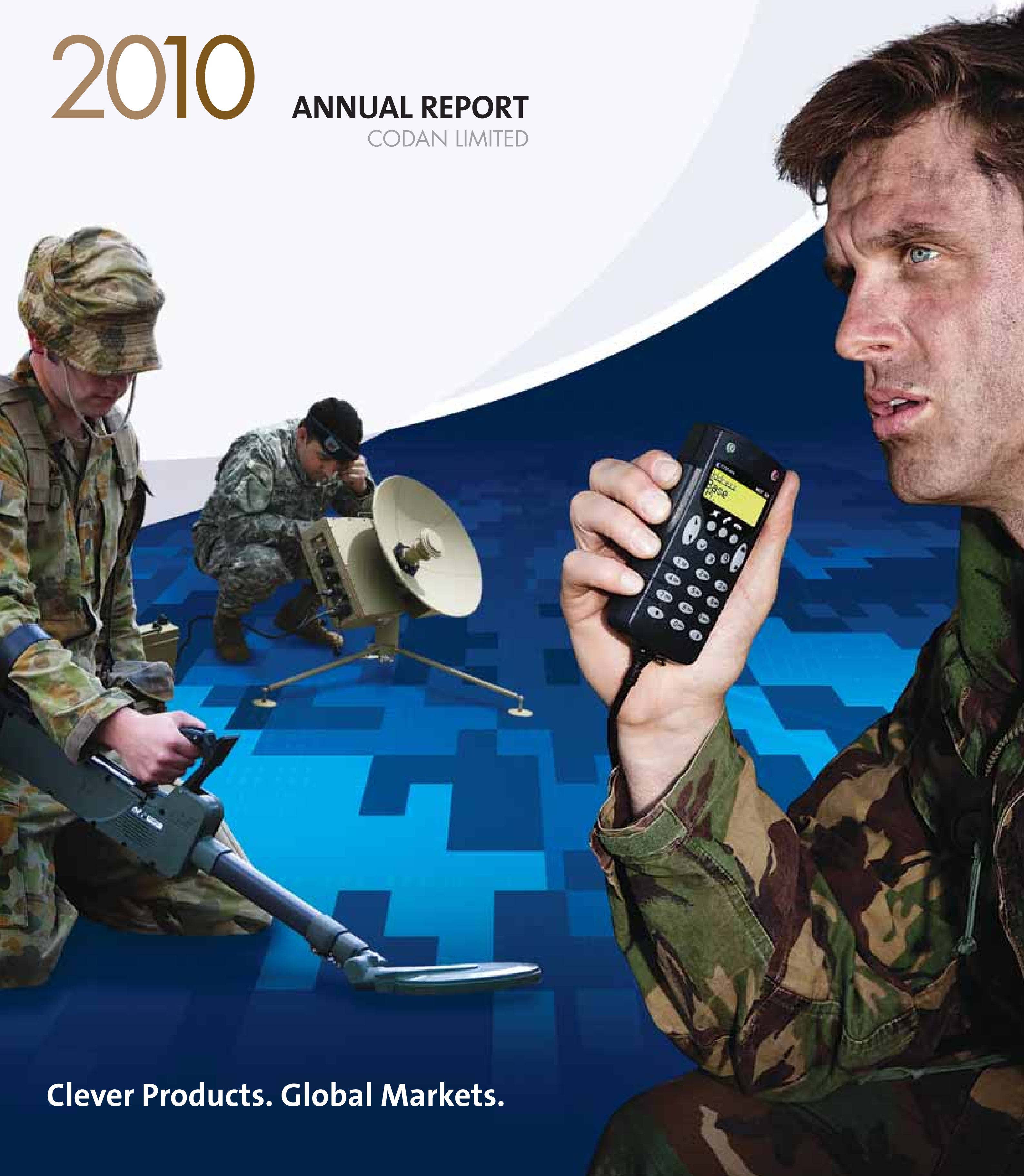
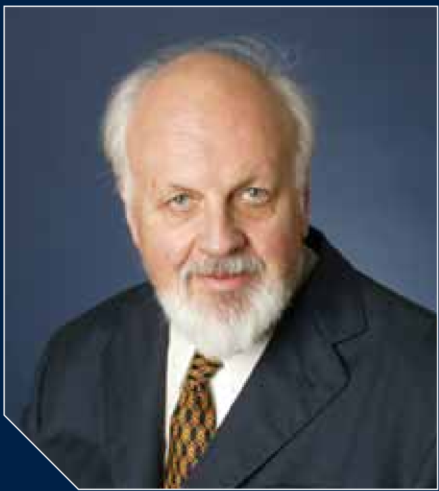
CODAN

2010 ANNUAL REPORT

CODAN LIMITED



Clever Products. Global Markets.



