

21 August 2014

Codan Limited
ABN 77 007 590 605
81 Graves Street
Newton SA 5074
Australia

PO Box 96
Campbelltown SA 5074
Australia

COMPANY ANNOUNCEMENTS PLATFORM
AUSTRALIAN SECURITIES EXCHANGE

CODAN LIMITED ANNUAL RESULTS
YEAR ENDED 30 JUNE 2014

Review and results of operations

Summary:

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

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

Dividend

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

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

Financial Performance

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

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

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

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

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

In addition to these savings, a number of variable expense reductions were also realised.

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

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

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

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

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

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

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

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

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

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

Metal Detection

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

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

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

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

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

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

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

These new products include a mid-priced, compact and fully waterproof gold detector. Pre-production reviews on this machine have been excellent, with best-in-class detection performance for fine gold. The June 2014 release of this machine was eagerly awaited and has been well received by the market.

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

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

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

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

Mining Technology

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

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

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

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

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

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

Outlook

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

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

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

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

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

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

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

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

On behalf of the Board



Michael Barton
Company Secretary

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-

Donald McGurk
Managing Director & CEO
Codan Limited
(08) 8305 0392

Michael Barton
Company Secretary & CFO
Codan Limited
(08) 8305 0392

Codan Limited

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

For the year ended 30 June 2014

ABN
77 007 590 605

Previous corresponding period
30 June 2013

Results for announcement to the market				\$A'000
Revenue from ordinary activities	Down	43.4%	to	132,268
Profit from ordinary activities after tax attributable to members	Down	79.8%	to	9,197
Dividends	Amount per security		Franked amount per security at 30% tax	
Final dividend	1.5 cents		1.5 cents	
Interim dividend	1.5 cents		1.5 cents	
Record date for determining entitlements to dividends:	12 September 2014			
<i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i>				
The 30 June 2014 Financial Report and the Market Announcement dated 20 August 2014 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).				
This report is based on financial statements that have been audited. The audit report is included in the 30 June 2014 Financial Report.				

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

**Financial Report
30 June 2014**

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DIRECTORS' REPORT

Codan Limited and its Controlled Entities

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

DIRECTORS

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

Name and qualifications

Dr David Klingner

B.Sc (Hons), PhD, FAusIMM
Chairman,
Independent Non-Executive
Director

Mr Donald McGurk

HNC (Mech Eng), MBA, FAICD
Managing Director and Chief
Executive Officer

Mr Peter Griffiths

B.Ec (Hons), CPA, FAICD
Independent Non-Executive
Director

Mr David Klingberg AO

FTSE, BTech (Civil), DUniSA, FIEAust,
FAusIMM, FAICD
Independent Non-Executive
Director

Experience

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

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

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

DIRECTORS (CONTINUED)

Name and qualifications

Mr David Simmons

BA (Acc)

Independent Non-Executive
Director

Lt-Gen Peter Leahy AC

BA (Military Studies), MMAS, GAICD

Independent Non-Executive
Director

Mr Scott Davies

LLB

Independent Non-Executive
Director

Mrs Corinne Namblard

PhD (Pol Sci), HEC CAP

Independent Non-Executive
Director

Experience

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

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

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

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

COMPANY SECRETARY

Mr Michael Barton BA (Acc), CA

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

DIRECTORS' MEETINGS

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

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

A – Number of meetings attended

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

CORPORATE GOVERNANCE STATEMENT

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

Board of directors

Role of the board

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

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

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

Board processes

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board of directors (continued)

Board processes (continued)

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

Director and executive education

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

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

Independent professional advice and access to company information

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

Composition of the board

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

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

The board's policy is to seek a diverse range of directors who have a range of ages and genders which mirrors the environment in which the group operates.

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

- holds less than five percent of the voting shares of the company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the company;

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board of directors (continued)

Composition of the board (continued)

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

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

Nomination Committee

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

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

The members of the Nomination Committee during the year were:

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited

Remuneration Committee

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

The members of the Remuneration Committee during the year were:

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

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

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

Principles of remuneration

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

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

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

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

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

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Principles of remuneration (continued)

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

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

Service contracts

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

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

Performance rights

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

The number of performance rights issued represents 40% of the nominated executives' fixed pay divided by the volume weighted average of the company's share price in the five days after the release of the group's annual results.

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

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

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report – audited (continued)

Performance rights (continued)

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

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

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

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

	Held at 1 July 2013	Issued	Vested	Lapsed	Held at 30 June 2014
DIRECTORS					
Mr D S McGurk	301,532	111,655	-	161,551	251,636
EXECUTIVES					
Mr M Barton	142,625	52,813	-	76,414	119,024
Mr P D Charlesworth	195,996	72,575	-	105,008	163,563
Mr P McCarter	-	89,919	-	-	89,919

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

Movements in shares

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

	Held at 1 July 2013	Received on exercise of rights	Other changes *	Held at 30 June 2014
Directors				
Dr G D Klingner	534,983	-	-	534,983
Mr D S McGurk	312,517	-	-	312,517
Mr P R Griffiths	199,416	-	-	199,416
Mr D J Klingberg	120,908	-	-	120,908
Mr D J Simmons	-	-	-	-
Lt-Gen P F Leahy	57,708	-	-	57,708
Mr S W Davies	12,420	-	-	n/a
Mrs C S Namblard	-	-	-	n/a
Specified executives				
Mr M Barton	5,000	-	-	5,000
Mr P D Charlesworth	312,790	-	-	312,790
Mr R D Linehan	n/a	-	-	-
Mr P McCarter	-	-	-	-

