CODAN LIMITED

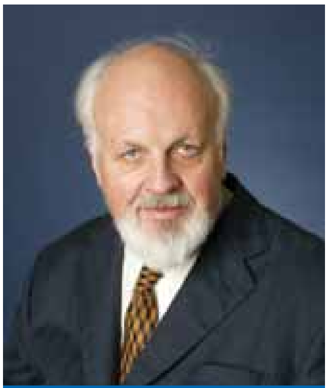
2009 ANNUAL REPORT

ABN 77 007 590 605

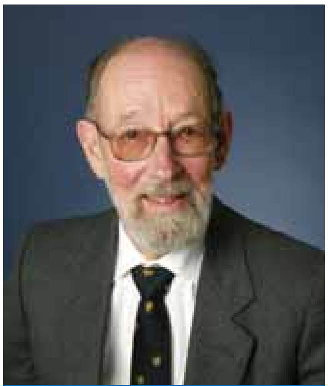
5th CODAN ANNIVERSARY 1959–2009

CODAN

ABOUT CODAN



Jim Bettison



Ian Wall

Alastair Wood

On the 30th June 2009, Ian Wall retired from the board of Codan. Along with Jim Bettison and Alastair Wood, Ian Wall was a founder and became a director at the Company's inception in 1959. Ian is the last of Codan's founders to retire from the board.

The contributions of the three founders have been unique and invaluable. They have left a great legacy in the culture of Codan and the Company owes them a great debt of gratitude.

Jim Bettison was Chief Executive until 1985. He is a former Senior Deputy Chancellor of the University of Adelaide and member of the Divisional Advisory Committee, CSIRO Division of Radiophysics. Jim retired from the board of Codan in 2005.

Ian Wall and Alastair Wood were involved in the establishment of many aspects of the operations of the Company, with particular emphasis on engineering design and development. Alastair Wood specialised in product development engineering of Codan's products, particularly HF transceivers and antennas, while Ian Wall's particular contribution was in systems engineering and the development of many ancillary products. Alastair retired from the board of Codan in 2005 and died in July 2007.

50th CODAN ANNIVERSARY 1959–2009

On the 1st July 2009, Codan celebrated its 50th anniversary. Originally incorporated as the Electronics, Instrument and Lighting Company in 1959, the Company changed its name to Codan Pty Ltd in 1983 and then to Codan Limited when it listed as a public company in 2003.

CODAN

CONTENTS

Codan 2110 HF manpack radio

Codan Satcom BUC on a stabilised platform antenna

Minelab gold detector in the field

ANNUAL GENERAL MEETING

The Annual General Meeting of Codan Limited will be held at 11.00am on Friday, 30 October 2009 at Hilton Adelaide hotel, 233 Victoria Square, Adelaide, South Australia.

CODAN LIMITED

ABN 77 007 590 605

PERFORMANCE SUMMARY

FINANCIAL PERFORMANCE

	Year ended 30 June			
	2009	%	2008	%
Revenue				
Communications Products	$77.3m	58%	$83.4m	76%
Metal Detection	$41.7m	32%	$16.2m	15%
Other	$13.4m	10%	$10.3m	9%
Total revenue	$132.4m	100%	$109.9m	100%
EBITDA	$29.4m	22%	$24.3m	22%
EBIT	$21.5m	16%	$17.0m	15%
Interest	($4.6)m		($2.2)m	
Net profit before tax	$16.9m	13%	$14.8m	13%
Tax	($4.1)m		($4.3)m	
Net profit after tax	$12.8m	10%	$10.5m	10%
Earnings per share	7.9cents		6.5cents	
Dividends per share	6.5cents		6.5cents	

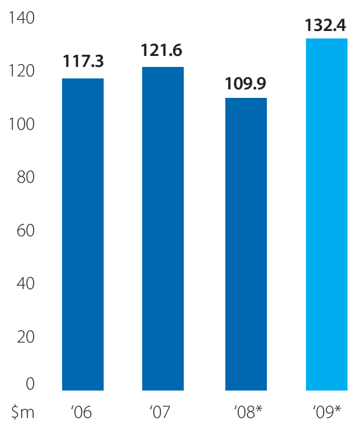
The financial information shown above reflects the underlying business performance and is before asset impairment, integration and restructuring expenses.

Locus Microwave

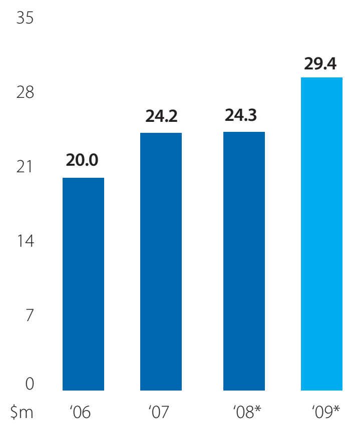
"The strategic acquisition of US based Locus Microwave Incorporated gives Codan, for its satellite communications operations, immediate access to the important emerging global market at X-band frequencies and particularly enhanced access to the large US Government military and non military market."

Locus Microwave satellite communications products

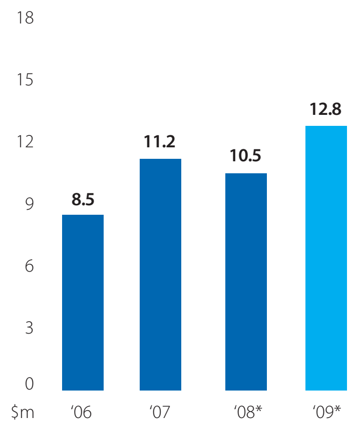
OPERATING REVENUE



EBITDA



NPAT



* Underlying business performance

HIGHLIGHTS – FY09

- Growth of 22% in underlying earnings per share despite the global recession
- Underlying profit as per guidance
- Strong net cash flow from operating activities of $25.5 million, up from $17 million last year
- Strengthened balance sheet
- Full year dividend maintained at 6.5 cents per share
- Maintained or improved EBITDA, EBIT and NPAT margins
- Strong growth in HF radio sales from penetration of new markets
- Minelab metal detection performance exceeded expectations in the first full year of ownership
- Strategic expansion of satellite communications operations by the acquisition of US based Locus Microwave Inc
- Integration and restructuring projects well advanced

KEY INITIATIVES – FY10

- Continued drive into military, security and protection markets for Codan's excellent HF product range
- Building manufacturing capacity at Locus Microwave and leveraging the Codan and Locus brands and product ranges for growth in satellite communications
- Ongoing innovation for new Minelab products and penetration of metal detection markets in more countries
- The completion of projects integrating Minelab, Parketronics and Locus into the Codan group creating efficiencies and lowering product and overhead costs

Demining operations using Minelab metal detectors

CHAIRMAN'S REPORT

On behalf of the Board of Codan Limited, I am pleased to report that overall, the financial year ended 30 June 2009 proved to be a solid one for the Company, despite the pressures of the global financial crisis.

At the commencement of the financial year, we undertook to focus the Codan business on strengthening our market positions in our core activities of communications products and metal detection. We also committed to continue to consolidate the outsourcing of the assembling of communication products to Malaysia and to extend this initiative to other parts of the business where it makes sense. Further synergies were also targeted from the acquisition of Minelab Electronics Pty Ltd, with a particular focus on streamlining systems and support functions and leveraging existing manufacturing and distribution capabilities of both Codan and Minelab.

The Board also felt that the outlook for your company at the start of the financial year was very positive with Group earnings per share expected to be at least 20 percent greater than the underlying EPS in financial year 2008. Of course, we did not anticipate the global financial crisis but despite this, we were able to deliver on our expectations and undertakings.

Underlying EPS grew by 21.5% with continued strong operating cash flow. Debt was reduced by $3.1 million in the course of the year and the full year dividend of 6.5 cents per share has been maintained.

HF radio sales grew strongly with the new range, targeted at the military and security markets, gaining good acceptance. Results from the Minelab metal detection operations exceeded expectations in this, the first full year of our ownership of this important new business. Satellite communications, however, experienced difficult business conditions in financial year 2009, particularly in the USA which is a very important market for this product group. The tough conditions created by the global financial crisis had much more impact on satellite communications than any other activity of the Codan group. This, and other factors, resulted in a significant reduction in satellite communications revenue.

Outsourcing of manufacture of selected group products to our Malaysian service provider and Minelab integration initiatives have continued apace. Minelab's South Australian manufacturing operations were transferred to Codan's main communications products manufacturing facility in Adelaide, and more recently, as announced in June 2009, the Company decided to cease manufacturing of Minelab products in Ireland by the end of this year and to outsource the majority of that activity to Malaysia.

In keeping with other businesses, the tough economic conditions have prompted us to think carefully about debt levels. While the Board is comfortable about Codan's debt in relation to its current level of earnings, we nevertheless considered it prudent to look to systematically improve gearing where we could. As a result, the Company's net debt has been reduced from $62.1 million at the start of the year to $59.1 million at June 2009. We have done this internally by strengthening control of debtors and tight inventory management. Additionally we have raised capital through the recently completed share purchase plan and by the sale of surplus land in Adelaide. In financial year 2010, we will complete the restructuring of the Company following the Minelab acquisition and this will enable the sale of further land and facilities surplus to our requirements.

We continue to look for opportunities to grow the company both organically, by the development of new products and the entering of new markets, and by the acquisition of other "clever product" businesses.

In May 2009, Codan announced a strategic expansion of its satellite communications operations through the acquisition of Locus Microwave, situated in Pennsylvania, USA, for $US3.03 million (A$4.2 million).

Locus is a specialist microwave technology company, in the early stages of its development cycle, primarily focused on the design, manufacture and supply of satellite communications products, in particular at X-Band frequency. The X-Band market, being developed specifically for military and government purposes, offers substantial future opportunities to the Codan group over the medium to long term.

The Locus products and technologies complement Codan's existing satellite communications operations very well. Codan is a market leader in the supply of similar products operating at C-Band and Ku-Band, used in both the commercial and government markets globally. This acquisition will enable Codan to increase the size of its addressable market and its access to the very significant US and European government markets. The opportunity for the combined businesses to benefit from know-how and synergies related to development, manufacturing and markets is also substantial.

Early indications are that Locus will perform at least as well as our expectations at the time of acquisition.

The Codan Board was strengthened by the appointment of Lieutenant General Peter Leahy in September 2008. Lieutenant General Leahy had an outstanding career in

"... the board considers that the outlook for Codan is positive and that financial year 2010 will be a year of continued growth for the group"

the Australian Army, retiring as Chief of Army in mid 2008. He brings considerable strategic skills to the Board. This and his expertise in security and military matters, sectors that are a growing market for Codan's products, will make a significant contribution to the Board's deliberations.

Mr Ian Wall, one of the founding shareholders in Codan, retired from the Board on 30th June 2009 after 50 years of outstanding service. His contribution to the formation and growth of Codan for five decades has been of major importance to the development of the company as it is today, and the Board wishes him a long and healthy retirement.

With these Board changes, the process of succession of directors following the Company's float in 2003 is now complete and the composition of the Board has an appropriate blend of qualifications, business background and experience to enable Codan to achieve its future corporate objectives.

In the year ahead we will continue to focus on growing market share and profitability in our core business activities of communications and metal detection products. The integration of the Minelab acquisition into the group will be completed. The Locus Microwave acquisition presents a new important opportunity to leverage the combined Codan and Locus brands, market presence and product portfolio to strengthen the Company's position in the competitive satellite communications market.

The Codan group continues to be exposed to revenues in foreign currency, and in particular US dollars and Euro. This exposure is managed by, wherever possible, creating natural hedge by switching costs and expense to those foreign currencies. Most significantly, Malaysian manufacturing has resulted in direct product costs in USD. The company follows a clear policy and practice in relation to the hedging of the remaining net exchange rate exposure. Hedges have been taken at 77.4 US cents and 57 Euro cents to the Australian dollar to cover the group's net exposure for the current financial year.

While business conditions remain unsettled and somewhat uncertain, the Board considers that the outlook for Codan is positive and that financial year 2010 will be a year of continued growth for the group.

The response of our management and staff to the business challenges that presented in the course of the year has been excellent and on behalf of the Board, I thank them for their dedication and efforts.

Dr David Klingner
Chairman

Codan satellite BUCs

Codan HF military manpack

CEO'S REPORT

Strong growth in high frequency (HF) radio sales, excellent Minelab performance in the first full year of Codan ownership and continued reductions in product costs and overhead compared to revenue drove a 22% increase in underlying net profit after tax.

These achievements more than offset considerable impacts on parts of the business of the global recession and the company's exposure to a strong Australian dollar. Whilst the Australian dollar weakened for some months during the global financial crisis Codan's exposure was hedged for the year at 88 US cents to the Australian dollar.

Excellent working capital management, particularly inventory reductions, combined with the profit to deliver strong net cash flows from operating activities of $25.5 million compared to $17.1 million the previous year. Net debt was reduced despite the acquisition of a new business, Locus Microwave Incorporated.

HF radio sales growth came from the uptake in several countries of the company's new family of products for global military, security and protection applications. Our leading technology back pack radio with its light weight and long battery life spearheaded this market penetration. Codan's products provide our target customers with key features and benefits and Codan's renowned reliability at attractive prices. Further growth is anticipated as new customers trial and experience the benefits of these products.

A significant reduction in demand due to the global recession, exposure to a strong Australian dollar and the continued technology driven shift to Codan's newer lower priced product family combined to reduce revenue from satellite communications products.

However, an attractive new family of small, lightweight and low power consumption satellite communications products was completed and released to market during the year. These products are ideal for rapid deploy and mobile earth stations required by government users for security applications and business users for applications such as oil and gas platforms and ocean going liners. They are an important addition to Codan's product range and are being well received by our customers.

The recent acquisition of US based Locus Microwave Incorporated is described in some detail in the Directors' Report. This strategic acquisition gives Codan, for its satellite communications operations, immediate access to the important emerging global market at X-band frequencies and particularly enhances access to the large US military and other government markets. The Locus brand will be retained and Locus' access to markets outside the US will be enhanced by association with Codan. The Codan and Locus teams are combining extremely well under the banner "Codan Satcom – two brands, one enhanced capability".

Although it's early days, Locus is performing well and there are some signs early in FY10 that the satellite communications market is recovering slowly from the recession.

The Minelab metal detection products business performed very well because of the excellence of its technology and products and considerable efficiencies arising from integration into the Codan group. The high price of gold is a major factor driving demand for consumer gold detection products in many countries. During the year Minelab successfully entered consumer markets in new countries including in the developing world, and more will follow. Important projects were won for countermine products with military and aid and humanitarian customers, and more projects are in the pipeline. The clearance of mines and unexploded ordnance in many war affected countries is an ongoing mission for the world community. Minelab will continue with a program of new technology product releases, key to leadership in its markets.