JIM BETTISON
1932 – 2009

JIM BETTISON, ONE OF CODAN'S FOUNDERS, PASSED AWAY ON THE 15TH OF NOVEMBER 2009.

The company was founded on the 1st of July 1959 by Jim and his partners Ian Wall and Alastair Wood. Jim graduated from Adelaide University majoring in history and joined his co-founders to look after the commercial aspects of the new venture.

The company grew in radio frequency engineering applied to HF radio which is still a Codan core technology and remains today a major part of the business. Alastair, Ian and Jim built Codan steadily, with many important milestones. Perhaps the most significant of these was the contract to upgrade the nationwide HF radio communications network of the Australian Royal Flying Doctor Service in 1973. The project was a great success and the genesis of Codan's HF radio business.

Jim was a man of science, with strong creativity, and an ability to think outside the square. He made broad connections in the Australian scientific community and saw farther horizons for Codan. Through his guidance, the company expanded its technology base to satellite communications, another core technology of Codan today.

Jim was a former Senior Deputy Chancellor of the University of Adelaide, member of the Commonwealth Government's Australian Space Board, member of the Divisional Advisory Committee, CSIRO Division of Radiophysics and board member of the Technology Development Corporation (South Australia). He was Chief Executive of Codan until 1982, Chairman until 1985 and retired as a director in 2005. Through his drive to make connections between Codan and Australia's scientific and business communities and to diversify the company, he made a unique contribution to the breadth of Codan's business and its culture.

He is greatly missed by all at Codan.

CONTENTS

01. Codan's new 3040 mobile antenna.

02. Minelab's new F3 Compact mine detector.

03. Satellite terminal with Locus X-Band radio.

CODAN

CODAN LIMITED
ABN 77 007 590 605

Annual General Meeting

The Annual General Meeting of Codan Limited will be held at 11:00 a.m. on Thursday, 18 November 2010 at the Hilton Adelaide hotel, 233 Victoria Square, Adelaide, South Australia.

FINANCIAL PERFORMANCE

	Year ended 30 June			
	2010	**%**	**2009**	**%**
Revenue				
Communications Products	**$70.1m**	**37%**	$77.3m	58%
Metal Detectors	**$106.6m**	**56%**	$41.7m	32%
Other	**$12.6m**	**7%**	$13.4m	10%
Total revenue	**$189.3m**	**100%**	$132.4m	100%
EBITDA	**$56.1m**	**30%**	$29.4m	22%
EBIT	**$45.8m**	**24%**	$21.5m	16%
Interest	**($3.1)m**		($4.6)m	
Net profit before tax	**$42.7m**	**23%**	$16.9m	13%
Tax	**($11.6)m**		($4.1)m	
Net profit after tax	**$31.1m**	**16%**	$12.8m	10%
Earnings per share	**18.8¢**		7.9¢	
Dividend per share	**8.0¢**		6.5¢	

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

04. Codan HF radio on the Variety 4WD Challenge.

05. Codan satellite microwave radio on a mobile marine installation.

06. Minelab X-TERRA coin and treasure detectors.

Record business performance; revenue up 43% and underlying net profit after tax up 142%.

