EXPERT
INNOVATIVE
EXPERIENCED
RELIABLE
ENERGETIC
RESPONSIVE

2012 ANNUAL REPORT

CODAN

Our success has been driven by our ability to optimise the development and manufacture of sophisticated electronics products and associated software to deliver cost-effective solutions.

2012 ANNUAL REPORT

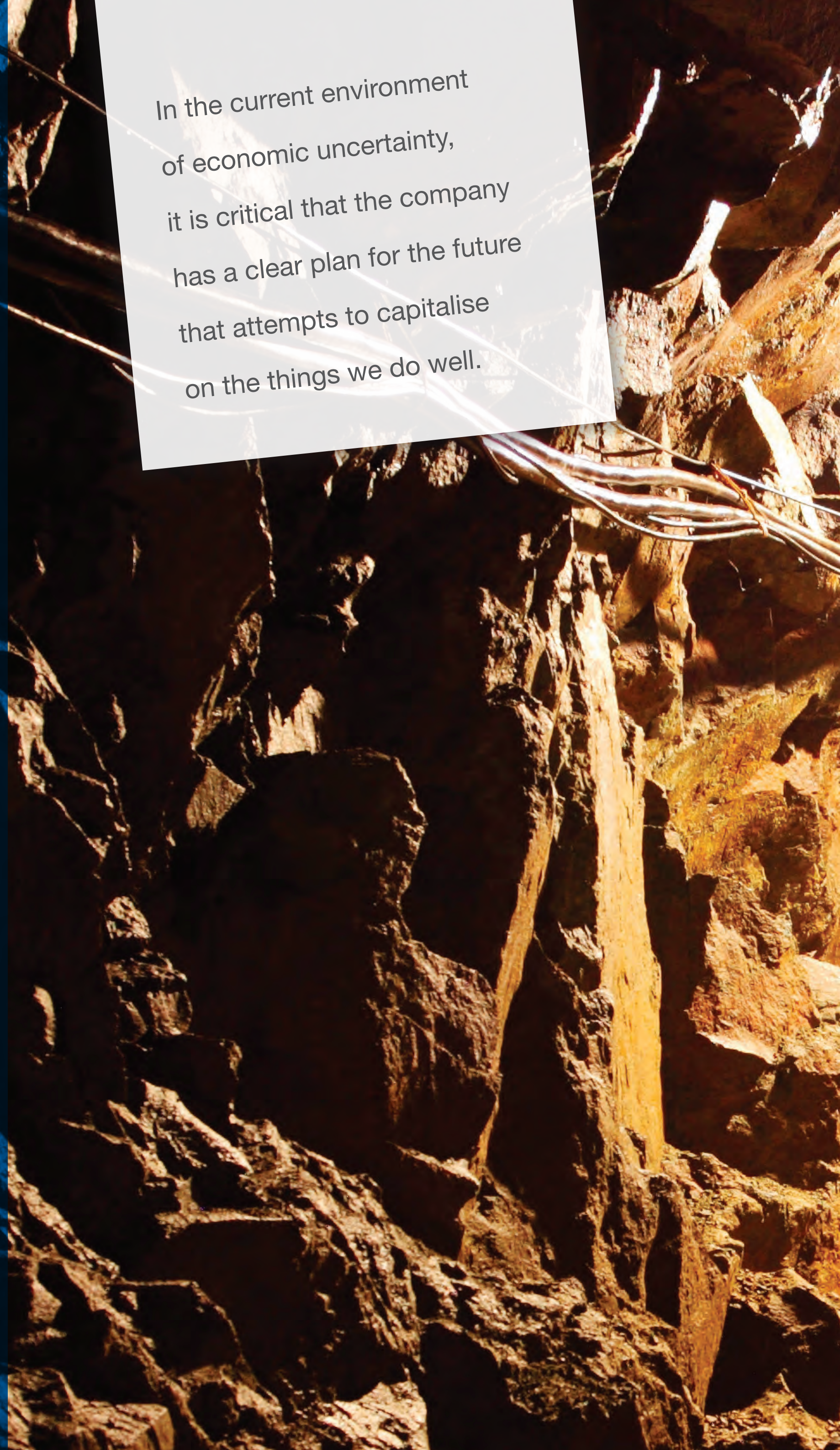
Codan Limited
ABN 77 007 590 605

Annual General Meeting
The Annual General Meeting of Codan Limited will be held at 11:00 am on Wednesday, 17 October 2012 at the Hilton Adelaide hotel, 233 Victoria Square, Adelaide, South Australia.

Contents

We succeed by being expert designers and manufacturers of elaborately transformed electronics solutions and succeeding with these products in markets where others can't.

In the current environment of economic uncertainty, it is critical that the company has a clear plan for the future that attempts to capitalise on the things we do well.



FY12 HIGHLIGHTS

$179.4m
total revenue

$27.9m
underlying net profit

9.5c
annual dividend

- **Highest reported profit of $23.1 million**
- **Underlying profit increased by 19% to $27.9 million**
- **Annual dividend increased to 9.5 cents**
- **Continued growth of metal detector sales and major new product release**
- **Major new product releases in Radio Communications**
- **Successfully divested Satellite Communications' assets**
- **Acquisition of Minetec brings diversification into resources technology and services sector**

CODAN LIMITED

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

We are electronics engineers and manufacturers who have embraced the change over time in the value of the Australian dollar and have redesigned our business to make currency value largely irrelevant.

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

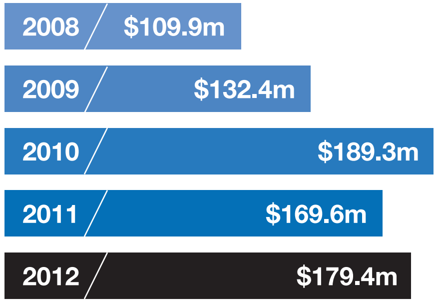
The Codan brands are internationally established and well regarded in the markets we serve, which consist primarily of aid agencies, businesses and governments, including their military and security arms, and dedicated individuals.

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

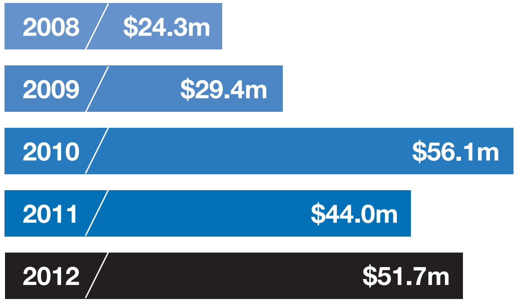
The business has now grown to have approximately 500 employees located in Australia, USA, UK, Ireland, China and India. Our marketing reach, largely through a long-established network of staff and dealerships across the world, embraces activity in over 150 countries.

Our plan for growth is based on expanding our range of electronics products and leveraging our operational excellence and marketing skills across the world.

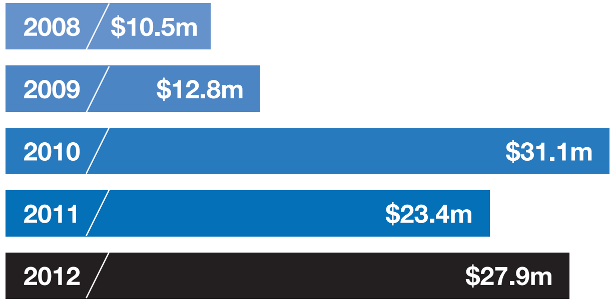
Operating revenue



EBITDA



NPAT



For year ended 30 June		2012	% of sales	2011	% of sales	2010	% of sales	2009	% of sales	2008	% of sales
REVENUE	**Note**										
Communications products		$66.4m	37%	$69.8m	41%	$70.1m	37%	$77.3m	58%	$83.4m	76%
Metal detection products		$98.6m	55%	$92.1m	54%	$106.6m	56%	$41.7m	32%	$16.2m	15%
Mining technology		$9.3m	5%								
Other		$5.1m	3%	$7.7m	5%	$12.6m	7%	$13.4m	10%	$10.3m	9%
Total revenue		**$179.4m**	**100%**	**$169.6m**	**100%**	**$189.3m**	**100%**	**$132.4m**	**100%**	**$109.9m**	**100%**
EBITDA		**$51.7m**	**29%**	**$44.0m**	**26%**	**$56.1m**	**30%**	**$29.4m**	**22%**	**$24.3m**	**22%**
EBIT		**$43.2m**	**24%**	**$35.0m**	**21%**	**$45.8m**	**24%**	**$21.5m**	**16%**	**$17.0m**	**15%**
Interest		($3.4)m		($3.0)m		($3.1)m		($4.6)m		($2.2)m	
Net profit before tax		**$39.8m**	**22%**	**$32.0m**	**19%**	**$42.7m**	**23%**	**$16.9m**	**13%**	**$14.8m**	**13%**
Tax		($11.9)m		($8.6)m		($11.6)m		($4.1)m		($4.3)m	
Net profit after tax		**$27.9m**	**16%**	**$23.4m**	**14%**	**$31.1m**	**16%**	**$12.8m**	**10%**	**$10.5m**	**10%**
Earnings per share		17.0c		14.3c		18.8c		7.9c		6.5c	
Dividend per share		9.5c		9.0c		8.0c		6.5c		6.5c	
Return on equity	1	37%		34%		48%		20%		16%	
Gearing	2	17%		26%		32%		48%		50%	

Notes:

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

The financial information shown above reflects the underlying business performance. For 2012, this is before the loss on sale of a subsidiary company and related assets, restructuring costs in relation to that sale, and transaction and integration costs associated with acquisitions.

CHAIRMAN'S AND CEO'S REPORT

Dr David Klingner
Chairman

Mr Donald McGurk
Managing Director and CEO

We are pleased to report that the company has had another good year, producing another excellent result in FY12. Underlying net profit after tax for the year of $27.9 million was our second highest on record, and our statutory profit of $23.1 million was the highest we have ever achieved.

Codan declared a fully franked final dividend of 5.5 cents per share, following on from the 4 cents per share fully franked interim dividend, making a total dividend of 9.5 cents per share for the year, an increase from the total dividend of 9 cents per share for FY11.

Net debt reduced from $26 million to $16 million during the year and this, coupled with significantly lower levels of working capital, have further strengthened our balance sheet and positioned us very well to support further opportunities to invest in the growth of the business, as and when they arise. Post year-end, we have announced the acquisition of Daniels Electronics which, because of the uncertain economic outlook worldwide, we have chosen to fund by a combination of debt and equity.

Codan has demonstrated time and time again that we offer the best value-for-money solutions to customers in our defined markets, particularly in the emerging world, which continues to grow strongly and increasingly demands world's-best product solutions at an affordable price.

We have been successful over many years by being the best designer and manufacturer of elaborately transformed electronics solutions, and by taking these products to the world and succeeding where others can't.

In the current environment of economic uncertainty, it is critical that the company has a clear plan for the future that attempts to capitalise on the things we do well. We are pleased to report that the board and management have further refined our strategy, which consists of three major initiatives: invest in ourselves, expand our businesses and investigate further acquisitions.

The foundation of our growth strategy is to ensure that we continue to invest heavily in new product development and to clearly understand that we must continue to innovate and invest in future product technologies to successfully grow the business. To that end, we released three new major product platforms in the last quarter of FY12.

Secondly, we continue to seek opportunities to further strengthen profitability by expanding into related businesses offering complementary products and technologies. The Daniels acquisition is an excellent example of this approach, with strong product synergies with our radio communications business, a major presence in the North American market, and a product range that enables us to enter the land mobile radio market for the first time. We continue to seek out other opportunities to broaden our appeal to the markets we serve.

Finally, we are continuing with our disciplined approach to identify acquisition opportunities that fit our strategy of further diversification. Codan is continuously on the lookout for profitable businesses that enable us to diversify into different products and industries, but around a common theme, enabling us to leverage off our core capabilities and strengths.

In support of these initiatives, we have also made significant investment in the areas of marketing and market development. More sales staff than ever before are travelling the world and meeting with customers to ensure that we continue to build our sales pipelines and capitalise on our improved products and solutions.

The acquisition of Minetec, a mining communications and technology company specialising in mine safety and productivity solutions, has further diversified the business and will provide another strong area for growth, focussed on the rapidly expanding resources sector.

Minetec has developed an exciting range of best-in-class solutions for underground mines, directed at collision avoidance, traffic control and situational awareness to improve mine safety, and a planning, scheduling and messaging system to improve mine productivity.

After careful evaluation of our strategic options, a decision was taken to divest our satellite communications assets, which we sold to CPI Canada Inc on 30 June 2012. The combination of an intensely competitive and rapidly consolidating US-centric industry and a strong Australian dollar has led to declining profitability, and these were compelling reasons to exit the business.

The sale will result in a one-off write down to profit of $3.5 million, and further reduces Codan's net exposure to the USD.

The difference between the statutory and the underlying net profit after tax includes expenses post-tax associated with the integration of the acquired Minetec business, transaction costs associated with the Daniels acquisition and the loss on the sale of the satellite communications assets.

The metal detection division again performed very well. Strong demand for gold detection products, supplemented by growth in the sales of coin and treasure machines, has reinforced Minelab's position as the global market leader for handheld metal detectors. Demand for mine clearance detectors was also boosted during the year with the award of a major contract in Cambodia and ongoing supply to the newly established demining programme in Angola.

The most pleasing aspect of the success enjoyed by Minelab during the year is the increased level of sales across our African markets as a direct result of the business development work carried out by the team during the past 12 months. There is now less reliance on a single market in Africa, with sales for our gold detectors coming from many different regions, and this in turn has provided a more sustainable base from which to increase sales further.

From this solid foundation, we are expecting to have another very good year from our metal detection division in FY13, boosted by the release of an innovative, feature-packed new coin and treasure detector that has redefined the market standard, and a new compact land mine detector which has taken our world's-best metal detection technology and packaged it in a smaller, more tactical form.

We cannot afford to become complacent, as we have seen a number of suppliers in China attempt to copy our products, spoil our markets and attempt to deceive our customers. This has caused us to take steps to further protect our intellectual property and ensure that our customers have access to the genuine, world's-best Minelab product.

Our Radio Communications Division increased sales and profitability in FY12, despite some frustrating delays with the awarding of major government projects in Africa and Central Asia. The increased level of business development work being conducted has resulted in a much more robust sales pipeline and, in turn, a higher level of order intake during the period.

The focus of this business remains to expand beyond our current HF product offerings, with the Daniels acquisition being a significant first step, to position ourselves to supply a more comprehensive and complete radio communications solution, primarily directed at our military and security market customers. We have formed strong partnerships with other product suppliers during the past year and are well positioned to meet our customers' total radio communications needs.

The new Codan software-defined radio was released to the market in June 2012 and was very well received by our dealer network and the many customers who visited our stand at various exhibitions in Europe and Asia Pacific. The product is aimed at delivering first world features and benefits to the developing world at the right price, and gives us a brand new HF technology platform from which to continue the growth of this business.