Codan Limited's smaller business activities of supply of printed circuit boards and other electronics components (IMP Electronics Solutions), contract electronics manufacture (Parketronics) and TV broadcast products (Codan Broadcast) were all affected to some degree by the global recession. However each concluded initiatives for improved performance. IMP has commenced importing for its customers additional electronics components, including membrane switches, decals and cables. Parketronics has significantly improved manufacturing efficiency and productivity and is marketing strongly to important new customers. IMP and Parketronics have the same customer base of electronics businesses, and team in the market where appropriate. Codan Broadcast's new state of the art high definition signal routing switcher was released on global markets.

Significant product cost reductions have allowed the company to maintain and in some cases increase margins on core products in a competitive environment. The major initiatives were the continued outsourcing of manufacture of some products to Asia and the integration of Codan and Minelab manufacturing sites and operations.

"Strong growth in high frequency radio sales, excellent Minelab performance ... and continued reductions in product costs and overhead .... drove a 22% increase in underlying net profit after tax"

As reported last financial year, we have entered into a relationship with one of the world's leading sub-contract electronics manufacturers to produce product modules and finished goods in Penang, Malaysia. To date the outsourcing project has focussed on some HF radio products and this phase will be completed by November 2009. Cost savings to date on the project match our original expectations. The decision to cease Minelab Ireland's manufacturing activities by December 2009 and outsource the majority of that activity to Malaysia will deliver similar significant product and overhead cost reductions.

Several programs to integrate the Minelab metal detection and Parketronics businesses into the Codan group are ongoing. The decision to relocate Minelab's Adelaide manufacturing to Codan's flagship manufacturing site at Newton in Adelaide followed the completion of a review, to which both Minelab metal detection and Codan communications products people contributed, of opportunities for more efficient manufacturing of Codan group products in Adelaide. The relocation is already delivering considerable benefits. Staff are being trained to manufacture both the communications and the metal detection product ranges, ensuring that peak loads in either can be met without increased staff numbers. One central purchasing department with increased purchasing power ensures lower materials costs and lower inventory levels. Other manufacturing overheads are reduced.

Very significant efficiencies arise from applying Codan's state of the art enterprise resource planning business system across the entire group of companies. The work is well advanced but with still more to do. The company continues to incur costs to implement this and other integration projects. The reduction in overhead expenses from these projects will be realised in later years when the projects are complete.

In financial year 2010 we expect the following key initiatives to be instrumental in delivering continued growth in revenue and profit:

- continued drive into the military, security and protection markets for our excellent HF product range
- building manufacturing capacity at Locus Microwave and leveraging the Codan and Locus brands and product ranges for growth in satellite communications
- ongoing innovation for new Minelab products and penetration of metal detection markets in more countries
- the completion of projects integrating Minelab, Parketronics and Locus into the Codan group creating efficiencies and lowering product and overhead costs

We continue to search for and evaluate new "clever products business" acquisitions for greater long term growth of Codan Limited.

The complexity of the Codan group has grown considerably in a short time with the acquisition of Minelab, Parketronics and Locus. All staff from the original and the newly acquired businesses have worked very hard and efficiently. The cultures of all businesses match very well and inter company teamwork is exceptional. We are most grateful for the dedication of all Codan group people to building a highly profitable and growing company.

Mike Heard
Chief Executive Officer

PCB loading at Parketronics

Handheld Standoff Mine Detection System

ABOUT CODAN

BUSINESS OVERVIEW

Codan Limited designs, manufactures and markets a diversified range of high value added electronics products and systems for global government, business, aid and humanitarian and sophisticated consumer markets. Founded in 1959, the company has grown to become an international leader in its market niches. Exports represent over 80% of revenues and the company's products are sold in more than 150 countries.

Codan's traditional business is products for niche communications applications in high frequency (HF) radio and satellite communications. With the acquisition of Minelab Electronics Pty Ltd in 2008, the core business of the Codan group has extended to include metal detection. The Codan and Minelab brands are extremely strong internationally. The company's worldwide customer base includes many government agencies including security and military organisations, multinational companies, the United Nations and major international aid agencies, telecommunications carriers, system integrators and also customers in high-end leisure markets. Codan and Minelab products are renowned for their technological capabilities, quality and reliability and the group excels in customer service and support which is provided throughout the world through a network of dealers, distributors and agents.

In May 2009, Codan acquired Pennsylvania USA-based Locus Microwave Incorporated as a strategic expansion of its activities in satellite communications products. Locus is a specialist microwave radio and radio frequency (RF) subsystems company focussed on the design, manufacture and sale of products for satellite communications in X-Band, a frequency band that's used in a globally expanding market for military and government applications. X-Band products are complementary to Codan's traditional C-Band and Ku-Band products. The combination of Codan and Locus offers substantial future opportunities to the company in satellite communications over the medium to long term.

UN vehicles using Codan HF radio

The Codan group also includes wholly-owned subsidiaries IMP Electronics Solutions, Codan Broadcast and Parketronics (acquired with Minelab).

BUSINESS STRATEGY

Core Strategy

Codan is a group of "clever products" businesses addressing global markets. The group designs its own core products and retains strong control over the manufacture of them, particularly in the area of final assembly and test. Codan defines "clever products" to have the following characteristics:

- elaborately transformed hardware products (as opposed to pure software or services);
- high intellectual property content, and therefore requiring a high value-add component by the designer and manufacturer; and
- targeted at niche low to medium volume business, professional and government markets globally.

The Locus acquisition is completely consistent with this core strategy. The Locus founders each has over 25 years experience in the design, manufacture and sale of high performance and custom microwave radio and RF products for niche markets.

Codan's staff and management team, customer base, product ranges, technical skills and global distribution and customer support networks provide a platform for continued growth both organically and by further acquisition.

Codan operates under long established high standards of corporate governance, performance and financial control.

Disciplined Niche Market Strategy

Codan seeks leadership in narrowly defined international market segments where it is able to establish a competitive advantage and where there is a reasonable prospect that its brands will become brands of choice. Such market segments are likely to have some or all of the following characteristics:

- the segment does not attract aggressive competition from large multi-national equipment suppliers;
- by utilising its technical expertise and global presence, Codan is able to differentiate its products in terms of quality, design features and exceptional service;
- customers and end users place significant importance on product reliability and customer support; and
- end user applications are in geographically dispersed or remote locations or in the developing world.

"Codan", "Minelab" and "Locus" are recognised brands in most of their respective markets. The Codan name has been used for more than 30 years domestically and internationally, while the Minelab name has established a strong national and international reputation over the past 15 years.

The Codan group now has sales, representation and customer service offices in Australia, the United States, the United Kingdom, the Republic of Ireland, China, India and Germany. These local offices allow Codan to better understand its customers' requirements particularly the specific geographic, infrastructure and regulatory issues. In addition, Codan has extensive sales and distribution networks globally. Codan staff travel regularly to all parts of the globe to service customer needs.

Innovation and continual development of leading, quality products

The Codan group's proven ability to maintain technological competitiveness, bring new products to market and to enhance its current products in order to meet its customers' requirements is fundamental to its success. Accordingly, the company is committed to research, design and product development and maintains substantial teams of research, engineering and technical staff for this purpose. Minelab products are supported by a strong and long-dated patent portfolio.

MANAGEMENT AND STAFF

Many of the Codan group's directors and senior managers have extensive periods of service with the company. The team has delivered strong business performance over many years.

The company's management and staff have extensive experience in design, manufacture and global marketing.

The Codan group now employs approximately 450 staff worldwide. The provision of safe, secure, challenging and rewarding employment for all staff is one of the company's key objectives.

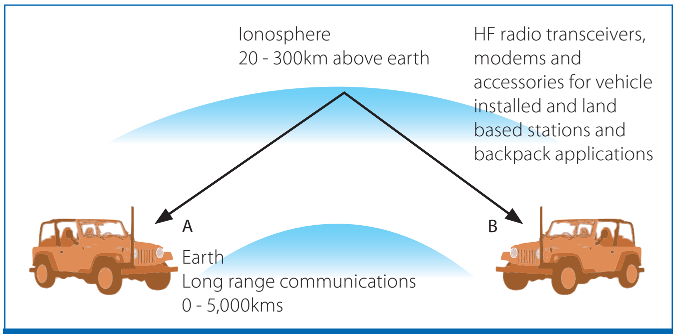
Codan Limited's people focussed objectives are:

- to ensure all staff know what is expected of them and how they contribute to the achievement of Codan's strategic and operational goals; and
- to be passionate in the constant development of the company's people and their talents.

PRODUCT GROUPS AND MARKETS

HF Radio Communications

HF radio (also known as short wave radio) is a universal and extensively used technology for communications in remote areas and over very long distances, extending to intercontinental coverage. By reflection of the HF radio wave off the ionosphere, an ionized region of the atmosphere, signals may be transmitted over many thousands of kilometres without need for man-made transmission infrastructure.



Principles of HF communications

Codan HF military manpack in base configuration

HF radio is typically used by organisations for first line or back-up operational communications of voice, fax or data, over long distances. HF radio will be chosen where long range communication without infrastructure, low capital and operating cost, rapid deployment and the ability to communicate operational information simultaneously to many stations are paramount.

Codan supplies radio transceivers, modems and accessories for vehicle installed, land base station and back pack applications. Codan HF radios are known for their very high reliability, excellence of performance and ease of operation. In its niche "Codan" has become the icon for HF radio in many countries around the world.

Codan's principal markets are where robust and reliable HF radios are required by aid and humanitarian organisations, security and military organisations, government departments and business users. The majority of Codan's HF radio sales are for use in the developing world and in remote regions of developed world countries.

ABOUT CODAN

Codan supplies HF radio to the majority of UN and major international non-government organisation (NGO) aid agencies, and to many smaller NGO and government humanitarian organisations.

Military and security users of Codan HF include national armed forces and organisations dealing with law enforcement, protection and peacekeeping such as police, customs, border patrol, coast guard, national guard, drug enforcement agencies and private security firms.

Other government applications include emergency services, embassies and departments of post and telecommunications, health, forestry, agriculture, fisheries and roads.

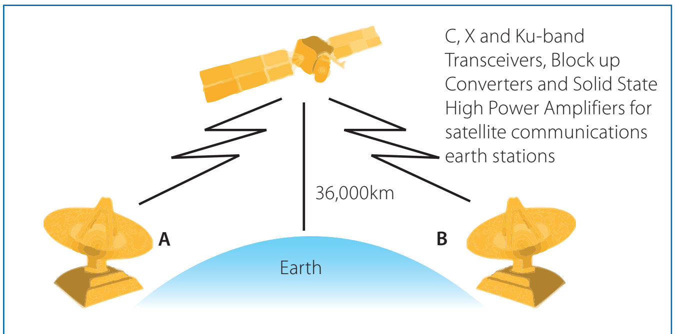
Commercial and business users include the construction, agriculture, forestry, mining, energy, road transport, power utility, coastal shipping and fishing industries.

Satellite Communications

In a satellite communications system, information is relayed between earth stations via satellites using microwave radio technology. The advantages of a satellite communications system are that it can transmit and receive information over very long distances irrespective of terrain and it can be deployed rapidly and cost effectively compared to wire-line and optical fibre, particularly in remote areas. Satellites can be used for broadcast services as well as for two way point-to-point or network communications.

Satellite networks offer a global communications capability and can support high data rates for both direct customer access and network backbone requirements across a broad range of applications.

Codan offers microwave radio and RF subsystem products, essential parts of satellite communications earth stations. The company's products are in the C-Band, Ku-Band, and with the acquisition of Locus Microwave, X-Band operating frequency bands. X-Band is typically used for military and other government applications. The company supplies satellite communications products to many of the world's leading satellite infrastructure suppliers, telecommunications carriers and government organisations through its sales presence in the United States of America, Europe and Asia.



Principles of satellite communications

Codan satellite BUC on an antenna

Codan and Locus products include a range of medium power transmitter/receiver equipment (transceivers), block up-converters (BUCs) and low noise amplifiers and block down-converters for integration into satellite earth station systems. These products are sold to system integrators and service providers who deploy satellite earth stations to deliver fixed, transportable (rapid-deploy) and mobile (on-the-move) communications infrastructure.

Typical users of the Codan branded satellite communications products have traditionally included GSM network providers offering mobile telephone services to remote areas, resource companies needing to communicate with their offshore exploration and drilling platforms, shipping companies providing broadband data services to their ocean-going vessels, government cross-border embassy communications networks and organisations providing infrastructure to support emergency, business continuity and mission critical communications.

Locus X-Band products will be deployed in earth stations for numerous dedicated government X-Band satellite communications networks including the Wideband Global Satellite Communications (WGS) satellites. The WGS satellites will be used by military and other government organisations in the United States and Australia, with the second of the six satellites successfully launched in April 2009.

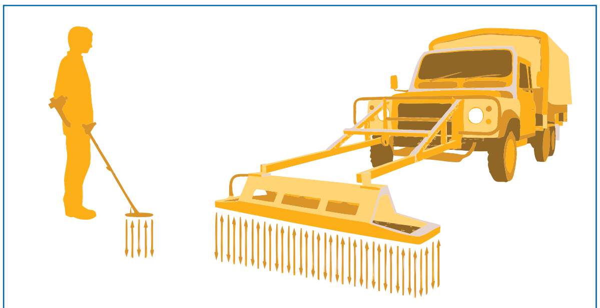
Codan and Locus satellite communications products are known for their high reliability which is key to the company's customers providing reliable communications services to remote parts of the world. For its newest products, Codan has placed substantial focus on achieving excellent transmit power to weight ratio. Minimising the size and weight of the products is highly valued by customers who integrate transportable rapid-deploy terminals, and stabilised earth stations that are used on offshore platforms and on board ships. These are both rapidly growing market segments for Codan and Locus satellite products.

Digital Microwave Radio
Digital Microwave Radio (DMR) links are used to transmit communications services by terrestrial microwave, for example the transmission of cellular telephone calls. Codan manufactures narrowband DMR links for voice, facsimile and data communications services in either PDH form (plesiochronous digital hierarchy) or LAN (Local Area Network – Ethernet) form with capacity up to 45Mbps. Codan DMR links are known for their excellent flexibility of configuration, high reliability, ease of installation and Codan's advanced network management system.

Metal Detection
Minelab was established in 1989 and has built a very strong brand name as one of the world's leading designers and manufacturers of metal detectors. It supplies products for two broad market segments, consumer applications and countermine (mine and unexploded ordnance clearing). The brand is synonymous with high-end products with an excellent reputation in both domestic and international markets. Customers include international aid agencies, military organisations and consumer customers in both the Australian and international markets.

The consumer market is for hand-held metal detectors which are sold to consumers through specialty distribution outlets in Europe, the Middle East, Africa, Asia, the Americas and Australia. Minelab produces a wide range of market leading, technologically advanced detectors. All key product segments are well catered for, including coin, treasure and relic detectors, gold detectors, underwater detectors and security scanning devices. The business successfully targets hobbyists and outdoor enthusiasts as well as professionals in various markets. This market for Minelab products is expected to grow in developing economies such as Russia, Eastern Europe and Asia, as well as from demand by retiring "baby boomers" in developed countries.