HIGHLIGHTS – FY10

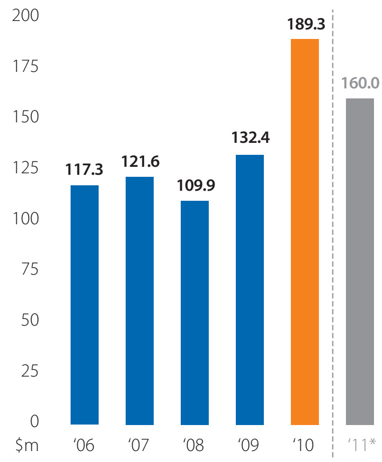
- Record business performance; revenue $189.3 million (up 43%) and underlying net profit after tax $31.1 million (up 142%)
- Annual dividend 8 cents per share (up 23%)
- $30 million reduction in net debt
- Exceptional performance from Minelab metal detector business; revenue up 156% to $106.6 million
- Boom in demand for metal detectors from the artisanal gold mining market
- Strong sales opportunities pipeline for HF radio into new market segments
- Improving market for commercial satellite communications products
- Locus Microwave well positioned for significant X-Band satellite communications products sales for US government use
- Integration and restructuring projects delivering reduced costs, greatly expanded manufacturing capacity and improved efficiency

KEY INITIATIVES – FY11

- Deliver strong growth in sales for all communications product groups, Codan and Locus Microwave
- Continue excellent trend line sales growth for Minelab metal detectors with new product releases, further penetration of artisanal mining markets and industry best marketing
- Roll out of the group's IT and SAP business systems to Locus Microwave
- Ramp up targeted training and development programs for management and staff
- Continued search for acquisitions

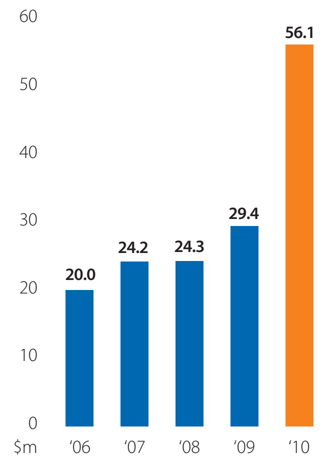
07. Staff at Christmas.

OPERATING REVENUE

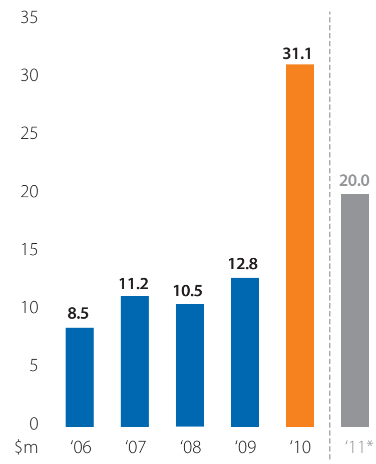


* As per the company's announcement to the market on 11 August 2010, the board has given guidance that FY11 operating revenue will be in the region of $160 million.

EBITDA



NPAT



* As per the company's announcement to the market on 11 August 2010, the board has given guidance that FY11 NPAT will be in the region of $20 million.

CHAIRMAN'S REPORT

Dr David Klingner
Chairman

On behalf of the Board of Codan Limited I am delighted to report that the financial year ended 30 June 2010 was a record year in terms of revenue and underlying profit.

The performance of our Minelab metal detector business was exceptional, with revenue up by 156%. This was led by a boom in the demand for metal detectors from the artisanal gold mining market, while demand for land mine detectors and coin and treasure machines was also strong. Our manufacturing facilities were stretched to the limit to meet the unprecedented demand for our products. Our people responded magnificently and the steps we had taken, and continue to take, to streamline our systems and support functions and to leverage our manufacturing and distribution capabilities following the acquisition of Minelab in 2008 stood us in good stead to meet the challenge.

Underlying EPS grew by 138% and the very strong operating cash flow enabled debt to be reduced by $30 million, effectively halving our outstanding borrowings. The strong business performance has enabled the Board to declare a full year dividend of 8 cents per share, an increase of 23%.

In the communications sector our HF Radio sales into the military and security markets were solid, maintaining the good acceptance of our products into this relatively new market for Codan and which we had been able to grow strongly in 2009. It is our experience however that this market is very project orientated, meaning that sales can be uneven in terms of demand. We have therefore moved to adjust and strengthen our marketing approach for our military and security products, with the result that the pipeline of sales opportunities is very much larger at the beginning of Financial Year 2011 than it was last year.

Satellite Communications again experienced difficult business conditions in 2010. As reported last year, this product group was particularly affected by the global financial crisis, particularly in the USA which is an important market for satellite communications.