In order to survive and prosper in a high-wage, high-dollar economy, our manufacturing processes and systems have had to become even more cost effective, responsive and customer driven. The steps taken several years ago to reduce our exposure to the US dollar by outsourcing some manufacturing to Malaysia continue to evolve and stand us in good stead.

Codan's people continue to be our greatest strength and they have once again worked extremely hard during the year and have risen to the many challenges thrown at them. We continue to foster the unique culture of the organisation, where the desire to respectfully create dissatisfaction with the current state, and the giving and receiving of feedback, are critical elements of challenging each other and the future. This is a fundamental aspect of our continuous process improvement mantra.

We sincerely thank everyone for their contribution and support during FY12 as we look forward to yet another strong year in FY13.

Dr David Klingner
Chairman

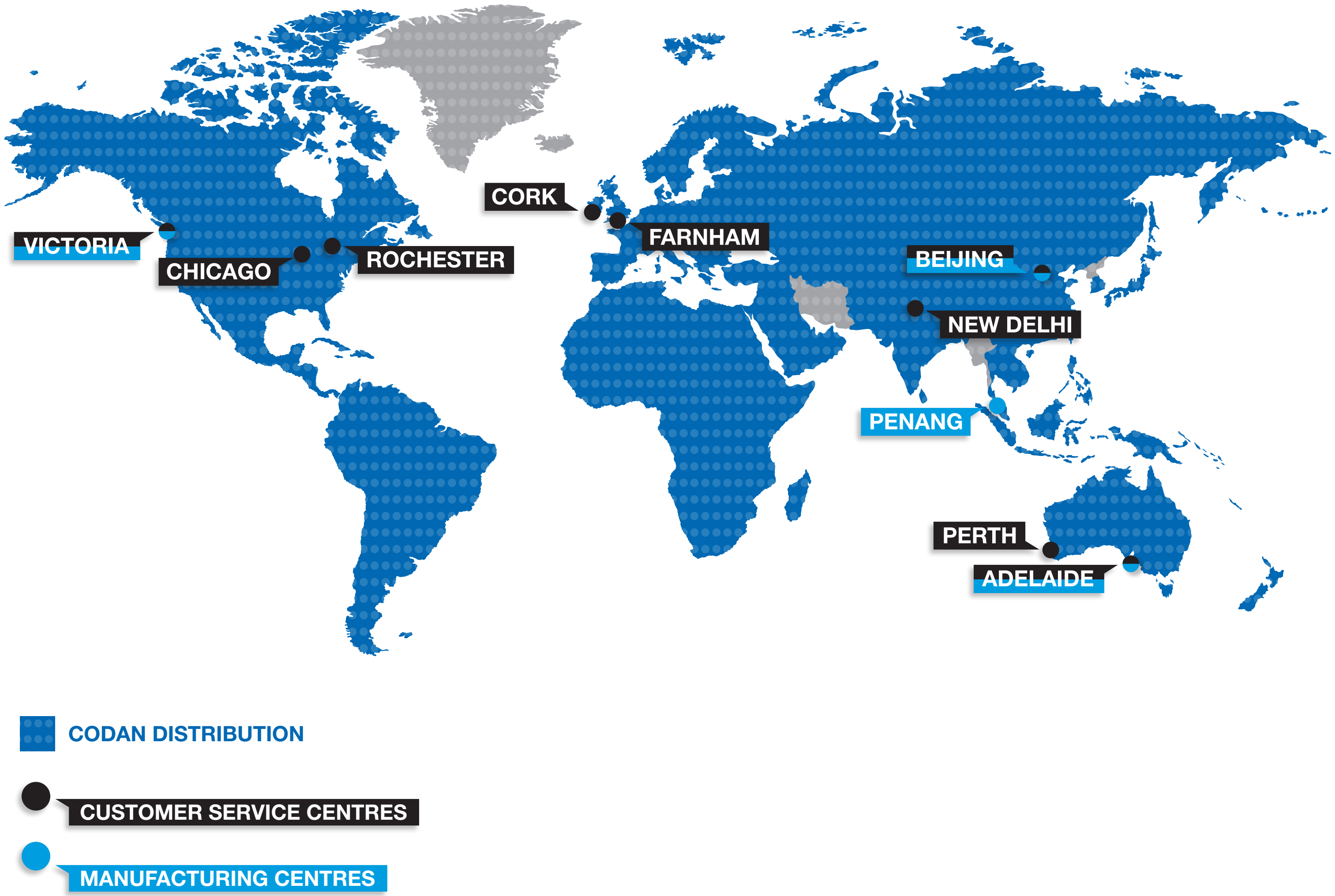
Mr Donald McGurk
Managing Director and CEO

Our experience and intellectual property enable us to leverage our operating excellence and marketing capability across the world, seeking opportunities to grow the business organically and by acquisition.

The Codan brand is internationally established and well regarded in the markets we serve, which consist primarily of aid agencies, businesses and governments, including their military and security arms, as well as sophisticated enthusiasts.

GLOBAL LOCATIONS

Codan has major service centres and manufacturing facilities around the world.



OPERATIONS

RADIO COMMUNICATIONS

METAL DETECTION

MINING TECHNOLOGY

SATELLITE COMMUNICATIONS

ADVANCED MANUFACTURING

RADIO COMMUNICATIONS

Codan Radio Communications has been successfully designing and building premium High Frequency (HF) communications equipment for the worldwide security, emerging world military, and protection markets for over 50 years. Serving customers in over 150 countries, Radio Communications has earned a gilt-edged reputation in the market for its innovative and durable communications products. Combined with its global support network, Radio Communications is recognised as the best-value supplier of cost-effective communications solutions to its core humanitarian, military, public safety, security and commercial customers.

The successful global launch of the innovative and ground-breaking Envoy™ software-defined family of HF radio products, greater penetration in emerging international markets, and successful marketing and sales initiatives were highlights of the past financial year for Radio Communications.

In a relatively mature HF radio communications sector, Radio Communications has increased its market share. A more favourable product mix was introduced into the business, growing its traditional HF product line by adding unique system configurations and solutions that operate with other suppliers' products.

In line with these expanded offerings, the division was restructured in September 2011 to focus on broader communications solutions. This included renaming what was originally known as the HF Division to the Radio Communications Division, to reflect a broader focus by the company on integrated radio communications systems and solutions. The division has adopted the slogan "...for the long haul", reflecting our heritage of providing long range communications that last.

While the business experienced modest revenue growth during the year, profitability was improved significantly.

The considerable investment into new and innovative product technologies in recent years was demonstrated with the successful launch of several new products in June 2012. In addition to the Envoy™ family, Radio Communications announced a significant mid-life upgrade of its HF manpack product, adding several new features to strengthen an already powerful value proposition. These new product offerings build on Codan's enviable reputation for innovation and reliability, and will provide further competitive advantage into the future.

In the past financial year, Radio Communications completed delivery of $17 million worth of radio communications systems under contracts for a number of Central Asian countries in support of United States Department of Defense initiatives. The contracts included orders for HF radios and systems to support counter-narcotics and border security missions in Afghanistan and Central Asia. In July 2011, Radio Communications announced a contract to deliver HF radio systems to the United States Africa Command for use in security missions throughout the African continent.

Radio Communications continues to build on its strength in Africa, and its radio systems are now in use in more than 40 African countries and by international entities such as the African Union and the United Nations. The vast majority of Radio Communications' sales force is located overseas in offices from China and India through to the United Kingdom, Middle East and USA. Radio Communications continues to grow in Southeast Asia, supplying key new customers in the region.

An increased global sales and marketing push is helping Radio Communications break into new markets, with encouraging progress being made in Latin America and the Middle East. The company also continues to roll out its strategy of end-country manufacturing in target markets to improve supply flexibility.

Acquisition news

On 7 August 2012, Codan announced the acquisition of 100% of the shares in Canadian-based land mobile radio company, Daniels Electronics Limited. The acquisition is consistent with Codan's stated strategic goal to expand the radio communications business by investing in adjacent markets and technologies. The board believes that Codan's extensive international distribution network will deliver significant growth opportunities to the Daniels business, which is currently focussed on the North American market.

In the year ahead, Radio Communications will seek to continue its growth path across its key markets. This will involve executing strategies to consolidate its presence in emerging countries and the worldwide security markets, as well as introducing more features to its recently launched Envoy™ family of products.

Despite uncertain global economic conditions, Radio Communications is targeting strong revenue growth for the next financial year.

Global product launches

- From Paris in June 2012, Radio Communications launched its new software-defined HF radio platform – the Codan Envoy™. The Envoy™ is the most advanced commercial HF radio in the world. Initial market response to the product and Radio Communications' value proposition has been positive.
- At the same time, Radio Communications announced a 3G ALE upgrade to its HF manpack radio, which provides effective increased data throughput and shorter linking times in difficult HF conditions.
- In March 2012, Radio Communications released its military-grade transceiver power supply, designed to power sensitive radio equipment and eliminate interference with radio communications.
- In September 2011, Radio Communications launched the Voice Encryption unit, which enables fully-secure communications to extend to third-party systems, and the Independent Sideband capability for the current NGT product range to improve responsiveness and reduce transmission times for data-intensive applications such as email.

CODAN
RADIO COMMUNICATIONS

FY12 Highlights

- Successful global launch of new products
- Further penetration in emerging markets
- Significant increase in profitability
- Key international contracts won
- Sustained investment in new technologies

FY13 Objectives

- Consolidate presence in rapidly-growing emerging markets
- Introduce more features to product suite
- Target strong sales growth in FY13
- Successfully integrate the Daniels business and develop international sales opportunities for land mobile radio products

Our products deliver reliable first world features and benefits to the emerging world at an affordable price, representing best value-for-money solutions in our defined markets.

METAL DETECTION

Minelab is the world leader in providing metal detection technologies for consumer, humanitarian demining and military needs. Another excellent year was achieved, with positive growth recorded across traditional consumer markets and for Minelab's superior ground-penetrating, gold-seeking detectors in artisanal gold markets across Africa, and Central and Latin America. Demand for countermine products also remains strong from military and security customers around the world. The outlook remains positive across all key markets.

Gold detectors

Minelab's leading metal detection technology and favourable market conditions are driving strong interest from professional and hobbyist gold prospectors around the world. While the high gold price has a positive influence on prospecting activity, particularly in the first world consumer market, it is not the only factor behind this strong demand.

There are now an estimated 10 million artisanal gold prospectors operating in remote corners of the globe, from Africa to South America. With its reputation for high quality and reliable products, as well as increasingly strong marketing and service support, Minelab is well positioned to capitalise on this growing market sector.

Significant progress has been made to further protect our intellectual property and prevent sub-standard Chinese gold detector copies from deceiving our customers. A number of initiatives have been implemented to ensure that our customers can easily identify and have access to the genuine product. We continue to work on limiting the effectiveness of the copiers. We are pleased to report that demand in our major gold markets remains strong.

Treasure detectors

Minelab recently released the CTX 3030 all-terrain treasure detector and successfully outsourced its manufacture to Malaysia to ensure that customers receive the best value-for-money product on the market. This product sets a new standard, with integrated GPS, wireless audio, a high resolution colour display and improved target recognition in a fully waterproof platform. It has received excellent feedback, with success stories from treasure hunters across the world being posted on the Minelab website.

Countermine

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

During the year, landmine and unexploded ordnance detectors were supplied to help ongoing land clearance operations in Cambodia. The contract, worth more than $2 million, was part of the Japanese Project for Improvement of Equipment for Demining Activities (Phase VI).

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

MINELAB

FY12 Highlights

- Another exceptional result in FY12
- Release of the flagship CTX 3030 treasure detector
- Continued strength of gold detector sales
- Solid countermine contracts

FY13 Objectives

- Plan for another strong year
- Expand gold detector sales into many more regions
- Increase marketing support in new and established markets
- Turbo-charge new product development

Rare coin found with CTX 3030


Minelab explorer, Tom from New York

"I am fortunate to live in a very history-rich area of upstate New York. It has many old landmarks and battlegrounds from the revolutionary war. I went to one of my productive locations under a large pine tree which has produced musket balls and a few old colonial buttons. Was not there very long when I had a solid 12-47 signal from my CTX 3030. It was reading 10" down, so I chose to dig it. It was a good thing I did...

Did some research and shown a few people the coin and they are pretty confident it is the rare version. I was shocked, this is by far my greatest find yet! The discrimination on the CTX 3030 showed 2 targets close together, one good, one iron. I would not have found this coin if it weren't for this feature. I have gone over this area a bunch of times before with other detectors!"

Tom, N.Y., USA

West Point history



CTX 3030 treasures

"As I continue to get familiar with the CTX 3030, I am hitting some old haunts that I have worked very hard before. The CTX 3030 rang out… 11/32 12/33 @ 6"… I had to dig around some roots, but out popped a 2 piece brass button… Looked Civil War period right off… I could see Cadet USMA (United States Military Academy)… I sent my wife a picture and she replied back that she looked it up and USMA was West Point…

1840's West Point Cadet Button… WAHOO!!! Thank you Minelab !!"

Paul Flickner, Connecticut, USA

MINING TECHNOLOGY

With the purchase and integration of Minetec, Codan has expanded into the mining communications and technology services industry, and is now building on Minetec's established and reliable track record of providing best-of-breed communications technology, focussed on improving mine safety and efficiency, particularly in underground, hard rock mines.

Minetec communications infrastructure

Minetec

The $10 million purchase of Perth-based mining communications and technology company, Minetec Pty Ltd, funded entirely from Codan's existing debt facility, has allowed Codan to successfully enter the fast growing mining communications and technology services industry.

This industry offers significant opportunities for further growth for the company, and Minetec provides an ideal foundation to this strategy.

Since the acquisition was completed in January 2012, the business has performed to expectations, delivering $0.5 million EBIT to the group.

Minetec's key areas of expertise are the design and manufacture of electronics products and associated software that provide critical technical solutions in underground and hard rock mines.

This is closely aligned to Codan's key competencies of designing and manufacturing electronics products and distributing them almost anywhere in the world.

While Minetec's revenues are predominantly Australian-based, it has developed strong relationships with a number of large global miners, and is now developing these business opportunities internationally, with Africa and Central and Latin America among the key target markets.

Successful trials have just been completed in gold mines in Australia and Indonesia for breakthrough technology developed by Minetec to improve safety and productivity in underground hard rock mines. The new technology, which provides collision avoidance and asset tracking capabilities, and whole of mine scheduling systems, is expected to be available for worldwide distribution in the near future.

It is critical that Minetec focusses on ensuring that our sponsor customers are totally satisfied and that the product platforms are thoroughly tested and robust before we are seduced by the many global opportunities in front of us, and attempt to grow too quickly.

Global mining communications and technology services is expected to be a high growth industry during the next five years. Customer expectations are high, and Minetec is confident that it has best-in-class solutions aimed at assisting mine operators to substantially improve mine safety and productivity.

Our initial strategy for the growth of this business is to support global miners with Australian operations and to successfully install our suite of solutions into their mining operations globally.