The countermine operations provide products and services including hand-held metal detectors, vehicle mounted array metal detector systems and training and maintenance services to humanitarian organisations and military bodies for the demining of war-affected regions. Eliminating the landmine threat is a key focus of many military and other government, United Nations and non-government organisations around the world.



Principles of metal detection

Broadcast Products
Television broadcasters manage a large number of video and audio signals, both analogue and digital, that ultimately provide the content to fill the many channels provided to viewers through numerous delivery methods including free-to-air, cable, satellite and Internet. In program preparation, these signals are combined, converted, monitored, distributed and switched throughout the broadcaster's studio facility.

Codan Broadcast designs and manufactures routing equipment, interface modules and monitoring products used by TV broadcasters, video pre- and post-production houses, and other users of professional audio/visual facilities around the world.

Codan's routers are second to none in their market niche in quality, superior ease of use, and Restriction of Hazardous Substances (RoHS) compliance. A new family of full high definition (3Gbps) routing switcher products has been recently released, expanding Codan's appeal in this global market.

Codan Broadcast products in studio operation

Electronics Manufacturing Services
The group's Parketronics operations focusses on the contract manufacturing and testing for Australian electronics businesses of specialist electronic components and sub-assemblies for a broad range of applications. In addition to Minelab and Codan, customers include businesses producing air conditioning systems, computer hardware, audio systems, security systems and point of sale equipment.

Parketronics' services include through hole production, surface mount production, prototyping, lead free manufacture and RoHS compliance (specifically for products sold in Europe), in-circuit, functional and final testing, sub and structural assemblies, turnkey products and box build solutions.

ABOUT CODAN

Printed Circuit Boards and Electronics Components

IMP Electronics Solutions manufactures single sided, double sided and multilayer printed circuit boards (PCBs) for over 400 electronics manufacturers in Australia and New Zealand including other members of the Codan group. IMP specialises in the supply of high quality product for short to medium runs, rapid turnaround and prototyping applications. Over recent years, IMP has established relationships with a number of overseas volume manufacturers of printed circuit boards and is also now able to meet the needs of its customers for long production runs at internationally competitive prices. IMP is currently expanding the range of imported products available to its customers to include membrane switches, decals, cables and other components. On-time delivery and excellent service are critical components of IMP's competitive advantage.

IMP and Parketronics have strong business synergies as complementary suppliers to the same customer base. Where appropriate these businesses team to better meet the needs of their customers and deliver improved business outcomes for the Codan group.

IMP circuit board products

Parketronics PCB loading facility

OPERATIONS

Codan has its Head Office in Newton, Adelaide and operates manufacturing facilities in Adelaide, Melbourne, County Cork, Ireland and Pennsylvania, USA.

Manufacturing operations for Codan's products consist of assembly, test and tune, and quality assurance. The group's products have a significant engineering content and require skilled technical labour for assembly and testing.

To ensure the company remains cost competitive in international markets, it has entered a relationship with one of the world's leading sub-contract electronics manufacturers. That organisation produces some of the company's product modules and finished goods in Malaysia. The partnership ensures that Codan's well proven manufacturing processes and exceptional performance, quality and delivery standards are replicated and safeguarded.

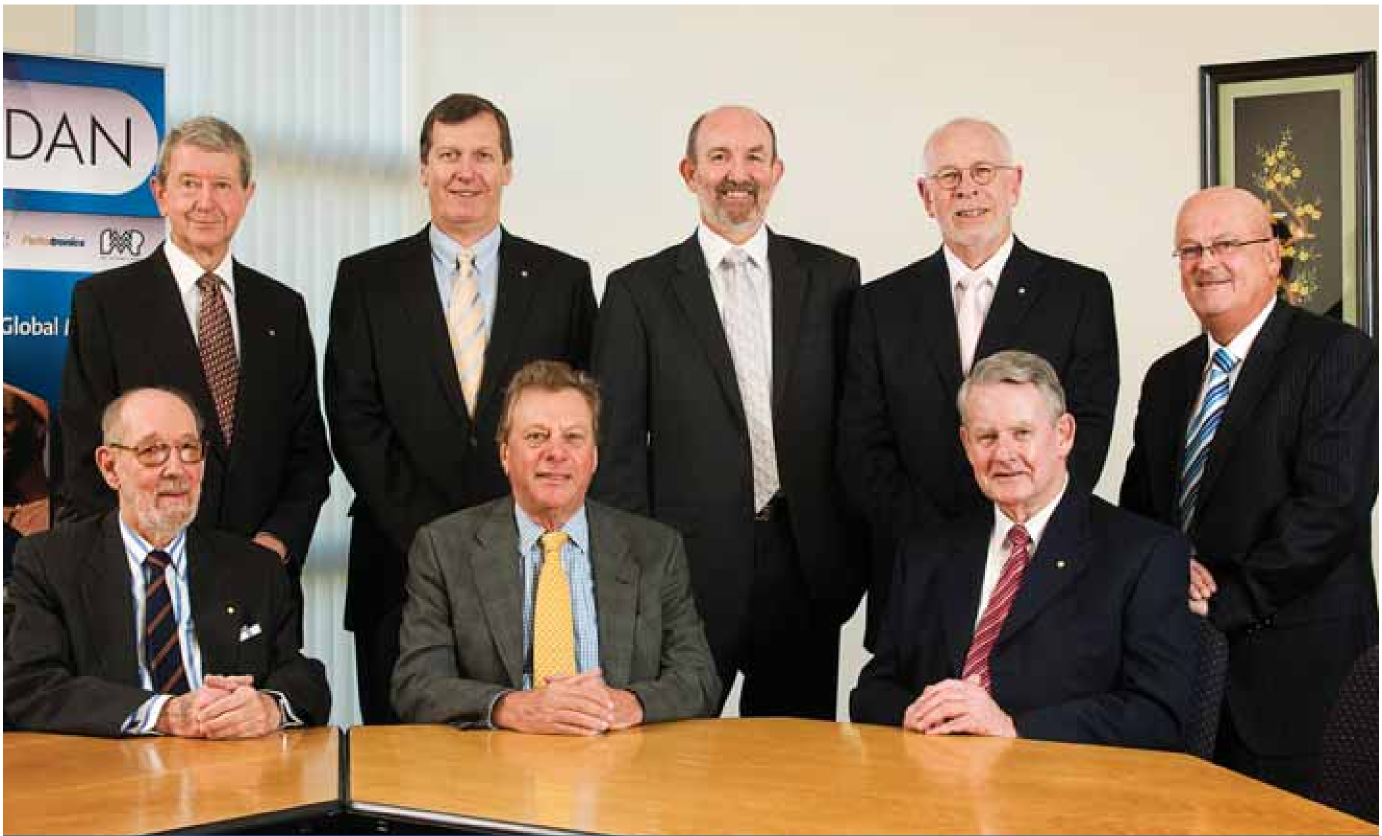
Codan Limited guards its reputation for reliability of products by adopting stringent testing and quality control procedures. The company maintains quality assurance systems approved to International Standard ISO 9001.

CODAN FINANCIAL REPORT
FOR YEAR ENDED 30 JUNE 2009

CODAN

DIRECTORS' REPORT

CODAN LIMITED AND ITS CONTROLLED ENTITIES



Back Row (L-R): Peter Griffiths, Lt-Gen Peter Leahy, Michael Heard, David Klingberg and David Simmons. **Front Row (L-R)**: Ian Wall, Dr David Klingner and Brian Burns.

The directors present their report together with the financial report of Codan Limited ("the Company") and of the Group, being the Company and its controlled entities, for the year ended 30 June 2009 and the auditor's report thereon.

DIRECTORS

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

Dr David Klingner B.Sc(Hons), PhD, FAusIMM
Chairman, Independent Non-Executive Director
Age 65

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, where he was engaged in a number of senior roles involving business leadership, project development and worldwide exploration activities, and where he gained extensive experience in the establishment and management of overseas operations. He is a former chairman of Coal & Allied Industries Ltd, Bougainville Copper Limited and the World Coal Institute. He was appointed as a director of Energy Resources of Australia Limited in July 2004 and is presently Chairman.

Michael Heard BE (Hons), MBA, FIE Aust, CPEng
Managing Director and Chief Executive Officer
Age 61

Mr Heard was appointed to the board as Managing Director in 1991. He was formerly General Manager and a director of Ribloc Group Ltd (civil engineering technology industry) and Chief Executive of Cheviot Manufacturing Pty Ltd (automotive components industry). Before that, Mr Heard held various engineering, marketing and management positions with CIG Ltd (now BOC Ltd) in Brisbane, the United Kingdom, Sydney and Adelaide. He is a former member of the Australian Space Council and the Australian National Telescope Steering Committee. Mr Heard was the founding president of South Australia's Electronics Industry Association and Chairman of that Association's Industry Leaders Forum. He is a former director of Amdel Limited.

Brian Burns AM, FCPA, FCIS, FAICD
Non-Executive Director
Age 70

Mr Burns was appointed to the board in 1996 (alternate director from 1990). Mr Burns is a former managing director of B Seppelt & Sons Ltd and a former chairman of the South Australian Government-owned Institute of Medical and

Veterinary Science and of Luminis Pty Ltd, the intellectual property commercialisation company of The University of Adelaide. He is a former director of ASX listed companies National Foods Limited (1991 to 2003) and Select Harvests Limited (1999 to 2004). He is a former director of Cascade Brewery Co. Limited and C-C Bottlers Limited. He has served the accountancy profession as the South Australian president of CPA Australia and as a member of the Auditing Standards Board of the Australian Accounting Research Foundation.

Peter Griffiths B.Ec (Hons), CPA, FAICD
Independent Non-Executive Director
Age 67

Mr Griffiths was appointed to the board in July 2001, following his retirement as a senior executive of Coca-Cola Amatil Limited. Mr Griffiths has extensive global experience, having worked in Central/Eastern Europe and South East Asia for Coca-Cola Amatil Limited. At various times he was Company Secretary, Chief Financial Officer and Managing Director of C-C Bottlers Limited and held board positions in Australia, New Zealand and the USA. He is a Certified Practising Accountant and has been President of the South Australian branch of the Financial Executives Institute, as well as Federal President of the Australian Soft Drink Industry.

David Klingberg AO, FTSE, BTech(Civil), DUniSA, FIEAust, FAusIMM, FAICD
Independent Non-Executive Director
Age 65

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. Mr Klingberg was Chancellor of the University of South Australia for 10 years, retiring in 2008. He has a number of private sector and government appointments, including Chairman of Barossa Infrastructure Limited and directorships of Snowy Hydro Limited, Centrex Metals Limited and E & A Limited. He is Chairman of the South Australian Premier's Climate Change Council and Chairman of the Leaders Institute of South Australia.

Lt-Gen Peter Leahy AC BA (Military Studies), MMAS, GAICD
Independent Non-Executive Director
Age 56

Lieutenant General Peter 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. 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.

David Simmons BA (Acc)
Independent Non-Executive Director
Age 55

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 the South Australian Centre for Innovation. He is a board member of Gunns Limited, the Commercial Motor Vehicles Group and Thomson Playford Cutlers lawyers. He is a former chairman of the SA Government Economic Development Board and of Korvest Ltd.

Ian Wall OAM, BE, FSASM, MIE Aust, CPEng
Non-Executive Director
Age 78

Mr Wall, one of the founders of the Company, was appointed to the board in 1959. He has been involved in many of the Company's operations but particularly in product related systems engineering. Mr Wall retired from the board on 30 June 2009.

COMPANY SECRETARIES

Rick Moody BA (Acc), FCA, FCIS, MAICD

Mr Moody was appointed to the position of company secretary in October 2007. Mr Moody has the responsibility for the financial control, reporting and information technology across the Codan Group. Prior to joining Codan, he was the Chief Financial Officer with Elders Australia Limited and Corporate Financial Controller and Group General Manager Finance and Administration with Adelaide Brighton Limited.

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 has the responsibility for the areas of Finance and Business Systems across the Codan Group. Prior to joining Codan in May 2004, he was a senior manager with KPMG Chartered Accountants.

DIRECTORS' MEETINGS

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

Director	Board Meetings A	Board Meetings B	Board Audit, Risk and Compliance Committee Meetings A	Board Audit, Risk and Compliance Committee Meetings B	Remuneration Committee Meetings A	Remuneration Committee Meetings B
Dr David Klingner	10	10			2	2
Michael Heard	10	10				
Brian Burns	10	10	3	3	2	2
Peter Griffiths	10	10	3	3		
David Klingberg	10	10	2	3		
Lt-Gen Peter Leahy	9	9				
David Simmons	8	10			2	2
Ian Wall	9	10				

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 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 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 consolidated entity, including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

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

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

Director and executive education

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

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

Independent professional advice and access to Company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an adviser suitably qualified in the relevant field. A copy of the advice received by the director is made available to all other members of the board. The Access, Indemnity and Insurance Deed for each director sets out their rights on these matters.

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 non-executive directors;
- directors having extensive knowledge of the Company's industries and/or extensive expertise in significant aspects of financial management or general management;
- a non-executive 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
- subject to re-election every three years (except for the managing director).

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

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

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

Board performance evaluation

The ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the establishment of a nomination committee. The role of nomination of proposed directors is conducted by the full board.

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:

- Brian Burns (Chairman) – Non-Executive Director
- Dr David Klingner – Independent Non-Executive Director
- David Simmons – Independent Non-Executive Director

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

Remuneration policies

Key management personnel comprises of the directors and executives of the Company, including the five most highly remunerated Company and Group executives. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect 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 bonuses based on the achievement of performance hurdles. The bonus is capped at 60% of the executive's salary package, and for the year ended 30 June 2009 the bonus percentage achieved was as follows:

	Short term incentive bonus	
	% vested in year	**% forfeited in year**
DIRECTORS		
Michael Heard	69.3%	30.7%
EXECUTIVES		
Peter Charlesworth	40.0%	60.0%
Donald McGurk	85.0%	15.0%
Rick Moody	64.2%	35.8%
Gary Shmith	38.8%	61.2%

The performance hurdles relate to measures of profitability and working capital management and also the qualitative performance of the executive team against objectives agreed as part of the budget and strategic planning processes.

These performance conditions have been established to encourage the profitable growth of the consolidated entity.

The board considered that for the year ended 30 June 2009 the above performance-linked remuneration structure was appropriate.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2003 AGM, is not to exceed $750,000 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.

Performance Rights

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.

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

	No. 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						
M K Heard	320,000	11 Nov 2008	44.5	–	30 Jun 2012	–
EXECUTIVES						
R J B Moody	160,000	11 Nov 2008	44.5	–	30 Jun 2012	–
D S McGurk	146,667	11 Nov 2008	44.5	–	30 Jun 2012	–
P D Charlesworth	146,667	11 Nov 2008	44.5	–	30 Jun 2012	–
G K Shmith	120,000	11 Nov 2008	44.5	–	30 Jun 2012	–

The performance rights become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the Company's earnings per share over a three year period using the Company's underlying earnings per share for the year ended 30 June 2008 as the base. For the maximum available number of performance rights to vest, the Company's earnings per share must increase in aggregate by 15% per annum over the three year period from the base earnings per share. The threshold level of the Company's earnings per share before vesting is an increase in aggregate of 5% per annum over the three year period from the base earnings per share. A pro-rata vesting will occur between the 5% and 15% levels of earnings per share for the three year period. The Company's underlying earnings per share is calculated by reference to the underlying profit after tax for the year ended 30 June 2008 of $10.5 million.