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration

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

Directors		Salary & 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	Value of performance rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	\$	%	%
NON-EXECUTIVE											
Dr G D Klingner	2014	164,211	-	-	15,190	-	-	-	179,401	-	-
	2013	172,562	-	-	15,531	-	-	-	188,093	-	-
Mr P R Griffiths	2014	89,570	-	-	8,285	-	-	-	97,855	-	-
	2013	102,596	-	-	-	-	-	-	102,596	-	-
Mr D J Klingberg	2014	82,106	-	-	7,595	-	-	-	89,701	-	-
	2013	86,281	-	-	7,766	-	-	-	94,047	-	-
Mr D J Simmons	2014	87,082	-	-	8,055	-	-	-	95,137	-	-
	2013	91,510	-	-	8,236	-	-	-	99,746	-	-
Lt-Gen P F Leahy	2014	82,106	-	-	7,595	-	-	-	89,701	-	-
	2013	86,281	-	-	7,766	-	-	-	94,047	-	-
Mr S W Davies	2014	43,214	-	-	3,997	-	-	-	47,211	-	-
	2013	86,281	-	-	7,766	-	-	-	94,047	-	-
Mrs C S Namblard	2014	82,106	-	-	7,595	-	-	-	89,701	-	-
	2013	86,281	-	-	7,766	-	-	-	94,047	-	-
Total non-executives' remuneration	2014	630,395	-	-	58,312	-	-	-	688,707	-	-
	2013	711,792	-	-	54,831	-	-	-	766,623	-	-

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

Directors		Salary & 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	Value of performance rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	\$	%	%
EXECUTIVE											
Mr D S McGurk	2014	497,281	-	-	17,775	12,422	-	(219,234)*	308,244	(71.1)	(71.1)
	2013	488,644	469,401	-	16,470	17,635	-	96,864	1,089,014	52.0	8.9
Total directors' remuneration	2014	1,127,676	-	-	76,087	12,422	-	(219,234)	996,951	-	-
	2013	1,200,436	469,401	-	71,301	17,635	-	96,864	1,855,637	-	-

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

Executive officers		Salary & 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	Value of performance rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	\$	%	%
Mr M Barton (Chief Financial Officer and Company Secretary)	2014	219,398	-	-	20,958	5,545	-	(103,698)*	142,203	(72.9)	(72.9)
	2013	228,038	222,026	-	20,332	7,908	-	45,817	524,121	51.1	8.7
Mr P D Charlesworth (Executive General Manager, Minelab)	2014	310,842	-	-	17,775	7,741	-	(142,503)*	193,855	(73.5)	(73.5)
	2013	331,745	378,788	-	16,470	11,721	-	62,962	801,686	55.1	7.9
Mr R D Linehan (Executive General Manager, Business Development)	2014	81,043	42,425	400	1,886	-	-	-	125,754	33.7	-
Mr P McCarter (Executive General Manager, Codan Radio Communications)	2014	426,183	305,789	2,129	35,368	-	-	-	769,469	39.7	-
	2013	96,713	-	-	-	-	-	-	96,713	-	-
Total executive officers'	2014	1,037,466	348,214	2,529	75,987	13,286	-	(246,201)	1,231,281	-	-
remuneration	2013	656,496	600,814	-	36,802	19,629	-	108,779	1,422,520	-	-

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

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

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

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

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

Corporate performance

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

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

Board Audit, Risk and Compliance Committee

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Audit, Risk and Compliance Committee (continued)

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

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

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

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

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

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

Risk management

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk management (continued)

Oversight of the risk management system

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

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

Risk management and compliance and control

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

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

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

Quality and integrity of personnel

Appraisals are conducted at least annually for all senior employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

Financial reporting

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

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

Environmental regulation

The group's operations are not subject to significant environmental regulation under either Commonwealth or State legislation. However, it is expected that formal accreditation to ISO14001, Environmental Management Systems, will be achieved in the 2014-15 financial year. The board believes that the group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the group.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk management (continued)

Internal audit

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

Assessment of effectiveness of risk management

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

Ethical standards

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

Conflict of interest

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

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

Code of conduct

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Ethical standards (continued)

Trading in general company securities by directors and employees

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

- identification of those restricted from trading – directors, officers, executives and senior managers may acquire shares in the company, but are prohibited from dealing in company shares:
 - between 1 January and the close of trading on the next ASX trading day after the half-year results are released to the ASX;
 - between 1 July and the close of trading on the next ASX trading day after the full-year results are released to the ASX;
 - during any additional blackout periods imposed by the board from time to time; or
 - whilst in possession of price-sensitive information not yet released to the market;
- an additional approval process for directors, officers and executives;
- raising the awareness of legal prohibitions in respect of insider trading;
- prohibiting short-term or speculative trading in the company's shares; and
- identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

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

Communication with shareholders

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

In summary, the Continuous Disclosure policy operates as follows:

- the managing director and the chief financial officer and company secretary are responsible for interpreting the company's policy and where necessary informing the board. The chief financial officer and company secretary is responsible for all communications with the ASX. Reportable matters are promptly advised to the ASX;
- the annual report is provided via the company's website and distributed to all shareholders who request a copy. It includes relevant information about the operations of the group during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of the operations of the group during the period. The half-year reviewed financial report is lodged with the ASX and is available on the company's website;
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the company's website after they are released to the ASX; and
- the full texts of notices of meetings and associated explanatory material are placed on the company's website.