The integration of the Minetec operations into the Codan group will continue during the next few months, with a focus on ensuring that the right level of investment in product development is made, available synergies are realised and the business is well positioned for medium- to long-term growth.

MINETEC

FY12 Highlights

- Successful purchase and integration of Minetec
- Acquisition performing to expectations
- New technology pilot underway with major mining customer
- Major investment in product and technology road map

FY13 Objectives

- Scale-up the business to meet increased demand
- Implement improved management processes and systems
- Identify and create cost-effective ways to employ resources
- Successfully deliver pilot programme to key customers
- Stabilise and commercialise product platform
- Continue to invest in new products and technology

We continue to innovate and invest in future product technologies to successfully grow the business and give our customers access to genuine, world's-best products.

SATELLITE COMMUNICATIONS

Successful divestment of satellite communications

Following the evaluation of strategic options for Codan's satellite communications products and taking into account several factors including the highly competitive and consolidating nature of the industry, the decision was made to divest this division.

The sale of Codan's satellite communications assets to CPI Canada Inc was successfully completed on 30 June 2012.

The sale – for an upfront price of USD $9 million and a maximum of USD $4.5 million in additional payments if certain earn-out objectives and targets are met over the next two years – consisted of Codan's Australian-based satellite communications assets and 100% of the shares of Locus Microwave, Inc.

CPI is a leading provider of microwave, radio frequency, power and control solutions for critical defence, communications, medical, scientific and other applications.

CPI and Codan satellite communications serve many of the same commercial and military communications customers, and Codan is currently assisting CPI with manufacturing, training and support for a period to ensure continuous supply to customers.

The sale, which resulted in a loss of approximately AUD $3.5 million, will reduce Codan's net exposure to the US dollar, have a positive impact on Codan's profitability and enable the company to focus on higher growth businesses and other market opportunities.

CPI and Codan satellite communications serve many of the same commercial and military communications customers, and Codan is currently assisting CPI with manufacturing, training and support for a period to ensure continuous supply to customers.

ADVANCED MANUFACTURING

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

Manufacturing operations

The integration of Minetec manufacturing and the high demand for gold prospecting products ensured a busy and successful FY12 for manufacturing operations.

Throughput at Codan's Australian and Malaysian facilities increased significantly in response to high global demand.

This included production of a range of new models, including the Minelab CTX 3030 metal detector and the Envoy™ software-defined HF radio platform.

To position ourselves for expected market growth in the future, the company is investing in an upgrade of its Malaysian manufacturing facilities. These facilities will continue to provide flexible production options for Codan, as well as a natural hedge against USD currency fluctuations.

Additional opportunities are being sought for further in-country manufacturing, with operations in China now well progressed and investigations underway for similar partnerships in India and Central Asia.

Manufacturing remains a key focus for Codan into the future.

The company is also investing in the engineering capabilities of its advanced Australian operations. The Adelaide facility will remain integral to the group's operations, serving as a technology hub, particularly for new product development, in addition to its ongoing production requirements for lower volume, higher complexity products.

Continuous improvement

Now into its 13th year, the Codan Production System is based on generating continuous improvement in manufacturing processes and systems by harnessing the ideas and creativity of all of its employees. Efficiency and productivity improvements remain a constant objective for the range of projects underway, in order to lower product cost and delivery lead times.

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

Occupational Health and Safety

Codan is committed to the safety of all of its employees, both in Australia and overseas, and maintains very high safety records. This commitment goes beyond the production line. With employees venturing to all corners of the globe, traveller safety is paramount, and Codan engages experts in this field to ensure the safety of its travellers.

Environment

While the business is a "low-impact industry" in relation to its effect on the environment, Codan continues to look at ways to reduce its carbon footprint wherever possible. In line with this, the company is currently investigating solar energy options for its Adelaide operations to supplement the rainwater storage systems already in place.

Advanced manufacturing expertise at the Newton, Australia site

FY12 Highlights

- Integration of Minetec manufacturing
- Met high production demand for gold prospecting products
- Successful global outsourcing

FY13 Objectives

- Further develop in-country manufacturing operations
- Implement a world-class global warehousing and distribution system
- Invest in engineering capabilities in Australia
- Commit to ongoing process improvement

We continue to invest heavily in new product development and expand into related businesses offering complementary products and technologies to successfully grow the business.

Our greatest strength is our people. They are energetic and foster a culture where the desire to respectfully create dissatisfaction with their current state is a critical element of challenging each other and the future.

BOARD OF DIRECTORS

Dr David Klingner

B.Sc (Hons), PhD, FAusIMM

Chairman, Independent Non-Executive Director

Age: 68

Dr Klingner was appointed by the board as Chairman in May 2007. Dr Klingner has been a director with Codan since December 2004. Dr Klingner, a geologist, was previously employed by Rio Tinto in a number of senior roles involving business leadership, project development and worldwide exploration activities, gaining extensive experience in the establishment and management of overseas operations. He is a former chairman of Coal & Allied Industries Ltd, Bougainville Copper Limited and the World Coal Institute. Dr Klingner was appointed as a director of Energy Resources of Australia Limited in July 2004, and became Chairman in January 2005. He was appointed Chairman of the board of Turquoise Hill Resources Ltd (formerly Ivanhoe Mines Ltd), Canada in May 2012.

Mr Donald McGurk

HNC (Mech Eng), MBA, GAICD

Managing Director and Chief Executive Officer

Age: 50

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

Mr Peter Griffiths

B.Ec (Hons), CPA, FAICD

Independent Non-Executive Director

Age: 70

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

***Board of Directors** (Left to Right):*
Mr David Klingberg AO,
Mr David Simmons,
Mr Scott Davies,
Dr David Klingner,
Lt-Gen Peter Leahy AC,
Mr Donald McGurk,
Mr Peter Griffiths and
Mrs Corinne Namblard

Mr David Klingberg AO

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

Independent Non-Executive Director

Age: 68

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

Mr David Simmons

BA (Acc)

Independent Non-Executive Director

Age: 58

Mr Simmons was appointed to the board in May 2008. Mr Simmons has worked in the manufacturing industry throughout his career and has extensive financial and general management experience. Mr Simmons joined Hills Industries Limited in 1984, where he was appointed Finance Director in 1987 and Managing Director in 1992. He retired from Hills Industries Limited in June 2008. He is Chairman of Commercial Motor Vehicles Group and a board member of Gunns Limited, Thomson Lawyers and Detmold Group. He is a former chairman of the SA Government Economic Development Board, Korvest Ltd and Innovate SA.

Lt-Gen Peter Leahy AC

BA (Military Studies), MMAS, GAICD

Independent Non-Executive Director

Age: 59

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

Mr Scott Davies

LLB

Independent Non-Executive Director

Age: 50

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

Mrs Corinne Namblard

PhD (Pol Sci), HEC CAP

Independent Non-Executive Director

Age: 56

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

LEADERSHIP TEAM

Mr Donald McGurk

HNC (Mech Eng), MBA, GAICD

Managing Director and Chief Executive Officer

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

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

Mr Michael Barton

BA (Acc), CA

Chief Financial Officer and Company Secretary

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

Mr Peter Charlesworth

BEE (Hons), MBA, GAICD

General Manager Minelab

Peter holds a Degree in Electrical and Electronic Engineering with First Class Honours and a Masters Degree in Business Administration, both from Adelaide University, and is a Graduate Member of the Australian Institute of Company Directors. He was appointed General Manager of the subsidiary, Minelab Electronics Pty Ltd, in 2008 following the Codan acquisition of Minelab that same year. Peter joined Codan in 2003 as General Manager of Engineering, and then held various roles such as New Business Manager and HF Radio Business Development Manager. Prior to Codan, he was a Business Unit Manager at Tenix Defence - Electronic Systems Division and he has worked in the electronics industry for more than 20 years.

Leadership Team (Left to Right):
Mr Matthew Csortan,
Mr Peter Charlesworth,
Mr Simon Porter,
Mr Donald McGurk,
Mr Michael Barton,
Mr Kevin Kane and
Mr Allan Morichaud

Mr Kevin Kane

BSc (Computer Engineering), MBA (Finance) (Hons), MSc

President & Executive General Manager, Radio Communications

Kevin holds a Bachelor of Science (Computer Engineering) from the Rochester Institute of Technology and an MBA (Finance) from the Bittner School of Business at St. John Fisher College in Rochester, New York. Kevin assumed his current role at Codan in 2010. Prior to joining Codan, Kevin served as a Harris Corporation executive at its RF Communications Division in Rochester, New York, overseeing federal sales and business development for the company's radio products. Kevin has 25 years of experience in the radio communications market, including roles in general management, engineering, sales, programme management and business development.

Mr Matthew Csortan

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

General Manager Group Operations

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

Mr Allan Morichaud

MSc (Economics), MBA

General Manager Corporate Development & Systems

Allan holds a Masters Degree in Science (Economics) from the University of Copenhagen, and a Masters Degree in Business Administration from Adelaide University. Allan joined Codan in 2008 as Senior Business Analyst, and soon became the Manager for IT and Business Analysis. He was appointed General Manager for Business Systems and Analysis in 2009, followed by General Manager Corporate Development & Systems in early 2012. Prior to joining Codan, Allan was Finance Manager at Hardi Australia, and both Finance Manager and Business Analyst during his five years working for Copenhagen Airports in Denmark.

Mr Simon Porter

B.App.Sci (Physio), MBA

Group Human Resources Manager

Acting Executive General Manager, Minetec

Simon holds a Bachelor of Applied Science in Physiotherapy from the University of South Australia and an MBA from the University of Adelaide. He joined Codan in 2010 as the Group Human Resources Manager. Prior to joining Codan, Simon served as the General Manager, Human Resources at Clipsal Australia, where he also held executive roles in Quality and Customer Satisfaction, as well as in Health, Safety & Environmental Management. Prior to that, Simon had worked at Holden Limited, and comes to Codan with valuable and relevant experience in the automotive industry. In May 2012, Simon was appointed as the Acting Executive General Manager of Minetec to lead the operational review and process improvement opportunities for the newly acquired company.

In order to survive and prosper in a challenging economy, our manufacturing processes and systems have become even more cost effective, responsive and customer driven.

FINANCIAL REPORT

For year ended 30 June 2012

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

The directors present their report together with the financial statements of the group comprising Codan Limited ("the company") and its subsidiaries for the financial year ended 30 June 2012 and the auditor's report thereon.

DIRECTORS

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

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

Details of directors and their qualifications and experience are set out on pages 22 to 23.

COMPANY SECRETARY

Mr Michael Barton BA (Acc), CA

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

DIRECTORS' MEETINGS

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

CORPORATE GOVERNANCE STATEMENT

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

Board of directors

Role of the board

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

To fulfil this role, the board is responsible for the overall corporate governance of the group, including formulating its strategic direction, approving and monitoring the annual plan, budget and capital expenditure, setting senior executive and director remuneration, establishing and monitoring the achievement of

	Board Meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration Committee meetings	
DIRECTOR	A	B	A	B	A	B
Dr G D Klingner	11	12	-	-	2	2
Mr D S McGurk	12	12	-	-	-	-
Mr P R Griffiths	12	12	4	4	-	-
Mr D J Klingberg	11	12	4	4	-	-
Mr D J Simmons	12	12	-	-	2	2
Lt-Gen P F Leahy	12	12	-	-	2	2
Mr S W Davies	11	12	-	-	-	-
Mrs C S Namblard	12	12	4	4	-	-

A - Number of meetings attended B – Number of meetings held during the time the director held office during the year 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 group, including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

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

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

Director and executive education

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

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

Independent professional advice and access to company information

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

Composition of the board

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

- a broad range of expertise both nationally and internationally;
- a majority of non-executive directors;
- directors having extensive knowledge of the group'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
- at each annual general meeting, one-third of the directors and any other director who has held office for three years or more since last being elected must stand for re-election (except for the managing director).

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

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

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

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

Nomination Committee

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited

Remuneration Committee

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

The members of the Remuneration Committee during the year were:

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

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

Remuneration policies

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

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

Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

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

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

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

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2012 the above performance-linked remuneration structure was appropriate.

There has been no increase to the fixed salaries paid to senior executives during the year.

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

There has been no increase to the fees paid to directors during the year.

Service contracts

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

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

Performance rights

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

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

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

	Number of performance rights granted during year	Grant date	Fair value per right at grant date (cents)	Exercise price per right (cents)	Expiry date	Number of rights vested during year
DIRECTORS						
Mr D S McGurk	161,551	7 November 2011	98.4	–	30 June 2015	-
EXECUTIVES						
Mr M Barton	76,414	7 November 2011	98.4	–	30 June 2015	–
Mr P D Charlesworth	105,008	7 November 2011	98.4	–	30 June 2015	–
Mr K J Kane	84,006	7 November 2011	98.4	–	30 June 2015	–

The performance rights become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using the group's earnings per share for the year ended 30 June 2011 as the base. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share. The threshold level of the group's earnings per share before vesting is an increase in aggregate of 10% per annum over the three-year period from the base earnings per share. A pro-rata vesting will occur between the 10% and 15% levels of earnings per share for the three-year period.

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

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

	Performance rights granted Number	Performance rights granted Date	Percentage vested in year	Percentage forfeited in year	Financial years in which shares will be issued if vesting achieved
DIRECTORS					
Mr D S McGurk	146,667	11 November 2008	100%	–	2012
	132,850	23 October 2009	-	-	2013
	136,733	14 December 2010	-	-	2014
	161,551	7 November 2011	-	-	2015
EXECUTIVES					
Mr M Barton	64,675	14 December 2010	-	–	2014
	76,414	7 November 2011	-	–	2015
Mr P D Charlesworth	146,667	11 November 2008	100%	-	2012
	132,850	23 October 2009	-	-	2013
	88,877	14 December 2010	-	-	2014
	105,008	7 November 2011	-	-	2015
Mr K J Kane	84,006	7 November 2011	-	-	2015
Mr G K Shmith	120,000	11 November 2008	100%	-	2012
	108,696	23 October 2009	-	-	2013
	68,367	14 December 2010	-	-	2014

In relation to the performance rights granted on 11 November 2008, the performance requirements were based on cumulative annual compounding growth of the group's earnings per share over a three-year performance period, with a maximum earnings per share target of 25.957 cents per share. As the maximum earnings per share target was exceeded, on 10 August 2011 the board determined that the performance rights would immediately become qualifying performance rights, exercisable at any time during the 12 months ended 10 August 2012. All of the rights were exercised, and shares were transferred on 30 August 2011.

