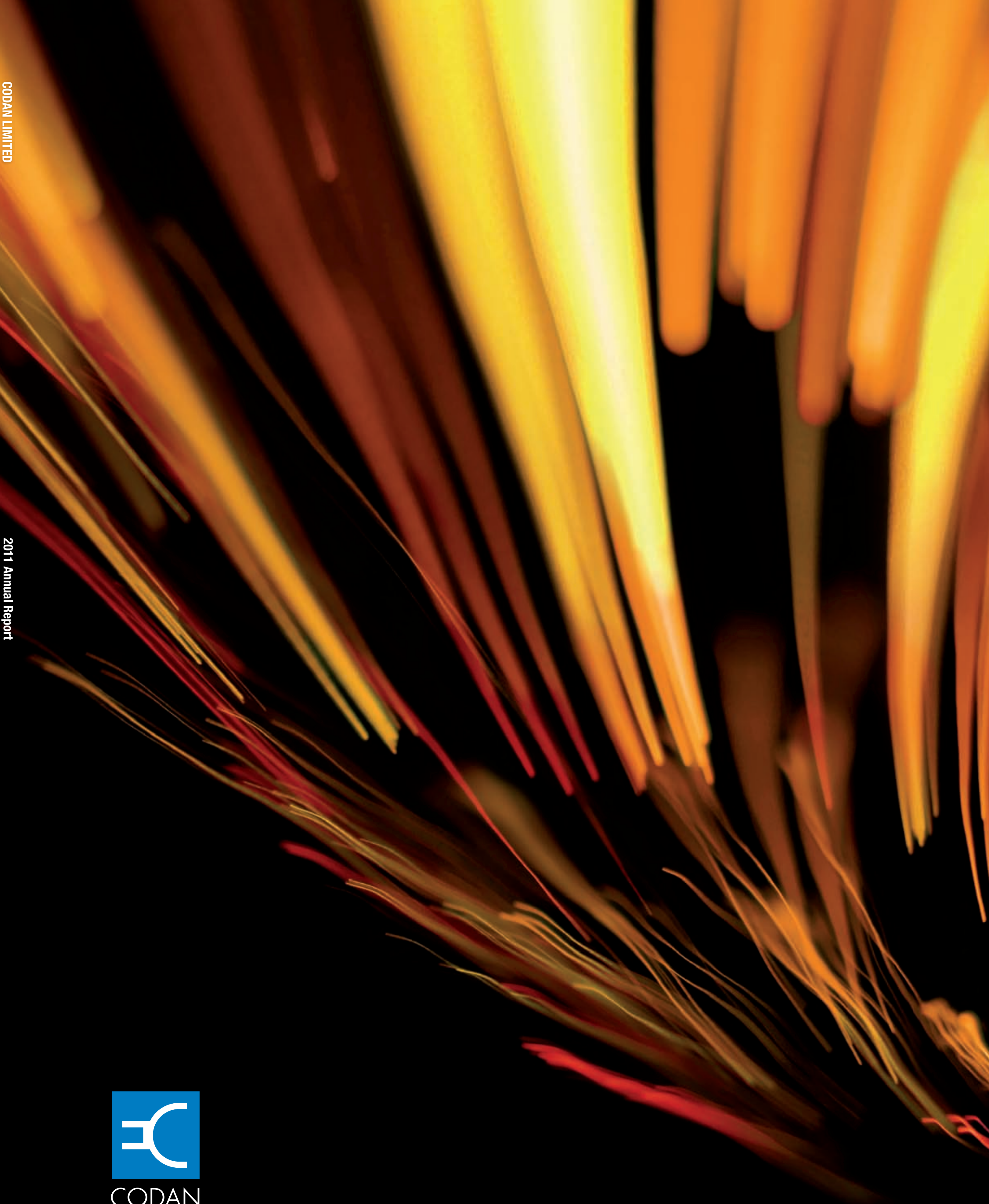


CODAN

2011 Annual Report

CODAN LIMITED

2011 Annual Report

CONTENTS

CODAN

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, 19 October 2011 at the Hilton Adelaide hotel, 233 Victoria Square, Adelaide, South Australia.

HIGHLIGHTS

Our success has been largely driven by our ability to optimise the development and manufacture of electronics products and associated software.

Total revenue	Underlying net profit after tax	Annual dividend up	Minelab metal detection business revenue
$169.6m	$23.4m	12.5%	$92.1m

Codan Limited (ASX: CDA) is a group of businesses that design, manufacture and market a range of electronics products directed at global markets. Codan has mastered the ability to do business anywhere in the world, particularly in the developing world, where we have established comprehensive channels of distribution over many years.

Our success in this area has been largely driven by our ability to optimise the development and manufacture of 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. We continue to seek out opportunities to grow the business organically and by acquisition.

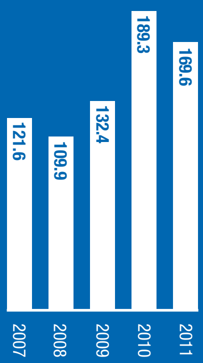
Founded in 1959, the business has now grown to have approximately 450 employees located in Australia, USA, UK, Ireland, China and India, exporting to more than 150 countries around the globe.

FY11 Highlights

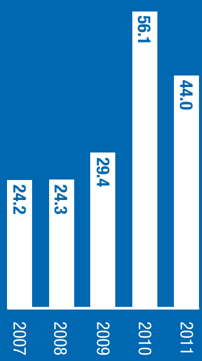
- Annual dividend increased to 9 cents per share
- Second highest revenue and underlying profit in the company's history
- Highest reported profit
- Continued strength of gold detector sales
- Radio Communications poised for significant growth
- Strategic options for satellite products well progressed
- Successfully transitioned to a new managing director

… exporting to more than 150 countries around the globe.

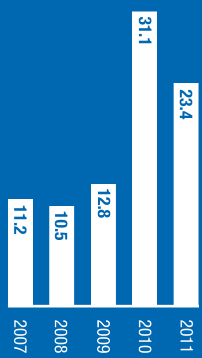
Operating revenue
$m



EBITDA
$m



NPAT
$m



Underlying financial performance

For year ended 30 June	2011	%	2010	%	2009	%
REVENUE						
Communications products	$69.8m	41%	$70.1m	37%	$77.3m	58%
Metal detection products	$92.1m	54%	$106.6m	56%	$41.7m	32%
Other	$7.7m	5%	$12.6m	7%	$13.4m	10%
Total revenue	**$169.6m**	**100%**	**$189.3m**	**100%**	**$132.4m**	**100%**
EBITDA	**$44.0m**	**26%**	**$56.1m**	**30%**	**$29.4m**	**22%**
EBIT	**$35.0m**	**21%**	**$45.8m**	**24%**	**$21.5m**	**16%**
Interest	($3.0)m		($3.1)m		($4.6)m	
Net profit before tax	**$32.0m**	**19%**	**$42.7m**	**23%**	**$16.9m**	**13%**
Tax	($8.6)m		($11.6)m		$(4.1)m	
Net profit after tax	**$23.4m**	**14%**	**$31.1m**	**16%**	**$12.8m**	**10%**
Earnings per share	14.3¢		18.8¢		7.9¢	
Dividend per share	9.0¢		8.0¢		6.5¢	

The financial information shown above reflects the underlying business performance and is before the sale of a subsidiary company and minority interest investment, asset impairment and integration and restructuring expenses.

CHAIRMAN'S AND CEO'S REPORT

The steps taken several years ago to significantly dollar-proof the company by shifting some of the cost base into US dollars have stood us in good stead.

***Mr Donald McGurk** – Managing Director and CEO (left), with **Dr David Klingner** – Chairman (right)*

We are delighted to report another strong year of profitability and operations in Financial Year 2011 following on from the outstanding results experienced last year.

Underlying net profit after tax for the year of $23.4 million was our second highest on record and our statutory profit of $21.8 million was the highest we have ever achieved.

Codan declared a fully franked final dividend of 5 cents per share. This follows a 4 cents per share fully franked interim dividend, making a total dividend of 9 cents per share for the year. This compares with a total dividend of 8 cents per share for FY10.

At a time when the manufacturing industry in Australia is under significant pressure due to the very strong Australian dollar and skills shortages caused largely by the mining boom, it is pleasing that Codan continues to do well.

The steps taken several years ago to significantly dollar-proof the company by shifting some of the cost base into US dollars and to outsource some manufacturing to Malaysia have stood us in good stead. At the same time we have remained a significant employer in South Australia with approximately 450 employees worldwide, and our decisions have not been to the cost of the local community.

We have spent significant time this year reflecting on the things we do well as a business and reviewing our ability to be successful in our core markets. This has resulted in a decision to divest our contract manufacturing and Broadcast operations, which we considered to be non-core. As part of this strategic review, a new US-based executive has been appointed to lead our satellite communications division. He has been tasked with returning the business to profitability and is working with the Board to determine the right plan for the future.

The difference between the audited and the underlying net profit after tax includes expenses post-tax associated with the integration and restructuring of the acquired Minelab Electronics Pty Ltd and US-based Locus Microwave Inc, and a $6 million ($5.3 million tax effected) non-cash impairment charge against the company's satellite communications product group.

The sale of Codan Broadcast Products Pty Ltd to Ross Video of Canada and the sale of shares in Brisbane-based GroundProbe Pty Ltd also provided a non-underlying contribution to net profit after tax.

The non-cash impairment charge against our satellite communications division relates to a write down in goodwill and capitalised product development for products now deemed obsolete. Competition is fierce in the satellite communications industry and our business has underperformed against our expectations for a number of years, hence our decision to critically review our approach to this sector.

Our overall financial success has positioned the company well to make acquisitions that play to our core strengths. A recently conducted strategic review has identified two core competencies that Codan would bring to the right acquisition opportunity: an ability to optimise the development and manufacture of electronics products and associated software, and an ability to do business almost anywhere in the world. We have committed significant resource to find the right acquisitions both in Australia and overseas, and consider it a high priority.

The metal detection division has again performed very well, assisted by the continued strength of our gold detection products in the North East African market. In addition to that, sales of our coin and treasure machines into the European and North American markets have been strong. The team has also built a very strong sales pipeline for mine clearance detectors, and manufacturing has once again performed an excellent job to ensure that the ever-increasing volume of metal detectors was delivered on time, on quality and on cost.

Work is underway to expand our gold detecting business across the whole of Africa and we have started developing the market across other regions that have been found to have promising geological conditions for gold prospecting. We are starting to see the benefits of the extensive market development work carried out during the past 12 months in these markets, and we are assigning resources to investigate their potential size and how best to enter them.

Metal detection products developed by Minelab are considered the best in the world and we continue to make considerable investment in future

Our overall financial success has positioned the company well to make acquisitions that play to our core strengths.

product technology and defend our competitive advantage through the use of patents.

We anticipate that the metal detection division will continue to do well in the coming year.

Our radio communications division (previously referred to as HF or High Frequency Radio) had an improved performance in the second half of FY11 and is well-positioned for growth in FY12. We have done some excellent work to develop even stronger alliances with overseas governments and see our business growing as we support their ever-growing need for communications.

This business has continued to focus on the military and security markets and we have seen a significant growth in the sales opportunity pipeline in this area. While this business can be affected by the timing of major programs, we expect significant growth in FY12.