All of the above information, including that of the previous years, is made available on the company's website.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Communication with shareholders (continued)

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

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

Diversity

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

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

The key elements of the policy include:

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

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

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

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

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

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

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

OPERATING AND FINANCIAL REVIEW

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

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

FY14 highlights:

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

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

Dividend

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

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

Financial Performance

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial Performance (continued)

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial Performance (continued)

Radio Communications (continued)

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

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

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

Metal Detection

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

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

Minelab gold detector sales into Africa reduced significantly following the record demand across the previous 4 years and particularly FY13. The variability in demand from multiple gold rushes and the increasingly aggressive competition from counterfeiters are challenges we will continue to face in Africa. These factors limit our ability to accurately forecast demand in this market.

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

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

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

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

These new products include a mid-priced, compact and fully waterproof gold detector. Pre-production reviews on this machine have been excellent, with best-in-class detection performance for fine gold. The June 2014 release of this machine was eagerly awaited and has been well received by the market.

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial Performance (continued)

Metal Detection (continued)

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

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

Mining Technology

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

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

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

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

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

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

Outlook

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

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

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

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

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Outlook (continued)

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

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

DIVIDENDS

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

	Cents per share	Total amount	Franked	Date of payment
		\$000		
DECLARED AND PAID DURING THE YEAR ENDED 30 JUNE 2014:				
Final 2013 ordinary	7.0	12,385	100%	1 October 2013
Interim 2014 ordinary	1.5	2,654	100%	1 April 2014
DECLARED AFTER THE END OF THE YEAR:				
Final 2014 ordinary	1.5	2,654	100%	1 October 2014

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

EVENTS SUBSEQUENT TO REPORTING DATE

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

LIKELY DEVELOPMENTS

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

DIRECTORS' INTERESTS

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

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

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

Insurance premiums

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

NON-AUDIT SERVICES

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

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

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

Refer page 26 for a copy of the auditor's independence declaration as required under Section 307C of the Corporations Act.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

NON-AUDIT SERVICES (CONTINUED)

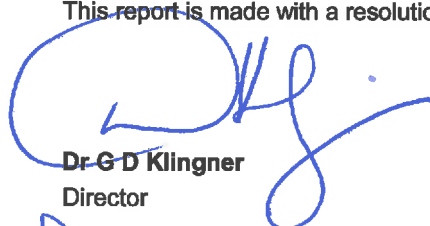
Details of the amounts paid or payable to the auditor of the company, KPMG, and its related practices for audit and non-audit services provided during the year are as follows.

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

ROUNDING OFF

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:



Dr G D Klingner
Director



D S McGurk
Director

Dated at Newton this 20th day of August 2014.



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

To: the directors of Codan Limited

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

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Scott Fleming
Partner

Adelaide

20 August 2014

Consolidated income statement for the year ended 30 June 2014

Codan Limited and its Controlled Entities

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

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 32 to 63.

Consolidated statement of comprehensive income
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

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

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 32 to 63.

Consolidated balance sheet as at 30 June 2014

Codan Limited and its Controlled Entities

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

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 32 to 63.

Consolidated statement of changes in equity
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

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

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 32 to 63.

Consolidated statement of cash flows for the year ended 30 June 2014

Codan Limited and Its Controlled Entities

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

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 32 to 63.

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES

Codan Limited (the "company") is a company domiciled in Australia and is a for-profit entity. The consolidated financial report of the company as at and for the year ended 30 June 2014 comprises the company and its subsidiaries (together referred to as the "group" and individually as "group entities"). The financial report was authorised for issue by the directors on 20 August 2014.

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

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

The group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Use of estimates and judgements

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

Changes in accounting policies

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

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

(c) Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its 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.

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation (continued)

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

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

(d) Revenue recognition

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

Sale of goods

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

Construction contracts

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

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

Rendering of services

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

(e) Expenses

Operating lease payments

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

Finance lease payments

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

Net financing costs

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

(f) Foreign currency

Foreign currency transactions are translated to Australian dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and Its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency (continued)

foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income and presented within equity, to the extent that the hedge is effective.

Foreign operations

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

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

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

(g) Derivative financial instruments

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

Hedging

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

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

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

(h) Taxation

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

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

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

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

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

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Taxation (continued)

reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

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

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

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

(i) Goods and services tax

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

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

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

Trade debtors are to be settled within agreed trading terms, typically less than 60 days, and are initially recognised at fair value and then subsequently at amortised cost, less any impairment losses. Impairment of receivables is not recognised until objective evidence is available that a loss event may occur. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed; instead impairment testing is performed by considering the risk profile of that group of receivables. All impairment losses are recognised in the income statement.

(l) Inventories

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

(m) Project work in progress

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

(n) Intangible assets

Product development costs

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products, is capitalised only if development costs can be measured reliably, the product is technically and

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets (continued)

commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset.