In relation to the performance rights granted on 23 October 2009, the performance requirements were based on cumulative annual compounding growth of the group's earnings per share over a three-year performance period, with a maximum earnings per share target of 29.551 cents per share. As the maximum earnings per share target has been exceeded to 30 June 2012, it is expected that the performance rights will be converted into shares before 31 August 2012.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration

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

Directors	Year	Salary & fees	Short- term bonuses	Non-monetary benefits	Post-employment and superannuation contributions
NON-EXECUTIVE		$	$	$	$
Dr G D Klingner	**2012**	**165,000**	**-**	**-**	**14,850**
	2011	165,000	-	-	14,850
Mr P R Griffiths	**2012**	**94,050**	**-**	**-**	**4,050**
	2011	90,000	-	-	8,100
Mr D J Klingberg	**2012**	**82,500**	**-**	**-**	**7,425**
	2011	82,500	-	-	7,425
Mr D J Simmons	**2012**	**87,500**	**-**	**-**	**7,875**
	2011	87,500	-	-	7,875
Lt-Gen P F Leahy	**2012**	**82,500**	**-**	**-**	**7,425**
	2011	82,500	-	-	7,425
Mr S W Davies	**2012**	**82,500**	**-**	**-**	**7,425**
	2011	13,750	-	-	1,237
Mr B P Burns	2011	89,925	-	-	-
Mrs C S Namblard	**2012**	**75,625**	**-**	**-**	**6,806**
Total non-executives' remuneration	**2012**	**669,675**	**-**	**-**	**55,856**
	2011	611,175	-	-	46,912
EXECUTIVE		$	$	$	$
Mr D S McGurk	**2012**	**489,173**	**334,910**	**-**	**20,000**
	2011	462,575	253,500	-	25,067
Mr M K Heard	2011	256,562	170,182	-	2,533
Total directors' remuneration	**2012**	**1,158,848**	**334,910**	**-**	**75,856**
	2011	1,330,312	423,682	-	74,512

Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
$	$	$	$	%	%
-	**-**	**-**	**179,850**	**-**	**-**
	-	-	179,850	-	-
-	**-**	**-**	**98,100**	**-**	**-**
-	-	-	98,100	-	-
-	**-**	**-**	**89,925**	**-**	**-**
-	-	-	89,925	-	-
-	**-**	**-**	**95,375**	**-**	**-**
-	-	-	95,375	-	-
-	**-**	**-**	**89,925**	**-**	**-**
-	-	-	89,925	-	-
-	**-**	**-**	**89,925**	**-**	**-**
-	-	-	14,987	-	-
-	-	-	89,925	-	-
-	**-**	**-**	**82,431**	**-**	**-**
-	**-**	**-**	**725,531**	**-**	**-**
-	-	-	658,087	-	-
$	$	$	$	%	%
12,211	**-**	**87,151**	**943,445**	**44.7**	**9.2**
64,153	-	69,397	874,692	36.9	7.9
21,722	-	-	450,999	37.7	-
12,211	**-**	**87,151**	**1,668,976**	**-**	**-**
85,875	-	69,397	1,983,778	-	-

Mr Heard retired as a director on 18 November 2010, Mr Davies was appointed as a director on 1 May 2011, Mr Burns retired as a director on 30 June 2011 and Mrs Namblard was appointed as a director on 1 August 2011.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Directors' and senior executives' remuneration (continued)

Executive Officers	Year	Salary & fees	Short- term bonuses	Non-monetary benefits	Post-employment and superannuation contributions
		$	$	$	$
Mr M Barton (Chief Financial Officer and Company Secretary)	**2012**	**219,013**	**158,412**	**-**	**19,437**
	2011	221,561	141,900	-	18,993
Mr R R Carpenter (President and Executive General Manager, Satellite Communications)	**2012**	**286,649**	**51,595**	**10,144**	**-**
	2011	102,016	33,000	2,295	-
Mr P D Charlesworth (General Manager, Minelab)	**2012**	**317,516**	**238,150**	**-**	**15,200**
	2011	308,583	195,000	-	15,200
Mr K J Kane (President and Executive General Manager, Radio Communications)	**2012**	**264,579**	**147,965**	**51,783**	**-**
	2011	363,984	78,000	42,383	-
Mr G K Shmith (General Manager, Satellite Communications)	2011	74,969	18,156	-	6,538
Total executive officers' remuneration	**2012**	**1,087,757**	**596,122**	**61,927**	**34,637**
	2011	1,071,113	466,056	44,678	40,731

Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
$	$	$	$	%	%
5,626	**-**	**41,222**	**443,710**	**45.0**	**9.3**
8,430	-	16,659	407,543	38.9	4.1
-	**134,147**	**-**	**482,535**	**10.7**	**-**
-	-	-	137,311	24.0	-
9,258	**-**	**56,648**	**636,772**	**46.3**	**8.9**
12,053	-	57,070	587,906	42.9	9.7
5,585	**-**	**26,272**	**496,184**	**35.1**	**5.3**
3,881	-	-	488,248	16.0	-
3,768	-	17,605	121,036	29.5	14.5
20,469	**134,147**	**124,142**	**2,059,201**	**-**	**-**
28,132	-	91,334	1,742,044	-	-

Mr K J Kane was appointed to the position of President and Executive General Manager, Radio Communications on 12 July 2010. Mr G K Shmith moved into a senior management role on 18 November 2010. Mr R R Carpenter was appointed to the position of President and Executive General Manager, Satellite Communications on 14 March 2011, and was terminated on 30 June 2012 as a result of the sale of the company's satellite communications assets.

Short-term incentive bonuses which vested during the year are as follows:
Mr D S McGurk 100%, Mr M Barton 100%,
Mr R R Carpenter 50%,
Mr P D Charlesworth 100%, and
Mr K J Kane 95% (5% forfeited).

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.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration report - audited (continued)

Corporate performance

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

	2012	2011	2010	2009	2008
	$	$	$	$	$
Net profit after tax	23,146,736	21,792,328	14,394,218	12,006,000	1,009,000
Dividends paid	14,773,138	13,952,408	11,490,222	10,532,955	10,532,955
Share price at 30 June	1.40	1.20	1.46	0.64	0.60
Change in share price at 30 June	0.20	(0.26)	0.82	0.04	(0.34)

Board Audit, Risk and Compliance Committee

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

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

- Mr P R Griffiths (Chairman)
  Independent Non-Executive Director
- Mr D J Klingberg
  Independent Non-Executive Director
- Mr S W Davies
  Independent Non-Executive Director
  (resigned 5 August 2011)
- Mrs C S Namblard
  Independent Non-Executive Director
  (appointed 5 August 2011)

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

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

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing management processes supporting external reporting;
- assessing corporate risk assessment processes;
- assessing 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;
- assessing the adequacy of the internal control framework and the company's code of ethical standards;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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

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

Risk Management

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

Oversight of the risk management system

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

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

Risk management and compliance and control

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

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

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

Quality and integrity of personnel

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

Financial reporting

The managing director and the chief financial officer have provided assurance in writing to the board that the company's financial reports are founded on a sound system of internal compliance and control and risk management practices which 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. While the committee has not implemented a formal internal audit function, it does initiate internal control projects by reference to the company's risk register.

Assessment of effectiveness of risk management

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Ethical standards

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

Conflict of interest

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

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

Code of conduct

The group has advised each director, manager and employee that they must comply with the 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 company's Share Trading Policy are:

- identification of those restricted from trading – directors, officers, executives and senior managers may acquire shares in the company, but are prohibited from dealing in company shares:
  - 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.

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

Communication with shareholders

The board provides shareholders with information in accordance with Continuous Disclosure requirements, which 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 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), are placed on the company's website after they are released to the ASX; and
- the full texts of notices of meetings and associated explanatory material are placed on the company's website.

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

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

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

Diversity

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

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

The key elements of the policy include:

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

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

	30 June 2012		30 June 2011	
Gender Representation	**Female (%)**	**Male (%)**	**Female (%)**	**Male (%)**
Board representation	14%	86%	0%	100%
Executive & senior management representation	17%	83%	14%	86%
Group representation	30%	70%	31%	69%

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

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

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

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW

FY12 highlights in challenging economic times:

- highest reported profit of $23.1 million;
- underlying profit increased by 19% to $27.9 million;
- annual dividend increased to 9.5 cents;
- continued growth of metal detector sales and major new product release;
- major new product releases in Radio Communications;
- successfully divested Satellite Communications' assets; and
- acquisition of Minetec brings diversification into resources technology and services sector.

The board of Codan Limited has announced a net profit after tax of $23.1 million for the year ended 30 June 2012 compared to the prior year of $21.8 million. Underlying net profit after tax was $27.9 million from $179.4 million of revenue, which compares to $23.4 million in the prior year. The underlying net profit after tax excludes the loss on sale of the satellite communications assets, restructuring costs in relation to that transaction and also transaction and integration costs associated with acquisitions.

The company announced a final dividend of 5.5 cents per share, fully franked, bringing the full year dividend to 9.5 cents compared to 9.0 cents for FY11, an increase of 5.6%.

Codan has announced the acquisition of 100% of Canadian-based land mobile radio company, Daniels Electronics Limited ("Daniels"), for an upfront cost of CAD $25 million (approximately AUD $24 million), with the possibility of approximately CAD $2 million (approximately AUD $1.9 million) in additional payments if certain earn-out targets are achieved over the next 18 months. The acquisition of Daniels will be funded by a mix of debt and equity and is consistent with Codan's stated strategic goal to expand the radio communications business by investing in adjacent markets and technologies. The board believes that Codan's extensive international distribution network will deliver significant growth opportunities to the Daniels business which is currently focussed on the North American market.

Codan summary financial performance

	FY12		FY11	
	$m	% of sales	$m	% of sales
REVENUE				
Communication products	**66.4**	**37%**	69.8	41%
Metal detection products	**98.6**	**55%**	92.1	54%
Mining technology	**9.3**	**5%**		
Other	**5.1**	**3%**	7.7	5%
Total revenue	**179.4**	**100%**	169.6	100%
UNDERLYING BUSINESS PERFORMANCE				
EBITDA	**51.7**	**29%**	44.0	26%
EBIT	**43.2**	**24%**	35.0	21%
Net interest	**(3.4)**		(3.0)	
Net profit before tax	**39.8**	**22%**	32.0	19%
Underlying net profit after tax	**27.9**	**16%**	23.4	14%
Non-underlying income / (expenses) after tax*:				
Acquisition and integration costs	**(1.3)**		(1.1)	
Satellite communications loss on disposal / impairments	**(3.5)**		(5.3)	
Sale of minority interest in GroundProbe Pty Ltd			4.1	
Sale of Codan Broadcast Products Pty Ltd			0.7	
Net profit after tax	**23.1**		21.8	
Underlying earnings per share, fully diluted	**17.0 cents**		14.3 cents	
Dividend per share	**9.5 cents**		9.0 cents	

** Non-underlying income/(expenses) are considered to be outside of normal business activities of the group and for comparability reasons have been separately identified. The methodology of identifying and quantifying these items is consistently applied from year to year. Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to review or audit.*

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Codan summary financial performance (continued)

Net borrowings decreased over the year by $10 million to $16 million, which compares to the company's total available bank facilities of $85 million. The decrease in net borrowings was due mainly to the strong demand for metal detectors in the second half, which resulted in strong cash flows and a significant run-down of inventory, and the sale of the satellite communications assets on 30 June 2012.

The company continues to focus on the implementation of its strategic plan, which consists of three major initiatives: invest in ourselves, expand our businesses and make further acquisitions.

The foundation of our growth strategy is to ensure that we continue to invest heavily in new product development and to clearly understand that we must continue to innovate and invest in future product technologies to successfully grow the business. To that end, we released three new major product platforms in the last quarter of FY12.

Secondly, we continue to seek opportunities to further strengthen profitability by expanding into related businesses offering complementary products and technologies. The acquisition of Daniels will significantly broaden our product offering to our radio communications customers, and we will continue to seek out other opportunities to broaden our appeal in the markets we serve.

Finally, we are continuing with our disciplined approach to identify acquisition opportunities that fit our strategy of further diversification. Codan is continuously on the lookout for profitable businesses that enable us to diversify into different products and industries, but around a common theme, enabling us to leverage off our core capabilities and strengths. The acquisition of Minetec in January 2012 represents an exciting opportunity in the resources sector.

With the announcement of the acquisition of Daniels, management are focussed on the successful integration of the newly acquired Daniels and Minetec businesses into the Codan group.

Metal detection

The metal detection division again performed very well. Strong demand for gold detection products, supplemented by growth in the sales of coin and treasure machines, has reinforced Minelab's position as the global market leader for handheld metal detectors. Demand for mine clearance detectors was also boosted during the year with the award of a major contract in Cambodia.

The most pleasing aspect of the success enjoyed by the metal detection division during the year is the increased level of sales across our African and Central and Latin American markets for our gold detecting products, as a direct result of the business development work carried out during the past 12 months. There is now less reliance on a single region, with sales of our gold detectors coming from many different regions; this will provide a more sustainable base as we enter FY13.

From this solid foundation, we expect to have another good year from our metal detection division in FY13, boosted by the release of an innovative new coin and treasure detector and a new compact land mine detector which has taken our world's-best metal detection technology and placed it in a small, rugged and tactical package.

We cannot afford to become complacent however, as we have seen a number of manufacturers in China attempt to copy our products, spoil our markets and attempt to deceive our customers. This has caused us to take steps to further protect our intellectual property and ensure that our customers have access to the genuine, world's-best Minelab products.

Communications products

Sales and profitability of our radio communications products increased in FY12, despite some frustrating delays with the awarding of major government projects in Africa and Central Asia. This improved performance has come from the increased level of business development work being conducted and the delivery of higher value-add solutions to our customers.

The focus of this business remains to expand beyond our current HF product offerings and to position ourselves to supply a more comprehensive and complete radio communications solution, primarily directed at our military and security market customers. The acquisition of Daniels, which is expected to settle on or around 17 August 2012, represents an exciting expansion of our radio communications business. In addition, we have formed strong partnerships with other product suppliers during the past year and are well positioned to meet our customers' total radio communications needs.

An exciting new Codan software-defined radio was released to the market in June 2012 and was very well received by our dealer network and the many customers that visited our stand at various exhibitions in Europe and Asia Pacific. The product is aimed at delivering first world features and benefits to the emerging world at the right price, and gives us a brand new HF technology platform from which to continue the growth of this business.

Business conditions in FY12 remained very difficult for our satellite communications products. The Board evaluated the strategic options for these products and realised that our market position was too narrow in a large, highly competitive and rapidly consolidating US-centric industry. It was decided that the best option was to sell to a buyer with a broader position in the industry, and the sale of our satellite communications assets was announced in May 2012, with the transaction being successfully settled on 30 June 2012.

Mining technology

The acquisition of Minetec, a mining communications and technology company specialising in mine safety and productivity solutions, has further diversified the business and provides Codan with another strong area for growth, focussed at the rapidly expanding resources sector.

Minetec has developed an exciting range of best-in-class solutions for underground mines directed at collision avoidance, traffic control and situational awareness to improve mine safety, and a planning, scheduling and messaging system to improve mine productivity.

This business is poised to make critical installations of its technology operating in underground mine situations which, when successful, is expected to result in significant demand for these products.

Outlook

The core Minelab business remains strong, the sales pipeline for Radio Communications continues to strengthen and our mining technology business is well-placed for significant growth.

