We checked the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the industry and economic environment in which they operate.
- Working with our valuation specialists we compared the foreign exchange rates to published views of market commentators on future trends.
- Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors.
- We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range. We did this to identify whether the models had a higher risk of impairment and to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.
- We assessed the disclosures in the financial report against the requirements of the accounting standards.

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Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Codan Limited for the year ended 30 June 2022, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 3 to 11 of the Directors' report for the year ended 30 June 2022.

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



Paul Cenko
Partner

Adelaide

17 August 2022

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