We took steps late in Financial Year 2009 to expand our market offering in this area through the purchase of Locus Microwave Inc. Locus is focussed on the production of X-Band products which target government and military markets. Progress was made during 2010 in developing and gaining acceptance of new satellite communications products across our complete range in C, Ku, and X-Band. We are well positioned to supply the market as it recovers, which we expect it to do based on the sales improvement in the last quarter of FY 2010.

A non cash impairment charge of $14.9 million was taken against the goodwill component of our satellite communications assets to reflect the significant reduction in business activity. This charge virtually eliminates the balance sheet goodwill accompanying the acquisition of Mitec Limited in 1997. Since then the market and Codan's approach to it have changed considerably.

The relationship with our Malaysian outsourcing service provider continued to develop in the course of the year. As foreshadowed in last year's report, the Minelab manufacturing facility in Ireland was closed and the manufacture of products previously made in Ireland transferred to Malaysia. This not only contributed to the consolidation and streamlining of our manufacturing, but also helped by providing a natural hedge to our US dollar exposure as our contract with the provider is denominated in USD.

Continuing integration and restructuring projects following the acquisitions of Minelab and Locus delivered reduced costs and improved efficiency. The roll-out of the Codan group's IT and SAP business systems to Minelab on time and on budget is now virtually complete and the extension of these systems to Locus is well underway and expected to be complete in the course of the year.

On a sad note, Mr Jim Bettison, one of the founders of Codan in 1959, passed away in November 2009. Jim's contribution to Codan was invaluable over many years. We have included a tribute to Jim in this report. On behalf of the Board I reaffirm our sincere condolences to his family.

In the year ahead we expect continuing strong business performance. Although it will be difficult for Minelab to equal the stellar year it has enjoyed in 2010, trend line growth for this business in metal detectors for hobbyists, land mine clearance and artisanal gold mining remains strong, and steps taken to release new products and institute a new targeted approach to marketing will see this business continue to improve in future years.

"A record year in terms of revenue and underlying profit….
In the year ahead we expect continuing strong business performance"

Strong growth in sales is also expected in HF radios and satellite communications, particularly in the new markets addressed by Locus Microwave.

We continue to look for opportunities to grow the company by the acquisition of other "clever products" businesses to supplement the planned organic growth.

Mike Heard who has been our Chief Executive Officer for nearly 19 years has announced his decision to retire from Codan and step down from the Board at the Annual General Meeting in November. Mike has overseen and led an enormous change in our company during his tenure. The company has grown from annual sales of $22 million when he joined in 1991 to our record of $189.3 million sales and $31.1 million profit this year. Mike has also nurtured Codan's unique culture and developed a strong management team. We will greatly miss his energy and wisdom. Fortunately he has agreed to make himself available to us in a consulting capacity for a period post retirement. We wish Mike and his wife Mary every success for the future.

Mike will be succeeded as Chief Executive by Donald McGurk. Donald has been employed by Codan as an executive for nearly 10 years, most recently in charge of HF Radio. Donald is a skilled and experienced leader, and the board looks forward to working with him to continue to improve and expand our business.

Codan enjoys a skilled and dedicated workforce of which we are proud. We intend to assist with their further development through an increased and targeted training programme in the year ahead.

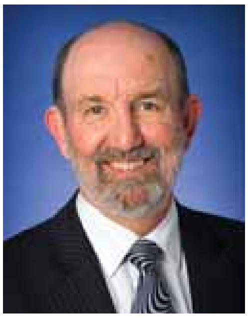
The response of management and staff to the very significant business challenges that presented in the course of the year has been excellent and on behalf of the Board I thank them for their dedication and efforts.

Dr David Klingner
Chairman

08. 50th anniversary commemorative plaque.

09. Codan 50th anniversary Open Day.

CEO'S REPORT



Mike Heard
Chief Executive Officer

A year of record sales and profits was also one of exciting achievements right across the Codan group.

In Codan, safety always comes first. Indeed it's the first item on the agenda of every board meeting. We employed well over five hundred staff on fourteen company sites across Australia and six other countries. Many sales and field engineering staff travel to very difficult and dangerous places. The safety, security and wellbeing of our staff are paramount. Our goal is "zero harm". We sustained two, but happily only two, lost time injuries for the year. Our target for financial year 2011 is of course zero lost time injuries.