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

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 each of the five named officers of the Company and the Group receiving the highest remuneration are:

Directors		Salary & fees $	Short term bonuses $	Performance rights $	Post employment super contributions $	Total $	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration %
Non-executive							
Dr David Klingner	**2009**	**150,000**	**–**	**–**	**13,500**	**163,500**	**–**
	2008	150,000	–	–	13,500	163,500	–
Brian Burns	**2009**	**78,375**	**–**	**–**	**3,375**	**81,750**	**–**
	2008	75,000	–	–	6,750	81,750	–
Peter Griffiths	**2009**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2008	75,000	–	–	6,750	81,750	–
David Klingberg	**2009**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2008	75,000	–	–	6,750	81,750	–
Lt-Gen Peter Leahy	**2009**	**58,716**	**–**	**–**	**5,284**	**64,000**	**–**
David Simmons	**2009**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2008	12,500	–	–	1,125	13,625	–
Ian Wall	**2009**	**81,750**	**–**	**–**	**–**	**81,750**	**–**
	2008	81,750	–	–	–	81,750	–
TOTAL NON-EXECUTIVES' REMUNERATION	**2009**	**593,841**	**–**	**–**	**42,409**	**636,250**	**–**
	2008	469,250	–	–	34,875	504,125	–
Executive							
Michael Heard	**2009**	**562,940**	**249,600**	**47,413**	**13,745**	**873,698**	**5.4%**
	2008	579,177	125,400	–	45,135	749,712	–
TOTAL DIRECTORS REMUNERATION	**2009**	**1,156,781**	**249,600**	**47,413**	**56,154**	**1,509,948**	**–**
	2008	1,048,427	125,400	–	80,010	1,253,837	–

Lt-Gen P F Leahy was appointed as a director on 19 September 2008 and Mr I B Wall retired as a director on 30 June 2009.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Executive officers		Salary & fees $	Short term bonuses $	Performance rights $	Post employment super contributions $	Total $	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration %
Peter Charlesworth (General Manager – Minelab)	**2009**	**257,054**	**66,000**	**21,731**	**22,181**	**366,966**	**5.9%**
	2008	269,591	85,263	–	21,169	376,023	–
Allan Gobolos (General Manager – Links)	2008	184,676	3,596	–	23,741	212,013	–
Donald McGurk (General Manager – HF and Manufacturing Communications Products)	**2009**	**262,610**	**140,250**	**21,731**	**19,451**	**444,042**	**4.9%**
	2008	261,206	51,290	–	18,598	331,094	–
Rick Moody (Chief Financial Officer and Company Secretary)	**2009**	**275,497**	**115,500**	**–**	**24,680**	**415,677**	**–**
	2008	222,277	82,500	–	18,447	323,224	–
Gary Shmith (General Manager – Satcom)	**2009**	**210,861**	**52,425**	**17,780**	**18,488**	**299,554**	**5.9%**
	2008	209,559	42,323	–	17,001	268,883	–
TOTAL EXECUTIVE OFFICERS' REMUNERATION	**2009**	**1,006,022**	**374,175**	**61,242**	**84,800**	**1,526,239**	**–**
	2008	1,147,309	264,972	–	98,956	1,511,237	–

Mr R Moody joined Codan Limited on 3 October 2007.

The remuneration amounts disclosed above have been calculated based on the expense to the Company for the financial year, therefore items such as annual leave and long service leave, taken and provided for, have been considered. 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:

	2009	**2008**	**2007**	**2006**	**2005**
Net profit after tax	**12,006,000**	1,009,000	11,239,000	8,487,870	16,204,132
Dividends paid	**10,532,955**	10,532,955	10,532,955	9,722,728	8,840,031
Change in share price at 30 June	**$0.04**	($0.34)	$0.02	($0.48)	($0.40)

The net profit after tax of $1.0 million for 2008 was reduced by impairment write downs of $8.7 million after tax.

The net profit after tax for the 2005 year has not been adjusted for the impact of adopting International Financial Reporting Standards.

BOARD AUDIT, RISK AND COMPLIANCE COMMITTEE

The Board Audit, Risk and Compliance Committee have 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:

- Peter Griffiths (Chairman) – Independent Non-Executive Director
- Brian Burns – Non-Executive Director
- David Klingberg – Independent Non-Executive Director

The external auditors, the managing director and 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 the need for an 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;
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act;
- reviewing the nomination and performance of the external auditor. The external audit engagement partner is new to the engagement this year.
- 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 review 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 impact 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 to monitor the implementation of any recommendations made; and
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

RISK MANAGEMENT

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

Oversight of the risk management system

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

The Board Audit, Risk and Compliance Committee considers risk 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 accreditation.

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;

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- 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 implement 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 the board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

Internal audit

The Board Audit, Risk and Compliance Committee is responsible for determining the need for an internal audit function for the Group. The committee has determined that internal audit requirements and priorities will be determined by reference to the Company's risk register.

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 for 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 entity's code of conduct. The code of conduct covers the following:

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

- responsible and proper use of Company property and funds; and
- reporting of unlawful behaviour.

Trading in general Company securities by directors and employees

The key elements of the Employees Dealing in Codan Limited's Shares policy are:

- identification of those restricted from trading – directors, executives and senior managers may acquire shares in the Company, but are prohibited from dealing in Company shares:
  - except between twenty four hours and four weeks after the release of the half-year and annual results, the holding of the Annual General Meeting and following the release of an announcement that gives informative guidance on the Company's upcoming results; or
  - whilst in possession of price sensitive information not yet released to the market;
- 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.

COMMUNICATION WITH SHAREHOLDERS

The board provides shareholders with information in accordance with Continuous Disclosure requirements, which includes 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. This review is sent to all shareholders. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), is placed on the Company's website after they are released to the ASX.
- 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 Group's website.

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

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

OPERATING AND FINANCIAL REVIEW

The board of Codan Limited has announced an underlying net profit after tax of $12.8 million for the year ended 30 June 2009. This compares with $10.5 million in the previous year, a 22% improvement, and is in line with the guidance given by the Chairman at the 2008 AGM.

The audited net profit after tax is $12.0 million compared to $1.0 million in the previous year. The difference between underlying and audited NPAT of $0.8 million arises principally from integration and restructuring expenses following the acquisition of Minelab Electronics Pty Ltd.

The profit arose from full year revenue of $132.4 million, compared with $109.9 million in FY08.

The company acquired Minelab on 29 February 2008 and so the FY09 results include Minelab for a full year compared with four months in FY08.

Net cash flows from operating activities were very strong at $25.5 million compared to $17.1 million in the previous year. This more than covered the Group's requirements for operational capital expenditure, capitalised product development, the Locus acquisition and dividends and resulted in a reduction in net debt of $3 million to $59.1 million for the year.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The board has declared a steady final dividend of 3.5 cents per share, maintaining the annual dividend at 6.5 cents per share.

CODAN SUMMARY FINANCIAL PERFORMANCE

	Year ended 30 June			
	FY09		FY08	
Full year results	$m	%	$m	%
REVENUE				
Communications Products	**$77.3**	**58.4%**	$83.4	75.9%
Metal Detection*	**$41.7**	**31.5%**	$16.2	14.7%
Other	**$13.4**	**10.1%**	$10.3	9.4%
Total Revenue	**$132.4**	**100.0%**	$109.9	100.0%
UNDERLYING BUSINESS PERFORMANCE				
EBITDA	**$29.4**	**22.2%**	$24.3	22.2%
EBIT	**$21.5**	**16.2%**	$17.0	15.4%
Interest	**($4.6)**		($2.2)	
Net profit before tax	**$16.9**	**12.8%**	$14.8	13.4%
Net profit after tax	**$12.8**	**9.7%**	$10.5	9.6%
Net non-recurring expense after tax**	**$0.8**		$9.5	
Net profit after tax	**$12.0**		$1.0	
	cents		cents	
Underlying earning per share, fully diluted	**7.9**		6.5	
Dividend per share	**6.5**		6.5	

* 12 months operations in FY09 compared to 4 months in FY08
** Principally integration and restructuring expenses following the acquisition of Minelab

COMMUNICATIONS PRODUCTS

HF radio grew strongly as we further penetrated new markets for global security, protection and military applications. This more than offset the continued reduction in our traditional markets for aid and humanitarian and other government applications.

As previously advised, FY09 was expected to be a difficult year for satellite communications and this proved to be correct. The global financial crisis had more impact on this product range than any other part of the Codan group. This and the continued technology driven shift in demand to Codan's new lower priced product family saw satellite communications revenues and earnings reduced significantly.

METAL DETECTION

Minelab metal detection exceeded expectations in the first full year of our ownership of this important new business. Whilst sales of countermine products slowed in the second half of the financial year, the consumer products business performed exceptionally well off the back of product releases for gold, and coin and treasure applications in April 2008 and early in the financial year. The countermine business is very much dependent on contract activity at any point in time. The aid and humanitarian markets for this product are contracting, as they are for HF radio. Future success for countermine will be dependent on winning more work in military markets and therefore we are now refocussing our research and development efforts in that direction.

INTEGRATION AND RESTRUCTURING

Outsourcing of manufacture of selected group communications products to our Malaysian service provider, and Minelab integration initiatives, have continued apace. The Minelab Adelaide manufacturing operations have been transferred to the Company's flagship communications products manufacturing facility in Adelaide. Most recently, as announced in June 2009, the Company decided to cease Minelab's Irish manufacturing by December 2009 and to outsource the majority of that activity to Malaysia. Codan's enterprise resource planning business system is being extended to Minelab metal detection and to electronics manufacturing services subsidiary Parketronics. These projects have already delivered substantial benefit to the group, and more will follow.

Minelab's R&D and product development, Asia-Pacific sales and marketing, and selected other staff and operations remain located at Minelab's Torrensville Adelaide site.

STRENGTHENED BALANCE SHEET

As a result of the global financial crisis the board considered it prudent to embark in FY09 upon a programme to systematically improve gearing. As a result the Company's net debt was reduced from $62.1 million at 30 June 2008 to $59.1 million at 30 June 2009, which is after the $A4.2 million used to acquire Locus Microwave on 1 May 2009. We have maintained strong debtor credit control, and tight inventory management resulted in a $4.2 million reduction in inventory over the year. Furthermore, we have raised capital ($1.3 million) from a share purchase plan and employee share plan and sold surplus land in Adelaide ($1.5 million).

ACQUISITION OF LOCUS MICROWAVE

We have said that further "clever products" business acquisitions are essential to the Company achieving its' growth objectives. On 1 May 2009, Codan announced a strategic expansion of its satellite communications business, acquiring Locus Microwave, situated in State College, Pennsylvania, for $US3.03 million ($A4.2 million).

Locus is a specialist microwave technology company, in the early stages of its development cycle, primarily focused on the design, manufacture and supply of satellite communications products, in particular at X-Band frequency. The X-Band market, being developed specifically for military and government purposes, offers substantial future opportunities to the Codan Group over the medium to long term.

The Locus products and technologies complement Codan's existing satellite communications business very well. Codan is a market leader in the supply of similar products operating at C-Band and Ku-Band, used in both the commercial and government markets globally. This acquisition will enable Codan to increase the size of its' addressable market and its' access to the very significant US and European government markets. The opportunity for the combined business to benefit from know-how and synergies related to development, manufacturing and markets is also substantial.

Early indications are that the Locus business will perform at least as well as our expectations at the time of the acquisition.

OUTLOOK

In financial year 2009/10 we will continue our focus on growing market share and profitability in our core business activities of communications products and metal detection. Integration of the Minelab acquisition into the group, particularly the restructure of manufacturing and implementation of the company's enterprise resource planning business system, will be completed. The new opportunity is to leverage the combined Codan and Locus Microwave brands, market presence and product portfolio to strengthen the company's position in the satellite communications market.

It is expected that HF Radio will continue to perform well in FY10. Satellite communications revenues are expected to be flat for the first half of FY10, before beginning a gradual recovery for the second half of the financial year. Overall we expect communications products to grow. Metal detection's consumer sales are expected to again be strong in FY10 with exciting new product offerings in the pipeline. Countermine sales are dependant on timing of projects but we expect an improved FY10.

In FY10 we intend to sell Minelab land and buildings in Adelaide and Ireland, made surplus by integration and restructuring projects, further strengthening the balance sheet.

The company has hedged its expected full year net exposure to foreign currencies at 77.4 US cents and 57.0 Euro cents to the Australian dollar.

Some uncertainty remains about the global recession, but gradual recovery seems to be at hand. The board believes that despite this uncertainty Codan has the right platform and strategy for continued growth and the outlook for the company in FY10 is positive.

DIVIDENDS

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

	Cents per share	Total amount $’000	Franked	Date of Payment
DECLARED AND PAID DURING THE YEAR ENDED 30 JUNE 2009:				
Final 2008 ordinary	3.5	5,672	100%	1 October 2008
Interim 2009 ordinary	3.0	4,861	100%	1 April 2009
DECLARED AFTER THE END OF THE YEAR:				
Final 2009 ordinary	3.5	5,745	100%	1 October 2009

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 consolidated entity, the results of those operations, or the state of affairs of the Group, in future financial years.

LIKELY DEVELOPMENTS

The Group will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year.

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

DIRECTORS’ INTERESTS

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

	Ordinary shares
Brian Burns	11,671,424
Peter Griffiths	138,065
Michael Heard	4,407,587
David Klingberg	66,765
Dr David Klingner	367,840
Lt-Gen Peter Leahy	44,065
David Simmons	–
Ian Wall	34,801,008

INDEMNIFICATION AND INSURANCE OF OFFICERS

INDEMNIFICATION

The Company has agreed to indemnify the current and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Access, Indemnity and Insurance Deed agreement stipulates that the Company 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;

- 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 28 for a copy of the auditors' independence declaration as required under Section 307C of the Corporations Act.

Details of the amounts paid or payable to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	Consolidated	
	2009 $	**2008 $**
STATUTORY AUDIT		
Audit and review of financial reports (KPMG Australia)	**175,000**	166,000
Audit of financial reports (overseas KPMG firms)	**71,746**	21,744
	246,746	187,744
SERVICES OTHER THAN STATUTORY AUDIT		
Other assurance services		
Due diligence and corporate finance services	**42,055**	463,396
Accounting advice	**8,500**	10,000
Other services		
Taxation compliance services (KPMG Australia)	**117,076**	69,353
Taxation compliance services (overseas KPMG firms)	**156,674**	60,133
	324,305	602,882

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 David Klingner
Director

Mike Heard
Director

Dated at Newton this 19th day of August 2009.