Codan operates in the global market and the short-term outlook for the world economy continues to be far from clear. However, we remain confident in the implementation of our strategic objectives and expect another good result in FY13.

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

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 2012:				
Final 2011 ordinary	5.0	8,207	100%	3 October 2011
Interim 2012 ordinary	4.0	6,566	100%	2 April 2012
DECLARED AFTER THE END OF THE YEAR:				
Final 2012 ordinary	5.5	9,028	100%	2 October 2012

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

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to reporting date, Codan has announced the acquisition of Canadian-based land mobile radio company, Daniels Electronics Limited (Daniels), for an upfront cost of CAD $25 million (approximately AUD $24 million), with the possibility of approximately CAD $2 million (approximately AUD $1.9 million) in additional payments if certain earn-out targets are achieved over the next 18 months. The acquisition of Daniels will be funded by a mix of debt and equity and is consistent with Codan's stated strategic goal to expand the radio communications business by investing in adjacent markets and technologies. Codan's extensive international distribution network is expected to deliver significant growth opportunities to the Daniels business, which is currently focussed on the North American market.

Funding for the acquisition will be partially sourced via an institutional placement to raise up to $12.5 million, along with a share purchase plan to raise a maximum of $5 million. Shares will be issued at a fixed price of $1.40 per new share. Shareholders eligible under the share purchase plan will be able to acquire up to a maximum of $10,000 of new shares.

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

LIKELY DEVELOPMENTS

The group will continue 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 Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares
Dr G D Klingner	467,840
Mr D S McGurk	147,667
Mr P R Griffiths	148,065
Mr D J Klingberg	66,765
Mr D J Simmons	-
Lt-Gen P F Leahy	44,065
Mr S W Davies	-
Mrs C S Namblard	-

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

Insurance premiums

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

NON-AUDIT SERVICES

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

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

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

Refer page 47 for a copy of the auditor's independence declaration as required under Section 307C of the Corporations Act.

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

	Consolidated 2012 ($)	2011 ($)
STATUTORY AUDIT		
Audit and review of financial reports (KPMG Australia)	**181,300**	180,850
Audit of financial reports (overseas KPMG firms)	**33,581**	36,948
	214,881	217,798
SERVICES OTHER THAN STATUTORY AUDIT		
Other assurance services		
Due diligence and corporate finance services	**272,239**	47,338
Other	**38,229**	33,043
Other services		
Taxation compliance services (KPMG Australia)	**144,799**	116,984
Taxation compliance services (overseas KPMG firms)	**100,807**	178,242
	556,074	375,607

DIRECTORS' REPORT

Codan Limited and its Controlled Entities

ROUNDING OFF

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

This report is made with a resolution of the directors:

Dr G D Klingner
Director

D S McGurk
Director

Dated at Newton this 6th day of August 2012.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

For the year ended 30 June 2012

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 2012 there have been:

(a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

N T Faulkner
Partner

Adelaide
6 August 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

	Note	Consolidated 2012 ($000)	Consolidated 2011 ($000)
CONTINUING OPERATIONS			
Revenue	3	**160,732**	143,484
Cost of sales		**(63,301)**	(59,692)
Gross profit		**97,431**	83,792
Other income	6	**493**	6,373
Administrative expenses		**(15,032)**	(15,090)
Sales and marketing expenses		**(29,986)**	(27,714)
Engineering expenses		**(8,117)**	(6,156)
Net financing costs	7	**(3,236)**	(3,819)
Other expenses		**(34)**	(722)
Profit before tax		**41,519**	36,664
Income tax expense	9	**(12,346)**	(8,509)
Profit from continuing operations		**29,173**	28,155
DISCONTINUED OPERATION			
Loss on disposal of the satellite communications assets and its operating results, net of tax	4	**(6,027)**	(6,363)
PROFIT FOR THE PERIOD		**23,146**	21,792
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	30	**14.1 cents**	13.3 cents
Diluted earnings per share	30	**14.0 cents**	13.2 cents
Earnings per share from continuing operations:			
Basic earnings per share	30	**17.8 cents**	17.2 cents
Diluted earnings per share	30	**17.7 cents**	17.1 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 53 to 102.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

	Note	Consolidated 2012 ($000)	Consolidated 2011 ($000)
Profit for the period		**23,146**	21,792
Other comprehensive income			
Changes in fair value of cash flow hedges, net of tax	21	**(105)**	1,592
Exchange differences on translation of foreign operations, net of tax	21	**(413)**	(1,880)
Recognised through sale of discontinued operation	21	**(555)**	-
Other comprehensive income for the period, net of income tax		**(1,073)**	(288)
Total comprehensive income for the period		**22,073**	21,504

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 53 to 102.

CONSOLIDATED BALANCE SHEET

As at 30 June 2012

Codan Limited and its Controlled Entities

	Note	Consolidated 2012 ($000)	2011 ($000)
CURRENT ASSETS			
Cash and cash equivalents	10	**23,081**	8,643
Trade and other receivables	11	**22,785**	14,594
Inventories	12	**11,979**	23,320
Current tax assets	9	**75**	80
Equipment held for sale	4	**1,747**	-
Other assets	13	**2,206**	1,882
Total current assets		**61,873**	48,519
NON-CURRENT ASSETS			
Property, plant and equipment	14	**18,238**	20,691
Product development	15	**23,286**	20,340
Intangible assets	16	**66,886**	57,876
Deferred tax assets	9	**-**	-
Total non-current assets		**108,410**	98,907
Total assets		**170,283**	147,426
CURRENT LIABILITIES			
Trade and other payables	17	**35,933**	26,438
Loans and borrowings	18	**113**	-
Current tax payable	9	**4,226**	3,856
Provisions	19	**5,702**	5,438
Total current liabilities		**45,974**	35,732
NON-CURRENT LIABILITIES			
Loans and borrowings	18	**39,168**	34,150
Deferred tax liabilities	9	**1,196**	2,189
Provisions	19	**4,536**	3,476
Total non-current liabilities		**44,900**	39,815
Total liabilities		**90,874**	75,547
Net assets		**79,409**	71,879
EQUITY			
Share capital	20	**24,839**	24,609
Reserves	21	**(2,935)**	(1,862)
Retained earnings	22	**57,505**	49,132
Total equity		**79,409**	71,879

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 53 to 102.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

2012	Consolidated Share capital ($000)	Translation reserve ($000)	Hedging reserve ($000)	Retained earnings ($000)	Total ($000)
Balance as at 1 July 2011	24,609	(3,199)	1,337	49,132	71,879
Change in fair value of cash flow hedges	-	-	(105)	-	(105)
Reserves through sale of discontinued operation	-	341	(896)	-	(555)
Exchange differences on translation of foreign operations	-	(413)	-	-	(413)
Profit for the period	-	-	-	23,146	23,146
Dividends recognised during the period	-	-	-	(14,773)	(14,773)
Performance rights expensed	230	-	-	-	230
Shares purchased	-	-	-	-	-
Balance at 30 June 2012	**24,839**	**(3,271)**	**336**	**57,505**	**79,409**

2011	Consolidated Share capital ($000)	Translation reserve ($000)	Hedging reserve ($000)	Retained earnings ($000)	Total ($000)
Balance as at 1 July 2010	25,328	(1,319)	(255)	41,292	65,046
Change in fair value of cash flow hedges	-	-	1,592	-	1,592
Exchange differences on translation of foreign operations	-	(1,880)	-	-	(1,880)
Profit for the period	-	-	-	21,792	21,792
Dividends recognised during the period	-	-	-	(13,952)	(13,952)
Performance rights expensed	236	-	-	-	236
Shares purchased	(955)	-	-	-	(955)
Balance at 30 June 2011	24,609	(3,199)	1,337	49,132	71,879

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 53 to 102.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

	Note	Consolidated 2012 ($000)	2011 ($000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**169,272**	171,698
Cash payments to suppliers and employees		**(115,201)**	(131,078)
Interest received		**245**	294
Interest paid		**(3,626)**	(3,334)
Income taxes paid		**(10,613)**	(11,195)
Net cash from operating activities	26(II)	**40,077**	26,385
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary		**(7,004)**	-
Proceeds from sale of property, plant and equipment		**1,277**	787
Dividends received		**-**	680
Payments for capitalised product development		**(10,330)**	(7,436)
Payments for intellectual property		**(1,523)**	(847)
Acquisition of property, plant and equipment		**(2,429)**	(3,610)
Acquisition of intangibles (computer software and licences)		**(1,349)**	(1,886)
Proceeds from disposal of shares in GroundProbe Pty Ltd		**-**	3,795
Proceeds from disposal of Codan Broadcast Products Pty Ltd		**-**	727
Proceeds from disposal of discontinued operation		**8,606**	-
Net cash used in investing activities		**(12,752)**	(7,790)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**1,887**	-
Repayments of borrowings		**-**	(16,558)
Payment for shares required for performance rights plan		**-**	(980)
Dividends paid		**(14,773)**	(13,952)
Net cash from / (used in) financing activities		**(12,886)**	(31,490)
Net increase / (decrease) in cash held		**14,439**	(12,895)
Cash and cash equivalents at the beginning of the financial year		**8,643**	21,745
Effects of exchange rate fluctuations on cash held		**(1)**	(207)
Cash and cash equivalents at the end of the financial year	26(I)	**23,081**	8,643

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 53 to 102.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended
30 June 2012

Codan Limited and
its Controlled Entities

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 2012 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 6 August 2012.

(a) Statement of compliance

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

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

(b) Basis of preparation

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

A number of new standards, amendments to standards and interpretations, effective for annual periods beginning after 1 July 2012, were available for early adoption, and have not been applied in preparing these consolidated financial statements. None of these standards is expected to have a significant effect on the consolidated financial statements of the group, except for AASB 9 *Financial Instruments,* which could change the classification and measurement of financial assets. The amendments to AASB 119 *Employee Benefits* alter the definitions for short-term and long-term benefits which may impact the current versus non-current split, and requires leave not expected to be taken within a year to be discounted, which might impact the valuation of the group's employee benefits. Both AASB 9 and AASB 119 become mandatory for the group's 2014 consolidated financial statements; however the group does not plan to adopt these standards early and the full extent of the impact has not been determined.

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

Use of estimates and judgements

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

Changes in accounting policies

For the year ended 30 June 2012 the group has not changed any of its significant accounting policies.

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

(c) Basis of consolidation

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

(continued)

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

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

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

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

(d) Revenue recognition

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

Sale of goods

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

Construction contracts

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

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

Rendering of services

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

(e) Expenses

Operating lease payments

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

Finance lease payments

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

Net financing costs

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

(f) Foreign currency

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

Foreign operations

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

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

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

(g) Derivative financial instruments

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

Hedging

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

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

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

(h) Taxation

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Taxation (continued)

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

Tax consolidation

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

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

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

(i) Goods and services tax

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

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

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

Trade debtors are to be settled within agreed trading terms, typically less than 60 days, and are 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 measured at the lower of cost (determined on a first-in first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

(m) Project work in progress

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

(n) Intangible assets

Product development costs

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

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

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

Goodwill

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

Measuring goodwill

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

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

Contingent liabilities

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

Non-controlling interest

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

Transaction costs

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

Licences and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

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

(o) Property, plant and equipment

Owned assets

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

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

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Property, plant and equipment (continued)

Subsequent costs

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

Leased assets

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

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

Depreciation

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

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

Buildings	4%
Leasehold property	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 have an indefinite useful life or are not yet available for use, the recoverable amount is estimated annually.

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Payables

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

(r) Interest bearing borrowings

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

(s) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Defined contribution superannuation plans

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

(t) Provisions

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

Dividends

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

Restructuring and employee termination benefits

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

Warranty

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

Onerous contracts

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

(u) Share capital

Ordinary shares

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

(v) Share-based payment transactions

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

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

(w) Discontinued operations

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

2. DIVIDENDS

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
i. An ordinary final dividend of 4.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2010	-	7,387
ii. An ordinary interim dividend of 4.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2011	-	6,565
iii. An ordinary final dividend of 5.0 cents per share, franked to 100% with 30% franking credits, was paid on 3 October 2011	**8,207**	-
iv. An ordinary interim dividend of 4.0 cents per share, franked to 100% with 30% franking credits, was paid on 2 April 2012	**6,566**	-
	14,773	13,952

Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 5.5 cents per share, franked to 100% with 30% franking credits. Based upon the shares on issue at 30 June 2012, the dividend would be $9,028,029 and is expected to be paid on 2 October 2012. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial reports.

Dividend franking account

	2012	2011
Franking credits available to shareholders for subsequent financial years (30%)	**13,856**	9,472

The franking credits available are based on the balance of the dividend franking account at year-end adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. Based upon the above assumed dividend, the impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $3,869,155 (2011: $3,517,413).

3. SEGMENT ACTIVITIES

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

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the company's headquarters and cash balances), head office expenses and income tax assets and liabilities.

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

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

Business segments

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The group comprises four business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. With the acquisition of Minetec in January 2012, the group now has a mining technology segment which includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector. The "other" business segment includes the manufacture and marketing of printed circuit boards.

During the prior year the "other" business segment also included a specialist component manufacturing business which was divested, and a broadcast electronic equipment manufacturing business which was sold.

Geographical segments

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

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3. SEGMENT ACTIVITIES (CONTINUED)

Information about reportable segments

	Communications *		Metal detection		Mining Technology
	2012	2011	2012	2011	2012
	$000	$000	$000	$000	$000
REVENUE					
External segment revenue	**66,339**	69,783	**98,639**	92,105	**9,330**
Inter-segment revenue	**-**	-	**-**	-	**-**
Total segment revenue	**66,339**	69,783	**98,639**	92,105	**9,330**
RESULT					
Segment result before impairment and restructure costs	**12,262**	10,624	**41,112**	36,302	**501**
Impairment charge (non-cash)	**-**	(6,000)	**-**	-	**-**
Loss on disposal of discontinued operation	**(2,586)**	-	**-**	-	**-**
Restructure costs	**(1,252)**	(1,248)	**-**	(270)	**(787)**
Segment result	**8,424**	3,376	**41,112**	36,032	**(286)**
Unallocated corporate expenses and other income					
Profit from operating activities					
Income tax expense					
Net Profit					
NON-CASH ITEMS INCLUDED ABOVE					
Depreciation and amortisation	**2,980**	4,710	**3,587**	2,551	**165**
Unallocated depreciation and amortisation					
Total depreciation and amortisation					
ASSETS					
Segment assets	**33,078**	32,792	**85,478**	84,500	**15,690**
Unallocated corporate assets					
Consolidated total assets					

Mining Technology	Other		Elimination		Consolidated *	
2011	2012	2011	2012	2011	2012	2011
$000	$000	$000	$000	$000	$000	$000
-	5,089	7,719	-	-	179,397	169,607
-	358	2,105	(358)	(2,105)	-	-
-	5,447	9,824	(358)	(2,105)	179,397	169,607
-	64	62	-	100	53,939	47,088
-	-	-	-	-	-	(6,000)
-	-	-	-	-	(2,586)	-
-	(189)	(453)	-	-	(2,228)	(1,971)
-	(125)	(391)	-	100	49,125	39,117
					(14,175)	(9,520)
					34,950	29,597
					(11,804)	(7,805)
					23,146	21,792
-	149	175	-	-	6,881	7,436
					1,660	1,595
					8,541	9,031
-	1,985	2,970	-	-	136,231	120,262
					34,052	27,164
					170,283	147,426

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were Australia totalling $22,426,735 (2011: $21,788,346), the United States of America totalling $41,412,244 (2011: $26,022,791), and to a customer in Turkey totalling $29,780,874 (2011: $25,849,129).