The company completed its excellent HF radio product portfolio for the growing peacekeeping, security and military markets by adding physically robust and weather protected headquarters and transportable systems to the well established vehicle installed and man portable offerings. Skilled new sales and field engineering staff were recruited to operate from our new sales office in Rochester, New York State and our offices in England and Australia. With the best staff active in many countries, offering the best products, systems and service, many new prospective customers are impressed by the Codan offerings.

In satellite communications, we made the best of a challenging year in the market by building for the future. Strong bonds were developed between the talented and enthusiastic new people that joined our group with the acquisition of Locus Microwave in State College Pennsylvania, and our "old hands" in Adelaide, England and other centres. Product and market strategies were determined in caucus. US sales and customer service staff for Codan and Locus branded products have joined forces under one roof at the Locus site and we're expanding operations there to better address key government and commercial markets. Joint product development programs between Locus and our engineering teams in Adelaide and Brisbane are already underway. Research has been renewed into the technologies of the future. Exciting new products for the commercial market were released from Australia, and Locus has placed itself at the forefront for supply of its products for military and other use to the burgeoning US government market.

Our Minelab metal detector business was a revelation. With clearly world best metal detection technology for difficult applications, great strides were made in every market sector. It was fitting that the marvellous hoard of Roman coins uncovered in a field in Sussex was detected by a Minelab coin and treasure machine! A professional and highly motivated new team set up office in Chicago to serve the North American consumer market. Marketing in America is being transformed and significant growth in market share will ensue. Countermine, the group providing detectors for clearance of mines and unexploded ordnance around the world, achieved its largest ever single order, US$5.5 million from the Indian government. A revolutionary new collapsible, lightweight and physically robust detector was released in prototype, with acclaim, to major military organisations worldwide. Market launch later in financial year 2011 will drive excellent sales.

The most exciting development across the group was the boom in demand for Minelab gold detectors for artisanal mining. Minelab's gold detection technology, finding nuggets and grains in difficult mineralised soil conditions, is unsurpassed. The back breaking labour of mining for surface coarse gold using ancient techniques, moving tons of soil, washing, shaking, and blowing, is transformed by Minelab technology. Using it, the miners need only work a detection hot spot! Environmental damage is minimised. The co-operatives of subsistence miners in the developing world are embracing this technology. Minelab was superbly placed with respect to its technology, international sales force and worldwide network of dealers and distributors to capitalise first and best on this boom.

Our manufacturing people are the real heroes of our record year. In the midst of major projects involving the closure of Minelab manufacturing facilities in Ireland, amalgamation of Minelab and Codan facilities in Adelaide, and transfer of some production to our Malaysian outsource partners, they were required to deal with an unexpected massive boom in demand for detectors for the artisanal gold market. They increased output of detectors by 75% year on year. The amalgamation and outsourcing projects were also completed, and major cost reductions and efficiency improvements are flowing through the business.

Our smaller businesses also performed well. Although the vast majority of Australian demand is now served from offshore, IMP Electronics Solutions continues to manufacture printed circuit boards in Australia for hundreds of electronics businesses looking for rapid turnaround and high quality for prototyping and short

"A year of exciting achievements; they speak of the excellence of our people"

production runs. IMP has supplemented its business by providing an importing service for its clients, adding cables and looms, LCD displays, escutcheons and decals to its core printed circuit board line. Parketronics, our contract electronic manufacturing business, continued to serve its customers well, but devoted surplus capacity to the needs of Codan and Minelab given the boom demands.

We announced the expected sale of our Melbourne based subsidiary Codan Broadcast to Ross Video of Canada, a leading global supplier of innovative products to the TV broadcast industry. Ross will give Codan Broadcast, under the Ross brand, much needed global sales, marketing and distribution strength and will be a great owner. The Codan Broadcast range of products was just too limited to form a stand alone broadcast business in this very large competitive industry. Your company will of course retain the Codan name and brand. In the last year of our ownership, Codan Broadcast released a world leading large 3G router to extend its already impressive range of routers for TV broadcast studios. The product was immediately purchased by a major Australian TV network.