We continue to focus on supplying total communications solutions to our customers. Strong relationships have been developed with other technology suppliers and we are combining their products with ours to provide a "one-stop-shop" integrated solution to our customers. This is best highlighted by the recent licence agreement that we have entered into to acquire high-speed data modem technology to meet the ever-increasing data needs of our military and security customers. This technology acquisition will enable Codan to embed a broader array of world-leading features into our products.

We have recently established a manufacturing facility in China in partnership with our long-standing distributor. The China market offers significant growth opportunity for our radio communications products. These Chinese-manufactured radios satisfy the local content requirements of the Chinese government, who are one of the largest users of the HF radio medium in the world.

We continue to make significant investment in engineering to develop a new HF radio platform and are well on track to deliver this exciting new product to our customers within 12 months.

The satellite communications division continued to underperform during FY11. The effects of the global financial crisis and the high Australian dollar, combined with the rapidly consolidating nature of this market, have served to drive down product demand and margins, significantly affecting our ability to operate this business unit profitably. Our experience is mirrored by many other participants in this highly competitive industry.

Under our new US-based leader, every aspect of this business is being reviewed and challenged to ensure that performance is maximised during FY12. A complete strategic review is currently underway, examining areas such as product positioning, market penetration and competition, as we seek to define and implement the most appropriate medium to long-term actions for this business.

We remain open to all strategic options for this business to ensure that shareholder value is maximised.

FY11 was a year of change for our Board and management team.

Mr Donald McGurk was formally appointed Managing Director and Chief Executive Officer in November 2010, and has successfully made the transition from his previous role as General Manager Radio Communications. Donald takes over from Mike Heard, who retired from the company after 19 years' service.

Mr Kevin Kane was appointed to lead the Radio Communications Division. Kevin has significant experience in the military and security communications markets, gained during his 24 years' service with one of the leading players in the industry. Kevin has the expertise and drive required to advance and expand Codan's radio communications business in the medium to long term.

Codan also appointed its first US-based executive, with Bob Carpenter appointed to lead the satellite communications division.

Mr Brian Burns, who has been a long-standing and influential Director of the Board retired, with Mr Scott Davies being appointed to the Board on 1 May 2011 as his successor. Mr Davies was Chief Executive Officer of Macquarie Communications Infrastructure Group from its inception in 2002 through to its sale in 2009. Mrs Corinne Namblard joined the Board in August 2011 as we continue to expand and diversify the experience of the Board. Mrs Namblard has had many years' international experience, including 10 years as Chief Executive Officer of Galaxy Fund, a dedicated transportation infrastructure equity fund.

On behalf of shareholders, staff and management, we thank Mike and Brian for their outstanding work in helping to make Codan a global leader in the communications and metal detection markets.

Codan has a skilled and dedicated workforce and we sincerely thank everyone for their contribution and support during FY11 as we look forward to yet another strong year in FY12.

Dr David Klingner
Chairman

Mr Donald McGurk
Managing Director and CEO

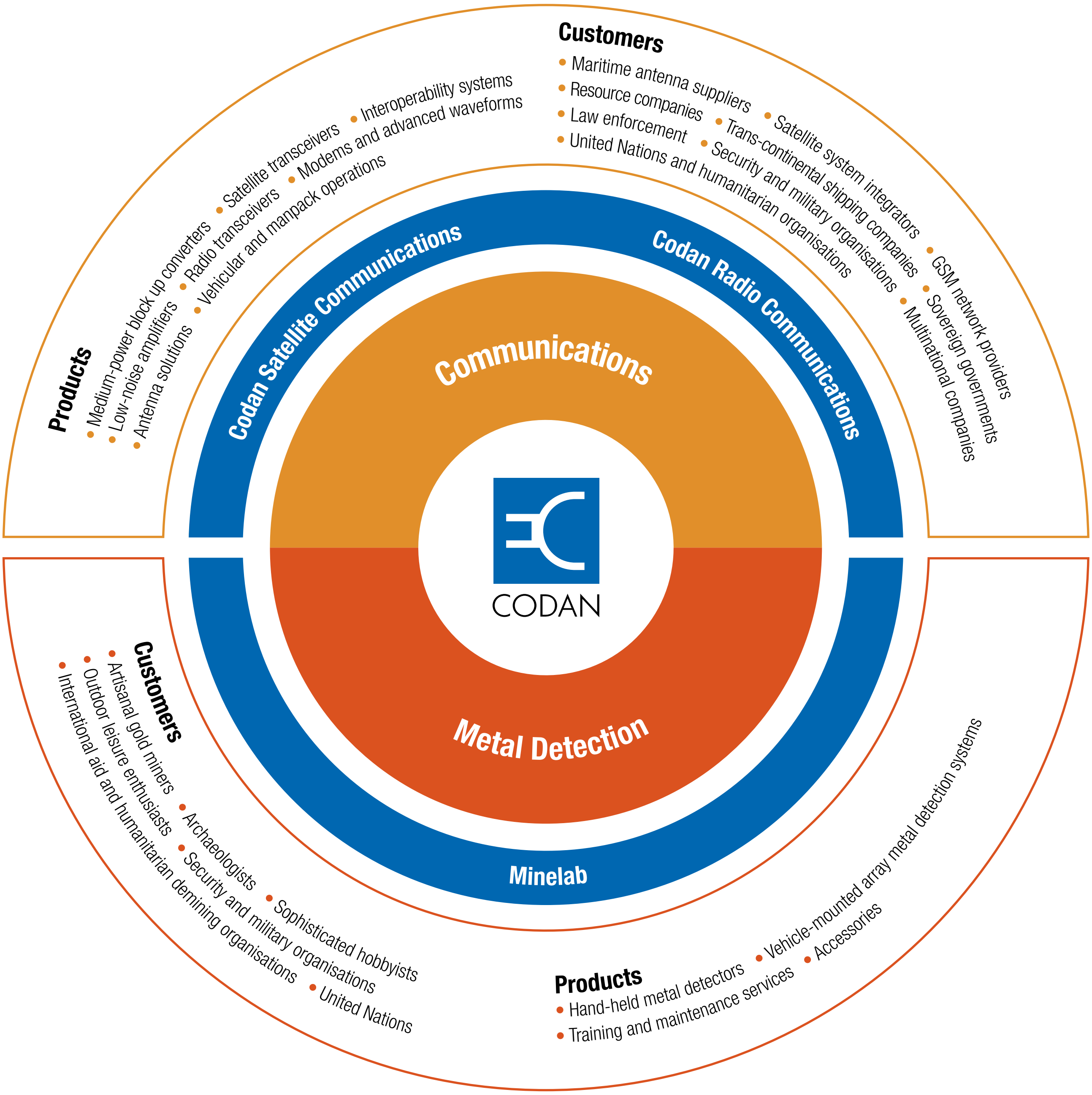
OPERATIONS PROFILE

Codan is headquartered in Adelaide, South Australia, and is an international business which markets to more than 150 countries, particularly in the developing world.

The company currently has service centres and manufacturing facilities in Australia, USA, UK, Ireland, China and India. It also has a manufacturing partnership in place with a Malaysian firm for the production of communications and metal detection equipment.

Codan has major service centres and manufacturing facilities around the world

Codan's business in a snapshot



Metal detection

The superior ground penetration of Codan's Minelab detectors is driving strong demand from professional prospectors in third-world countries, as well as treasure hunters in the first world. Codan countermine detectors are also widely used by military and security customers around the world because of their sensitivity and reliability.

OPERATIONS

Metal detection

FY11 Highlights

- Continued to perform strongly during FY11
- Improved gold detection range successfully released to the market
- Increased coin and treasure detector sales
- New F3 Compact mine detection product released
- Manufacturing successfully outsourced to Malaysia
- Significantly improved product supply

FY12 Objectives

- Grow gold detector sales to gold prospectors in remote locations
- Accelerate coin and treasure sales
- Get the new compact mine detector into hands of military and security customers
- Continue to develop products for the future

Gold detectors

In September 2010, Minelab launched the new GPX 5000 and GPX 4800 gold detectors to replace the GPX 4500 model.

The new models feature even deeper ground penetration and additional features that provide greater sensitivity to find gold nuggets. The launch attracted a very strong response from first-world consumer customers.

Sales to the first-world consumer market, which comprises mostly weekend gold prospectors and retirees, have been buoyed by high gold prices.

There are an estimated 10 million gold prospectors operating in remote corners of the globe, from Africa to South America, with most using ancient methods to move tonnes of earth. These prospectors are either panning or blowing the earth to find gold.

During FY10, Minelab experienced a massive surge from gold prospectors in North East Africa, where discoveries of significant amounts of gold sparked a local gold rush.

The superior ground penetration and ease of use of Minelab gold detectors are acting to change the way gold prospecting is done, and are revolutionising this work. Demand from these prospectors remains strong.

Coin and treasure detectors

Sales of coin and treasure detectors were enhanced by interest in the worldwide publicity given to the discovery in 2009 of a cache of Roman coins in a field in Sussex by a Minelab coin and treasure machine.

Numerous significant finds of jewellery and coins have been made across the world.

Countermine

Minelab countermine products are recognised as world leaders in the detection of unexploded land mines and ordnance, and have strong support from military and UN organisations involved in the clearance of these devices.

The introduction of the new F3 Compact detector during the year has been well received by military and security customers.

Operations

The manufacturing of gold, and coin and treasure detectors has been successfully outsourced to our manufacturing partner in Malaysia. This move has resulted in improved product supply and a more repeatable and stable manufacturing process at the higher volumes.

$40,000 find

For Gary Witt of Virginia, USA, a vacation to southern Florida over the Easter break this year turned into a treasure hunter's dream.

Using his Minelab™ Excalibur detector, Gary was working a section of beach when he received a strong clear tone to indicate a good target.

Buried about 10 inches (25 cm) deep in beach sand, he found a ring with a dull stone on top which he thought was probably cubic zirconia worth perhaps a few hundred dollars.

However, after cleaning and checking the ring and setting he found the word "platinum" engraved on the band.

After checking for reports of lost rings at hotels and various websites without success, he took the ring to a jeweller back home for appraisal.

After close examination and further checks, the jeweller confirmed it was a two plus carat diamond ring with a value of around $40,000.

A good result for an Easter hunt.

Radio communications

Codan enjoys a hard-won international reputation for delivering cost-effective, robust and reliable radio communications solutions to security, military, aid and humanitarian organisations, government departments, and business and consumer users. It is a reputation based on technical excellence and innovative solutions.

OPERATIONS (CONTINUED)

Communications products

FY11 Highlights

- Appointed new leaders with significant market experience
- Challenged the vision and strategic plans
- Further penetrated military and security markets
- Transitioned to a radio communications solutions business
- Increased sales pipeline for radio communications
- Advanced in our product roadmaps

FY12 Objectives

- Continue to grow our military and security market share
- Launch new radio communications products
- Target local manufacturing in growth markets
- Aggressively market our satellite communication products to target customers
- Fully explore strategic options for satellite communications business

Radio communications

Codan HF radio products and systems are designed for long-distance communications for both military and civilian applications, largely in developing countries.

Customers include security and military organisations, aid and humanitarian organisations, government departments, and business and consumer users.

Codan has become established as the product of choice in the developing world, a position that has been achieved over a considerable number of years based on a reputation for delivering cost-effective, robust and reliable customer-focussed solutions.

Our HF radio products are known for their excellent performance and ease of use, while our military products deliver security features such as voice encryption and frequency hopping.