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

Goodwill

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

Measuring goodwill

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

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

Contingent liabilities

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

Non-controlling interest

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

Transaction costs

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

Licences and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

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

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Property, plant and equipment

Owned assets

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

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

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

Subsequent costs

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

Leased assets

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

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

Depreciation

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

Depreciation is charged to the income statement on property, plant and equipment on a straight-line basis over the estimated useful life of the assets. Capitalised leased assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the group will obtain ownership of the asset, the life of the asset. Land is not depreciated. The main depreciation rates used for each class of asset for current and comparative periods are as follows:

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

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

(p) Impairment

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

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

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

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Impairment (continued)

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

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

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

(q) Payables

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

(r) Interest bearing borrowings

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

(s) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Defined contribution superannuation plans

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

(t) Provisions

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

Dividends

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

**Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions (continued)

Restructuring and employee termination benefits

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

Warranty

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

Onerous contracts

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

(u) Share capital

Ordinary shares

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

(v) Share-based payment transactions

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

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

(w) Discontinued operations

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

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

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

Subsequent events

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

Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%)	14,052	22,104
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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 \$1,137,664 (2013: \$5,307,783).

3 SEGMENT ACTIVITIES

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

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. All operating segments' results are regularly reviewed by the group's CEO to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

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

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

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

Business segments

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

Geographical segments

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

Notes to and forming part of the financial statements for the year ended 30 June 2014

Codan Limited and its Controlled Entities

3. SEGMENT ACTIVITIES (CONTINUED)

Information about reportable segments

	Communications		Metal detection		Mining technology		Other		Elimination		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue												
External segment revenue	53,875	47,581	69,895	166,258	4,007	14,480	4,491	5,517	-	-	132,268	233,836
Discontinued operation (refer Note 4)		10,500									-	10,500
Inter-segment revenue	716						267	369	(983)	(369)	-	-
Total segment revenue	54,591	58,081	69,895	166,258	4,007	14,480	4,758	5,886	(983)	(369)	132,268	244,336
Result												
Segment result	11,474	8,891	16,029	78,645	(2,917)	(2,577)	(122)	172	-	-	24,464	85,131
Unallocated income and expenses											(14,194)	(22,117)
Profit from operating activities											10,270	63,014
Income tax expense											(1,073)	(17,597)
Net Profit											9,197	45,417
Non-cash items included above												
Depreciation and amortisation	3,200	3,041	4,374	7,035	239	247	146	151	-	-	7,959	10,474
Unallocated depreciation and amortisation											1,072	1,169
Total depreciation and amortisation											9,031	11,643
Assets												
Segment assets	52,828	56,951	109,382	113,658	14,170	14,885	2,296	2,621	-	-	178,676	188,115
Unallocated corporate assets											33,753	23,423
Consolidated total assets											212,429	211,538

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

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

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

Consolidated
2014 2013
\$000 \$000

4 DISCONTINUED OPERATION

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

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

Results of discontinued operation

Revenue	-	10,500
Expenses	-	(11,007)
Loss from operating activities	-	(507)
Tax	-	152
Loss from operating activities, net of tax	-	(355)
Basic earnings/(loss) per share (cents)	-	(0.2)
Diluted earnings/(loss) per share (cents)	-	(0.2)

Cash flows from/(used in) discontinued operation

Net cash from operating activities	-	224
Net cash used in investing activities	-	-
Net cash from financing activities	-	-
Net cash flows for the year	-	224

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

	Consolidated	
	2014	2013
	\$000	\$000
5 EXPENSES		
Net financing costs:		
Interest income	(67)	(206)
Net foreign exchange (gain) / loss	511	251
Interest expense	2,847	1,896
	3,291	1,941
Depreciation of:		
Buildings	543	531
Leasehold property	36	15
Plant and equipment	2,042	1,906
	2,621	2,452
Amortisation of:		
Product development	4,312	4,430
Intellectual property	1,170	3,694
Computer software	498	615
Licences	430	452
	6,410	9,191
Personnel expenses:		
Wages and salaries	33,163	40,804
Other associated personnel expenses	2,578	3,134
Contributions to defined contribution superannuation plans	2,660	3,128
Increase in liability for long service leave	117	336
Increase in liability for annual leave	1,604	2,314
	40,122	49,716
Additional expenses disclosed:		
Impairment of trade receivables	(294)	504
Operating lease rental expense	2,634	2,265
(Gain)/loss on sale of property, plant and equipment	(10)	(42)
Acquisition, integration and restructuring	2,701	1,784
6 OTHER EXPENSES / (INCOME)		
Insurance recoveries	(38)	(1,009)
Mining technology earn-out liability no longer required	(600)	(2,465)
Communications earn-out liability no longer required	-	(1,789)
Communications acquisition retention recovery	(328)	-
Impairment of building	272	1,100
Provision for onerous contract no longer required	(990)	1,310
Provision for legal dispute no longer required	(1,284)	1,450
Impairment of mining technology product development	774	1,606
Impairment of acquired communications brand name	-	510
Product development income	(255)	-
Other expenses/(income)	(73)	53
	(2,522)	766