LEAD AUDITORS' INDEPENDENCE DECLARATION

CODAN LIMITED AND ITS CONTROLLED ENTITIES

KPMG

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

To: the directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 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

KPMG

N T Faulkner
Partner

Adelaide

19 August 2009

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
Revenue		**132,364**	109,945	**76,858**	83,234
Cost of sales		**(70,158)**	(59,865)	**(40,042)**	(44,879)
Gross profit		**62,206**	50,080	**36,816**	38,355
Other income	5	**1,651**	879	**643**	239
Administrative expenses		**(10,955)**	(9,278)	**(8,943)**	(7,587)
Sales and marketing expenses		**(23,659)**	(19,364)	**(12,874)**	(15,035)
Engineering expenses		**(7,372)**	(6,768)	**(4,983)**	(6,058)
Net financing costs	6	**(6,219)**	(1,957)	**(6,464)**	(1,331)
Impairment of inventory and non current assets	3	**–**	(9,954)	**(228)**	(10,254)
Other expenses		**–**	(8)	**–**	–
Profit before tax		**15,652**	3,630	**3,967**	(1,671)
Income tax expense	8	**(3,646)**	(2,621)	**(898)**	(1,332)
Profit for the year		**12,006**	1,009	**3,069**	(3,003)

Earnings per share for profit attributable to the ordinary equity holders of the company:

	Note	2009	2008
Basic earnings per share	32	**7.4 cents**	0.6 cents
Diluted earnings per share	32	**7.4 cents**	0.6 cents

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 33 to 67.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated		The Company	
	Note	**2009 $000**	2008 $000	**2009 $000**	2008 $000
Exchange differences on translation of foreign operations	23	**(353)**	308	**–**	–
Gains/(Losses) on cash flow hedges taken to/from hedging reserve	23	**(356)**	737	**(356)**	737
Net income recognised directly in equity		**(709)**	1,045	**(356)**	737
Profit for the period		**12,006**	1,009	**3,069**	(3,003)
Total recognised income and expense for the period		**11,297**	2,054	**2,713**	(2,266)

Other movements in equity arising from transactions with owners are set out in the notes to the financial statements.

The statements of recognised income and expense are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 33 to 67.

BALANCE SHEETS

AS AT 30 JUNE 2009

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
CURRENT ASSETS					
Cash and cash equivalents	9	**13,895**	5,417	**11,033**	3,931
Trade and other receivables	10	**16,094**	18,304	**16,473**	19,578
Inventories	11	**14,230**	18,427	**6,764**	10,538
Current tax assets	8	**577**	536	**577**	–
Other assets	12	**2,097**	3,329	**1,757**	2,802
Total current assets		**46,893**	46,013	**36,604**	36,849
NON-CURRENT ASSETS					
Investments	14	**50**	50	**90,081**	89,609
Property, plant and equipment	15	**23,222**	25,034	**14,163**	14,573
Product development	16	**15,205**	12,518	**12,824**	11,978
Intangible assets	17	**77,168**	73,156	**2,669**	3,354
Deferred tax assets	8	**26**	42	**–**	–
Total non-current assets		**115,671**	110,800	**119,737**	119,514
Total assets		**162,564**	156,813	**156,341**	156,363
CURRENT LIABILITIES					
Trade and other payables	18	**17,479**	18,091	**10,705**	11,380
Other liabilities	19	**–**	–	**15,683**	11,771
Loans and borrowings	20	**10**	6	**–**	–
Current tax payable	8	**163**	1,738	**–**	1,566
Provisions	21	**3,914**	4,042	**2,356**	2,905
Total current liabilities		**21,566**	23,877	**28,744**	27,622
NON-CURRENT LIABILITIES					
Loans and borrowings	20	**72,997**	67,555	**72,987**	67,535
Deferred tax liabilities	8	**1,031**	515	**1,883**	1,971
Provisions	21	**2,998**	2,822	**1,977**	1,829
Total non-current liabilities		**77,026**	70,892	**76,847**	71,335
Total liabilities		**98,592**	94,769	**105,591**	98,957
Net assets		**63,972**	62,044	**50,750**	57,406
EQUITY					
Share capital	22	**24,849**	23,685	**24,849**	23,685
Reserves	23	**735**	1,444	**843**	1,199
Retained earnings	24	**38,388**	36,915	**25,058**	32,522
Total equity		**63,972**	62,044	**50,750**	57,406

The balance sheets are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 33 to 67.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**139,706**	114,573	**78,789**	85,673
Cash payments to suppliers and employees		**(106,025)**	(90,959)	**(53,166)**	(65,856)
Interest received		**350**	213	**299**	171
Interest paid		**(4,955)**	(2,427)	**(4,508)**	(2,269)
Income taxes paid		**(3,599)**	(4,340)	**(3,565)**	(3,679)
Net cash from operating activities	28(ii)	**25,477**	17,060	**17,849**	14,040
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries	28(iii)	**(5,989)**	(66,726)	**(2,612)**	(68,010)
Proceeds from sale of property, plant and equipment		**1,605**	7	**512**	1
Dividends received		**46**	39	**–**	–
Payments for capitalised product development		**(6,563)**	(4,224)	**(4,588)**	(3,682)
Payments for intellectual property		**(553)**	(258)	**–**	–
Acquisition of property, plant and equipment		**(1,808)**	(853)	**(1,149)**	(459)
Acquisition of intangibles (computer software)		**(349)**	(82)	**(164)**	(52)
Net cash used in investing activities		**(13,610)**	(72,097)	**(8,001)**	(72,202)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**5,979**	67,535	**5,973**	67,535
Repayments of borrowings		**(10)**	(2,363)	**–**	(2,357)
Proceeds/(Repayment) of loans to/(from) related companies		**–**	–	**650**	2,628
Proceeds from issue of shares		**1,164**	–	**1,164**	–
Dividends paid		**(10,533)**	(10,533)	**(10,533)**	(10,533)
Net cash from/(used in) financing activities		**(3,400)**	54,639	**(2,746)**	57,273
Net increase/(decrease) in cash held		**8,467**	(398)	**7,102**	(889)
Cash and cash equivalents at the beginning of the financial year		**5,417**	5,862	**3,931**	4,820
Effects of exchange rate fluctuations on cash held		**11**	(47)	**–**	–
Cash and cash equivalents at the end of the financial year	28(i)	**13,895**	5,417	**11,033**	3,931

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 33 to 67.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Codan Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2009 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 19 August 2009.

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 and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

B. BASIS OF PREPARATION

The consolidated financial report is prepared in Australian dollars (the Company's functional currency and the functional currency of the majority of the Group) on the historical costs basis except that derivative financial instruments are stated at their fair value. The following standards, amendments and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009 but have not been applied in preparing this financial report:

Revised *AASB Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in the income statement
- Transaction costs, other than share and debt issue costs, will be expensed as incurred
- Any pre-existing interest in the acquiree will be measured at fair value, with the gain or loss recognised in profit or loss
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The revised AASB, which becomes mandatory for the Group's 30 June 2010 financial reports, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 financial report.

Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value, with the gain or loss recognised in profit or loss. The amendments to AASB 127, which becomes mandatory for the Group's 30 June 2010 financial reports, are not expected to have a significant impact on the consolidated financial reports.

AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, may require a change in the presentation on, and disclosure of, segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.

Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements. In accordance with the transitional provisions, the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 30 June 2010 financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 2008-1 *Amendments to Australian Accounting Standard – Share Based Payment: Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affects various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.

AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial reports. The amendments become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments.

AASB 2008-8 *Amendments to Australian Accounting Standard – Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

AI 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that net investment hedging can only be applied when the net assets of the foreign application are recognised in the entity's consolidated financial reports. AI 16 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the interpretation.

The Company 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.

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.

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.

Associates

An associate is an entity, other than a partnership, over which the Group exercises significant influence, but not control, over the financial and operating policies, and where the investment in that entity has not been acquired with a view to disposal in the near future. In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount. In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and the recoverable amount.

Unrealised gains resulting from transactions with associates, including those related to contributions of non-monetary assets on establishment, are eliminated to the extent of the Group's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the

investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

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 equipment is recognised (net of rebates, returns, discounts and other allowances) when the significant risks and rewards of ownership passes 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.

Rendering of services

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

Dividends

Revenue from dividends and distributions from controlled entities are recognised by the parent entity when they are declared.

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 relating to borrowings, interest received on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the Income Statement. Qualifying assets are assets which 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 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 currency 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 re-translation of a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity, to the extent that the hedge is effective.

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 (FCTR) 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 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 equity, in the FCTR, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. DERIVATIVE FINANCIAL INSTRUMENTS

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

Hedging

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 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, in which case it is recognised in equity.

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 are only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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 to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

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

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

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

I. GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (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 measured 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 carried 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. INVESTMENTS

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

N. INTANGIBLE ASSETS

Product development costs

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

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

The expenditure capitalised 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 profit or loss when incurred.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Negative goodwill is recognised directly in the income statement.

Goodwill in relation to acquisitions prior to the transition to AIFRS, being 1 July 2004, is recognised on the basis of deemed cost, which represents the amount recorded under previous GAAP.

Intellectual property

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

Other intangible assets

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 profit or loss as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortisation

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 and intellectual property	2–15 years
Computer software	3–7 years

O. PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated 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, and the costs of dismantling and removing the items and restoring the site on which they are located. 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" in profit or loss.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

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

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 on the Group's Balance Sheet.

Depreciation

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	33%
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 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.

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 asset 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 and annual leave represent present obligations resulting from employees' services provided to 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 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 reporting date which most closely match the terms of maturity of the related liabilities.

Defined contribution superannuation funds

The Group contributes to defined contribution superannuation plans. 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.

Dividends

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

Restructuring and employee termination benefits

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

Warranty

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

Onerous contracts

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

U. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

2. DIVIDENDS

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
i. an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 2 October 2007	**–**	5,672	**–**	5,672
ii. an ordinary interim dividend of 3 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2008	**–**	4,861	**–**	4,861
iii. an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2008	**5,672**	–	**5,672**	–
iv. an ordinary interim dividend of 3 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2009	**4,861**	–	**4,861**	–
	10,533	10,533	**10,533**	10,533

SUBSEQUENT EVENTS

Since the end of the financial year, the directors declared an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits. The dividend of $5,745,109 will be paid on 1 October 2009. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2009 and will be recognised in subsequent financial reports.

DIVIDEND FRANKING ACCOUNT

Franking credits available to shareholders for subsequent financial years (30%)			**3,346**	6,290

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. 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 $2,462,190 (2008: $2,430,681).

3. IMPAIRMENT OF INVENTORY AND NON CURRENT ASSETS

In the 2008 financial year, impairment write downs were recorded for the Digital Microwave Radio product line, (which forms part of the Communications business segment), and Codan Broadcast Products Pty Ltd. The impairment recognised in the 2009 financial year relates to the loan receivable from a subsidiary company, Codan Broadcast Products Pty Ltd.

Inventory	**–**	2,031	**–**	1,431
Plant and equipment	**–**	438	**–**	216
Product development	**–**	1,786	**–**	1,786
Goodwill	**–**	5,699	**–**	–
Investment in subsidiary	**–**	–	**–**	5,337
Write down of loan to subsidiary	**–**	–	**228**	1,484
	–	9,954	**228**	10,254

4. SEGMENT ACTIVITIES

Segment results, assets and liabilities include items directly attributed to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest bearing loans, borrowings and related expenses, corporate assets and related expenses.

BUSINESS SEGMENTS

The Group comprises three business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The other business segment includes the manufacture and marketing of printed circuit boards, a specialist electronic component manufacturing business and the manufacture of electronic equipment for the broadcast industry.

	Communications		Metal Detection*		Other		Elimination		Consolidated	
Business segments	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000
REVENUE										
External segment revenue	**77,335**	83,387	**41,650**	16,220	**13,379**	10,338	**–**	–	**132,364**	109,945
Inter segment revenue	**–**	–	**67**	–	**5,059**	2,681	**(5,126)**	(2,681)	**–**	–
Total segment revenue	**77,335**	83,387	**41,717**	16,220	**18,438**	13,019	**(5,126)**	(2,681)	**132,364**	109,945
Other unallocated revenue									**–**	–
Total revenue									**132,364**	109,945
RESULT										
Segment result before impairment and restructure costs	**18,800**	17,781	**11,243**	5,448	**477**	129	**106**	(34)	**30,626**	23,324
Impairment charge	**–**	(3,433)	**–**	–	**–**	(6,521)	**–**	–	**–**	(9,954)
Restructure costs	**(153)**	(754)	**(1,097)**	(316)	**(323)**	(99)	**–**	–	**(1,573)**	(1,169)
Segment result	**18,647**	13,594	**10,146**	5,132	**154**	(6,491)	**106**	(34)	**29,053**	12,201
Unallocated corporate expenses									**(13,401)**	(8,571)
Profit from operating activities									**15,652**	3,630
Income tax expense									**(3,646)**	(2,621)
Net Profit									**12,006**	1,009
NON CASH ITEMS INCLUDED ABOVE										
Depreciation and amortisation	**6,053**	6,756	**1,506**	380	**333**	242	**–**	–	**7,892**	7,378
ASSETS										
Segment assets	**68,880**	68,057	**71,265**	72,255	**5,777**	7,130	**–**	–	**145,922**	147,442
Investments									**50**	50
Unallocated corporate assets									**16,592**	9,321
Consolidated total assets									**162,564**	156,813
LIABILITIES										
Segment liabilities	**18,007**	16,855	**5,127**	5,494	**1,255**	2,609	**–**	–	**24,389**	24,958
Unallocated corporate liabilities									**74,203**	69,811
Consolidated total liabilities									**98,592**	94,769

* The 2008 comparative for the Metal Detection segment includes 4 months of Minelab Electronics Pty Ltd which was acquired on 29 February 2008.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

4. SEGMENT ACTIVITIES (CONTINUED)

GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenue has been based on the geographic location of the customers, however the final location of the product's use is often unknown. Segment assets are based on the geographic location of the assets. The Group has manufacturing and corporate offices in Australia, with overseas representative offices in the United States of America, England, Germany, India, China and a manufacturing facility and representative office in Ireland.