Codan has developed a technical capability which enables us to interoperate with our competitors' HF radio products. One of the difficulties in entering the military and security market space is being able to demonstrate interoperability with previously installed networks, something we have now achieved and which is paying dividends, with a significantly increased sales pipeline.

Central Asia emerged as a key area of business growth, with product being exported to Afghanistan, Kyrgyzstan, Uzbekistan and Turkmenistan, where the ability of HF radio to transmit over thousands of kilometres without expensive infrastructure is proving advantageous to security and military customers, particularly for anti-terrorism and counter-narcotics activities delivered through mobile border patrols.

Strong opportunities were also developed in India and China, and Codan continues to increase presence in these attractive markets which represent significant growth opportunities for Codan.

Our radio communications division has set an aggressive growth target of 15% per year for the next three years. To achieve this, we will continue to focus our business on military and security applications, and have significantly boosted our sales team capability in this area.

Codan has recently negotiated a license agreement to gain greater access to high-speed data modem technology and this will deliver a significant product differentiation from our competitors in future years. This will enable us to meet the demands of our customers who continue to seek a more complete and integrated communications solution, while sustaining good margins for Codan.

African Endeavour

The robustness, ease of use and interoperability of Codan's long-range HF radio systems are playing a vital role in promoting global security and peacekeeping.

The systems are widely used by border control and counter-narcotics agencies throughout Afghanistan, Central Asia and Africa, where HF radio enables long-distance communications in difficult conditions with minimal infrastructure.

A key program is the United States African Command program, which provides communications to regional economic centres in Africa to enable partner nations to counter extremist threats, support governance and respond to humanitarian, peacekeeping and security needs.

The first roll-out of this HF system supported Exercise African Endeavour, a multilateral communications interoperability exercise involving 30 nations.

Codan established long-range, interoperable HF communications between African Union headquarters in Ethiopia, the exercise site in Gambia, and the headquarters of the Economic Community of West African States in Nigeria using new HF radio systems.

Satellite communications

Codan has adopted an aggressive approach to product development and market penetration and is looking to increase sales in the military and marine sectors.

OPERATIONS (CONTINUED)

Our satellite communications business is still based on selling discrete products to system integrators who package our radio products with antennas, modems and associated hardware.

Codan is seeking to increase sales for maritime applications.

Satellite communications

Over the past five years the satellite communications industry has been rapidly consolidating. During that time, we have moved from a competitive landscape that comprised over 20 individual competitors, to a position where many of these, and some key customers, have been acquired by large industry players.

This has narrowed Codan's addressable market, affected the margins that we can command, and has caused us to take a more aggressive approach to product development and market penetration, both of which are costly.

Our satellite communications division is still based on selling discrete products to system integrators who package our radio products with antennas, modems and associated hardware.

Many of our competitors are able to sell a complete integrated solution directly to the end-user customer, which places them higher up the value chain.

We have appointed a new leader, Bob Carpenter, for this business and located him in the US, as the satellite communications market is considered to be US-centric.

Under Bob's direction, Codan is seeking to increase sales for maritime applications, including remote oil rigs, fishing fleets, freighters and luxury liners, all of which operate on the commercial C-Band and Ku-Band frequencies.

We are adopting a strategy of aggressively growing our market share with a focus on the military and maritime sectors. The purchase of Locus Microwave Inc in May 2009 provided us with satellite communication products in the X-Band frequency, which is reserved for military and government applications. This area remains a strong focus for future growth.

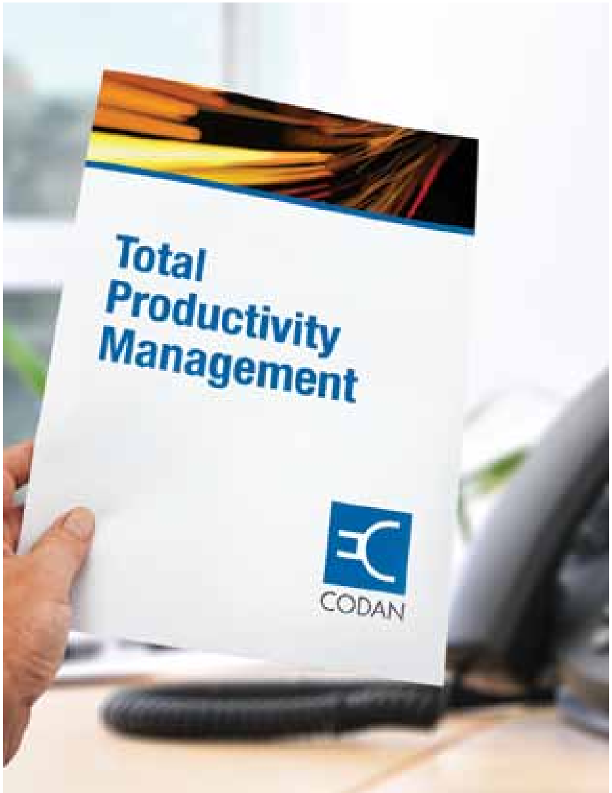
Codan has a great brand and reputation in this industry, based on the robustness and reliability of our satellite communications products. We are continuing to design products that will help maintain our leadership position in these areas by developing even smaller, lighter and more cost-effective designs.

Manufacturing

Codan is a world-class producer of electronics products directed at global markets. We continue to make significant investment in engineering.

OPERATIONS (CONTINUED)

Codan employees demonstrate a "can-do" attitude…



Codan embraces a continuous improvement philosophy across all sections of its business.

Continuous Improvement culture

As a South Australian company that competes on the global stage, it is important that we continue to improve across all elements of our business at a faster rate than our competitors.

Codan employees demonstrate a "can-do" attitude, whether it be meeting challenging customer-delivery requirements, ramping up production volumes to meet extraordinary demand, or delivering exceptional customer support in some of the most remote and harsh environments on earth.

Right across the business we have embraced a continuous process improvement methodology that has taken us to where we are today, and will ensure our continued success in the future.

Occupational Health and Safety

The safety of Codan employees both in Australia and overseas remains an area of critical importance, and the company strives to achieve zero harm.

On the manufacturing side of the business, Codan recorded improvements in the first aid incident rate (down 25%), medical treatment incidents (down 33%) and days lost (down 69%), however the lost time incident rate was slightly up, with three incidents in FY11 compared to two in FY10.

Our employees travel to numerous "hot spots" around the world including areas of Africa, the Middle East and South America. Traveller safety is one of the highest priorities within Codan and as such we continue to train and educate all of our global travellers. We engage with experts in this field to ensure the safety of our employees travelling in the developing world.

Environment

Codan commenced the process of achieving ISO 14001 Environmental accreditation during the year and anticipates this will be completed during FY12. Codan is accredited to ISO 9001 Quality Standard.

While the Codan business has very little negative impact on the environment, we consider ourselves to be proactive in this area and have taken steps to reduce our environmental impact.

Rainwater tanks were installed at the Newton headquarters in Adelaide, with 100,000 litres of rainwater now being collected, stored and plumbed into the building to reduce demand for mains water.

Codan remains compliant with all relevant environmental and emissions standards, and we continue to seek opportunities to further reduce our impact on the environment.

BOARD OF DIRECTORS

Dr David Klingner

B.Sc (Hons), PhD, FAusIMM

Chairman, Independent Non-Executive Director

Age: 67

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

Mr Donald McGurk

HNC (Mech Eng), MBA

Managing Director and Chief Executive Officer

Age: 49

Mr McGurk was appointed to the board as Managing Director in November 2010 and has been a director since May 2010. Mr McGurk joined the company 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 Peter Griffiths

B.Ec (Hons), CPA, FAICD

Independent Non-Executive Director

Age: 69

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' 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. He 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 his industry association. Mr Griffiths has also been a director of several not-for-profit organisations.

Mr David Klingberg AO

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

Independent Non-Executive Director

Age: 67

Mr Klingberg was appointed to the board in July 2005. He is an engineer with extensive national and international experience, having been Managing Director of Kinhill Limited from 1986 to 1998. Mr Klingberg was Chancellor of the University of South Australia for 10 years, retiring in 2008. 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 Renewables 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.

Mr David Simmons

BA (Acc)

Independent Non-Executive Director

Age: 57

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 Innovate SA. He is a board member of Gunns Limited, Thomson Lawyers and Detmold Group. He is a former chairman of the SA Government Economic Development Board and of Korvest Ltd.

Lt-Gen Peter Leahy AC

BA (Military Studies), MMAS, GAICD

Independent Non-Executive Director

Age: 58

Lieutenant General Peter Leahy was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37-year career and 6 years as Chief of Army. Since leaving the Army he has been appointed as Professor and Foundation Director of the National Security Institute at the University of Canberra. He is a member of the Defence South Australia Advisory Board, a director of the Kokoda Foundation and a director of Electro Optic Systems Holdings Limited.

Mr Scott Davies

LLB

Independent Non-Executive Director

Age: 49

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. 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. Prior to that, Mr Davies practised as a commercial lawyer.

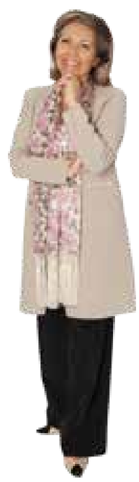
Mrs Corinne Namblard

PhD (Pol Sci), HEC CAP

Independent Non-Executive Director

Age: 55

Mrs Namblard was appointed to the board in August 2011. Mrs Namblard has more than 30 years' experience in large projects in finance, infrastructure and related industries and has worked in the USA, Canada, Australia and Europe. During the 10 years prior to her appointment to Codan, Mrs Namblard was Chief Executive Officer of Galaxy Fund, a dedicated transportation infrastructure equity fund. Mrs Namblard developed the fund from its inception in 2000. Prior to that, she was Executive Vice President of leading international French engineering firm, Egis Group, and led their worldwide strategy and business development activities. Prior to her time with Egis Group, Mrs Namblard spent 19 years with Banque Nationale de Paris. She was involved in capital market activities, mergers and acquisitions and project finance transactions, eventually becoming Vice President and Head of Financial Advisory in the Project Finance team. Mrs Namblard has previously held a number of board positions including Flinders Ports Pty Ltd in Australia. She has been a director of Qantas Airways Ltd since June 2011.



RETIREMENT OF DIRECTORS

FY11 was a year of significant change for Codan with the retirement of two long-standing directors, Mr Michael Heard and Mr Brian Burns.

Mr Brian Burns AM
FCPA, FCIS, FAICD
Non-Executive Director
Age: 72

Mr Burns retired from the board on 30 June 2011. He was appointed to the board in 1996 (alternate director from 1990). Mr Burns is a former managing director of B Seppelt & Sons Ltd and a former chairman of the South Australian Government-owned Institute of Medical and Veterinary Science and of Luminis Pty Ltd, the intellectual property commercialisation company of The University of Adelaide. He is a former director of ASX listed companies National Foods Limited (1991 to 2003) and Select Harvests Limited (1999 to 2004). He is a former director of Cascade Brewery Co. Limited and C-C Bottlers Limited. He has served the accountancy profession as the South Australian president of CPA Australia and as a member of the Auditing Standards Board of the Australian Accounting Research Foundation.

The board and staff of Codan publicly acknowledge the valuable contribution to the company by Brian Burns.

During this 21-year period, Brian contributed significantly to Codan's success, having served as a member of both the Board Audit, Risk and Compliance Committee, and the Remuneration Committee.

The company and staff would like to take this opportunity to wish Brian every happiness and success in his retirement.