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and Its Controlled Entities

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

	Consolidated	
	2014	2013
	\$000	\$000
8 INCOME TAX		
A. Income tax expense		
Current tax expense:		
Current tax paid or payable for the financial year	701	17,672
Adjustments for prior years	(587)	(185)
	114	17,487
Deferred tax expense:		
Origination and reversal of temporary differences	959	110
Total income tax expense in income statement	1,073	17,597
Income tax expense from continuing operations	1,073	17,749
Income tax recovery from discontinuing operation	-	(152)
	1,073	17,597
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities (including discontinued operations)	3,081	18,904
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	964	961
Over/(under) provision for taxation in previous years	587	185
Non-assessable income	635	1,276
Sundry items	29	63
	866	16,419
Increase in income tax expense due to:		
Non-deductible expenses	127	1,010
Effect of tax rates in foreign jurisdictions	80	168
Income tax expense	1,073	17,597

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

	Consolidated	
	2014	2013
	\$000	\$000
8 INCOME TAX (CONTINUED)		
B. Current tax liabilities / assets		
Balance at the beginning of the year	(11,143)	(4,151)
Acquired through business combination	-	(250)
Net foreign currency differences on translation of foreign entities	(14)	(8)
Income tax paid	12,326	10,751
Adjustments from prior year	587	185
Current year's income tax paid or payable on operating profit	(701)	(17,872)
	<u>1,055</u>	<u>(11,143)</u>
Disclosed in balance sheet as:		
Current tax asset	1,112	226
Current tax payable	(57)	(11,370)
	<u>1,055</u>	<u>(11,143)</u>
C. Deferred tax liabilities		
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:		
Expenditure currently tax deductible but deferred and amortised for accounting	9,899	8,605
Sundry items	(131)	(26)
Hedging reserve	-	(482)
Difference in depreciation of property, plant and equipment	(119)	(242)
Set-off of tax in relation to deferred tax assets:		
Payments for intellectual property not currently deductible	(2,969)	(2,939)
Provisions for employee benefits not currently deductible	(1,641)	(2,104)
Provisions and accruals not currently deductible	(1,922)	(2,481)
Carry forward tax losses	(1,516)	-
	<u>1,601</u>	<u>332</u>
9 CASH AND CASH EQUIVALENTS		
Petty cash	27	28
Cash at bank	13,004	8,610
	<u>13,031</u>	<u>8,638</u>
10 TRADE AND OTHER RECEIVABLES		
CURRENT		
Trade receivables	22,326	23,196
Less: Provision for impairment losses	(741)	(2,424)
	<u>21,585</u>	<u>20,772</u>
Other debtors	556	365
	<u>22,141</u>	<u>21,137</u>
11 INVENTORY		
Raw materials	2,678	4,861
Work in progress	10,859	10,489
Finished goods	17,761	27,986
	<u>31,298</u>	<u>43,336</u>
12 OTHER ASSETS		
Prepayments	1,327	573
Project work in progress	267	785
Other	253	886
	<u>1,847</u>	<u>2,244</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

	Consolidated	
	2014	2013
	\$000	\$000
13 PROPERTY, PLANT AND EQUIPMENT		
Freehold land and buildings at cost	16,263	15,554
Accumulated depreciation	(5,837)	(6,239)
	<u>10,426</u>	<u>9,315</u>
Leasehold property at cost	675	532
Accumulated amortisation	(423)	(386)
	<u>252</u>	<u>146</u>
Plant and equipment at cost	30,486	31,281
Accumulated depreciation	(22,403)	(22,350)
	<u>8,083</u>	<u>8,931</u>
Capital work in progress at cost	<u>1,367</u>	<u>1,548</u>
Total property, plant and equipment	<u>20,128</u>	<u>19,940</u>
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Freehold land and buildings		
Carrying amount at beginning of year	9,315	10,508
Additions	1,438	438
Transfers	488	-
Impairment of building	(272)	(1,100)
Disposals	-	-
Depreciation	(543)	(531)
Carrying amount at end of year	<u>10,426</u>	<u>9,315</u>
Leasehold property improvements		
Carrying amount at beginning of year	146	109
Acquisitions through entity acquired	-	45
Additions	132	5
Transfers	7	-
Depreciation	(36)	(15)
Net foreign currency differences on translation of foreign entities	3	2
Carrying amount at end of year	<u>252</u>	<u>146</u>
Plant and equipment		
Carrying amount at beginning of year	8,931	7,458
Acquisitions through entity acquired	-	847
Additions	857	2,512
Transfers	371	-
Disposals	(17)	(120)
Depreciation	(2,042)	(1,906)
Net foreign currency differences on translation of foreign entities	(17)	140
Carrying amount at end of year	<u>8,083</u>	<u>8,931</u>
Capital work in progress at cost		
Carrying amount at beginning of year	1,548	163
Additions, net of transfers	(181)	1,385
Carrying amount at end of year	<u>1,367</u>	<u>1,548</u>
Total carrying amount at end of year	<u>20,128</u>	<u>19,940</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