Geographical segments		Europe $000	Americas $000	Asia $000	Australia/ Oceania $000	Africa $000	Consolidated $000
External segment revenue by location of customers	**2009**	**37,215**	**38,823**	**13,002**	**27,889**	**15,434**	**132,364**
	2008	30,750	33,294	13,218	18,503	14,180	109,945
Segment assets by location of assets	**2009**	**7,341**	**7,811**	**–**	**147,412**	**–**	**162,564**
	2008	7,327	1,483	–	148,003	–	156,813
Acquisitions of non current assets	**2009**	**114**	**5,108**	**–**	**8,923**	**–**	**14,145**
	2008	1,748	107	–	66,923	–	68,778

5. OTHER INCOME

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Dividend income	**46**	39	**–**	–
Services income	**761**	502	**–**	–
Other items	**465**	326	**240**	138
Rental income	**19**	12	**100**	100
Gain on sale of property, plant and equipment	**360**	–	**303**	1
	1,651	879	**643**	239

6. EXPENSES

NET FINANCING COSTS:

Interest income	**(350)**	(213)	**(299)**	(171)
Net foreign exchange (gain)/loss	**1,614**	(257)	**2,255**	(767)
Interest expense	**4,955**	2,427	**4,508**	2,269
	6,219	1,957	**6,464**	1,331

DEPRECIATION OF:

Buildings	**727**	420	**354**	351
Leasehold property	**34**	19	**–**	–
Plant and equipment	**1,810**	1,608	**1,015**	1,162
	2,571	2,047	**1,369**	1,513

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
AMORTISATION OF:				
Product development costs	**3,875**	4,357	**3,741**	4,356
Intellectual property	**533**	126	**–**	–
Computer software	**913**	848	**848**	824
	5,321	5,331	**4,589**	5,180
PERSONNEL EXPENSES:				
Wages and salaries	**28,107**	23,867	**14,621**	15,589
Other associated personnel expenses	**2,755**	2,057	**976**	1,126
Contributions to defined contribution superannuation plans	**2,906**	2,211	**1,249**	1,457
Increase in liability for long service leave	**323**	382	**181**	300
Increase in liability for annual leave	**1,339**	1,586	**1,044**	1,179
	35,430	30,103	**18,071**	19,651
Impairment of trade receivables	**(277)**	57	**(62)**	99
Operating lease rental expense	**1,423**	586	**631**	590
Loss on sale of property, plant and equipment	**–**	8	**–**	–
Restructuring costs expensed as incurred	**1,573**	1,169	**1,142**	361

7. AUDITORS' REMUNERATION

	Consolidated		The Company	
	2009 $	2008 $	**2009 $**	2008 $
AUDIT SERVICES:				
KPMG Australia – audit and review of financial reports	**175,000**	166,000	**110,000**	110,000
Overseas KPMG firms – audit of financial reports & assurance services	**71,746**	21,744	**30,882**	–
Other auditors – audit and review of financial reports	**–**	17,026	**–**	–
OTHER SERVICES:				
KPMG Australia – taxation services	**117,076**	69,353	**90,282**	69,353
KPMG Australia – other assurance services	**8,500**	10,000	**8,500**	10,000
Overseas KPMG firms – taxation services	**156,674**	60,133	**119,533**	60,133
KPMG related practices – due diligence and corporate finance services	**42,055**	463,396	**42,055**	463,396
	571,051	807,651	**401,252**	712,882

8. INCOME TAX

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
A. INCOME TAX EXPENSE				
Current tax expense:				
Current tax paid or payable for the financial year	**2,982**	3,953	**932**	2,089
Adjustments for prior years	**67**	(95)	**(34)**	(131)
	3,049	3,858	**898**	1,958
Deferred tax expense:				
Origination and reversal of temporary differences	**597**	(1,237)	**–**	(626)
Total income tax expense in income statement	**3,646**	2,621	**898**	1,332
Reconciliation between tax expense and pre-tax net profit:				
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**4,696**	1,089	**1,190**	(501)
Decrease in income tax expense due to:				
Additional deduction for research and development expenditure	**482**	211	**334**	182
Over-provision for taxation in previous years	**87**	95	**34**	131
Effect of tax rates in foreign jurisdictions	**472**	–	**–**	–
Sundry items	**153**	(16)	**119**	–
	3,502	799	**703**	(814)
Increase in income tax expense due to:				
Non-deductible expenses	**106**	86	**98**	75
Depreciation	**28**	26	**29**	25
Impairment of assets	**–**	1,710	**68**	2,046
Sundry items	**10**	–	**–**	–
Income tax expense	**3,646**	2,621	**898**	1,332
B. CURRENT TAX LIABILITIES/ASSETS				
Balance at the beginning of the year	**(1,202)**	(1,769)	**(1,566)**	(1,611)
Acquired through business combination	**–**	90	**–**	–
Net foreign currency differences on translation of foreign entities	**(2)**	38	**–**	–
Tax payable transferred by entities in the tax consolidated group	**–**	–	**(1,311)**	(1,637)
Income tax paid/(received)	**3,599**	4,340	**3,565**	3,679
Adjustments from prior year	**1,001**	52	**821**	92
Current year's income tax paid or payable on operating profit	**(2,982)**	(3,953)	**(932)**	(2,089)
	414	(1,202)	**577**	(1,566)
Disclosed in balance sheet as:				
Current tax asset	**577**	536	**577**	–
Income tax payable	**(163)**	(1,738)	**–**	(1,566)
	414	(1,202)	**577**	(1,566)

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
C. DEFERRED TAX LIABILITIES				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:				
Expenditure currently tax deductible but deferred and amortised for accounting	**4,561**	3,756	**3,847**	3,593
Sundry items	**88**	883	**8**	479
Difference in depreciation of property, plant and equipment	**507**	787	**640**	852
Set off of tax in relation to deferred tax assets:				
Provisions for employee benefits not currently deductible	**(1,504)**	(1,460)	**(1,018)**	(967)
Provisions and accruals not currently deductible	**(2,621)**	(3,451)	**(1,594)**	(1,986)
	1,031	515	**1,883**	1,971
D. DEFERRED TAX ASSETS				
Future income tax benefit comprises the estimated benefit at the applicable rate of 30% on the following items:				
Sundry items	**26**	42	**–**	–
	26	42	**–**	–

9. CASH AND CASH EQUIVALENTS

	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
Petty cash	**11**	9	**5**	4
Cash at bank	**5,884**	5,408	**3,028**	3,927
Short term deposit	**8,000**	–	**8,000**	–
	13,895	5,417	**11,033**	3,931

10. TRADE AND OTHER RECEIVABLES

	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
CURRENT				
Trade receivables	**16,061**	18,482	**11,089**	12,416
Less: Impairment losses recognised	**(755)**	(940)	**(710)**	(793)
	15,306	17,542	**10,379**	11,623
Other debtors	**788**	762	**761**	692
Loans to controlled entities	**–**	–	**5,333**	7,263
	16,094	18,304	**16,473**	19,578

11. INVENTORIES

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
CURRENT				
Raw materials	**10,166**	13,645	**4,186**	7,165
Work in progress	**687**	1,352	**511**	780
Finished goods	**3,377**	3,430	**2,067**	2,593
	14,230	18,427	**6,764**	10,538

12. OTHER ASSETS

Prepayments	**1,322**	1,502	**910**	989
Deferred foreign currency hedge exchange difference	**683**	1,713	**683**	1,713
Other	**92**	114	**164**	100
	2,097	3,329	**1,757**	2,802

13. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

Shares in Associates	**–**	–	**–**	–

Codan Limited holds a 50% interest in PCB Contracting Services Pty Ltd. This business ceased operations during the year ended 30 June 2004.

14. INVESTMENTS

Shares in controlled entities	**–**	–	**90,081**	89,609
Unlisted shares at cost	**50**	50	**–**	–
	50	50	**90,081**	89,609

15. PROPERTY, PLANT AND EQUIPMENT

Freehold land and buildings at cost	**14,905**	16,236	**9,343**	9,524
Accumulated depreciation	**(2,010)**	(1,283)	**(1,860)**	(1,527)
	12,895	14,953	**7,483**	7,997
Leasehold property at cost	**623**	622	**147**	147
Accumulated amortisation	**(331)**	(331)	**(147)**	(147)
	292	291	**–**	–
Plant and equipment at cost	**34,329**	32,751	**21,221**	20,700
Accumulated depreciation	**(24,588)**	(23,117)	**(14,820)**	(14,165)
	9,741	9,634	**6,401**	6,535
Capital work in progress at cost	**294**	156	**279**	41
Total property, plant and equipment	**23,222**	25,034	**14,163**	14,573

RECONCILIATIONS

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

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
FREEHOLD LAND AND BUILDINGS					
Carrying amount at beginning of year		**14,953**	8,337	**7,997**	8,337
Acquisitions through entity acquired		**–**	7,000	**–**	–
Additions		**31**	11	**30**	11
Transfers		**(247)**	–	**–**	–
Disposals		**(1,196)**	–	**(190)**	–
Depreciation		**(727)**	(420)	**(354)**	(351)
Net foreign currency differences on translation of foreign entities		**81**	25	**–**	–
Carrying amount at end of year		**12,895**	14,953	**7,483**	7,997
LEASEHOLD PROPERTY IMPROVEMENTS					
Carrying amount at beginning of year		**291**	175	**–**	–
Acquisitions through entity acquired		**–**	136	**–**	–
Additions		**53**	–	**–**	–
Disposals		**(19)**	–	**–**	–
Depreciation		**(34)**	(19)	**–**	–
Net foreign currency differences on translation of foreign entities		**1**	(1)	**–**	–
Carrying amount at end of year		**292**	291	**–**	–
PLANT AND EQUIPMENT					
Carrying amount at beginning of year		**9,634**	9,170	**6,535**	7,414
Acquisitions through entity acquired		**314**	1,614	**–**	–
Additions		**1,419**	780	**840**	427
Transfers		**172**	162	**41**	72
Disposals		**(29)**	(15)	**–**	–
Depreciation		**(1,810)**	(1,608)	**(1,015)**	(1,162)
Net foreign currency differences on translation of foreign entities		**41**	(31)	**–**	–
Impairment charge	3	**–**	(438)	**–**	(216)
Carrying amount at end of year		**9,741**	9,634	**6,401**	6,535

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
CAPITAL WORK IN PROGRESS AT COST					
Carrying amount at beginning of year		**156**	95	**41**	92
Acquisitions through entity acquired		**–**	162	**–**	–
Additions		**305**	62	**279**	21
Transfers		**(172)**	(166)	**(41)**	(72)
Net foreign currency differences on translation of foreign entities		**5**	3	**–**	–
Carrying amount at end of year		**294**	156	**279**	41

16. PRODUCT DEVELOPMENT

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
Product development – at cost		**50,542**	42,587	**46,633**	42,046
Accumulated amortisation		**(35,337)**	(30,069)	**(33,809)**	(30,068)
		15,205	12,518	**12,824**	11,978
RECONCILIATION					
Carrying amount at beginning of year		**12,518**	14,438	**11,978**	14,438
Capitalised in current period		**6,562**	4,223	**4,587**	3,682
Amortisation		**(3,875)**	(4,357)	**(3,741)**	(4,356)
Impairment	3	**–**	(1,786)	**–**	(1,786)
		15,205	12,518	**12,824**	11,978

17. INTANGIBLE ASSETS

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
Goodwill		**73,504**	69,378	**–**	–
Intellectual property – at cost		**1,396**	473	**–**	–
Accumulated amortisation		**(659)**	(126)	**–**	–
		737	347	**–**	–
Computer software – at cost		**9,848**	9,378	**8,703**	8,540
Accumulated amortisation		**(6,921)**	(5,947)	**(6,034)**	(5,186)
		2,927	3,431	**2,669**	3,354
Total intangible assets		**77,168**	73,156	**2,669**	3,354

RECONCILIATIONS

	Note	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
GOODWILL					
Carrying amount at beginning of year		**69,378**	20,913	**–**	–
Acquisitions		**4,838**	54,164	**–**	–
Adjustment on prior year's acquisition		**(206)**	–	**–**	–
Effect of movements in exchange rates		**(506)**	–	**–**	–
Impairment charge	3	**–**	(5,699)	**–**	–
		73,504	69,378	**–**	–
INTELLECTUAL PROPERTY					
Carrying amount at beginning of year		**347**	–	**–**	–
Acquisitions		**923**	473	**–**	–
Amortisation		**(533)**	(126)	**–**	–
Disposals		**–**	–	**–**	–
Impairment charge		**–**	–	**–**	–
		737	347	**–**	–
COMPUTER SOFTWARE					
Carrying amount at beginning of year		**3,431**	4,126	**3,354**	4,126
Acquisitions through entity acquired		**63**	71	**–**	–
Acquisitions		**349**	82	**163**	52
Amortisation		**(913)**	(848)	**(848)**	(824)
Disposals		**(1)**	–	**–**	–
Net foreign currency differences on translation of foreign entities		**(2)**	–	**–**	–
		2,927	3,431	**2,669**	3,354
The following have significant carrying amounts of goodwill:					
Satellite communications products		**19,546**	15,214	**–**	–
Minelab products		**53,958**	54,164	**–**	–
		73,504	69,378	**–**	–

The recoverable amount of the cash generating units is based on value in use calculations. Those 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 2.5%. Pre-tax discount rates of 15.7% to 17.1% (2008: 16.2%) have been used in discounting the projected cash flows. Refer to Note 3 for details of impairments recognised.

The Satellite communications product cash generating units recoverable amount (which exceeds its carrying value in use by approximately $6 million at 30 June 2009) is sensitive to the following areas:

- An increase in the discount rate used in excess of 19.1% could result in an impairment; and
- A decrease in expected future planned cash flows in excess of 20.5% could result in an impairment.

18. TRADE AND OTHER PAYABLES

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
CURRENT				
Trade payables	**7,938**	10,004	**5,595**	6,585
Other payables and accruals	**9,541**	8,087	**5,110**	4,795
	17,479	18,091	**10,705**	11,380

19. OTHER LIABILITIES

CURRENT				
Loans from controlled entities	**–**	–	**15,683**	11,771
	–	–	**15,683**	11,771

20. LOANS AND BORROWINGS

CURRENT				
Secured loans	**10**	6	**–**	–
	10	6	**–**	–
NON-CURRENT				
Secured loans	**–**	10	**–**	–
Cash advance	**72,987**	67,535	**72,987**	67,535
Unsecured loans	**10**	10	**–**	–
	72,997	67,555	**72,987**	67,535

The Group has access to the following lines of credit:

TOTAL FACILITIES AVAILABLE AT BALANCE DATE:				
Multi option facility	**9,920**	10,000	**9,920**	10,000
Documentary letters of credit	**200**	562	**200**	562
Guarantee facility	**2,815**	3,230	**2,815**	3,230
Commercial credit card	**335**	235	**215**	215
Cash advance facility	**75,000**	75,000	**75,000**	75,000
	88,270	89,027	**88,150**	89,007
FACILITIES UTILISED AT BALANCE DATE:				
Multi option facility	**–**	–	**–**	–
Documentary letters of credit	**144**	118	**144**	118
Guarantee facility	**549**	819	**549**	819
Commercial credit card	**139**	99	**101**	83
Cash advance facility	**72,987**	67,535	**72,987**	67,535
	73,819	68,571	**73,781**	68,555

	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
FACILITIES NOT UTILISED AT BALANCE DATE:				
Multi option facility	**9,920**	10,000	**9,920**	10,000
Documentary letters of credit	**56**	444	**56**	444
Guarantee facility	**2,266**	2,411	**2,266**	2,411
Commercial credit card	**196**	136	**114**	132
Cash advance facility	**2,013**	7,465	**2,013**	7,465
	14,451	20,456	**14,369**	20,452

In addition to these facilities, the Company has access to cash at bank and short term deposits as set out in Note 9.