Mr Heard retired from the company and the board in November 2010. He was appointed to the board as Managing Director in 1991. He was formerly General Manager and a director of Ribloc Group Ltd (civil engineering technology industry) and Chief Executive of Cheviot Manufacturing Pty Ltd (automotive components industry). Before that, Mr Heard held various engineering, marketing and management positions with CIG Ltd (now BOC Ltd) in Brisbane, the United Kingdom, Sydney and Adelaide. Mr Heard is a director of the Leaders Institute of South Australia. He is a former member of the Australian Space Council and the Australian National Telescope Steering Committee. Mr Heard was the founding president of South Australia's Electronics Industry Association (now Technology Industry Association) and Chairman of that association's Industry Leaders Forum. He is a former director of Amdel Limited.

Mike joined Codan as Managing Director and CEO in September 1991 and presided over the growth of Codan from a company with turnover of $22 million a year when he joined, to $189 million in FY10.

The company and staff wish him all the best during his retirement.

Mr Michael Heard
BE (Hons), MBA, FIE Aust, CPEng
Managing Director and Chief Executive Officer
Age: 63

FINANCIAL REPORT FOR YEAR ENDED 30 JUNE 2011

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 2011 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
Michael Heard
Brian Burns, AM

Details of directors and their qualifications and experience are set out on pages 16 to 18.

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 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.

	Board meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration Committee meetings	
Director	A	B	A	B	A	B
Dr G D Klingner	10	10			2	2
Mr D S McGurk	8	10				
Mr P R Griffiths	10	10	4	4		
Mr D J Klingberg	10	10	3	4		
Mr D J Simmons	10	10			2	2
Lt-Gen P F Leahy	9	10			2	2
Mr S W Davies	2	2	1	1		
Mr M K Heard	4	4				
Mr B P Burns	10	10	4	4		

A – Number of meetings attended

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

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 company's industries and/or extensive expertise in significant aspects of financial management or general management;
- a non-executive director as chairman;
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities; and
- 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).

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" recommends the establishment of a nomination committee. The role of nomination of proposed directors is conducted by the full board.

Remuneration report – audited

Remuneration Committee

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

The members of the Remuneration Committee during the year were:

- 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.

CORPORATE GOVERNANCE STATEMENT (continued)

Remuneration policies

Key management personnel comprises the directors and executives of the group, including the five most highly remunerated executives. 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 bonus is capped at 60% of the executives' fixed salary inclusive of superannuation.

The performance hurdles relate to measures of profitability and working capital management and also the qualitative performance of the executive against objectives agreed as part of the budget and strategic planning processes. These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2011 the above performance-linked remuneration structure was appropriate.

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

Service contracts

It is the group's policy that service contracts for key management personnel are unlimited in term but capable of termination on 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 company'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	136,733	14 December 2010	111.3	–	30 June 2014	–
EXECUTIVES						
Mr P D Charlesworth	88,877	14 December 2010	111.3	–	30 June 2014	–
Mr G K Shmith	68,367	14 December 2010	111.3	–	30 June 2014	–
Mr M Barton	64,675	14 December 2010	111.3	–	30 June 2014	–

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 2010 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	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	–	–	2012
	132,850	23 October 2009	–	–	2013
	136,733	14 December 2010	–	–	2014
Mr M K Heard	320,000	11 November 2008	100	–	2011
	289,855	30 October 2009	100	–	2011
EXECUTIVES					
Mr P D Charlesworth	146,667	11 November 2008	–	–	2012
	132,850	23 October 2009	–	–	2013
	88,877	14 December 2010	–	–	2014
Mr G K Shmith	120,000	11 November 2008	–	–	2012
	108,696	23 October 2009	–	–	2013
	68,367	14 December 2010	–	–	2014
Mr M Barton	64,675	14 December 2010	–	–	2014

Under the Performance Rights Plan rules, the board has the power to make a determination that some or all non-qualifying performance rights may become qualifying performance rights in certain circumstances. Upon his retirement on 18 November 2010, the board determined that Mr M K Heard's 609,855 performance rights would immediately become qualifying performance rights, exercisable before 18 November 2011. Mr Heard exercised his rights in December 2010 and shares were transferred to him in March 2011.

CORPORATE GOVERNANCE STATEMENT (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 each of the five named officers of the company and the group receiving the highest remuneration are:

Directors		Salary & fees	Short-term bonuses	Non-monetary benefits	Post-employment and superannuation contributions
		$	$	$	$
NON-EXECUTIVE					
Dr G D Klingner	**2011**	**165,000**	**–**	**–**	**14,850**
	2010	150,000	–	–	13,500
Mr P R Griffiths	**2011**	**90,000**	**–**	**–**	**8,100**
	2010	75,000	–	–	6,750
Mr D J Klingberg	**2011**	**82,500**	**–**	**–**	**7,425**
	2010	75,000	–	–	6,750
Mr D J Simmons	**2011**	**87,500**	**–**	**–**	**7,875**
	2010	75,000	–	–	6,750
Lt-Gen P F Leahy	**2011**	**82,500**	**–**	**–**	**7,425**
	2010	75,000	–	–	6,750
Mr S W Davies	**2011**	**13,750**	**–**	**–**	**1,237**
Mr B P Burns	**2011**	**89,925**	**–**	**–**	**–**
	2010	81,750	–	–	–
Total non-executives' remuneration	**2011**	**611,175**	**–**	**–**	**46,912**
	2010	531,750	–	–	40,500
EXECUTIVE					
Mr D S McGurk	**2011**	**462,575**	**253,500**	**–**	**25,067**
	2010	292,584	96,300	–	13,791
Mr M K Heard	**2011**	**256,562**	**170,182**	**–**	**2,533**
	2010	617,374	370,500	–	14,461
Total directors' remuneration	**2011**	**1,330,312**	**423,682**	**–**	**74,512**
	2010	1,441,708	466,800	–	68,752

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

(CONTINUED)

Other long term	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
$	$	$	%	%
–	**–**	**179,850**	**–**	**–**
–	–	163,500	–	–
–	**–**	**98,100**	**–**	**–**
–	–	81,750	–	–
–	**–**	**89,925**	**–**	**–**
–	–	81,750	–	–
–	**–**	**95,375**	**–**	**–**
–	–	81,750	–	–
–	**–**	**89,925**	**–**	**–**
–	–	81,750	–	–
–	**–**	**14,987**	**–**	**–**
–	**–**	**89,925**	**–**	**–**
–	–	81,750	–	–
–	**–**	**658,087**	**–**	**–**
–	–	572,250	–	–
64,153	**69,397**	**874,692**	**29.0**	**7.9**
15,573	98,866	517,114	18.6	19.1
21,722	**–**	**450,999**	**37.7**	**–**
27,859	297,291	1,327,485	27.9	22.4
85,875	**69,397**	**1,983,778**	**–**	**–**
43,432	396,157	2,416,849	–	–

CORPORATE GOVERNANCE STATEMENT (continued)

Directors' and senior executives' remuneration (continued)

Executive officers		Salary & fees	Short-term bonuses	Non-monetary benefits	Post-employment and superannuation contributions
		$	$	$	$
Mr M Barton (Chief Financial Officer and Company Secretary)	**2011**	**221,561**	**141,900**	**–**	**18,993**
	2010	168,817	66,650	–	13,688
Mr R R Carpenter (President and Executive General Manager, Satellite Communications)	**2011**	**102,016**	**33,000**	**2,295**	**–**
Mr P D Charlesworth (General Manager, Minelab)	**2011**	**308,583**	**195,000**	**–**	**15,200**
	2010	281,527	180,000	–	15,748
Mr K J Kane (President and Executive General Manager, Radio Communications)	**2011**	**363,984**	**78,000**	**42,383**	**–**
Mr G K Shmith (General Manager, Satellite Communications)	**2011**	**74,969**	**18,156**	**–**	**6,538**
	2010	226,826	62,500	–	20,036
Total executive officers' remuneration	**2011**	**1,071,113**	**466,056**	**44,678**	**40,731**
	2010	677,170	309,150	–	49,472

Mr M Barton was appointed to the position of Chief Financial Officer and Company Secretary on 22 September 2009. Mr K J Kane was appointed to the position of President and Executive General Manager, Radio Communications on 12 July 2010. Mr R R Carpenter was appointed to the position of President and Executive General Manager, Satellite Communications on 14 March 2011, replacing Mr G K Shmith who moved into a senior management role on 18 November 2010.

(CONTINUED)

Other long term	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
$	$	$	%	%
8,430	**16,659**	**407,543**	**34.8**	**4.1**
10,504	–	259,659	25.7	–
–	**–**	**137,311**	**24.0**	**–**
12,053	**57,070**	**587,906**	**33.2**	**9.7**
12,295	98,866	588,436	30.6	16.8
3,881	**–**	**488,248**	**16.0**	**–**
3,768	**17,605**	**121,036**	**15.0**	**14.5**
8,609	80,890	398,861	15.7	20.3
28,132	**91,334**	**1,742,044**	**–**	**–**
31,408	179,756	1,246,956	–	–

CORPORATE GOVERNANCE STATEMENT (continued)

Directors' and senior executives' remuneration (continued)

Short-term incentive bonuses which vested during the year are as follows:

Mr M K Heard 100%, Mr D S McGurk 97.5% (2.5% forfeited), Mr M Barton 100%, Mr R R Carpenter 100%, Mr P D Charlesworth 100%, Mr K J Kane 50% (50% forfeited) and Mr G K Shmith 47% (53% 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.

Corporate performance

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

	2011	2010	2009	2008	2007
	$	$	$	$	$
Net profit after tax	**21,792,328**	14,394,218	12,006,000	1,009,000	11,239,000
Dividends paid	**13,952,408**	11,490,222	10,532,955	10,532,955	10,532,955
Change in share price at 30 June	**(0.26)**	0.82	0.04	(0.34)	0.02

The net profit after tax of $21.8 million was determined after deducting impairment write downs of $5.3 million after tax.

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 R Griffiths (Chairman) Independent Non-Executive Director
- Mr B P Burns Non-Executive Director (retired 30 June 2011)
- Mr D J Klingberg Independent Non-Executive Director
- Mr S W Davies Independent Non-Executive Director (appointed 1 May 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;
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the *Corporations Act 2001*;
- reviewing the nomination and performance of the external auditor;
- 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.

CORPORATE GOVERNANCE STATEMENT (continued)

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.

Effectiveness of risk management

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

Ethical standards

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

Conflict of interest

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

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

Code of conduct

The group has advised each director, manager and employee that they must comply with the 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 group's 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), is 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 options and shares to directors and changes to the Constitution. A copy of the Constitution is available to any shareholder who requests it.

OPERATING AND FINANCIAL REVIEW

FY11 highlights:

- second highest revenue and underlying profit in the company's history;
- highest reported profit;
- annual dividend increased by 12.5% to 9 cents;
- continued strength of gold detector sales;
- Radio Communications poised for significant growth;
- strategic options for satellite products well progressed; and
- successfully transitioned to a new Managing Director.

The board of Codan Limited (ASX: "CDA") has announced an underlying net profit after tax of $23.4 million from $169.6 million of revenue, which is the second highest result ever achieved by the company. This compares to an underlying net profit after tax of $31.1 million in FY10 and $12.8 million in FY09.

The reported net profit after tax for the year was $21.8 million, which is a record performance for the company. This compares to the previous year net profit after tax of $14.4 million.