	Consolidated	
	2014	2013
	\$000	\$000
14 PRODUCT DEVELOPMENT		
Product development at cost	72,974	60,508
Accumulated amortisation	(38,095)	(33,010)
	<u>34,879</u>	<u>27,498</u>
Reconciliation		
Carrying amount at beginning of year	27,498	23,286
Capitalised in current period	12,467	10,248
Impairment of mining technology product development	(774)	(1,606)
Amortisation	(4,312)	(4,430)
	<u>34,879</u>	<u>27,498</u>
15 INTANGIBLE ASSETS		
Goodwill	<u>82,396</u>	<u>83,130</u>
Intellectual property at cost	12,872	11,790
Accumulated amortisation	(11,377)	(10,417)
	<u>1,495</u>	<u>1,373</u>
Computer software at cost	12,474	12,125
Accumulated amortisation	(11,658)	(11,301)
	<u>816</u>	<u>824</u>
Licences at cost	4,503	3,979
Accumulated amortisation	(1,217)	(787)
	<u>3,286</u>	<u>3,192</u>
Total intangible assets	<u>87,993</u>	<u>88,519</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

	Consolidated	
	2014	2013
	\$000	\$000
15 INTANGIBLE ASSETS (CONTINUED)		
Reconciliations		
Goodwill		
Carrying amount at beginning of year	83,130	62,748
Acquisitions through entity acquired	-	19,352
Adjustment on prior year's acquisition	-	(253)
Net foreign currency differences on translation of foreign entities	(734)	1,283
	<u>82,396</u>	<u>83,130</u>
Intellectual property		
Carrying amount at beginning of year	1,373	742
Acquisitions through entity acquired	-	1,210
Additions	1,348	3,608
Amortisation	(1,170)	(3,694)
Net foreign currency differences on translation of foreign entities	(56)	17
Impairment of acquired Communications brand name	-	(510)
	<u>1,495</u>	<u>1,373</u>
Computer software		
Carrying amount at beginning of year	824	1,281
Acquisitions through entity acquired	-	17
Additions	199	177
Transfers from capital work in progress	291	49
Amortisation	(498)	(615)
Disposals	-	(87)
Net foreign currency differences on translation of foreign entities	-	2
	<u>816</u>	<u>824</u>
Licences		
Carrying amount at beginning of year	3,192	2,115
Acquisitions	524	1,529
Amortisation	(430)	(452)
	<u>3,286</u>	<u>3,192</u>
The following segments have significant carrying amounts of goodwill:		
Mining technology	8,538	8,538
Metal detection	53,957	53,957
Communications	19,901	20,635
	<u>82,396</u>	<u>83,130</u>

Goodwill

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

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

Intellectual Property

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

Licences

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

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

	Consolidated	
	2014	2013
	\$000	\$000
16 TRADE AND OTHER PAYABLES		
Current		
Trade payables	11,670	13,909
Other payables and accruals	11,721	13,719
Net foreign currency hedge payable	-	1,729
	23,391	29,357

17 LOANS AND BORROWINGS

Current		
Finance lease liabilities	33	201
	33	201
Non-Current		
Cash advance	59,898	33,559
Finance lease liabilities	49	82
	59,947	33,641

The group has access to the following lines of credit:

Total facilities available at balance date:

Multi-option facility	85,000	10,000
Commercial credit card	200	200
Cash advance facility	-	75,000
	85,200	85,200

Facilities utilised at balance date:

Multi-option facility - cash advance	59,898	-
Multi-option facility - other	2,686	2,371
Commercial credit card	15	13
Cash advance facility	-	33,559
	62,599	35,943

Facilities not utilised at balance date:

Multi-option facility	22,416	7,629
Commercial credit card	185	187
Cash advance facility	-	41,441
	22,601	49,257

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

Bank Facilities

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

	Consolidated	
	2014	2013
	%	%
Weighted average interest rates:		
Cash at bank	1.59	1.84
Cash advance	3.55	3.51

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

		Consolidated	
		2014	2013
		\$000	\$000
18 PROVISIONS			
Current			
Employee benefits		5,005	6,296
Warranty repairs		1,101	2,842
Other		320	1,310
		<u>6,426</u>	<u>10,448</u>
Non-Current			
Employee benefits		<u>683</u>	<u>857</u>
Reconciliation of warranty provision			
Carrying amount at beginning of year		2,842	2,760
Provisions released		(596)	846
Payments made		(1,145)	(764)
		<u>1,101</u>	<u>2,842</u>
Reconciliation of other provision			
Carrying amount at beginning of year		1,310	-
Provisions made/(reversed) during the year		(990)	1,310
		<u>320</u>	<u>1,310</u>

19 SHARE CAPITAL

Share capital

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

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the winding up of the company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds on liquidation.

20 RESERVES

Foreign currency translation	1,994	1,405
Hedging reserve	-	(1,125)
Profit reserve	<u>48,481</u>	<u>34,673</u>
	<u>50,475</u>	<u>34,953</u>

Foreign currency translation

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

Balance at beginning of year	1,405	(3,271)
Reserves recognised through sale of discontinued operation	-	979
Net translation adjustment	589	3,697
Balance at end of year	<u>1,994</u>	<u>1,405</u>

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	(1,125)	336
Gains/(losses) on cash flow hedges taken to/from hedging reserve	1,125	(1,461)
Balance at end of year	<u>-</u>	<u>(1,125)</u>

Profit reserve

The profit reserve comprises Codan Limited's accumulated profits.