The group's non-current assets excluding financial instruments and deferred tax assets were located as follows: Australia $110,163,547 (2011: $97,272,841), the United States of America $161,043 (2011: $967,041), Ireland $485,992 (2011: $550,913) and United Kingdom $102,712 (2011: $116,959).

* Inclusive of discontinued operation, refer to Note 4.

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4. DISCONTINUED OPERATION

Codan reached agreement on 31 May 2012 to sell its satellite communications assets to Communications & Power Industries Canada Inc and its related corporate entities (collectively CPI) for a payment of USD $9 million cash, subject to certain adjustments, and a maximum of USD $4.5 million in additional payments if certain earn-out objectives and financial targets are achieved over the next two years. The sale consists of Codan's Australian-based satellite communications assets and 100% of the shares of Locus Microwave, Inc.

The sale was successfully settled on 30 June 2012. Codan will assist CPI with manufacturing, training and support for a period of approximately 9 months following settlement to ensure continuous supply to customers.

The satellite communication assets were not a discontinued operation, or classified as held for sale, as at 30 June 2011 and therefore the comparative consolidated income statement has been re-presented to show the discontinued operation separately from continuing operations.

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
RESULTS OF DISCONTINUED OPERATION		
Revenue	**18,665**	26,122
Expenses	**(21,898)**	(27,190)
Loss from operating activities	**(3,233)**	(1,068)
Tax	**652**	48
Loss from operating activities, net of tax	**(2,581)**	(1,020)
Non-operating activities, net of tax		
Impairment of goodwill and intangible assets	**-**	(5,343)
Loss on sale of discontinued operation	**(2,850)**	-
Transaction and restructure costs relating to sale	**(596)**	-
Loss for the year	**(6,027)**	(6,363)
Basic earnings/(loss) per share (cents)	**(3.7)**	(3.9)
Diluted earnings/(loss) per share (cents)	**(3.7)**	(3.9)
CASH FLOWS FROM/(USED IN) DISCONTINUED OPERATION		
Net cash from operating activities	**2,004**	545
Net cash used in investing activities	**(1,485)**	(2,101)
Net cash from financing activities	**-**	-
Net cash flows for the year	**519**	(1,556)

	Consolidated 2012 ($000)
EFFECT OF DISPOSAL	
Consideration and loan received in cash	8,606
Working capital adjustment to be paid to purchaser	(1,069)
Total consideration less adjustments	7,537
Plant and equipment	(1,358)
Equipment held for sale	(1,747)
Intellectual property and product development	(4,593)
Inventories	(4,159)
Trade and other receivables	(309)
Deferred tax liabilities	629
Trade and other payables	595
Foreign currency reserves	555
Net assets and liabilities disposed of	(10,387)
Loss on sale of discontinued operation	(2,850)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

5. ACQUISITION OF A SUBSIDIARY

On 3 January 2012, the company acquired all of the shares in Perth-based companies, Minetec Pty Ltd and Minetec Wireless Technologies Pty Ltd (collectively Minetec). Minetec designs, manufactures, maintains and supports a range of electronics products and associated software for the mining sector and is closely aligned to Codan's core competencies of developing and manufacturing electronics products and distributing them almost anywhere in the world. While Minetec's products are different from those offered by Codan's radio communications and metal detection divisions, they are based on similar engineering principles and are closely aligned to Codan in that they provide critical technical solutions in difficult operating environments.

For the six months ended 30 June 2012, Minetec has been shown as the mining technology segment in Note 3. If the acquisition had occurred on 1 July 2011, management estimates that Minetec's profit before tax would not have been significantly different.

The following summary provides current estimates of the major classes of consideration transferred, the expected recognised amounts of assets acquired and liabilities assumed and the estimated goodwill at the acquisition date.

	($000)
ESTIMATED FAIR VALUE OF CONSIDERATION TRANSFERRED	
Deposit paid	**250**
Cash paid on completion	**6,635**
Completion adjustments	**66**
Contingent consideration, at net present value	**2,747**
	9,698

Contingent consideration

The earn-out payable to a former shareholder of Minetec is contingent on the achievement of profit targets over the oncoming two years. While the earn-out is not capped, it has been estimated to be $3.0 million based on Minetec's estimated earnings over this period.

	($000)
ESTIMATED FAIR VALUE OF IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED, ON A PROVISIONAL BASIS	
Cash	253
Trade and other receivables	1,470
Inventories	398
Other assets (e.g. project work in progress)	480
Property, plant and equipment	980
Product development and/or intangible assets	246
Trade and other payables	(4,552)
Loans and borrowings	(1,620)
	(2,345)
ESTIMATED GOODWILL AS A RESULT OF THE ACQUISITION	
Estimated fair value of consideration	9,698
Less payment of Minetec liabilities deducted from consideration	(3,252)
Add estimated fair value of identifiable net liabilities assumed	2,345
	8,791

This goodwill amount is not expected to be deductible for tax purposes.

Minetec acquisition-related costs

During the year the group incurred acquisition costs ($528,000) and integration costs ($259,000), related largely to external legal fees, consulting, due diligence costs, travel and accommodation. These costs have been included as administrative expenses within the consolidated income statement, but have been excluded from the underlying profit result of the group.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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6. OTHER INCOME

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
Dividend income from GroundProbe Pty Ltd	-	680
Other items	237	312
Gain on sale of minority interest in GroundProbe Pty Ltd	-	3,745
Gain from the disposal of Codan Broadcast Products Pty Ltd	-	727
Insurance recoveries	256	909
	493	6,373

7. EXPENSES

	2012 ($000)	2011 ($000)
Net financing costs:		
Interest income	(245)	(294)
Net foreign exchange (gain) / loss	(147)	779
Interest expense	3,628	3,334
	3,236	3,819
Depreciation of:		
Buildings	524	526
Leasehold property	49	23
Plant and equipment	1,813	1,747
	2,386	2,296
Amortisation of:		
Product development	2,728	3,863
Intellectual property	1,899	1,710
Computer software	1,194	1,162
Licences	335	-
	6,156	6,735

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
Personnel expenses:		
Wages and salaries	**36,166**	28,204
Other associated personnel expenses	**2,555**	2,371
Contributions to defined contribution superannuation plans	**2,569**	2,321
Increase in liability for long service leave	**1,250**	609
Increase in liability for annual leave	**2,077**	1,731
	44,617	35,236
Additional expenses disclosed:		
Impairment of trade receivables	**267**	(120)
Operating lease rental expense	**1,515**	1,648
Loss on sale of property, plant and equipment	**34**	722
Acquisition, integration and restructuring	**2,228**	1,971

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

8. AUDITOR'S REMUNERATION

	Consolidated 2012 ($)	Consolidated 2011 ($)
Audit services:		
KPMG Australia - audit and review of financial reports	**181,300**	180,850
Overseas KPMG firms - audit of financial reports	**33,581**	36,948
Other services:		
KPMG Australia - taxation services	**144,799**	116,984
KPMG Australia - other assurance services	**38,229**	33,043
Overseas KPMG firms - taxation services	**100,807**	178,242
KPMG related practices - due diligence and corporate finance services	**272,239**	47,338
	770,955	593,405

9. INCOME TAX

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
A. INCOME TAX EXPENSE		
Current tax expense:		
Current tax paid or payable for the financial year	**10,205**	7,845
Adjustments for prior years	**269**	(1,047)
	10,474	6,798
Deferred tax expense:		
Origination and reversal of temporary differences	**1,330**	756
Income tax recognised directly in equity	**-**	251
Total income tax expense in income statement	**11,804**	7,805
Income tax expense from continuing operations	**12,346**	8,509
Income tax expense from discontinuing operation	**(542)**	(704)
	11,804	7,805

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**10,485**	8,879
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**703**	392
Over/(under) provision for taxation in previous years	**(269)**	1,047
Rebate on dividend income	**-**	204
Effect of tax rates in foreign jurisdictions	**-**	465
Recognition of previously unrecognised tax losses	**-**	1,097
Sundry items	**17**	109
	10,034	5,565
Increase in income tax expense due to:		
Non-deductible expenses	**557**	789
Non-deductible overseas losses	**437**	308
Capital loss through sale of discontinued operation	**776**	-
Impairment of goodwill	**-**	1,143
Income tax expense	**11,804**	7,805

B. CURRENT TAX LIABILITIES / ASSETS

	2012 ($000)	2011 ($000)
Balance at the beginning of the year	**(3,776)**	(7,448)
Net foreign currency differences on translation of foreign entities	**21**	(31)
Income tax paid	**10,613**	11,195
Adjustments from prior year	**(804)**	353
Current year's income tax paid or payable on operating profit	**(10,205)**	(7,845)
	(4,151)	(3,776)
Disclosed in balance sheet as:		
Current tax asset	**75**	80
Current tax payable	**(4,226)**	(3,856)
	(4,151)	(3,776)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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9. INCOME TAX (CONTINUED)

	Consolidated 2012 ($000)	Consolidated 2011 ($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	**6,962**	6,102
Sundry items	**(71)**	430
Hedging reserve	**382**	430
Difference in depreciation of property, plant and equipment	**(246)**	249
Set-off of tax in relation to deferred tax assets:		
Difference in intellectual property	**(1,748)**	(1,176)
Provisions for employee benefits not currently deductible	**(2,089)**	(1,857)
Provisions and accruals not currently deductible	**(1,994)**	(1,989)
	1,196	2,189

10. CASH AND CASH EQUIVALENTS

Petty cash	**30**	14
Cash at bank	**23,051**	8,611
Short-term deposits	**-**	18
	23,081	8,643

11. TRADE AND OTHER RECEIVABLES CURRENT

	Consolidated 2012 ($000)	2011 ($000)
Trade receivables	**22,516**	13,561
Less: Provision for impairment losses	**(506)**	(365)
	22,010	13,196
Other debtors	**775**	1,398
	22,785	14,594

12. INVENTORIES

Raw materials	**5,566**	15,090
Work in progress	**225**	1,782
Finished goods	**6,188**	6,448
	11,979	23,320

13. OTHER ASSETS

Prepayments	**907**	1,170
Net foreign currency hedge receivable	**670**	476
Project work in progress	**498**	-
Other	**131**	236
	2,206	1,882

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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14. PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated 2012 ($000)	2011 ($000)
Freehold land and buildings at cost		**15,182**	15,019
Accumulated depreciation		**(4,674)**	(4,150)
		10,508	10,869
Leasehold property at cost		**494**	475
Accumulated amortisation		**(385)**	(322)
		109	153
Plant and equipment at cost		**25,158**	32,792
Accumulated depreciation		**(17,700)**	(23,335)
		7,458	9,457
Capital work in progress at cost		**163**	212
Total property, plant and equipment		**18,238**	20,691

Reconciliations

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

	Note	2012	2011
Freehold land and buildings			
Carrying amount at beginning of year		**10,869**	11,975
Additions		**163**	106
Disposals		**-**	(660)
Depreciation		**(524)**	(526)
Net foreign currency differences on translation of foreign entities		**-**	(26)
Carrying amount at end of year		**10,508**	10,869
Leasehold property improvements			
Carrying amount at beginning of year		**153**	151
Acquisitions through entity acquired		**17**	-
Additions		**-**	28
Disposals		**(6)**	-
Depreciation		**(49)**	(23)
Net foreign currency differences on translation of foreign entities		**(6)**	(3)
Carrying amount at end of year		**109**	153

	Note	Consolidated 2012 ($000)	2011 ($000)
Plant and equipment			
Carrying amount at beginning of year		**9,457**	8,913
Acquisitions through entity acquired		**880**	-
Additions		**2,218**	3,264
Transfers		**23**	-
Transfer to equipment held for sale	4	**(1,747)**	-
Disposals		**(1,497)**	(820)
Depreciation		**(1,813)**	(1,747)
Net foreign currency differences on translation of foreign entities		**(63)**	(153)
Carrying amount at end of year		**7,458**	9,457
Capital work in progress at cost			
Carrying amount at beginning of year		**212**	95
Additions		**48**	212
Transfers		**(97)**	(95)
Carrying amount at end of year		**163**	212
Total carrying amount at end of year		**18,238**	20,691

15. PRODUCT DEVELOPMENT

Product development at cost	**50,269**	64,327
Accumulated amortisation	**(26,983)**	(43,987)
	23,286	20,340
Reconciliation		
Carrying amount at beginning of year	**20,340**	18,956
Capitalised in current period	**10,330**	7,436
Disposals	**(4,656)**	-
Impairment	**-**	(2,189)
Amortisation	**(2,728)**	(3,863)
	23,286	20,340

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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16. INTANGIBLE ASSETS

	Consolidated 2012 ($000)	2011 ($000)
Goodwill	**62,748**	57,545
Impairment	**-**	(3,588)
	62,748	53,957
Intellectual property at cost	**6,875**	4,636
Accumulated amortisation	**(6,133)**	(4,234)
	742	402
Computer software at cost	**11,463**	11,285
Accumulated amortisation	**(10,182)**	(9,068)
	1,281	2,217
Licences at cost	**2,450**	1,300
Accumulated amortisation	**(335)**	-
	2,115	1,300
Total intangible assets	**66,886**	57,876
Reconciliations		
Goodwill		
Carrying amount at beginning of year	**53,957**	58,457
Acquisitions through entity acquired	**8,791**	-
Net foreign currency differences on translation of foreign entities	**-**	(912)
Impairment	**-**	(3,588)
	62,748	53,957
Intellectual property		
Carrying amount at beginning of year	**402**	692
Acquisitions through entity acquired	**246**	-
Additions	**1,993**	1,709
Amortisation	**(1,899)**	(1,710)
Net foreign currency differences on translation of foreign entities	**-**	(66)
Impairment	**-**	(223)
	742	402

	Consolidated 2012 ($000)	2011 ($000)
Computer software		
Carrying amount at beginning of year	**2,217**	2,748
Acquisitions through entity acquired	**83**	-
Additions	**199**	586
Transfers from capital work in progress	**73**	95
Amortisation	**(1,194)**	(1,162)
Disposals	**(97)**	(23)
Net foreign currency differences on translation of foreign entities	**-**	(27)
	1,281	2,217
Licences		
Carrying amount at beginning of year	**1,300**	-
Acquisitions	**1,150**	1,300
Amortisation	**(335)**	-
	2,115	1,300
The following segments have significant carrying amounts of goodwill:		
Mining technology	**8,791**	-
Minelab products	**53,957**	53,957
	62,748	53,957

Goodwill

The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. The value-in-use calculations use cash flow projections based on the oncoming year's budget. Key assumptions for future years relate to sales, gross margin and expense levels. Sales are based on management assessments which allow for future growth. Gross margins and expense levels are largely consistent with past experience. A terminal value has been determined at the conclusion of five years assuming a growth rate of 3.0%. Pre-tax discount rates of 12% to 16% (2011: 15% to 17%) have been used in discounting the projected cash flows.