The company announced a final dividend of 5.0 cents per share fully franked, bringing the full-year dividend to 9.0 cents compared to 8.0 cents for FY10, an increase of 12.5%.

The difference between the reported net profit after tax and the underlying net profit after tax is as a result of:

- the profit recorded on the sale of the Codan Broadcast business of $0.7 million;
- the sale of the minority interest investment held in GroundProbe Pty Ltd which resulted in a profit after tax of $4.1 million;
- expenses associated with integration and restructuring activities of $1.1 million; and
- non-cash impairment write-down of $6 million ($5.3 million tax effected) relating to goodwill and other intangible assets associated with the company's satellite communications division.

Net borrowings decreased by approximately $5 million to $25 million, and the company has extended its $85 million debt facility to July 2014.

The financial strength of the company has it well positioned for future acquisitions.

With the retirement of Mike Heard in November 2010, the successful transition of Managing Director and Chief Executive Officer responsibilities to Donald McGurk has been completed.

OPERATING AND FINANCIAL REVIEW (continued)

Codan summary financial performance

	FY11		FY10		FY09	
	$m	%	$m	%	$m	%
REVENUE						
Communication products	**69.8**	**41%**	70.1	37%	77.3	58%
Metal detection products	**92.1**	**54%**	106.6	56%	41.7	32%
Other	**7.7**	**5%**	12.6	7%	13.4	10%
Total revenue	**169.6**	**100%**	189.3	100%	132.4	100%
UNDERLYING BUSINESS PERFORMANCE						
EBITDA	**44.0**	**26%**	56.1	30%	29.4	22%
EBIT	**35.0**	**21%**	45.8	24%	21.5	16%
Net interest	**(3.0)**		(3.1)		(4.6)	
Net profit before tax	**32.0**	**19%**	42.7	23%	16.9	13%
Underlying net profit after tax	**23.4**	**14%**	31.1	16%	12.8	10%
Non-recurring income/(expenses) after tax:						
Sale of minority interest in GroundProbe Pty Ltd	**4.1**					
Sale of Codan Broadcast Products Pty Ltd	**0.7**					
Integration and restructuring expenses*	**(1.1)**		(1.8)		(0.8)	
Impairment of satellite communications assets	**(5.3)**		(14.9)			
Net profit after tax	**21.8**		14.4		12.0	
Underlying earnings per share, fully diluted	**14.3 cents**		18.8 cents		7.9 cents	
Dividend per share	**9.0 cents**		8.0 cents		6.5 cents	

* Integration and restructuring expenses following the acquisition of Minelab, Locus Microwave and divestment of non-core operations.

Metal detection products

The success of the company in FY11 was again helped by very strong sales of gold detectors into North East Africa, however the launch of new and improved products, which have even deeper ground penetration, has further consolidated our position as the global supplier of choice and served to broaden the revenue base of this business and reduce reliance on the North East African region.

Strong gold detector sales were supplemented by high sales growth from our coin and treasure products in Europe and the US. This growth was generated from our extensive consumer marketing campaigns, which we continue to see as an important part of raising customer awareness of our world-leading metal detection products.

We have invested significant engineering and sales resources to develop new markets for our gold detection machines and we are now starting to see the benefits from this activity.

The countermine business performed well and has developed a strong sales pipeline, which has translated into a strong order book for FY12.

Communications products

Radio Communications (formerly referred to as HF) had a much stronger second half of FY11 and continues to improve its market position in the targeted global security, military and peacekeeping segments.

As we enter FY12, we have a good order book and a strengthening sales pipeline for our radio communications products, which have positioned the business well for a strong year of growth. Our focus on providing communications solutions to our customers, which involves packaging third-party technology with our market-leading radio products, continues to see us gain share in our target markets.

The company has recently signed an important licence agreement with a leading provider of advanced technology for HF radio communication products. The licensed technology will allow Codan access to implementations of next-generation radio waveforms for high-speed data transmission, automatic link establishment and digital voice. This technology acquisition will allow Codan to embed a broader array of features into our products.

Business conditions remained difficult for our satellite communications products, which are all sold in USD. The 26% increase in the Australian dollar against the USD during FY11 and the ongoing nature of consolidation in this industry has served to reduce our average selling price. The effect of these factors has caused us to recognise a non-cash impairment write-down of $5.3 million tax effected relating to goodwill and capitalised product development for products now deemed obsolete.

Integration and restructuring

The key activities undertaken over the year were as follows:

- production of consumer metal detection machines has now been successfully transferred from Ireland to our outsourcing partner in Malaysia;
- the land and buildings held in Ireland, which was a former manufacturing site for Minelab products, were sold at book value, generating a positive cash inflow of $0.6 million;
- the sale of the Codan Broadcast division was completed in August 2010 for proceeds of $0.7 million;
- the satellite communications operations in the United States were consolidated with Locus Microwave and we have continued to integrate these product groups; and
- Parketronics, our contract manufacturing division, was divested during the second half of FY11.

Outlook

The fundamentals for both our metal detection and radio communications divisions remain strong and we are confident that the right steps are being taken to reposition our satellite communications division.

The financial success of the company in recent years has enabled us to aggressively invest in new products and improve our global sales footprint. This has resulted in increased market share from our existing markets and is creating new opportunities for us to continue to grow.

We have stepped up our search for the right acquisitions that will profitably expand the Codan group into related businesses that leverage off our core competencies.

While we expect sales of gold detectors into North East Africa to soften, we are targeting for this to be offset by sales growth across all of our other product ranges.

We have taken hedge cover for FY12 that limits the company's exposure to the strengthening Australian dollar and we continue to manage and reduce the impact of our net exposure to the USD. The hedging structure limits approximately 50% of our exposure at USD 1.07 and enables us to benefit from a falling Australian dollar down to USD 0.93.

Over the past two years, the group has operated at profitability levels in excess of prior years and we expect that to continue. While the present turmoil in world markets is a concern, Codan has a track record of delivering good profits and dividends in recent years and the business has been resourced to ensure that this continues.

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 2011:				
Final 2010 ordinary	4.5	7,387	100%	1 October 2010
Interim 2011 ordinary	4.0	6,566	100%	1 April 2011
DECLARED AFTER THE END OF THE YEAR:				
Final 2011 ordinary	5.0	8,207	100%	3 October 2011

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

EVENTS SUBSEQUENT TO REPORTING DATE

In the interval between the end of the financial year and the date of this report there has not arisen 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	1,000
Mr P R Griffiths	138,065
Mr D J Klingberg	66,765
Mr D J Simmons	–
Lt-Gen P F Leahy	44,065
Mr S W Davies	–
Mrs C 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 37 for a copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001*.

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

	Consolidated 2011 $	Consolidated 2010 $
STATUTORY AUDIT		
Audit and review of financial reports (KPMG Australia)	**180,850**	194,830
Audit of financial reports (overseas KPMG firms)	**36,948**	64,097
	217,798	258,927
SERVICES OTHER THAN STATUTORY AUDIT		
Other assurance services		
Due diligence and corporate finance services	**47,338**	57,727
Other	**33,043**	3,453
Other services		
Taxation compliance services (KPMG Australia)	**116,984**	98,223
Taxation compliance services (overseas KPMG firms)	**178,242**	213,973
	375,607	373,376

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 10th day of August 2011.

LEAD AUDITOR'S INDEPENDENCE DECLARATION CODAN LIMITED AND ITS CONTROLLED ENTITIES

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 2011 there have been:

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

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

KPMG

KPMG

N. T. Faulkner
Partner

Adelaide

10 August 2011

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011	2010
	Note	$000	$000
Revenue	4	**169,607**	189,321
Cost of sales		**(79,175)**	(91,254)
Gross profit		**90,432**	98,067
Other income	5	**6,373**	864
Administrative expenses		**(15,601)**	(15,810)
Sales and marketing expenses		**(31,585)**	(30,185)
Engineering expenses		**(9,481)**	(8,739)
Net financing costs	6	**(3,819)**	(3,644)
Impairment of goodwill and intangible assets	3	**(6,000)**	(14,900)
Other expenses		**(722)**	(318)
Profit before tax		**29,597**	25,335
Income tax expense	8	**(7,805)**	(10,941)
Profit for the period		**21,792**	14,394

Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	31	**13.3 cents**	8.8 cents
Diluted earnings per share	31	**13.2 cents**	8.7 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 43 to 82.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011	2010
	Note	$000	$000
Profit for the period		**21,792**	14,394
Other comprehensive income			
Changes in fair value of cash flow hedges, net of income tax	22	**1,592**	(1,098)
Exchange differences on translation of foreign operations, net of income tax	22	**(1,880)**	(1,211)
Other comprehensive income for the period, net of income tax		**(288)**	(2,309)
Total comprehensive income for the period		**21,504**	12,085

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 43 to 82.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2011

		Consolidated	
		2011	2010
	Note	$000	$000
CURRENT ASSETS			
Cash and cash equivalents	9	**8,643**	21,745
Trade and other receivables	10	**14,594**	12,474
Inventory	11	**23,320**	25,114
Current tax assets	8	**80**	55
Other assets	12	**1,882**	1,813
Total current assets		**48,519**	61,201
NON-CURRENT ASSETS			
Investments	13	**–**	50
Property, plant and equipment	14	**20,691**	21,134
Product development	15	**20,340**	18,956
Intangible assets	16	**57,876**	61,897
Deferred tax assets	8	**–**	–
Total non-current assets		**98,907**	102,037
Total assets		**147,426**	163,238
CURRENT LIABILITIES			
Trade and other payables	17	**26,438**	27,389
Other liabilities	18	**–**	1,065
Current tax payable	8	**3,856**	7,503
Provisions	20	**5,438**	5,133
Total current liabilities		**35,732**	41,090
NON-CURRENT LIABILITIES			
Loans and borrowings	19	**34,150**	52,098
Deferred tax liabilities	8	**2,189**	1,553
Provisions	20	**3,476**	3,451
Total non-current liabilities		**39,815**	57,102
Total liabilities		**75,547**	98,192
Net assets		**71,879**	65,046
EQUITY			
Share capital	21	**24,609**	25,328
Reserves	22	**(1,862)**	(1,574)
Retained earnings	23	**49,132**	41,292
Total equity		**71,879**	65,046

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 43 to 82.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated				
	Share capital	Translation reserve	Hedging reserve	Retained earnings	Total
2011	$000	$000	$000	$000	$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**

	Consolidated				
	Share capital	Translation reserve	Hedging reserve	Retained earnings	Total
2010	$000	$000	$000	$000	$000
Balance as at 1 July 2009	24,849	(108)	843	38,388	63,972
Change in fair value of cash flow hedges	–	–	(1,098)	–	(1,098)
Exchange differences on translation of foreign operations	–	(1,211)	–	–	(1,211)
Profit for the period	–	–	–	14,394	14,394
Dividends recognised during the period	–	–	–	(11,490)	(11,490)
Performance rights expensed	479	–	–	–	479
Shares purchased	–	–	–	–	–
Balance at 30 June 2010	25,328	(1,319)	(255)	41,292	65,046

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 43 to 82.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 $000	Consolidated 2010 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**171,698**	197,285
Cash payments to suppliers and employees		**(131,078)**	(139,933)
Interest received		**294**	372
Interest paid		**(3,334)**	(3,521)
Income taxes paid		**(11,195)**	(2,310)
Net cash from operating activities	27(II)	**26,385**	51,893
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**787**	345
Dividends received		**680**	49
Payments for capitalised product development		**(7,436)**	(7,798)
Payments for intellectual property		**(847)**	(1,040)
Acquisition of property, plant and equipment		**(3,610)**	(2,112)
Acquisition of intangibles (computer software and licenses)		**(1,886)**	(878)
Proceeds from disposal of shares in GroundProbe Pty Ltd		**3,795**	–
Proceeds from disposal of Codan Broadcast Products Pty Ltd		**727**	–
Net cash used in investing activities		**(7,790)**	(11,434)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		**(16,558)**	(21,010)
Payment for shares required for performance rights plan		**(980)**	–
Dividends paid		**(13,952)**	(11,490)
Net cash from/(used in) financing activities		**(31,490)**	(32,500)
Net increase/(decrease) in cash held		**(12,895)**	7,959
Cash and cash equivalents at the beginning of the financial year		**21,745**	13,895
Effects of exchange rate fluctuations on cash held		**(207)**	(109)
Cash and cash equivalents at the end of the financial year	27(I)	**8,643**	21,745

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 43 to 82.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 2011 comprise 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 10 August 2011.