Balance at beginning of year	34,673	-
Current year profit after tax attributed to the parent entity	<u>13,808</u>	<u>34,673</u>
Balance at end of year	<u>48,481</u>	<u>34,673</u>

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

Consolidated
2014 2013
\$000 \$000

21 COMMITMENTS

I. Capital expenditure commitments

Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:

Within one year	988	3,348
One year or later and no later than five years	1,216	800
	<u>2,204</u>	<u>4,148</u>

II. Non-cancellable operating lease expense and other commitments

Future operating lease commitments not provided for in the financial statements which are payable:

Within one year	2,588	2,796
One year or later and no later than five years	4,893	6,769
Later than five years	552	1,227
	<u>8,033</u>	<u>10,792</u>

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

III. Finance lease and hire purchase payment commitments

Within one year	39	218
One year or later and no later than five years	52	91
Later than five years	-	-
	<u>91</u>	<u>309</u>
Less: future finance charges	(9)	(26)
	<u>82</u>	<u>283</u>

Finance lease and hire purchase liabilities provided for in the financial statements:

Current	33	201
Non-current	49	82
	<u>82</u>	<u>283</u>

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

22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

Financial risk management

Overview

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

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

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

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

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

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

(a) Credit risk

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

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

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

Trade and other receivables

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

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

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

The group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Guarantees

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

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(a) Credit Risk (continued)

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

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

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

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

Impairment losses

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

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

Trade receivables that are not past due have been reviewed, taking into consideration letters of credit held and the credit assessment of the individual customers. The Impairment recognised is considered appropriate for the credit risk remaining.

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

	Consolidated	
	2014 \$000	2013 \$000
Balance at 1 July	2,424	506
Provision for legal dispute	(1,284)	1,450
Impairment loss/(reversal) recognised	(294)	504
Trade receivables written off to the allowance for impairment	(105)	(36)
Balance at 30 June	741	2,424

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and Its Controlled Entities

22 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, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and without incurring unacceptable losses or risking damage to the group's reputation. Refer to note 17 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

	Carrying amount \$000	Contractual cash flows \$000	12 months or less \$000	1-5 years \$000	More than 5 years \$000
30 June 2014					
Non-derivative financial liabilities					
Trade and other payables	23,391	(23,391)	(23,391)	-	-
Finance leases	82	(91)	(39)	(52)	-
Cash advance	59,898	(62,192)	(2,294)	(59,898)	-
	83,371	(85,674)	(25,724)	(59,950)	-
Derivative financial liabilities					
Net foreign currency hedge payable	-	-	-	-	-
	-	-	-	-	-
30 June 2013					
Non-derivative financial liabilities					
Trade and other payables	28,228	(28,228)	(27,828)	(600)	-
Finance leases	283	(309)	(218)	(91)	-
Cash advance	33,559	(34,806)	(1,247)	(33,559)	-
	62,070	(63,343)	(29,093)	(34,250)	-

(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 2014
Codan Limited and its Controlled Entities

22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Market risk (continued)

Profile

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

	Carrying amount Consolidated	
	2014	2013
	\$000	\$000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(91)	(309)
	<u>(91)</u>	<u>(309)</u>
Variable rate instruments		
Financial assets	13,031	8,638
Financial liabilities	(59,898)	(33,559)
	<u>(46,867)</u>	<u>(24,921)</u>

Cash flow sensitivity

If interest rates varied by 100 basis points for the full financial year, then based on the balance of variable rate instruments held at the reporting date, profit and equity would have been affected as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

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

Currency risk

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

The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally USD and EUR). The terms of these commitments are usually less than 12 months. As at the reporting date, the group has not entered into any hedging instruments.

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

22 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:

	EUR \$000	Consolidated GBP \$000	USD \$000	CAD \$000
30 June 2014				
Cash and cash equivalents	464	5	7,801	-
Trade receivables	78	(1)	16,377	9
Trade payables	(5)	(18)	(6,328)	(37)
Gross balance sheet exposure	537	(14)	17,650	(28)
Hedge transactions relating to balance sheet exposure	-	-	-	-
Net exposure at the reporting date	537	(14)	17,650	(28)
30 June 2013				
Cash and cash equivalents	703	43	4,567	668
Trade receivables	355	2	12,663	924
Trade payables	(293)	(44)	(10,004)	(195)
Cash advance	-	-	-	-
Gross balance sheet exposure	765	1	7,226	1,397
Hedge transactions relating to balance sheet exposure	-	-	(1,855)	-
Net exposure at the reporting date	765	1	5,371	1,397

Sensitivity analysis

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

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

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

(d) Fair value hierarchy

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year, financial instruments valued at fair value were nil.