Intellectual Property

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

Licences

The company entered into a licence agreement on 30 June 2011 with a leading provider of advanced technology for high frequency radio communication products. Over a three-year period licence payments will be made as technology is delivered to the company. The licenced technology will allow the company access to implementations of next-generation radio waveforms for high-speed data transmission, automatic link establishment and digital voice.

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17. TRADE AND OTHER PAYABLES

	Consolidated 2012 ($000)	Consolidated 2011 ($000)
CURRENT		
Trade payables	**14,884**	12,191
Other payables and accruals	**21,049**	14,247
	35,933	26,438

18. LOANS AND BORROWINGS

	2012 ($000)	2011 ($000)
CURRENT		
Finance lease liabilities	**113**	-
	113	-
NON-CURRENT		
Cash advance	**38,879**	34,140
Finance lease liabilities	**289**	-
Unsecured loans	**-**	10
	39,168	34,150
The group has access to the following lines of credit:		
Total facilities available at balance date:		
Multi-option facility	**10,000**	10,000
Commercial credit card	**120**	120
Cash advance facility	**75,000**	75,000
	85,120	85,120
Facilities utilised at balance date:		
Multi-option facility	**3,039**	1,222
Commercial credit card	**8**	8
Cash advance facility	**38,879**	34,140
	41,926	35,370

	Consolidated 2012 ($000)	2011 ($000)
Facilities not utilised at balance date:		
Multi-option facility	**6,961**	8,778
Commercial credit card	**112**	112
Cash advance facility	**36,121**	40,860
	43,194	49,750

In addition to these facilities, the group has access to cash at bank and short-term deposits of $23,081,000 as set out in note 10.

Bank Facilities

Facilities are supported by interlocking guarantees between the company and its subsidiaries. The facilities have a term of three years expiring July 2014, and are subject to compliance with certain financial covenants over that term.

	Consolidated 2012 (%)	2011 (%)
WEIGHTED AVERAGE INTEREST RATES:		
Cash at bank	**2.28**	3.22
Short-term deposits	**4.16**	4.95
Bank overdraft	**9.50**	11.08
Cash advance	**5.56**	5.66

19. PROVISIONS

	Consolidated 2012 ($000)	2011 ($000)
CURRENT		
Employee benefits	**2,942**	2,592
Warranty repairs	**2,760**	2,846
	5,702	5,438
NON-CURRENT		
Employee benefits	**4,536**	3,476
Reconciliation of warranty provision		
Carrying amount at beginning of year	**2,846**	2,496
Provisions made during the year	**1,216**	1,860
Payments made during the year	**(1,302)**	(1,510)
	2,760	2,846

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20. SHARE CAPITAL

	Consolidated 2012 ($000)	2011 ($000)
SHARE CAPITAL		
Opening balance (164,145,980 ordinary shares fully paid)	**24,609**	25,328
Performance rights expensed	**230**	236
Shares purchased	**-**	(955)
Closing balance (164,145,980 ordinary shares fully paid)	**24,839**	24,609

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. During the prior year the group funded the purchase of shares for the purpose of satisfying the obligation to transfer shares to certain executives under the Performance Rights Plan (refer to note 28).

21. RESERVES

Foreign currency translation	**(3,271)**	(3,199)
Hedging reserve	**336**	1,337
	(2,935)	(1,862)

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	**(3,199)**	(1,319)
Reserves recognised through sale of discontinued operation	**341**	-
Net translation adjustment	**(413)**	(1,880)
Balance at end of year	**(3,271)**	(3,199)

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	**1,337**	(255)
Reserves recognised through sale of discontinued operation	**(896)**	-
Gains / (losses) on cash flow hedges taken to / from hedging reserve	**(105)**	1,592
Balance at end of year	**336**	1,337

22. RETAINED EARNINGS

	Consolidated 2012 ($000)	2011 ($000)
Retained earnings at beginning of year	**49,132**	41,292
Net profit attributable to members of the parent entity	**23,146**	21,792
Dividends recognised during the year	**(14,773)**	(13,952)
Retained earnings at end of year	**57,505**	49,132

23. COMMITMENTS

I. CAPITAL EXPENDITURE COMMITMENTS

	2012 ($000)	2011 ($000)
Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:		
Within one year	**481**	134

II. NON-CANCELLABLE OPERATING LEASE EXPENSE AND OTHER COMMITMENTS

	2012 ($000)	2011 ($000)
Future operating lease commitments not provided for in the financial statements which are payable:		
Within one year	**1,515**	1,486
One year or later and no later than five years	**1,220**	2,115
Later than five years	**297**	146
	3,032	3,747

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.

III. FINANCE LEASE AND HIRE PURCHASE PAYMENT COMMITMENTS

	2012 ($000)	2011 ($000)
Within one year	**151**	-
One year or later and no later than five years	**309**	-
Later than five years	**-**	-
	460	-
Less: future finance charges	**(58)**	-
	402	-
Finance lease and hire purchase liabilities provided for in the financial statements:		
Current	**113**	-
Non-current	**289**	-
	402	-

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.

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24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

Financial risk management

Overview

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

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

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

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

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

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

(a) Credit risk

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

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

The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. The group is not materially exposed to any individual overseas region or customer as at 30 June 2012.

Trade and other receivables

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

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

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

The group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Guarantees

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

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

	Note	Carrying amount Consolidated 2012 ($000)	2011 ($000)
Cash and cash equivalents	10	**23,081**	8,643
Trade and other receivables	11	**22,785**	14,594
Forward exchange contracts used for hedging	13	**670**	476

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

Australia / Oceania	**6,194**	3,582
Europe	**4,253**	3,932
Americas	**4,641**	3,422
Asia	**5,730**	1,437
Africa / Middle East	**1,698**	1,188
	22,516	13,561

Impairment losses

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

	Consolidated Gross 2012 ($000)	Impairment 2012 ($000)	Gross 2011 ($000)	Impairment 2011 ($000)
Not past due	**18,460**	**(181)**	11,155	(184)
Past due 0-30 days	**2,358**	**(10)**	1,577	(136)
Past due 31-120 days	**1,255**	**(65)**	793	(9)
More than 120 days	**443**	**(250)**	36	(36)
	22,516	**(506)**	13,561	(365)

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

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24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

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

	Consolidated 2012 ($000)	2011 ($000)
Balance at 1 July	**365**	584
Impairment loss recognised as an expense	**268**	(120)
Trade receivables written off to the allowance for impairment	**(127)**	(99)
Balance at 30 June	**506**	365

(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 18 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

30 June 2012	Carrying amount ($000)	Contractual cash flows ($000)	12 months or less ($000)	1-5 years ($000)	More than 5 years ($000)
Non-derivative financial liabilities					
Trade and other payables	**35,933**	**(35,933)**	**(33,186)**	**(2,747)**	**-**
Unsecured loans	**-**	**-**	**-**	**-**	**-**
Finance leases	**402**	**(460)**	**(151)**	**(309)**	**-**
Cash advance	**38,879**	**(42,266)**	**(1,693)**	**(40,572)**	**-**
	75,214	**(78,659)**	**(35,030)**	**(43,628)**	**-**
30 June 2011					
Non-derivative financial liabilities					
Trade and other payables	26,438	(26,438)	(26,070)	(368)	-
Unsecured loans	10	(10)	-	(10)	-
Finance leases	-	-	-	-	-
Cash advance	34,140	(39,687)	(1,849)	(37,838)	-
	60,588	(66,135)	(27,919)	(38,216)	-

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the policy set by the board. Generally the group seeks to apply hedge accounting in order to manage volatility in the income statement.

The net fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of the contractual future cash flows on amounts due from customers (reduced for expected credit losses), or due to suppliers. The carrying amount of financial assets and financial liabilities approximates their net fair values.

Interest rate risk

The group reduced its exposure to interest rate risk by entering into a three-year interest rate cap in 2009. The cap was for a principal amount of $60 million, reducing to $50 million over its three-year term, with a capped interest rate of 9.5%. This cap expired in March 2011 and under current circumstances the board has decided not to enter into any interest rate hedging instruments.

Profile

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

	Carrying amount Consolidated	
	2012 ($000)	2011 ($000)
FIXED RATE INSTRUMENTS		
Financial assets	-	-
Financial liabilities	**(460)**	-
	(460)	-
VARIABLE RATE INSTRUMENTS		
Financial assets	**23,081**	8,643
Financial liabilities	**(38,879)**	(34,140)
	(15,798)	(25,497)

Cash flow sensitivity

If interest rates varied by 100 basis points for the full financial year, then based on the balance of variable rate instruments held at the reporting date, profit and equity would have been affected as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Profit / (loss) before tax		Equity	
	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 JUNE 2012				
Variable rate instruments	**(158)**	**158**	-	-
30 JUNE 2011				
Variable rate instruments	(255)	255	-	-

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For the year ended 30 June 2012

Codan Limited and its Controlled Entities

24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Market risk (continued)

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 foreign currency hedging instruments 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 are less than 12 months.

As at the reporting date, the group has entered into effective collar cash flow hedge instruments which will limit the foreign exchange risk on USD $18,000,000 of FY13 sales, which represents just under half of the estimated USD exposure for FY13. The cap has been set at an average of 99.6 cents, while the floor is set at 90.0 cents. Therefore, the group will be protected from an increase in the USD foreign exchange rate above 99.6 cents, but will not participate if the USD foreign exchange rate falls below 90 cents.

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

	Consolidated		
	Euro ($000)	GBP ($000)	USD ($000)
30 JUNE 2012			
Cash and cash equivalents	**797**	**94**	**7,021**
Trade receivables	**246**	**14**	**11,997**
Trade payables	**(217)**	**(51)**	**(9,270)**
Cash advance	**-**	**-**	**(7,879)**
Gross balance sheet exposure	**826**	**57**	**1,869**
Hedge transactions relating to balance sheet exposure	**-**	**-**	**(3,925)**
Cash advance designated as a hedge of foreign subsidiary	**-**	**-**	**-**
Net exposure at the reporting date	**826**	**57**	**(2,056)**
30 JUNE 2011			
Cash and cash equivalents	355	336	5,380
Trade receivables	631	39	7,581
Trade payables	(386)	(158)	(7,004)
Cash advance	-	-	(9,460)
Gross balance sheet exposure	600	217	(3,503)
Hedge transactions relating to balance sheet exposure	-	-	(1,855)
Cash advance designated as a hedge of foreign subsidiary	-	-	2,821
Net exposure at the reporting date	600	217	(2,537)

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	
	Equity / reserve $000	Profit/(loss) before tax $000
2012		
EURO	-	93
GBP	-	8
USD	974	158
	974	259
2011		
EURO	-	(74)
GBP	-	(30)
USD	464	217
	464	113

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

(d) Fair value hierarchy

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year, financial instruments valued at fair value were limited to net foreign currency hedge receivables ($670,000), for which an independent valuation was obtained from the relevant banking institution.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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Codan Limited and its Controlled Entities

25. GROUP ENTITIES

Name	Country of incorporation	Class of share	Interest held 2012 %	Interest held 2011 %
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
Minetec Pty Ltd*	Australia	Ordinary	**100**	-
Minetec Wireless Technologies Pty Ltd*	Australia	Ordinary	**100**	-
Minelab Electronics Pty Ltd	Australia	Ordinary	**100**	100
Minelab Americas Inc (previously 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**	100
Locus Microwave, Inc**	United States of America	Ordinary	**-**	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	**100**	100

* On 3 January 2012, the group acquired 100% of Minetec Pty Ltd and Minetec Wireless Technologies Pty Ltd in an arm's length transaction. The financial result of the group's interest in these entities has been accounted for from this date. Refer to note 5.

** On 30 June 2012, the group sold 100% of its interest in Locus Microwave, Inc in an arm's length transaction. The financial results of the group's interest in this entity have been accounted for until that date. Refer to note 4.

26. NOTES TO THE STATEMENT OF CASH FLOWS

I. Reconciliation of cash

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

	Consolidated 2012 ($000)	2011 ($000)
Petty cash	**30**	14
Cash at bank	**23,051**	8,611
Short-term deposits	**-**	18
	23,081	8,643

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

26. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

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

	Consolidated	
	2012 ($000)	**2011** ($000)
Profit after income tax	**23,146**	21,792
Add/(less) items classified as investing or financing activities:		
Loss on sale of non-current assets	**34**	722
Loss on sale of discontinued operation	**2,850**	-
Profit on disposal of shares in GroundProbe Pty Ltd	**-**	(3,795)
Profit on disposal of Codan Broadcast Products Pty Ltd	**-**	(727)
Dividend income	**-**	(680)
Performance rights expensed	**230**	236
Add/(less) non-cash items:		
Depreciation of:		
Buildings	**524**	526
Leasehold property	**49**	23
Plant and equipment	**1,813**	1,747
Amortisation	**6,155**	6,735
Impairment of goodwill and intangible assets	**-**	6,000
Increase/(decrease) in income taxes	**439**	(3,499)
Increase/(decrease) on net assets affected by translation	**1**	(2,049)
Net cash from operating activities before changes in assets and liabilities	**35,241**	27,031
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**(7,698)**	(1,675)
Reduction/(increase) in inventories	**7,641**	1,794
Reduction/(increase) in other assets	**329**	1,784
Increase/(reduction) in payables	**3,312**	(2,879)
Increase/(reduction) in provisions	**1,252**	330
Net cash from operating activities	**40,077**	26,385

27. EMPLOYEE BENEFITS

	Consolidated 2012 ($000)	2011 ($000)
Aggregate liability for employee benefits, including on-costs:		
Current - other creditors and accruals	**4,220**	2,682
Current - employee entitlements	**2,942**	2,592
Non-current - employee entitlements	**4,536**	3,476
	11,698	8,750
The present values of employee entitlements not expected to be settled within 12 months of the reporting date have been calculated using the following weighted averages:		
Assumed rate of increase in wage and salary rates	**4.00%**	4.00%
Discount rate	**2.95%**	5.03%
Settlement term	**10 years**	10 years

Performance Rights Plan

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

Performance rights issued in financial year 2009

The company issued 893,334 performance rights in 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 2012 in relation to the performance rights issued was $nil (2011: $nil).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold was based on growth of the group's earnings per share over a three-year period. For executives to receive the total number of performance rights, the group's earnings per share must have increased by at least 15% per annum over the three-year period. One of the executives left the group and his 160,000 performance rights were cancelled. All of the remaining performance rights became qualifying performance rights and as a result the company has transferred 733,334 shares to the relevant executives.