(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 2010, 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 becomes mandatory for the group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The group does not plan to adopt this standard early and the 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 2011 the group has not changed any of its significant accounting policies.

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

(c) Basis of consolidation

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

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

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, is 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) 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 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 acquiree that are replaced mandatorily in the business combination.

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.

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

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.

(n) 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.

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.

(o) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment (continued)

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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

2. DIVIDENDS

	Consolidated	
	2011	**2010**
	$000	$000
i. an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2009	**–**	5,745
ii. an ordinary interim dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2010	**–**	5,745
iii. 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**	–
iv. an ordinary interim dividend of 4.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2011	**6,566**	–
	13,953	11,490

Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 5.0 cents per share, franked to 100% with 30% franking credits.

The dividend of $8,207,299 will be paid on 3 October 2011. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial reports.

Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%)	**9,472**	8,031

The franking credits available are based on the balance of the dividend franking account at year-end adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $3,517,413 (2010: $3,165,672).

3. IMPAIRMENT

The Satcom products cash generating unit has continued to experience difficult trading conditions, with the increasing strength of the Australia dollar and the global financial crisis significantly impacting this export-based business. As a result, the carrying amount of the unit was determined to be higher than its recoverable amount and an impairment loss of $6,000,000 (2010: $14,900,000) was recognised.

4. 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 segment 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 three business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The other business segment includes the manufacture and marketing of printed circuit boards, a specialist electronic component manufacturing business and the manufacture of electronic equipment for the broadcast industry; however during the year the specialist component manufacturing business was divested and the broadcast electronic equipment manufacturing business 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.

4. SEGMENT ACTIVITIES (continued)

Information about reportable segments

	Communications		Metal Detection		Other		Elimination		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Revenue										
External segment revenue	**69,783**	70,073	**92,105**	106,604	**7,719**	12,644	**–**	–	**169,607**	189,321
Inter-segment revenue	**–**	–	**–**	–	**2,105**	3,617	**(2,105)**	(3,617)	**–**	–
Total segment revenue	**69,783**	70,073	**92,105**	106,604	**9,824**	16,261	**(2,105)**	(3,617)	**169,607**	189,321
Other unallocated revenue									**–**	–
Total revenue									**169,607**	189,321
Result										
Segment result before impairment and restructure costs	**10,624**	12,638	**36,302**	43,568	**62**	456	**100**	104	**47,088**	56,766
Impairment charge (non-cash)	**(6,000)**	(14,900)	**–**	–	**–**	–	**–**	–	**(6,000)**	(14,900)
Restructure costs	**(1,248)**	(578)	**(270)**	(1,894)	**(453)**	(49)	**–**	–	**(1,971)**	(2,521)
Segment result	**3,376**	(2,840)	**36,032**	41,674	**(391)**	407	**100**	104	**39,117**	39,345
Unallocated corporate expenses and other income									**(9,520)**	(14,010)
Profit from operating activities									**29,597**	25,335
Income tax expense									**(7,805)**	(10,941)
Net profit									**21,792**	14,394
Non-cash items included above										
Depreciation and amortisation	**4,710**	4,769	**2,551**	3,509	**175**	494	**–**	–	**7,436**	8,772
Unallocated depreciation and amortisation									**1,595**	1,525
Total depreciation and amortisation									**9,031**	10,297
Assets										
Segment assets	**32,792**	43,475	**84,500**	81,508	**2,970**	4,939	**–**	–	**120,262**	129,922
Investments									**–**	50
Unallocated corporate assets									**27,164**	33,266
Consolidated total assets									**147,426**	163,238

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 $21,788,346 (2010: $32,030,268) the United States of America totalling $26,022,791 (2010: $43,167,444) and to a customer in Turkey totalling $25,849,129 (2010: $6,218,765).

The location of the group's non-current assets excluding financial instruments and deferred tax assets were located as follows: Australia $97,272,841 (2010: $95,671,973), the United States of America $967,041 (2010: $5,393,698), Ireland $550,913 (2010: $858,768) and United Kingdom $116,959 (2010: $112,190).

5. OTHER INCOME

	Consolidated	
	2011	2010
	$000	$000
Dividend income from GroundProbe Pty Ltd	**680**	49
Other items	**312**	815
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	**909**	–
	6,373	864

6. EXPENSES

	Consolidated	
	2011	2010
	$000	$000
Net financing costs:		
Interest income	**(294)**	(372)
Net foreign exchange (gain)/loss	**779**	495
Interest expense	**3,334**	3,521
	3,819	3,644
Depreciation of:		
Buildings	**526**	761
Leasehold property	**23**	135
Plant and equipment	**1,747**	2,370
	2,296	3,266
Amortisation of:		
Product development costs	**3,863**	4,047
Intellectual property	**1,710**	1,945
Computer software	**1,162**	1,039
Licenses	**–**	–
	6,735	7,031
Personnel expenses:		
Wages and salaries	**28,204**	30,536
Other associated personnel expenses	**2,371**	2,332
Contributions to defined contribution superannuation plans	**2,321**	2,393
Increase in liability for long service leave	**609**	644
Increase in liability for annual leave	**1,731**	1,781
	35,236	37,686
Additional expenses disclosed:		
Impairment of trade receivables	**(120)**	23
Operating lease rental expense	**1,648**	1,467
Loss on sale of property, plant and equipment	**722**	318
Restructuring costs expensed as incurred	**1,971**	2,521

(CONTINUED)

7. AUDITOR'S REMUNERATION

	Consolidated 2011 $	Consolidated 2010 $
Audit services:		
KPMG Australia – audit and review of financial reports	**180,850**	194,830
Overseas KPMG firms – audit of financial reports & assurance services	**36,948**	64,097
Other services:		
KPMG Australia – taxation services	**116,984**	98,223
KPMG Australia – other assurance services	**33,043**	3,453
Overseas KPMG firms – taxation services	**178,242**	213,973
KPMG related practices – due diligence and corporate finance services	**47,338**	57,727
	593,405	632,303

8. INCOME TAX

	$000	$000
A. INCOME TAX EXPENSE		
Current tax expense:		
Current tax paid or payable for the financial year	**7,845**	11,239
Adjustments for prior years	**(1,047)**	(553)
	6,798	10,686
Deferred tax expense:		
Origination and reversal of temporary differences	**756**	50
Income tax recognised directly in equity	**251**	205
Total income tax expense in income statement	**7,805**	10,941
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**8,879**	7,600
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**392**	465
Over-provision for taxation in previous years	**1,047**	553
Rebate on dividend income	**204**	15
Effect of tax rates in foreign jurisdictions	**465**	617
Recognition of previously unrecognised tax losses	**1,097**	–
Sundry items	**109**	38
	5,565	5,912
Increase in income tax expense due to:		
Non-deductible expenses	**789**	304
Depreciation	**–**	26
Impairment of goodwill	**1,143**	4,470
Sundry items	**308**	229
Income tax expense	**7,805**	10,941

8. INCOME TAX (continued)

	Consolidated 2011 $000	Consolidated 2010 $000
B. CURRENT TAX LIABILITIES/ASSETS		
Balance at the beginning of the year	**(7,448)**	414
Net foreign currency differences on translation of foreign entities	**(31)**	21
Income tax paid	**11,195**	2,309
Adjustments from prior year	**353**	1,047
Current year's income tax paid or payable on operating profit	**(7,845)**	(11,239)
	(3,776)	(7,448)
Disclosed in balance sheet as:		
Current tax asset	**80**	55
Income tax payable	**(3,856)**	(7,503)
	(3,776)	(7,448)
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	**6,102**	5,783
Sundry items	**860**	82
Difference in depreciation of property, plant and equipment	**249**	737
Set off of tax in relation to deferred tax assets:		
Difference in intellectual property	**(1,176)**	(483)
Provisions for employee benefits not currently deductible	**(1,857)**	(1,916)
Provisions and accruals not currently deductible	**(1,989)**	(2,650)
	2,189	1,553

The group has accumulated tax losses on foreign subsidiaries amounting to $1,649,488. A deferred tax asset has not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the group can utilise the benefits therefrom.

9. CASH AND CASH EQUIVALENTS

	2011	2010
Petty cash	**14**	14
Cash at bank	**8,611**	10,708
Short-term deposits	**18**	11,023
	8,643	21,745

10. TRADE AND OTHER RECEIVABLES

	Consolidated 2011 $000	Consolidated 2010 $000
CURRENT		
Trade receivables	**13,561**	12,105
Less: Impairment losses recognised	**(365)**	(584)
	13,196	11,521
Other debtors	**1,398**	953
	14,594	12,474

11. INVENTORIES

	2011 $000	2010 $000
CURRENT		
Raw materials	**15,090**	18,712
Work in progress	**1,782**	1,311
Finished goods	**6,448**	5,091
	23,320	25,114

12. OTHER ASSETS

	2011 $000	2010 $000
Prepayments	**1,170**	1,180
Net foreign currency hedge receivable	**476**	–
Other	**236**	633
	1,882	1,813

13. INVESTMENTS

	2011 $000	2010 $000
Unlisted shares at cost	**–**	50
	–	50

14. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2011	**2010**
	$000	$000
Freehold land and buildings at cost	**14,166**	14,746
Accumulated depreciation	**(3,297)**	(2,771)
	10,869	11,975
Leasehold property at cost	**475**	615
Accumulated amortisation	**(322)**	(464)
	153	151
Plant and equipment at cost	**32,792**	33,012
Accumulated depreciation	**(23,335)**	(24,099)
	9,457	8,913
Capital work in progress at cost	**212**	95
Total property, plant and equipment	**20,691**	21,134
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Freehold land and buildings		
Carrying amount at beginning of year	**11,975**	12,895
Additions	**106**	24
Disposals	**(660)**	–
Depreciation	**(526)**	(761)
Net foreign currency differences on translation of foreign entities	**(26)**	(183)
Carrying amount at end of year	**10,869**	11,975
Leasehold property improvements		
Carrying amount at beginning of year	**151**	292
Additions	**28**	–
Disposals	**–**	–
Depreciation	**(23)**	(135)
Net foreign currency differences on translation of foreign entities	**(3)**	(6)
Carrying amount at end of year	**153**	151