BANK FACILITIES

Facilities are supported by interlocking guarantees between Codan Limited and its subsidiaries. The facilities are three year evergreen arrangements which are subject to compliance with certain financial covenants, and are renewable each year.

	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
WEIGHTED AVERAGE INTEREST RATES				
Cash at bank	**3.05%**	6.25%	**3.05%**	6.25%
Short term deposits	**7.08%**	6.42%	**7.08%**	6.42%
Bank overdraft	**8.77%**	10.60%	**8.77%**	10.60%
Commercial bill	**–**	5.27%	**–**	5.27%
Cash advance	**5.78%**	8.36%	**5.78%**	8.36%

21. PROVISIONS

	Consolidated 2009 $000	Consolidated 2008 $000	The Company 2009 $000	The Company 2008 $000
CURRENT				
Employee benefits	**2,363**	2,230	**1,411**	1,387
Warranty repairs	**1,551**	1,812	**945**	1,518
	3,914	4,042	**2,356**	2,905
NON-CURRENT				
Employee benefits	**2,998**	2,822	**1,977**	1,829
RECONCILIATION OF WARRANTY PROVISION				
Carrying amount at beginning of year	**1,812**	1,777	**1,518**	1,777
Acquired in a business combination	**–**	194	**–**	–
Provisions made during the year	**885**	1,163	**274**	993
Payments made during the year	**(1,146)**	(1,322)	**(847)**	(1,252)
	1,551	1,812	**945**	1,518

22. SHARE CAPITAL

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
SHARE CAPITAL				
Opening balance (162,045,454 ordinary shares fully paid)	**23,685**	23,685	**23,685**	23,685
Issue of ordinary shares (2,100,526 shares issued for cash)	**1,164**	–	**1,164**	–
Closing balance (164,145,980 ordinary shares fully paid)	**24,849**	23,685	**24,849**	23,685

The Company issued 2,044,071 fully paid ordinary shares to existing shareholders under a Share Purchase Plan on 22 June 2009. The Company issued 56,455 fully paid ordinary shares to eligible employees under the Codan Employee Share Plan on 22 June 2009.

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.

23. RESERVES

Foreign currency translation	**(108)**	245	**–**	–
Hedging reserve	**843**	1,199	**843**	1,199
	735	1,444	**843**	1,199

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	**245**	(63)	**–**	–
Net translation adjustment	**(353)**	308	**–**	–
Balance at end of year	**(108)**	245	**–**	–

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	**1,199**	462	**1,199**	462
Gains/(Losses) on cash flow hedges taken to/from hedging reserve	**(356)**	737	**(356)**	737
Balance at end of year	**843**	1,199	**843**	1,199

24. RETAINED EARNINGS

Retained earnings at beginning of year	**36,915**	46,439	**32,522**	46,058
Net profit attributable to members of the parent entity	**12,006**	1,009	**3,069**	(3,003)
Dividends recognised during the year	**(10,533)**	(10,533)	**(10,533)**	(10,533)
Retained earnings at end of year	**38,388**	36,915	**25,058**	32,522

25. COMMITMENTS

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
I. CAPITAL EXPENDITURE COMMITMENTS				
Aggregate amount of contracts for capital expenditure on plant and equipment:				
Within one year	**20**	–	**12**	–

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
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	**1,413**	785	**616**	239
One year or later and no later than five years	**2,771**	1,343	**1,026**	298
Later than five years	**485**	314	**–**	–
	4,669	2,442	**1,642**	537

The Group leases property under non-cancellable operating leases expiring from one to ten 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.

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
III. FINANCE LEASE AND HIRE PURCHASE PAYMENT COMMITMENTS				
Within one year	**10**	7	**–**	–
One year or later and no later than five years	**–**	10	**–**	–
Later than five years	**–**	–	**–**	–
	10	17	**–**	–
Less: future finance charges	**–**	1	**–**	–
	10	16	**–**	–
Lease and hire purchase liabilities provided for in the financial statements:				
Current	**10**	6	**–**	–
Non-current	**–**	10	**–**	–
	10	16	**–**	–

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.

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

FINANCIAL RISK MANAGEMENT

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this financial report.

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 Company and 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 Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim 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 Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risk faced by the Company and 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. For the Company it also arises from receivables due from subsidiaries.

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. 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. The Group is not materially exposed to any individual overseas region and as at 30 June 2009 there was no individual customer which accounted for greater than ten percent of the Company's total receivables balance.

Trade and other receivables

The Company's and 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 creditworthiness 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 Company and Group have established an allowance for impairment that represents their 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.

Impairment losses

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

		Carrying Amount			
		Consolidated		The Company	
	Note	**2009 $000**	2008 $000	**2009 $000**	2008 $000
Unlisted shares	14	**50**	50	**–**	–
Trade and other receivables	10	**16,094**	18,304	**16,473**	19,578
Cash and cash equivalents	9	**13,895**	5,417	**11,033**	3,931
Forward exchange contracts used for hedging	12	**683**	1,713	**683**	1,713

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

Australia/Oceania	**3,050**	4,705	**872**	1,473
Europe	**4,216**	5,069	**3,150**	3,699
Americas	**6,715**	3,542	**4,873**	2,210
Asia	**1,431**	2,832	**1,528**	2,743
Africa	**649**	2,334	**666**	2,291
	16,061	18,482	**11,089**	12,416

The ageing of the Group and the Company's trade receivables at reporting date was:

	Gross	Impairment	Gross	Impairment
	2009 $000	**2009 $000**	2008 $000	2008 $000
CONSOLIDATED				
Not past due	**13,932**	**(204)**	13,574	(387)
Past due 0–30 days	**1,095**	**(19)**	3,616	(40)
Past due 31–120 days	**481**	**(43)**	786	(160)
More than 120 days	**552**	**(490)**	506	(353)
	16,061	**(755)**	18,482	(940)
THE COMPANY				
Not past due	**9,644**	**(191)**	9,796	(381)
Past due 0–30 days	**823**	**–**	1,983	(31)
Past due 31–120 days	**140**	**(30)**	253	(145)
More than 120 days	**481**	**(490)**	384	(236)
	11,089	**(710)**	12,416	(793)

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

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

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

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Balance at 1 July	**940**	758	**793**	694
Impairment loss recognised as an expense	**(277)**	57	**(62)**	99
Allowance for impairment from acquisition of subsidiary	**133**	125	**–**	–
Trade receivables written off to the allowance for impairment	**(104)**	–	**(21)**	–
Recovery of written off receivables	**63**	–	**–**	–
Balance at 30 June	**755**	940	**710**	793

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 20 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying Amount $000	Contractual Cash Flows $000	12 months or less $000	1–5 years $000	More than 5 years $000
30 JUNE 2009					
Non-derivative financial liabilities					
Secured loan	**10**	**(10)**	**(10)**	**–**	**–**
Trade and other payables	**17,479**	**(17,479)**	**(16,185)**	**(1,294)**	**–**
Unsecured loans	**10**	**(10)**	**–**	**(10)**	**–**
Cash advance	**72,987**	**(72,987)**	**–**	**(72,987)**	**–**
	90,486	**(90,486)**	**(16,195)**	**(74,291)**	**–**
30 JUNE 2008					
Non-derivative financial liabilities					
Secured loan	16	(17)	(7)	(10)	–
Trade and other payables	18,091	(18,091)	(18,091)	–	–
Unsecured loans	10	(10)	–	(10)	–
Cash advance	67,535	(67,535)	–	(67,535)	–
	85,652	(85,653)	(18,098)	(67,555)	–

The Company	Carrying Amount $000	Contractual Cash Flows $000	12 months or less $000	1–5 years $000	More than 5 years $000
30 JUNE 2009					
Non-derivative financial liabilities					
Trade and other payables	**10,705**	**(10,705)**	**(10,705)**	**–**	**–**
Loans from controlled entities	**15,683**	**(15,683)**	**–**	**–**	**(15,683)**
Cash advance	**72,987**	**(72,987)**	**–**	**(72,987)**	**–**
	99,375	**(99,375)**	**(10,705)**	**(72,987)**	**(15,683)**
30 JUNE 2008					
Non-derivative financial liabilities					
Trade and other payables	11,380	(11,380)	(11,380)	–	–
Loans from controlled entities	11,771	(11,771)	–	–	(11,771)
Cash advance	67,535	(67,535)	–	(67,535)	–
	90,686	(90,686)	(11,380)	(67,535)	(11,771)

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 profit or loss.

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.

Interest Rate Risk

The Group has reduced its exposure to interest rate risk by entering into an interest rate cap in 2008. The cap is for a principal amount of $60 million, reducing to $50 million over its three year term. The capped interest rate is based on the BBSW rate of 9.5%.

Profile

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

	Carrying Amount			
	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
FIXED RATE INSTRUMENTS				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(10)**	(16)	**–**	–
	(10)	(16)	**–**	–
VARIABLE RATE INSTRUMENTS				
Financial assets	**13,895**	5,417	**11,033**	3,931
Financial liabilities	**(72,987)**	(67,535)	**(72,987)**	(67,535)
	(59,092)	(62,118)	**(61,954)**	(63,604)

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

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 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 2008.

	Profit/(loss) before tax		Equity	
Consolidated	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 JUNE 2009				
Variable rate instruments	**(591)**	**591**	**–**	**–**
30 JUNE 2008				
Variable rate instruments	(621)	621	–	–

	Profit/(loss) before tax		Equity	
The Company	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 JUNE 2009				
Variable rate instruments	**(620)**	**620**	**–**	**–**
30 JUNE 2008				
Variable rate instruments	(636)	636	–	–

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, Euro and GBP.

The Group enters into forward exchange contracts or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally US dollars and Euro). The terms of these commitments were less than twelve months. As at reporting date, the Group has cash flow hedges designated to future sales transactions of USD $16,800,000, at an average exchange rate of 77.4 cents.

Subsequent to the end of the financial year, cash flow hedges designated to future sales transactions of Euro 4,500,000 at an exchange rate of Euro 0.57 have been executed.

The Group's investment in a subsidiary based in the United States of America is hedged by a USD-denominated bank loan, which mitigates the currency risk arising from the subsidiary's net assets.

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

Consolidated	Euro $000	GBP $000	USD $000
30 JUNE 2009			
Cash and cash equivalents	**448**	**177**	**1,910**
Trade receivables	**467**	**5**	**8,843**
Trade payables	**(574)**	**(159)**	**(3,103)**
Cash advance	**–**	**–**	**(5,090)**
Gross Balance Sheet exposure	**341**	**23**	**2,560**
Hedge transactions relating to Balance Sheet exposure	**–**	**–**	**(4,733)**
Cash advance designated as a hedge of foreign subsidiary	**–**	**–**	**3,030**
Net exposure at reporting date	**341**	**23**	**857**
30 JUNE 2008			
Cash and cash equivalents	297	274	1,016
Trade receivables	1,586	86	8,035
Trade payables	(601)	(99)	(2,448)
Cash advance	–	–	(1,063)
Gross Balance Sheet exposure	1,282	261	5,540
Hedge transactions relating to Balance Sheet exposure	–	–	(5,179)
Net exposure at reporting date	1,282	261	361

The Company	Euro $000	GBP $000	USD $000
30 JUNE 2009			
Cash and cash equivalents	**–**	**41**	**1,687**
Trade receivables	**174**	**–**	**6,501**
Trade payables	**–**	**(5)**	**(2,287)**
Loans from controlled entities	**–**	**1,865**	**968**
Cash advance	**–**	**–**	**(5,090)**
Gross Balance Sheet exposure	**174**	**1,901**	**1,779**
Hedge transactions relating to Balance Sheet exposure	**–**	**–**	**(4,733)**
Cash advance designated as a hedge of foreign subsidiary	**–**	**–**	**3,030**
Net exposure at reporting date	**174**	**1,901**	**76**
30 JUNE 2008			
Cash and cash equivalents	–	67	672
Trade receivables	1,143	54	5,817
Trade payables	–	(1)	(2,070)
Loans from controlled entities	–	1,747	216
Cash advance			(1,063)
Gross Balance Sheet exposure	1,143	1,867	3,572
Hedge transactions relating to Balance Sheet exposure	–	–	(3,584)
Net exposure at reporting date	1,143	1,867	(12)

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Sensitivity Analysis

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

	Consolidated		The Company	
	Equity/ Reserve $000	Profit/(Loss) before tax $000	Equity/ Reserve $000	Profit/(Loss) before tax $000
2009				
EURO	**–**	**(31)**	**–**	**(16)**
GBP	**–**	**(2)**	**–**	**(173)**
USD	**1,317**	**(78)**	**1,317**	**(7)**
	1,317	**(111)**	**1,317**	**(196)**
2008				
EURO	–	(117)	–	(104)
GBP	–	(24)	–	(170)
USD	1,453	345	919	282
	1,453	205	919	9

A 10 percent 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.

27. GROUP ENTITIES

Name/Country of incorporation	Class of Share	Interest Held 2009 %	Interest Held 2008 %
PARENT ENTITY			
Codan Limited/Australia	Ordinary		
CONTROLLED ENTITIES			
IMP Printed Circuits Pty Ltd/Australia	Ordinary	**100**	100
Codan (UK) Ltd/England	Ordinary	**100**	100
Codan (Qld) Pty Ltd/Australia	Ordinary	**100**	100
Codan (US) Inc/United States of America	Ordinary	**100**	100
Codan Telecommunications Pty Ltd/Australia	Ordinary	**100**	100
Codan Broadcast Products Pty Ltd/Australia	Ordinary	**100**	100
Minelab Electronics Pty Ltd/Australia	Ordinary	**100**	100
Minelab USA Inc/United States of America	Ordinary	**100**	100
Minelab International Ltd/Ireland	Ordinary	**100**	100
Parketronics Pty Ltd/Australia	Ordinary	**100**	100
Codan Holdings US Inc/United States of America	Ordinary	**100**	–
Locus Microwave, Inc/United States of America	Ordinary	**100**	–

28. NOTES TO THE STATEMENTS OF CASH FLOWS

I. RECONCILIATION OF CASH

For the purposes of the statements 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 statements of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Petty cash	**11**	9	**5**	4
Cash at bank	**5,884**	5,408	**3,028**	3,927
Short term deposits	**8,000**	–	**8,000**	–
Bank overdraft	**–**	–	**–**	–
	13,895	5,417	**11,033**	3,931

II. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Profit after income tax	**12,006**	1,009	**3,069**	(3,003)
Add/(less) items classified as investing or financing activities:				
(Profit)/loss on sale of non-current assets	**(360)**	8	**(303)**	(1)
Dividend income	**(46)**	(39)	**–**	–
Add/(less) non-cash items:				
Depreciation of:				
Buildings	**727**	420	**354**	351
Leasehold property	**34**	19	**–**	–
Plant and equipment	**1,810**	1,608	**1,015**	1,162
Amortisation	**5,321**	5,331	**4,589**	5,180
Impairment of inventory and non current assets	**–**	9,954	**228**	10,254
(Decrease)/increase in income taxes	**190**	(1,719)	**(2,668)**	(2,347)
Non cash intercompany transactions	**–**	–	**6,256**	1,185
Increase/(decrease) on net assets affected by translation	**293**	319	**–**	–
Net cash from operating activities before changes in assets and liabilities	**19,975**	16,910	**12,540**	12,781
Change in assets and liabilities during the financial year:				
Reduction/(increase) in receivables	**2,464**	1,959	**1,244**	1,915
Reduction/(increase) in inventories	**4,525**	2,044	**3,774**	577
Reduction/(increase) in other assets	**(316)**	(5)	**(53)**	(416)
Increase/(reduction) in payables	**(1,219)**	(3,589)	**745**	(481)
Increase/(reduction) in provisions	**48**	(259)	**(401)**	(336)
Net cash from operating activities	**25,477**	17,060	**17,849**	14,040

III. ACQUISITION OF SUBSIDIARY

On 30 April 2009, the Group acquired all the shares in Locus Microwave, Inc. Locus Microwave develops, manufactures, markets and distributes communications equipment. Locus Microwave is a specialist microwave technology company, based in State College, Pennsylvania, primarily focused on the design, manufacture and supply of microwave radio products for satellite communications.