As a group of diverse "clever products for global niche markets" businesses, Codan Limited relies on excellence of corporate governance, finance and reporting, IT and business and commercial systems. Under our new CFO and our GM of Business Systems, IT and Analysis, an extremely strong corporate services function has been created.

Highly skilled new staff have joined our group. Our SAP and other IT business systems have been rolled out right across Minelab and are being extended now to Locus. Major improvements have been made on risk management, commercial and reporting processes that were already good for a company our size.

These developments and achievements have given Codan Limited great momentum for future success. They speak of the excellence of our people. Whilst our management team is universally professional and extremely strong, it's the skill, dedication and sheer hard work of hundreds of staff that make your company what it is today. So we thank them most sincerely.

This is my last report before retiring from Codan. It has been an enormous privilege to work with many hundreds of clever and dedicated people, serve customers all over the world, and share the excitement of Codan's growth and diversification. Your company has a great culture, and I leave it in great hands! I believe the best is ahead.

Mike Heard
Chief Executive Officer

MIKE HEARD RETIRES AFTER 19 YEARS OF SERVICE

After 19 years of service as Codan's Managing Director and Chief Executive Officer, Mike Heard retires from Codan at the company's AGM in November 2010.

He joined Codan in September 1991 and presided over the growth of the company from $22 million annual turnover, primarily in high frequency radio products, to today's highly profitable diversified $190 million revenue business.

Codan's growth during this period was achieved from the company's research and development of its technology, products and markets, and from acquisitions. During the nineties the company achieved a leading position for its products in the global satellite communications market. Codan Limited listed on the ASX in 2003. The company acquired Adelaide based Minelab Electronics Pty Ltd in 2008, and Locus Microwave Inc. in State College Pennsylvania in 2009. Throughout its fifty year history Codan's head office and principal design and manufacturing centre has remained in Adelaide. Today the company has over 500 staff, sales offices in six countries and 85% of its revenue from exports to more than 150 countries.

Mike conceived and implemented the "clever products for global niche markets" strategy that has driven Codan's success. Over 19 years he has worked to preserve and enhance the company's unique culture and build at Codan a lasting innovative work community.

DONALD MCGURK – NEW MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

On 18 November 2010, Donald McGurk will take over as Codan's Managing Director and Chief Executive Officer.

Donald joined Codan in December 2000 with executive responsibility for group-wide manufacturing. Under his leadership, Codan developed its own highly efficient and responsive electronics manufacturing capability, and expanded capacity by creating a very successful outsourcing relationship with a manufacturing partner in Malaysia. In addition to his manufacturing role, Donald has held executive responsibility for sales of all Codan communications products, and from 2007 to the present, executive responsibility for business performance of the company's HF radio products. In this current role he led the penetration of HF products into the military, security and peacekeeping markets, which have proven to be important new market segments for Codan.

Donald came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries. He obtained a masters degree in business administration from the University of Adelaide in 2005.

Donald was born in Scotland but settled in Adelaide 20 years ago. He is married to Tracy and has two teenage children.

ABOUT CODAN

BUSINESS OVERVIEW

Codan Limited is a group of businesses that design, manufacture and market diversified ranges of high value added electronics products for global government, business, aid and humanitarian and sophisticated consumer markets. Founded in 1959, the company has grown to become an international leader in its market niches. Exports represent approximately 85% of revenues and the company's products are sold in more than 150 countries.

The Codan group offers products for niche communications applications in high frequency (HF) radio (branded "Codan") and satellite communications (branded "Codan" and "Locus"), and for metal detection (branded "Minelab"). These brands are extremely strong internationally. The group's worldwide customer base includes many government agencies including security and military organisations, multinational companies, the United Nations and major international aid agencies, telecommunications carriers and system integrators as well as artisanal gold miners, archaeologists and sophisticated hobbyists and outdoor leisure enthusiasts. Codan, Minelab and Locus products are renowned for their technological capabilities, quality and reliability and the businesses excel in customer service and support provided throughout the world by a network of dealers, distributors and agents.

The Codan group includes wholly-owned subsidiaries IMP Electronics Solutions and Parketronics, electronics products and services businesses with customer bases in Australia and New Zealand.