	Consolidated 2011 $000	Consolidated 2010 $000
Plant and equipment		
Carrying amount at beginning of year	**8,913**	9,741
Additions	**3,264**	2,088
Transfers	**–**	64
Transfers to computer software	**–**	(12)
Disposals	**(820)**	(504)
Depreciation	**(1,747)**	(2,370)
Net foreign currency differences on translation of foreign entities	**(153)**	(94)
Carrying amount at end of year	**9,457**	8,913
Capital work in progress at cost		
Carrying amount at beginning of year	**95**	294
Additions	**212**	–
Transfers	**(95)**	(198)
Net foreign currency differences on translation of foreign entities	**–**	(1)
Carrying amount at end of year	**212**	95
Total carrying amount at end of year	**20,691**	21,134

15. PRODUCT DEVELOPMENT

Product development – at cost	**64,327**	56,947
Accumulated amortisation	**(43,987)**	(37,991)
	20,340	18,956
Reconciliation		
Carrying amount at beginning of year	**18,956**	15,205
Capitalised in current period	**7,436**	7,798
Impairment	**(2,189)**	–
Amortisation	**(3,863)**	(4,047)
	20,340	18,956

16. INTANGIBLE ASSETS

	Consolidated	
	2011	2010
	$000	$000
Goodwill	**57,545**	73,357
Impairment	**(3,588)**	(14,900)
	53,957	58,457
Intellectual property – at cost	**4,934**	3,298
Accumulated amortisation	**(4,532)**	(2,606)
	402	692
Computer software – at cost	**11,285**	10,779
Accumulated amortisation	**(9,068)**	(8,031)
	2,217	2,748
Licences – at cost	**1,300**	–
Accumulated amortisation	**–**	–
	1,300	–
Total intangible assets	**57,876**	61,897

	Consolidated 2011 $000	Consolidated 2010 $000
Reconciliations		
Goodwill		
Carrying amount at beginning of year	**58,457**	73,504
Acquisitions	**–**	–
Adjustment on prior year's acquisition	**–**	62
Net foreign currency differences on translation of foreign entities	**(912)**	(209)
Impairment	**(3,588)**	(14,900)
	53,957	58,457
Intellectual property		
Carrying amount at beginning of year	**692**	737
Additions	**1,709**	1,902
Amortisation	**(1,710)**	(1,945)
Disposals	**–**	–
Net foreign currency differences on translation of foreign entities	**(66)**	(2)
Impairment	**(223)**	–
	402	692
Computer software		
Carrying amount at beginning of year	**2,748**	2,927
Additions	**586**	878
Transfers from capital work in progress	**95**	146
Amortisation	**(1,162)**	(1,039)
Disposals	**(23)**	(159)
Net foreign currency differences on translation of foreign entities	**(27)**	(5)
	2,217	2,748
Licences		
Carrying amount at beginning of year	**–**	–
Acquisitions	**1,300**	–
Amortisation	**–**	–
Disposals	**–**	–
	1,300	–
The following segments have significant carrying amounts of goodwill:		
Satellite communications products	**–**	4,499
Minelab products	**53,957**	53,958
	53,957	58,457

16. INTANGIBLE ASSETS (continued)

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 recoverable amount for satellite communications products has been based on fair value less costs to sell. Fair value has been determined by applying an earnings before interest, depreciation and amortisation multiple to the expected earnings for the product group. The multiple has been determined with reference to announced transactions in the satellite communications industry. Refer to note 3 for details of impairments recognised.

The recoverable amount of all other cash generating units is based on value-in-use calculations. Those calculations use cash flow projections based on the oncoming year's budget. Key assumptions for future years relate to sales, gross margin and expense levels. Sales are based on management assessments which allow for future growth. Gross margins and expense levels are largely consistent with past experience. A terminal value has been determined at the conclusion of five years assuming a growth rate of 2.5%. Pre-tax discount rates of 15% to 17% (2010: 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 Codan Limited. The licenced technology will allow Codan access to implementations of next-generation radio waveforms for high-speed data transmission, automatic link establishment and digital voice.

17. TRADE AND OTHER PAYABLES

	Consolidated	
	2011	**2010**
	$000	$000
CURRENT		
Trade payables	**12,191**	14,555
Other payables and accruals	**14,247**	12,834
	26,438	27,389

18. OTHER LIABILITIES

CURRENT		
Net foreign currency hedge payable	**–**	1,065
	–	1,065

19. LOANS AND BORROWINGS

	Consolidated	
	2011	2010
	$000	$000
NON-CURRENT		
Cash advance	**34,140**	52,088
Unsecured loans	**10**	10
	34,150	52,098
The group has access to the following lines of credit:		
Total facilities available at balance date:		
Multi-option facility	**10,000**	8,800
Documentary letters of credit	**–**	800
Guarantee facility	**–**	2,935
Commercial credit card	**120**	335
Cash advance facility	**75,000**	75,000
	85,120	87,870
Facilities utilised at balance date:		
Multi-option facility	**1,222**	–
Documentary letters of credit	**–**	277
Guarantee facility	**–**	880
Commercial credit card	**8**	269
Cash advance facility	**34,140**	52,088
	35,370	53,514
Facilities not utilised at balance date:		
Multi-option facility	**8,778**	8,800
Documentary letters of credit	**–**	523
Guarantee facility	**–**	2,055
Commercial credit card	**112**	66
Cash advance facility	**40,860**	22,912
	49,750	34,356

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

19. LOANS AND BORROWINGS (continued)

Bank Facilities

Facilities are supported by interlocking guarantees between Codan Limited 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	
	2011	2010
	%	%
WEIGHTED AVERAGE INTEREST RATES		
Cash at bank	**3.22**	2.72
Short-term deposits	**4.95**	4.14
Bank overdraft	**11.08**	–
Cash advance	**5.66**	4.37

20. PROVISIONS

	$000	$000
CURRENT		
Employee benefits	**2,592**	2,637
Warranty repairs	**2,846**	2,496
	5,438	5,133
NON-CURRENT		
Employee benefits	**3,476**	3,451
Reconciliation of warranty provision		
Carrying amount at beginning of year	**2,496**	1,551
Provisions made during the year	**1,860**	2,293
Payments made during the year	**(1,510)**	(1,348)
	2,846	2,496

21. SHARE CAPITAL

	Consolidated 2011 $000	Consolidated 2010 $000
SHARE CAPITAL		
Opening balance (164,145,980 ordinary shares fully paid)	**25,328**	24,849
Performance rights expensed	**236**	479
Shares purchased	**(955)**	–
Issue of ordinary shares	**–**	–
Closing balance (164,145,980 ordinary shares fully paid)	**24,609**	25,328

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 year the group has 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).

22. RESERVES

	2011	2010
Foreign currency translation	**(3,199)**	(1,319)
Hedging reserve	**1,337**	(255)
	(1,862)	(1,574)

Foreign currency translation

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

	2011	2010
Balance at beginning of year	**(1,319)**	(108)
Net translation adjustment	**(1,880)**	(1,211)
Balance at end of year	**(3,199)**	(1,319)

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.

	2011	2010
Balance at beginning of year	**(255)**	843
Gains/(losses) on cash flow hedges taken to/from hedging reserve	**1,592**	(1,098)
Balance at end of year	**1,337**	(255)

23. RETAINED EARNINGS

	Consolidated	
	2011	2010
	$000	$000
Retained earnings at beginning of year	**41,292**	38,388
Net profit attributable to members of the parent entity	**21,792**	14,394
Dividends recognised during the year	**(13,952)**	(11,490)
Retained earnings at end of year	**49,132**	41,292

24. COMMITMENTS

	2011	2010
I. CAPITAL EXPENDITURE COMMITMENTS		
Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:		
Within one year	**134**	655
II. NON-CANCELLABLE OPERATING LEASE EXPENSE AND OTHER COMMITMENTS		
Future operating lease commitments not provided for in the financial statements which are payable:		
Within one year	**1,486**	1,648
One year or later and no later than five years	**2,115**	3,388
Later than five years	**146**	265
	3,747	5,301

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.

	2011	2010
III. FINANCE LEASE AND HIRE PURCHASE PAYMENT COMMITMENTS		
Within one year	**–**	–
One year or later and no later than five years	**–**	–
Later than five years	**–**	–
	–	–
Less: future finance charges	**–**	–
	–	–
Lease and hire purchase liabilities provided for in the financial statements:		
Current	**–**	–
Non-current	**–**	–
	–	–

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.

25. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

Financial risk management

Overview

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

- credit risk
- liquidity risk
- market 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 2011.

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.

25. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

(a) Credit risk (continued)

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

		Carrying Amount Consolidated	
		2011	2010
	Note	$000	$000
Unlisted shares	13	–	50
Trade and other receivables	10	**14,594**	12,474
Cash and cash equivalents	9	**8,643**	21,745
Forward exchange contracts used for hedging	12	**476**	–

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

Australia/Oceania	**3,582**	2,397
Europe	**3,932**	2,404
Americas	**3,422**	4,217
Asia	**1,437**	2,792
Africa/Middle East	**1,188**	295
	13,561	12,105

Impairment losses

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

	Consolidated			
	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
	$000	$000	$000	$000
Not past due	**11,155**	**(184)**	11,286	(349)
Past due 0–30 days	**1,577**	**(136)**	187	–
Past due 31–120 days	**793**	**(9)**	513	(127)
More than 120 days	**36**	**(36)**	119	(108)
	13,561	**(365)**	12,105	(584)

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

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

	Consolidated 2011 $000	Consolidated 2010 $000
Balance at 1 July	**584**	755
Impairment loss recognised as an expense	**(120)**	23
Trade receivables written off to the allowance for impairment	**(99)**	(194)
Balance at 30 June	**365**	584

(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 19 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

	Consolidated				
	Carrying amount	Contractual cash flows	12 months or less	1–5 years	More than 5 years
	$000	$000	$000	$000	$000
30 JUNE 2011					
Non-derivative financial liabilities					
Trade and other payables	**26,438**	**(26,438)**	**(26,070)**	**(368)**	**–**
Unsecured loans	**10**	**(10)**	**–**	**(10)**	**–**
Cash advance	**34,140**	**(39,687)**	**(1,849)**	**(37,838)**	**–**
	60,588	**(66,135)**	**(27,919)**	**(38,216)**	**–**
30 JUNE 2010					
Non-derivative financial liabilities					
Trade and other payables	27,389	(27,389)	(26,157)	(1,232)	–
Unsecured loans	10	(10)	–	(10)	–
Cash advance	52,088	(56,185)	(2,458)	(53,727)	–
	79,487	(83,584)	(28,615)	(54,969)	–

25. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

(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	
	2011	**2010**
	$000	$000
FIXED RATE INSTRUMENTS		
Financial assets	**–**	–
Financial liabilities	**–**	–
	–	–
VARIABLE RATE INSTRUMENTS		
Financial assets	**8,643**	21,745
Financial liabilities	**(34,140)**	(52,088)
	(25,497)	(30,343)

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 2010.

	Consolidated			
	Profit/(loss) before tax		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	$000	$000	$000	$000
30 JUNE 2011				
Variable rate instruments	**(255)**	**255**	**–**	**–**
30 JUNE 2010				
Variable rate instruments	(303)	303	–	–

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 forward exchange contracts for FY12 sales transactions of USD $4,000,000, at an average exchange rate of 93 cents. In addition the group has entered into effective collar cash flow hedge instruments which will limit the foreign exchange risk on USD $20,000,000 of FY12 sales, which represents approximately half of the USD exposure for FY12. The cap has been set at 107.6 cents while the floor is set at 93 cents. Therefore the group will be protected from an increase in the USD foreign exchange rate above 107.6 cents but will not participate if the USD foreign exchange rate falls below 93 cents.