28. NOTES TO THE STATEMENTS OF CASH FLOWS (CONTINUED)

In the two months to 30 June 2009, Locus Microwave contributed a break even result. Due to the fact that the acquisition was made only two months prior to the 30 June 2009 reporting date, and Codan's accounting policies have been adopted, it is considered impractical to disclose the consolidated Group's revenue and profit and loss as though the acquisition date for the business combination had been at the beginning of the financial year.

	$000
Initial purchase price	4,171
Costs directly attributable to the combination	381
Total cash paid for acquisition	4,552
Payment of debt and other transactions with former shareholders of acquired entity	(2,995)
Consideration still payable at balance date	1,445
Payment for shares in acquired entity	3,002
Net assets acquired	(1,836)
Goodwill	4,838

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts $000	Fair value adjustments $000	Recognised values on acquisition $000
Cash and cash equivalents	33	–	33
Trade and other receivables	253	–	253
Inventories	327	–	327
Property, plant and equipment	377	–	377
Intangible assets	–	413	413
Trade and other payables	(153)	–	(153)
Loans and borrowings	(3,023)	–	(3,023)
Provisions	(63)	–	(63)
Net identifiable assets and liabilities	(2,249)	413	(1,836)
Goodwill on acquisition			4,838
Consideration paid, satisfied in cash			3,002
Payment of debt and other transactions with former shareholders of acquired entity			2,995
Consideration still payable at reporting date			(1,445)
Cash acquired			(33)
Net cash outflow			4,519

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

The goodwill recognised on acquisition is attributable mainly to access to technology, the founders' experience, the skills and technical talent of the work force and the fact that Locus Microwave is an ITAR (International Trade in Arms Regulations) registered supplier.

The accounting for the acquisition has been determined provisionally as the fair values of the identifiable assets, and the cost of acquisition is yet to be finalised.

29. EMPLOYEE BENEFITS

	Consolidated		The Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Aggregate liability for employee benefits, including on costs:				
Current – other creditors and accruals	**2,272**	618	**1,669**	480
Current – employee entitlements	**2,363**	2,230	**1,411**	1,387
Non-current – employee entitlements	**2,998**	2,822	**1,977**	1,829
	7,633	5,670	**5,057**	3,696

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

Assumed rate of increase in wage and salary rates	**4.00%**	4.00%	**4.00%**	4.00%
Discount rate	**3.80%**	7.00%	**3.80%**	7.00%
Settlement term (years)	**20 years**	20 years	**20 years**	20 years

CODAN EXECUTIVE SHARE PLAN

The Company established the Codan Executive Share Plan (CESP) to assist in the retention and motivation of certain executives. Under the plan, partly paid shares were issued in prior years to the Codan Executive Share Plan Pty Ltd (the trustee) which administers the trust. The Company has not issued any shares under this plan during the current year, and the Company will not be issuing any further shares under this plan.

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.

The Company issued 893,334 performance rights on 11 November 2008 to certain executives. The fair value of the rights was 44.5 cents based on the Black-Scholes formula. The model inputs were: the share price of 60 cents, no exercise price, expected volatility 50%, dividend yield 10%, a term of three years and a risk free rate of 5.75%. The total expense recognised as employee costs in 2009 in relation to the performance rights issued was $132,361.

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the Company'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 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.

CODAN EMPLOYEE SHARE PLAN

The Codan Employee Share Plan was established to provide employees the opportunity to acquire shares. During the year, 56,455 fully paid ordinary shares were issued to eligible employees at a price of 62 cents per share.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation included in 'personnel expenses' (see Note 6) is as follows:

	Consolidated		The Company	
	2009 **$**	2008 $	**2009** **$**	2008 $
Short-term employee benefits	**2,192,737**	2,116,858	**2,192,737**	2,116,858
Post employment benefits	**98,545**	144,091	**98,545**	144,091
Share based payments	**108,655**	–	**108,655**	–
	2,399,937	2,260,949	**2,399,937**	2,260,949

INDIVIDUAL DIRECTORS' AND EXECUTIVES' COMPENSATION DISCLOSURES

Information regarding individual directors' and executives' compensation, and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03, is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interest existing at year-end.

EQUITY HOLDINGS AND TRANSACTIONS

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

	Held at 1 July 2008	Purchases	Sales	**Held at 30 June 2009**
DIRECTORS				
Dr D Klingner	189,775	178,065	–	**367,840**
Mr B P Burns	11,580,737	90,687	–	**11,671,424**
Mr P R Griffiths	110,000	28,065	–	**138,065**
Mr M K Heard	4,399,522	8,065	–	**4,407,587**
Mr D Klingberg	58,700	8,065	–	**66,765**
Mr D Simmons	–	–	–	**–**
Mr I B Wall	34,792,943	8,065	–	**34,801,008**
Lt-Gen P F Leahy	–	44,065	–	**44,065**
SPECIFIED EXECUTIVES				
Mr P Charlesworth	10,000	16,130	–	**26,130**
Mr D McGurk	1,000	–	–	**1,000**
Mr R Moody	–	–	–	**–**
Mr G Shmith	14,000	14,491	–	**28,491**

	Held at 1 July 2007	Purchases	Sales	Held at 30 June 2008
DIRECTORS				
Dr D Klingner	100,000	89,775	–	189,775
Mr B P Burns	11,580,737	–	–	11,580,737
Mr P R Griffiths	110,000	–	–	110,000
Mr M K Heard	4,399,522	–	–	4,399,522
Mr D Klingberg	58,700	–	–	58,700
Mr D Simmons	–	–	–	–
Mr I B Wall	34,792,943	–	–	34,792,943
SPECIFIED EXECUTIVES				
Mr P Charlesworth	5,900	4,100	–	10,000
Mr A Gobolos	778,407	–	–	778,407
Mr D McGurk	1,000	–	–	1,000
Mr R Moody	–	–	–	–
Mr G Smith	14,000	–	–	14,000

OTHER TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

There have been no loans to key management personnel 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.

31. OTHER RELATED PARTIES

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

Companies within the Group purchase materials from other Group companies, these transactions are on normal commercial terms. During the financial year, the Company purchased goods from its subsidiaries to the value of $994,565 (2008: $1,285,354). The Company also paid $6,371,134 (2008: $6,843,120) in marketing fees to overseas subsidiaries. The Company charged rent totalling $100,000 (2008: $99,996) to IMP Printed Circuits Pty Ltd for their premises during the year.

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

32. 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 of performance rights granted to employees.

	Consolidated	
	2009	2008
Net profit used for the purpose of calculating basic and diluted earnings per share	**12,006**	1,009

The weighted average number of shares used as the denominator number for basic earnings per share was 162,085,738 (2008: 162,045,454).

During the year 893,334 performance rights were issued to employees. The calculation of diluted earnings per share at 30 June 2009 was based on profit attributable to ordinary shareholders of $12.0 million and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 162,651,108.

33. NET TANGIBLE LIABILITY PER SHARE

	Consolidated	
	2009	2008
Net tangible liability per share	**16.6 cents**	14.3 cents

34. 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 year, the acquisition of Locus Microwave, Inc. was funded through debt. As part of the Group's prudent capital management program, a Share Purchase Plan and Employee Share Plan has been completed in 2009, raising $1.2 million. In addition, two blocks of surplus land have been sold, resulting in proceeds of $1.6 million. The Group's gearing level is considered to be positioned appropriately.

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

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

A consolidated income statement and 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, at 30 June 2009 is set out as follows:

SUMMARISED INCOME STATEMENT AND RETAINED EARNINGS

	Consolidated
	2009 **$000**
Profit before tax	**11,785**
Income tax expense	**(3,086)**
Profit after tax	**8,699**
Retained earnings at beginning of year	**25,402**
Retained earnings at end of the year	**34,101**

BALANCE SHEET

	Consolidated 2009 $000
CURRENT ASSETS	
Cash and cash equivalents	**12,612**
Trade and other receivables	**26,990**
Inventories	**9,683**
Current tax assets	**577**
Other assets	**1,744**
Total current assets	**51,606**
NON-CURRENT ASSETS	
Investments	**33,164**
Property, plant and equipment	**19,126**
Product development	**15,572**
Intangible assets	**56,116**
Deferred tax assets	**3,064**
Total non-current assets	**127,042**
Total assets	**178,648**
CURRENT LIABILITIES	
Trade and other payables	**12,801**
Other liabilities	**22,742**
Provisions	**3,004**
Total current liabilities	**38,547**
NON-CURRENT LIABILITIES	
Loans and borrowings	**72,987**
Deferred tax liabilities	**4,630**
Provisions	**2,691**
Total non-current liabilities	**80,308**
Total liabilities	**118,855**
Net assets	**59,793**
EQUITY	
Share capital	**24,849**
Reserves	**843**
Retained earnings	**34,101**
Total equity	**59,793**

DIRECTORS' DECLARATION

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

a. the financial statements and notes, set out on pages 29 to 67, are in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2009 and of their performance, as represented by the results of their operations and their 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 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 35 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;

f. the directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the chief executive officer and the chief finance officer for the financial year ended 30 June 2009.

Dated at Newton this 19th day of August 2009.

Signed in accordance with a resolution of the directors:

Dr D Klingner
Director

M K Heard
Director

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CODAN LIMITED

Independent auditor's report to the members of Codan Limited

Report on the financial report

We have audited the accompanying financial report of Codan Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 35 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. In note 1(a) the directors also state, in accordance with Australian Accounting Standard AASB101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CODAN LIMITED

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 Codan Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 17 to 20 of the directors' report for the year ended 30 June 2009. 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 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

N T Faulkner
Partner

Adelaide

19 August 2009

ASX ADDITIONAL INFORMATION

CODAN LIMITED AND ITS CONTROLLED ENTITIES

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

SHAREHOLDINGS AS AT 2 SEPTEMBER 2009

SUBSTANTIAL SHAREHOLDERS

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

Shareholder	Number of ordinary shares
Interests associated with Kynola Pty Limited and Warren Glen Pty Limited	11,671,424
Interests associated with Starform Pty Limited and Pinara Pty Limited	18,856,330
MacKinnon Investments Pty Limited	20,867,504
IB Wall and PM Wall	34,801,008
Edal Pty Limited	46,038,778

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Category	Number of Equity Security Holders Ordinary Shares
1 – 1,000	225
1,001 – 5,000	538
5,001 – 10,000	289
10,001 – 100,000	360
100,001 and over	43
Total	**1,455**

The number of shareholders holding less than a marketable parcel of ordinary shares is 41.

ON MARKET BUY BACK

There is no current on market buy back.

ASX ADDITIONAL INFORMATION

CODAN LIMITED AND ITS CONTROLLED ENTITIES

SHAREHOLDINGS AS AT 2 SEPTEMBER 2009 (CONTINUED)

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	Percentage of capital held
Edal Pty Limited	46,038,778	28.0%
IB Wall and PM Wall	34,801,008	21.2%
MacKinnon Investments Pty Limited	20,867,504	12.7%
Starform Pty Limited	11,397,081	6.9%
Kynola Pty Limited	9,111,213	5.6%
Pinara Pty Ltd	7,459,249	4.5%
MK and MC Heard	4,407,587	2.7%
JP Morgan Nominees Australia Limited	2,885,805	1.8%
Mitranikitan Pty Ltd	2,647,526	1.6%
Warren Glen Pty Limited	2,560,211	1.6%
ANZ Nominees Limited	1,005,225	0.6%
LF Choate	843,339	0.5%
YA and EJ Gobolos	778,407	0.5%
BH Candy	678,081	0.4%
National Nominees Limited	500,500	0.3%
DM Heard and JE Jarvinen	460,000	0.3%
Bond Street Custodians Limited	367,840	0.2%
EK Hannaford	300,000	0.2%
Codan Executive Share Plan	288,100	0.2%
Wal Assets Pty Ltd	258,065	0.2%
Total	**147,655,519**	**90%**

OFFICES AND OFFICERS

COMPANY SECRETARY

Mr Rick Moody BA (Acc), FCA, FCIS, MAICD
Mr Michael Barton BA (Acc), CA

PRINCIPAL REGISTERED OFFICE

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

SHARE REGISTRY

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

STOCK EXCHANGE

The company is listed on the Australian Stock Exchange. The home exchange is Adelaide.

OTHER INFORMATION

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

CORPORATE DIRECTORY

DIRECTORS

Dr David Klingner (Chairman)
Michael Heard (Managing Director and Chief Executive Officer)
Brian Burns
Peter Griffiths
David Klingberg
Lt-Gen Peter Leahy
David Simmons
Ian Wall

COMPANY SECRETARIES

Rick Moody
Michael Barton

REGISTERED OFFICE

81 Graves Street
Newton SA 5074

AUDITOR

KPMG
151 Pirie Street
Adelaide SA 5000

REGISTRY

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001

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KEY PRODUCTS IN CODAN'S HISTORY

A History of Codan HF

6104 transceiver

7727 transceiver

8121 transceiver

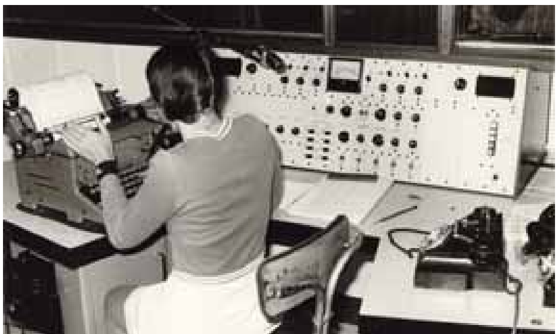
A History of Codan Satcom

9000 series terminal

5500 series

5900 series

A History of HF Applications



RFDS operator and console

RFDS remote site

School of the Air

9480 transceiver

2110m military manpack

LBUC and MBUC

CODAN

"Untiring engineering innovation, global marketing and service are the pillars of Codan's success."

Clever Products – Global Markets

PNG

Solomon Islands

9350 in the field

50th CODAN ANNIVERSARY 1959–2009

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