BUSINESS STRATEGY

Core Strategy

Codan continues to be a group of "clever products" businesses addressing global markets. The businesses design their own core products and retain strong control over the manufacture of their products, particularly in the area of final assembly and test. Codan defines "clever products" to have the following characteristics:

10. Codan surface mount production.

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

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

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

Disciplined Niche Market Strategy

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

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

"Codan", "Minelab" and "Locus" are recognised brands in many international markets. The Codan brand has been used for more than 30 years domestically and approximately 25 years internationally while the Minelab brand has established a strong national and international reputation over the past 15 years.

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

ABOUT CODAN

Innovation and continual development of leading, quality products

The Codan group's proven ability to maintain technological competitiveness, bring new products to market, and to enhance its current products in order to meet its customers' requirements is fundamental to its success. Accordingly, the group is committed to research, design and product development and maintains a substantial team of research, engineering and technical staff in Adelaide, Brisbane and State College Pennsylvania for this purpose.

MANAGEMENT AND STAFF

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

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

The Codan group now employs over 500 staff worldwide. The provision of safe, secure, challenging and rewarding employment for all staff is one of the group's key objectives.

Codan Limited's people-focused objectives are:

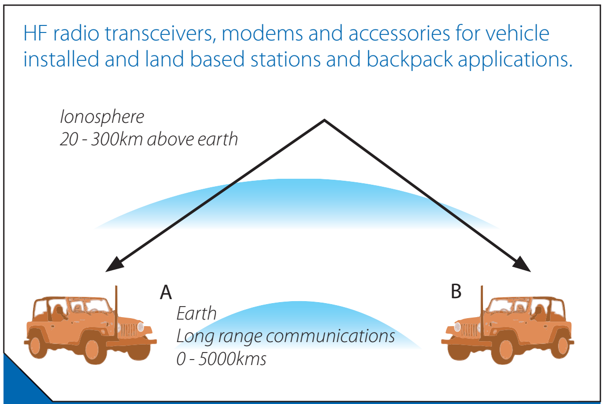
- to ensure all staff know what is expected of them and how they contribute to the achievement of the group's strategic and operational goals; and
- to be passionate in the constant development of the group's people and their talents.

PRODUCT GROUPS AND MARKETS

HF Radio Communications

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

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



11. HF Communications.

12. Codan HF military manpack radio.

Codan supplies radio transceivers, modems and accessories for vehicle installed and land based stations and backpack applications. Codan HF radios are known for their very high reliability, excellence of performance and ease of operation. "Codan" has become the icon for reliable HF radio in many markets around the world.

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

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

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

Government users include emergency services, embassies and departments of post and telecommunications, health, forestry, agriculture, fisheries and roads.

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

Satellite Communications

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

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

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

The Australian designed and Codan branded products are in the C-Band and Ku-Band operating frequency bands.

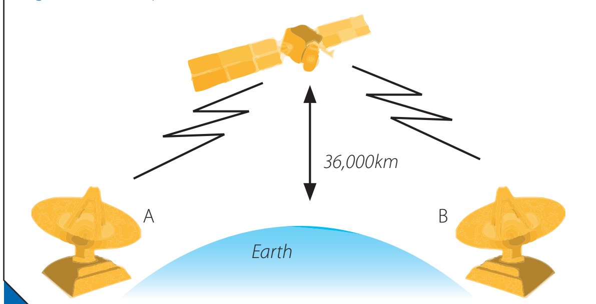
Typical users of Codan C-Band and Ku-Band satellite products have traditionally included GSM network providers offering mobile telephone services to remote areas, resource companies needing to communicate with their offshore exploration and drilling platforms, shipping companies providing broadband data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

The acquisition in May 2009 of Pennsylvania USA based Locus Microwave Inc. added equivalent satellite communications products in X-Band, a frequency reserved for government and military applications.

These users will access communications via numerous dedicated government X-Band satellite communications networks including the Wideband Global Satellite Communications (WGS) satellites. The WGS satellites are used by government customers in the United States and Australia.

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

C, X and Ku-Band Transceivers, Block up Converters and Solid State High Power Amplifiers for satellite communications earth stations.