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27. EMPLOYEE BENEFITS (CONTINUED)

Performance rights issued in financial year 2010

The company issued 664,251 performance rights in October 2009 to certain executives. The fair value of the rights was on average 68.5 cents based on the Black-Scholes formula. The model inputs were: the share price of 91 cents, no exercise price, expected volatility 64%, dividend yield 8%, a term of three years and a risk-free rate of 5.7%. The total expense recognised as employee costs in 2012 in relation to the performance rights issued was $nil (2011: $96,319).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period. For executives to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three year period. During the prior year Mr M K Heard (Chief Executive Officer) retired from Codan and the performance rights issued to him in 2010 became qualifying performance rights. As a result the company transferred 289,855 shares to Mr M K Heard during the prior year.

The group's earnings per share over the three year period to 30 June 2012 has exceeded the performance target. Therefore it is expected that 374,396 shares will be issued to the relevant executives by 31 August 2012.

Performance rights issued in financial year 2011

The company issued 358,652 performance rights in November 2010 to certain executives. The fair value of the rights was on average $1.11 based on the Black-Scholes formula. The model inputs were: the share price of $1.46, no exercise price, expected volatility 48%, dividend yield 5%, a term of three-years and a risk-free rate of 5.6%. The total expense recognised as employee costs in 2012 in relation to the performance rights issued was $96,076 (2011: $92,380).

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

Performance rights issued in financial year 2012

The company issued 426,979 performance rights in November 2011 to certain executives. The fair value of the rights was on average $0.98 based on the Black-Scholes formula. The model inputs were: the share price of $1.31, no exercise price, expected volatility 41%, dividend yield 7%, a term of three-years and a risk-free rate of 4.3%. The total expense recognised as employee costs in 2012 in relation to the performance rights issued was $133,531.

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

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

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

The key management personnel compensation included in “personnel expenses” (see note 7) is as follows:

	Consolidated	
	2012	**2011**
	($)	($)
Short-term employee benefits	**3,239,564**	3,335,841
Post-employment benefits	**110,493**	115,243
Share-based payments	**211,293**	160,731
Other long term	**32,680**	114,007
Termination benefits	**134,147**	-
	3,728,177	3,725,822

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.

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28. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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 2011	Purchases	Received on exercise of rights	Sales	Held at 30 June 2012
Directors					
Dr G D Klingner	467,840	-	-	-	467,840
Mr D S McGurk	1,000	-	146,667	-	147,667
Mr P R Griffiths	138,065	10,000	-	-	148,065
Mr D J Klingberg	66,765	-	-	-	66,765
Mr D J Simmons	-	-	-	-	-
Lt-Gen P F Leahy	44,065	-	-	-	44,065
Mr S W Davies	-	-	-	-	-
Mrs C S Namblard	n/a	-	-	-	-
Specified executives					
Mr M Barton	5,000	-	-	-	5,000
Mr R R Carpenter	-	-	-	-	-
Mr P D Charlesworth	26,130	-	146,667	-	172,797
Mr K J Kane	-	3,500	-	-	3,500

Mrs C S Namblard was appointed as a director on 1 August 2011.

Mr R R Carpenter was terminated on 30 June 2012 as a result of the sale of the group's satellite communications assets.

	Held at 1 July 2010	Purchases	Received on exercise of rights	Sales	Held at 30 June 2011
Directors					
Dr G D Klingner	417,840	50,000	-	-	467,840
Mr D S McGurk	1,000	-	-	-	1,000
Mr P R Griffiths	138,065	-	-	-	138,065
Mr D J Klingberg	66,765	-	-	-	66,765
Mr D J Simmons	-	-	-	-	-
Lt-Gen P F Leahy	44,065	-	-	-	44,065
Mr S W Davies	n/a	-	-	-	-
Mr M K Heard	4,407,587	-	-	-	n/a
Mr B P Burns	11,671,424	-	-	-	11,671,424
Specified executives					
Mr M Barton	5,000	-	-	-	5,000
Mr R R Carpenter	n/a	-	-	-	-
Mr P D Charlesworth	26,130	-	-	-	26,130
Mr K J Kane	n/a	-	-	-	-
Mr G K Shmith	28,491	-	-	-	n/a

Mr M K Heard retired as a director on 18 November 2010, Mr S W Davies was appointed as a director on 1 May 2011 and Mr B P Burns retired as a director on 30 June 2011.

Mr K J Kane was appointed as President and Executive General Manager, Radio Communications on 12 July 2010, Mr G K Shmith moved into a senior management role on 18 November 2010 and Mr R R Carpenter was appointed as President and Executive General Manager, Satellite Communications on 14 March 2011.

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Codan Limited and its Controlled Entities

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Performance rights

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

	Held at 1 July 2011	Issued	Vested	Held at 30 June 2012
Specified executives				
Mr D S McGurk	**416,250**	**161,551**	**146,667**	**431,134**
Mr M Barton	**64,675**	**76,414**	**-**	**141,089**
Mr P D Charlesworth	**368,394**	**105,008**	**146,667**	**326,735**
Mr K J Kane	**-**	**84,006**	**-**	**84,006**

	Held at 1 July 2010	Issued	Vested	Held at 30 June 2011
Specified executives				
Mr D S McGurk	279,517	136,733	-	416,250
Mr M K Heard	609,855	-	609,855	n/a
Mr M Barton	-	64,675	-	64,675
Mr P D Charlesworth	279,517	88,877	-	368,394
Mr G K Shmith	228,696	68,367	-	n/a

Mr M K Heard retired as a director and Mr G K Shmith moved into a senior management role on 18 November 2010.

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.

29. OTHER RELATED PARTIES

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

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

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

30. EARNINGS PER SHARE

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

	Consolidated	
	2012 ($000)	**2011** ($000)
Net profit used for the purpose of calculating basic and diluted earnings per share	**23,146**	21,792

The weighted average number of shares used as the denominator number for basic earnings per share was 164,145,980 (2011: 164,145,980).

The calculation of diluted earnings per share at 30 June 2012 was based on profit attributable to shareholders of $23.1 million and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 165,155,514 (2011: 164,714,932).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended
30 June 2012

Codan Limited and
its Controlled Entities

31. NET TANGIBLE LIABILITY PER SHARE

	2012	2011
Net tangible liability per share	**5.8 cents**	2.5 cents

32. 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 group's gearing level improved significantly as net debt levels dropped from $25.5 million to $15.8 million.

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

33. DEED OF CROSS GUARANTEE

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

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

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

Summarised income statement and retained earnings

	2012 ($000)	2011 ($000)
Profit before tax	**26,195**	26,341
Income tax expense	**(11,013)**	(5,648)
Profit after tax	**15,182**	20,693
Retained earnings at beginning of the year	**39,711**	32,971
Retained earnings at end of the year	**40,120**	39,711

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

33. DEED OF CROSS GUARANTEE (CONTINUED)

Balance sheet

	2012 ($000)	2011 ($000)
CURRENT ASSETS		
Cash and cash equivalents	**16,904**	7,486
Trade and other receivables	**17,458**	25,855
Inventories	**7,713**	14,031
Equipment held for sale	**1,747**	-
Other assets	**1,031**	1,053
Total current assets	**44,853**	48,425
NON-CURRENT ASSETS		
Investments	**21,087**	14,641
Property, plant and equipment	**15,890**	18,592
Product development	**23,641**	20,340
Intangible assets	**57,351**	57,250
Deferred tax assets	**6,255**	4,981
Total non-current assets	**124,224**	115,804
Total assets	**169,077**	164,229
CURRENT LIABILITIES		
Trade and other payables	**29,185**	18,564
Other liabilities	**14,109**	26,285
Current tax payable	**4,091**	3,778
Provisions	**5,024**	5,014
Total current liabilities	**52,409**	53,641
NON-CURRENT LIABILITIES		
Loans and borrowings	**38,879**	34,140
Deferred tax liabilities	**7,735**	7,167
Provisions	**4,152**	3,324
Total non-current liabilities	**50,766**	44,631
Total liabilities	**103,175**	98,272
Net assets	**65,902**	65,957
EQUITY		
Share capital	**25,951**	25,722
Reserves	**(169)**	524
Retained earnings	**40,120**	39,711
Total equity	**65,902**	65,957

34. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2012, the parent company of the group was Codan Limited.

	Company	
	2012 ($000)	2011 ($000)
Result of parent entity		
Profit for the period	**17,573**	23,791
Other comprehensive income	**(893)**	816
Total comprehensive income for the period	**16,680**	24,607
Financial position of parent entity at year-end		
Current assets	**32,226**	41,275
Total assets	**141,447**	144,918
Current liabilities	**28,531**	38,965
Total liabilities	**74,472**	80,241
Total equity of the parent entity comprising:		
Share capital	**25,952**	25,722
Reserves	**77**	809
Retained earnings	**40,946**	38,146
Total equity	**66,975**	64,677

35. SUBSEQUENT EVENTS

Subsequent to reporting date Codan has announced the acquisition of Canadian-based land mobile radio company, Daniels Electronics Limited (Daniels), for an upfront cost of CAD $25 million (approximately AUD $24 million) with the possibility of CAD $2 million (approximately AUD $1.9 million) in additional payments if certain earn-out targets are achieved over the next 18 months. The acquisition of Daniels will be funded by a mix of debt and equity and is consistent with Codan's stated strategic goal to expand the radio communications business by investing in adjacent markets and technologies. Codan's extensive international distribution network is expected to deliver significant growth opportunities to the Daniels business, which is currently focussed on the North American market.

Apart from the expenses associated with this acquisition (which have been excluded from the underlying profit result), the impact of this transaction has not been brought to account in the group's financial report for the year ended 30 June 2012 and will be recognised in subsequent financial reports.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Codan Limited and its Controlled Entities

35. SUBSEQUENT EVENTS (CONTINUED)

The following summary provides current estimates of the major classes of consideration transferred, the expected recognised amounts of assets acquired and liabilities assumed and the estimated goodwill at the acquisition date.

	($000)
Estimated fair value of consideration transferred	
Cash to be paid on completion	23,810
Contingent consideration, at net present value	1,750
	25,560
Contingent consideration	
The earn out payable to the former shareholders of Daniels is contingent on the achievement of profit targets over the oncoming 18 months.	
Estimated fair value of identifiable assets acquired and liabilities assumed, on a provisional basis	
Trade and other receivables	5,143
Inventories	4,095
Property, plant and equipment	762
Trade and other payables	(2,667)
	7,333
Estimated goodwill as a result of the acquisition	
Estimated fair value of consideration	25,560
Less estimated fair value of identifiable net assets assumed	(7,333)
	18,227

This goodwill amount is not expected to be deductible for tax purposes.

Daniels acquisition-related costs
During the year the group incurred acquisition-related costs of $501,000 related largely to external legal fees, consulting and due diligence costs, travel and accommodation. These costs have been included as administrative expenses within the consolidated income statement, but have been excluded from the underlying profit result of the group. No other acquisition-related costs were incurred.

Equity Raising
Funding for the acquisition will be partially sourced through an institutional placement to raise up to $12.5 million along with a share purchase plan to raise a maximum of $5.0 million. Shares will be issued at a fixed price of $1.40 per new share. Shareholders eligible under the share purchase plan will be able to acquire up to a maximum of $10,000 of new shares.

DIRECTORS' DECLARATION

Codan Limited and its Controlled Entities

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

(a) the consolidated financial statements and notes, set out on pages 48 to 102, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2012 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

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

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

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

(e) there are reasonable grounds to believe that the company and the group entity identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and the group entity pursuant to ASIC Class Order 98/1418; and

(f) the directors have been given the declaration required by Section 295A of the *Corporations Act 2001* by the chief executive officer and the chief financial officer for the financial year ended 30 June 2012.

Dated at Newton this 6th day of August 2012.

Signed in accordance with a resolution of the directors:

Dr G D Klingner
Director

D S McGurk
Director

INDEPENDENT AUDITOR'S REPORT

To the members of Codan Limited

KPMG

Independent auditor's report to the members of Codan Limited

Report on the financial report

We have audited the accompanying financial report of Codan Limited (the company), which comprises the consolidated balance sheet at 30 June 2012, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the remuneration report included in pages 30 to 36 of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

N T Faulkner
Partner

Adelaide
6 August 2012

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 6 August 2012

SUBSTANTIAL SHAREHOLDERS

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

Shareholder	Number of ordinary shares
I B Wall and P M Wall	34,801,008
Interests associated with Starform Pty Ltd, Pinara Pty Ltd and Pinara Group Pty Ltd	19,918,995
J P Morgan Nominees Australia Limited	14,727,070
Interests associated with Kynola Pty Ltd and Warren Glen Pty Ltd	11,671,424
Griffinna Pty Ltd	10,623,682
Otterpaw Pty Ltd	10,623,682
A J Wood	9,433,682
Orley Pty Ltd	8,921,501

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Number of shares held	Number of equity security holders Ordinary shares
1 - 1,000	405
1,001 - 5,000	815
5,001 - 10,000	400
10,001 - 100,000	468
100,001 - over	49
Total	2,137

The number of shareholders holding less than a marketable parcel of ordinary shares is 51.

SECURITIES EXCHANGE

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

OTHER INFORMATION

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

ON-MARKET BUY-BACK

There is no current on-market buy-back.

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	Percentage of capital held
I B Wall and P M Wall	34,801,008	21.2%
J P Morgan Nominees Australia Limited	14,727,070	9.0%
Starform Pty Ltd	11,397,081	6.9%
Griffinna Pty Ltd	10,623,682	6.5%
Otterpaw Pty Ltd	10,623,682	6.5%
A J Wood	9,433,682	5.7%
Kynola Pty Ltd	9,111,213	5.6%
Orley Pty Ltd	8,921,501	5.4%
Pinara Pty Ltd	7,715,775	4.7%
M K and M C Heard	5,017,442	3.1%
G Bettison	3,562,125	2.2%
A Bettison	3,562,124	2.2%
S Bettison	3,562,124	2.2%
Mitranikitan Pty Ltd	2,632,526	1.6%
Warren Glen Pty Ltd	2,560,211	1.5%
S Vinall	1,259,630	0.8%
L F Choate	843,339	0.5%
B H Candy	678,081	0.4%
Pinara Group Pty Ltd	545,359	0.3%
Bond Street Custodians Limited	494,840	0.3%
Total	142,072,495	86.6%

OFFICES AND OFFICERS

COMPANY SECRETARY

Mr Michael Barton BA (ACC), CA

PRINCIPAL REGISTERED OFFICE

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

LOCATION OF SHARE REGISTRY

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

CORPORATE DIRECTORY

Codan Limited and
its Controlled Entities

Directors

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

Company Secretary

Mr Michael Barton

Registered Office

81 Graves Street
Newton South Australia 5074

Auditor

KPMG
151 Pirie Street
Adelaide South Australia 5000

Registry

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

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