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

25. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

Currency risk (continued)

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

	Consolidated		
	Euro	**GBP**	**USD**
	$000	$000	$000
30 JUNE 2011			
Cash and cash equivalents	**355**	**337**	**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)**
30 JUNE 2010			
Cash and cash equivalents	3,608	129	6,892
Trade receivables	516	17	6,035
Trade payables	(1,592)	(111)	(7,945)
Cash advance	–	–	(9,539)
Gross balance sheet exposure	2,532	35	(4,557)
Hedge transactions relating to balance sheet exposure	–	–	(1,408)
Cash advance designated as a hedge of foreign subsidiary	–	–	3,555
Net exposure at the reporting date	2,532	35	(2,409)

Sensitivity analysis

Given the foreign currency balances included in the balance sheet as at the 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	Profit/(loss) before tax
	$000	$000
2011		
EURO	**–**	**(74)**
GBP	**–**	**(30)**
USD	**464**	**217**
	464	**113**
2010		
EURO	–	(230)
GBP	–	(3)
USD	1,217	219
	1,217	(14)

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 ($476,000), for which an independent valuation was obtained from the relevant banking institution.

26. GROUP ENTITIES

Name	Country of incorporation	Class of share	Interest held 2011 %	Interest held 2010 %
PARENT ENTITY				
Codan Limited	Australia	Ordinary		
CONTROLLED ENTITIES				
IMP Printed Circuits Pty Ltd	Australia	Ordinary	**100**	100
Codan (UK) Ltd	England	Ordinary	**100**	100
Codan (Qld) Pty Ltd	Australia	Ordinary	**100**	100
Codan (US) Inc	United States of America	Ordinary	**100**	100
Codan Telecommunications Pty Ltd	Australia	Ordinary	**100**	100
Codan Broadcast Products Pty Ltd*	Australia	Ordinary	**–**	100
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**	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	**100**	100

* On 31 August 2010 the group sold 100% of its interest in Codan Broadcast Products Pty Ltd in an arm's length transaction. The financial results of the group's interest in this entity have been accounted for until that date.

27. 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 2011 $000	Consolidated 2010 $000
Petty cash	**14**	14
Cash at bank	**8,611**	10,708
Short-term deposits	**18**	11,023
	8,643	21,745

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

	Consolidated	
	2011	2010
	$000	$000
PROFIT AFTER INCOME TAX	**21,792**	14,394
Add/(less) items classified as investing or financing activities:		
Loss on sale of non-current assets	**722**	318
Profit on disposal of shares in GroundProbe Pty Ltd	**(3,795)**	–
Profit on disposal of Codan Broadcast Products Pty Ltd	**(727)**	–
Dividend income	**(680)**	(49)
Performance rights expensed	**236**	479
Add/(less) non-cash items:		
Depreciation of:		
Buildings	**526**	761
Leasehold property	**23**	135
Plant and equipment	**1,747**	2,370
Amortisation	**6,735**	7,031
Net foreign exchange loss	**–**	101
Impairment of goodwill and intangible assets	**6,000**	14,900
(Decrease)/increase in income taxes	**(3,499)**	8,934
Increase/(decrease) on net assets affected by translation	**(2,049)**	305
Net cash from operating activities before changes in assets and liabilities	**27,031**	49,679
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**(1,675)**	3,785
Reduction/(increase) in inventories	**1,794**	(10,884)
Reduction/(increase) in other assets	**1,784**	(2,472)
Increase/(reduction) in payables	**(2,879)**	10,113
Increase/(reduction) in provisions	**330**	1,672
Net cash from operating activities	**26,385**	51,893

28. EMPLOYEE BENEFITS

	Consolidated	
	2011	2010
	$000	$000
AGGREGATE LIABILITY FOR EMPLOYEE BENEFITS, INCLUDING ON COSTS:		
Current – other creditors and accruals	**2,682**	3,017
Current – employee entitlements	**2,592**	2,637
Non-current – employee entitlements	**3,476**	3,451
	8,750	9,105

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	**5.03%**	4.80%
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 2011 in relation to the performance rights issued was $nil (2010: $264,725).

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 current year Mr M K Heard (Chief Executive Officer) retired from Codan and the performance rights issued to him in 2009 became qualifying performance rights. As a result the company has transferred 320,000 shares to Mr M K Heard during the year.

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 2011 in relation to the performance rights issued was $96,319 (2010: $358,600).

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 current 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 has transferred 289,855 shares to Mr M K Heard during the year.

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 2011 in relation to the performance rights issued was $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.

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.

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

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

	Consolidated	
	2011	2010
	$	$
Short-term employee benefits	**3,335,841**	2,524,809
Post employment benefits	**115,243**	85,951
Share-based payments	**160,731**	575,913
Other long term	**114,007**	–
	3,725,822	3,186,673

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Individual directors' and executives' compensation disclosures

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

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

Equity holdings and transactions

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

	Held at 1 July 2010	Purchases	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.

	Held at 1 July 2009	Purchases	Sales	Held at 30 June 2010
Directors				
Dr G D Klingner	367,840	50,000	–	417,840
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 M K Heard	4,407,587	–	–	4,407,587
Mr B P Burns	11,671,424	–	–	11,671,424
Specified executives				
Mr M Barton	n/a	–	–	5,000
Mr P D Charlesworth	26,130	–	–	26,130
Mr R J Moody	–	–	–	n/a
Mr G K Shmith	28,491	–	–	28,491

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 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**	**–**
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**	**–**	**297,063**

	Held at 1 July 2009	Issued	Vested	Held at 30 June 2010
Specified executives				
Mr D S McGurk	146,667	132,850	–	279,517
Mr M K Heard	320,000	289,855	–	609,855
Mr P D Charlesworth	146,667	132,850	–	279,517
Mr G K Shmith	120,000	108,696	–	228,696

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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.

30. OTHER RELATED PARTIES

All transactions with non-key management personnel related parties are on normal terms and conditions. Upon Mr M K Heard's retirement, a six month part time consultancy contract was entered into on normal commercial terms. This contract expired in May 2011.

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.

31. 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	
	2011	2010
	$000	$000
Net profit used for the purpose of calculating basic and diluted earnings per share	**21,792**	14,394

The weighted average number of shares used as the denominator number for basic earnings per share was 164,145,980 (2010: 164,145,980).

The calculation of diluted earnings per share at 30 June 2011 was based on profit attributable to shareholders of $21.8 million and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 164,714,932 (2010: 165,380,580).

32. NET TANGIBLE LIABILITY PER SHARE

Net tangible liability per share	**2.5 cents**	8.6 cents

33. 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 repaid $16.6 million in debt and as a result, the group's gearing level has improved significantly.

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

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

Summarised income statement and retained earnings

	2011 $000	2010 $000
Profit before tax	**26,341**	20,859
Income tax expense	**(5,648)**	(10,499)
Profit after tax	**20,693**	10,360
Retained earnings at beginning of the year	**32,971**	34,101
Retained earnings at end of the year	**39,711**	32,971

Balance sheet

CURRENT ASSETS		
Cash and cash equivalents	**7,486**	18,241
Trade and other receivables	**25,855**	23,719
Inventory	**14,031**	19,017
Current tax assets	**–**	–
Other assets	**1,053**	1,360
Total current assets	**48,425**	62,337
NON-CURRENT ASSETS		
Investments	**14,641**	14,641
Property, plant and equipment	**18,592**	17,974
Product development	**20,340**	18,956
Intangible assets	**57,250**	56,379
Deferred tax assets	**4,981**	3,975
Total non-current assets	**115,804**	111,925
Total assets	**164,229**	174,262

Balance sheet (continued)

	2011 $000	2010 $000
CURRENT LIABILITIES		
Trade and other payables	**18,564**	23,167
Other liabilities	**26,285**	19,511
Current tax liabilities	**3,778**	7,441
Provisions	**5,014**	4,484
Total current liabilities	**53,641**	54,603
NON-CURRENT LIABILITIES		
Loans and borrowings	**34,140**	52,088
Deferred tax liabilities	**7,167**	6,101
Provisions	**3,324**	3,135
Total non-current liabilities	**44,631**	61,324
Total liabilities	**98,272**	115,927
Net assets	**65,957**	58,335
EQUITY		
Share capital	**25,722**	25,328
Reserves	**524**	36
Retained earnings	**39,711**	32,971
Total equity	**65,957**	58,335

35. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2011 the parent company of the group was Codan Limited.

	Company	
	2011 $000	2010 $000
RESULT OF PARENT ENTITY		
Profit for the period	**23,791**	14,742
Other comprehensive income	**816**	(850)
Total comprehensive income for the period	**24,607**	13,892
FINANCIAL POSITION OF PARENT ENTITY AT YEAR END		
Current assets	**41,275**	55,126
Total assets	**144,918**	159,142
Current liabilities	**38,965**	46,419
Total liabilities	**80,241**	105,513
Total equity of the parent entity comprising:		
Share capital	**25,722**	25,328
Reserves	**809**	(6)
Retained earnings	**38,146**	28,307
Total equity	**64,677**	53,629

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 38 to 82, 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 2011 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 34 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 2011.

Dated at Newton this 10th day of August 2011.

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

Independent auditor's report to the members of Codan Limited

Report on the financial report

We have audited the accompanying financial report of Codan Limited (the company), which comprises the consolidated balance sheet as at 30 June 2011 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.

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 2011 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 21 to 28 of the directors' report for the year ended 30 June 2011. 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 2011 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

N. T. Faulkner
Partner

Adelaide

10 August 2011

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 4 AUGUST 2011

SUBSTANTIAL SHAREHOLDERS

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

Shareholder	Number of ordinary shares
Edal Pty Ltd	42,534,728
I B Wall and P M Wall	34,801,008
MacKinnon Investments Pty Ltd	20,867,504
Interests associated with Starform Pty Ltd, Pinara Pty Ltd and Pinara Group Pty Ltd	19,780,117
Interests associated with Kynola Pty Ltd and Warren Glen Pty Ltd	11,671,424

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Category	Number of equity security holders Ordinary shares
1 – 1,000	376
1,001 – 5,000	793
5,001 – 10,000	424
10,001 – 100,000	462
100,001 – over	41
Total	**2,096**

The number of shareholders holding less than a marketable parcel of ordinary shares is 71.

SECURITIES EXCHANGE

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

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
		%
Edal Pty Ltd	42,534,728	25.9
I B Wall and P M Wall	34,801,008	21.2
MacKinnon Investments Pty Ltd	20,867,504	12.7
Starform Pty Ltd	11,397,081	6.9
Kynola Pty Ltd	9,111,213	5.6
Pinara Pty Ltd	7,580,562	4.6
M K and M C Heard	5,017,442	3.1
J P Morgan Nominees Australia Limited	2,919,556	1.8
Mitranikitan Pty Limited	2,632,526	1.6
Warren Glen Pty Ltd	2,560,211	1.6
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	525,790	0.3
D A G McDonough	496,983	0.3
D M Heard and J E Jarvinen	460,000	0.3
Codan Executive Share Plan Pty Ltd	413,334	0.3
Y A and E J Gobolos	356,521	0.2
Wal Assets Pty Ltd	258,065	0.2
K C Adams	250,000	0.2
Total	**144,249,303**	**88.0**

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

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

www.codan.com.au