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

23 GROUP ENTITIES

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

Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

Consolidated
2014 2013
\$000 \$000

24 NOTES TO THE STATEMENT OF CASH FLOWS

I. Reconciliation of cash

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

Petty cash	27	28
Cash at bank	13,004	8,610
Short-term deposits	-	-
	13,031	8,638

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

Profit after income tax	9,197	45,417
Add/(less) items classified as Investing or financing activities:		
Insurance recoveries	-	(1,009)
(Gain)/loss on sale of non-current assets	(10)	(42)
Add/(less) non-cash items:		
Depreciation of:		
Buildings	543	531
Leasehold property	36	15
Plant and equipment	2,042	1,906
Impairment of building	273	1,100
Amortisation	6,410	9,191
Performance rights and employee share plan expensed/(reversed)	(312)	374
Impairment of mining technology product development	774	1,606
Impairment of acquired communications brand name	-	510
Increase/(decrease) in income taxes	(11,530)	6,491
Increase/(decrease) on net assets affected by translation	705	(717)
Net cash from operating activities before changes in assets and liabilities	8,128	65,373
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	(1,004)	5,411
Reduction/(increase) in inventories	12,037	(27,663)
Reduction/(increase) in other assets	397	(544)
Increase/(reduction) in trade and other payables	(3,940)	(6,859)
Increase/(reduction) in provisions	(4,196)	565
Net cash from operating activities	11,422	36,283

Notes to and forming part of the financial statements
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	Consolidated	
	2014	2013
	\$000	\$000
25 EMPLOYEE BENEFITS		
Aggregate liability for employee benefits, including on-costs:		
Current - other creditors and accruals	1,971	4,993
Current - employee entitlements	5,005	6,296
Non-current - employee entitlements	683	857
	7,659	12,146

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

Assumed rate of increase in wage and salary rates	3.50%	4.00%
Discount rate	3.47%	3.55%
Settlement term	10 years	10 years

Employee Share Plan

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

ESP shares issued in financial year 2013

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

ESP shares issued in financial year 2014

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

Performance Rights Plan

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

Performance rights issued in financial year 2011

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

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

Performance rights issued in financial year 2012

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

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

Notes to and forming part of the financial statements
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25 EMPLOYEE BENEFITS (continued)

Performance rights issued in financial year 2013

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

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period. For executives to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

Additional performance rights issued in financial year 2013

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

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

Performance rights issued in financial year 2014

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

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period. For executives to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

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

26 KEY MANAGEMENT PERSONNEL DISCLOSURES

Transactions with key management personnel

(a) Loans to directors

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

(b) Key management personnel compensation

The key management personnel compensation included in "personnel expenses" (refer note 5) is as follows:

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

(c) Key management personnel transactions

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

Notes to and forming part of the financial statements
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27 OTHER RELATED PARTIES

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

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

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

28 EARNINGS PER SHARE

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

	Consolidated	
	2014	2013
	\$000	\$000
Net profit used for the purpose of calculating basic and diluted earnings per share	9,197	45,417

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

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

29 NET TANGIBLE ASSET / LIABILITY PER SHARE

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

30 CAPITAL MANAGEMENT

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

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

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

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

Notes to and forming part of the financial statements
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Codan Limited and its Controlled Entities

31 DEED OF CROSS GUARANTEE

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

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

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

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

Summarised income statement and retained earnings

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

Balance sheet

CURRENT ASSETS

Cash and cash equivalents	10,757	5,017
Trade and other receivables	36,854	36,354
Inventories	13,031	20,107
Other assets	2,120	2,046
Total current assets	62,762	63,524

NON-CURRENT ASSETS

Investments	26,388	26,388
Property, plant and equipment	18,256	18,941
Product development	32,951	28,720
Intangible assets	57,019	57,185
Deferred tax assets	7,542	7,069
Total non-current assets	142,156	136,313

Total assets	204,918	199,837
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Notes to and forming part of the financial statements
for the year ended 30 June 2014
Codan Limited and its Controlled Entities

31 DEED OF CROSS GUARANTEE (CONTINUED)
Balance sheet (continued)

	Consolidated	
	2014	2013
	\$000	\$000
CURRENT LIABILITIES		
Trade and other payables	15,849	23,864
Other liabilities	32,776	26,660
Current tax payable	-	12,474
Provisions	4,894	7,787
Total current liabilities	53,519	70,785
NON-CURRENT LIABILITIES		
Loans and borrowings	42,000	15,000
Deferred tax liabilities	9,897	8,766
Provisions	596	757
Total non-current liabilities	52,493	24,523
Total liabilities	106,012	95,308
Net assets	98,906	104,529
EQUITY		
Share capital	42,674	42,986
Reserves	50,163	34,481
Retained earnings	6,069	27,062
Total equity	98,906	104,529

32 PARENT ENTITY DISCLOSURES

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

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

DIRECTORS' DECLARATION

Codan Limited and controlled entities

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

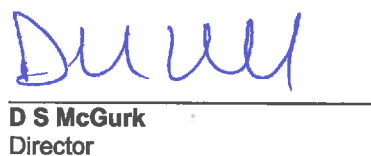
- (a) the consolidated financial statements and notes, set out on pages 26 to 64, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2014 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
- (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001;
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (e) there are reasonable grounds to believe that the company and the group entity identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and the group entity pursuant to ASIC Class Order 98/1418; and
- (f) the directors have been given the declaration required by Section 295A of the *Corporations Act 2001* by the chief executive officer and the chief financial officer for the financial year ended 30 June 2014.

Dated at Newton this 20th day of August 2014.

Signed in accordance with a resolution of the directors:



Dr G D Klingner
Director



D S McGurk
Director



Independent auditor's report to the members of Codan Limited

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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



Independence

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

Auditor's opinion

In our opinion:

- a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 13 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

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

KPMG

Scott Fleming
Partner

Adelaide

20 August 2014