13. Satellite Communications.

14. The new Locus X-Band radio.

ABOUT CODAN

Metal Detectors

Minelab's Metal Detector business is the design, manufacture and global marketing of primarily hand-held metal detectors for three broad markets, Consumer, Countermine and Artisanal Gold Mining. Minelab offers these markets a wide range of market leading, technologically advanced detectors.

In the Consumer market metal detectors are sold to sophisticated customers through specialty distribution outlets worldwide, and particularly in the developed world. All detection activities are well catered for, including searching for gold nuggets and for coins, treasure and relics, underwater detecting and security scanning. The business successfully supplies hobbyists and outdoor enthusiasts as well as archaeologists and other professionals in many countries.

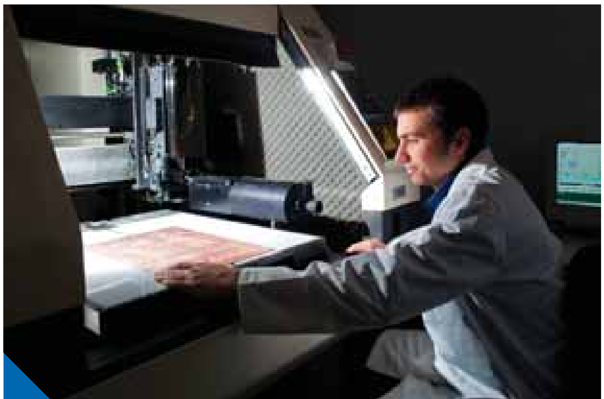
In the Countermine market products and services are provided to humanitarian organisations and military bodies for the clearance of mines and unexploded ordnance from war-affected regions. These include hand-held metal detectors, vehicle mounted array metal detector systems and training and maintenance services. Eliminating the landmine threat is a key focus of many international authorities, including the United Nations and many military bodies around the world.

15. Metal Detection – Minelab F3 Compact.

In many countries worldwide local communities engage in, for commercial and subsistence purposes, the search for gold nuggets and grains ("placer gold") found just below the ground surface. This activity is called "artisanal gold mining". Traditional search methods of washing and blowing tons of earth are highly labour intensive, inefficient and at times damaging to the environment. Minelab's world leading gold detection technology transforms this industry. The introduction of Minelab products to these markets requires the understanding and management of significant cultural, commercial, logistics and regulatory challenges. Nevertheless, the artisanal gold mining market is a major international market that Minelab, because of its world best technology and global reach, is uniquely positioned to address.

Printed Circuit Boards, Electronics Components and Electronics Manufacturing Services

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



16. Printed circuit board manufacturing.

Parketronics specialises in the contract manufacturing and testing for Australian electronics businesses of specialist electronic components and finished products for a broad range of applications. In addition to Minelab and Codan, customers include businesses producing computer hardware, security systems and point of sale equipment. Services include through hole and surface mount PCB loading, prototyping, lead free and RoHS compliant manufacture, sub-assembly and turn key manufacture, and in circuit, functional and final testing.

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

OPERATIONS

The Codan group has its Head Office in Newton, Adelaide and operates state-of-the art product design and manufacturing facilities in Adelaide and Pennsylvania, USA, and a design centre in Brisbane.

Manufacturing operations for Codan's products consist of assembly, test and tune, and quality assurance. The group's products have a significant engineering content and require skilled technical labour for assembly and testing. For all Codan group products, prototyping, manufacturing trial run, and early life production manufacturing are conducted in a company-owned and operated facility.

To ensure the company remains cost competitive in international markets, Codan has a relationship with one of the world's leading sub-contract electronics manufacturers, Plexus, in Malaysia. Selected higher volume product modules and finished products, once fully proven by the company in volume production, are transferred to Plexus complete with documented processes and quality assurance procedures, for ongoing manufacture. The partnership with Plexus ensures that Codan's well proven manufacturing processes and exceptional performance, quality and delivery standards are replicated and safeguarded.

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

17. Environmental testing in manufacturing.

18. Artisanal gold mining.

CODAN FINANCIAL REPORT
FOR YEAR ENDED 30 JUNE 2010

DIRECTORS' REPORT

CODAN LIMITED AND ITS CONTROLLED ENTITIES

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

The directors present their report together with the financial report of Codan Limited ("the company") and of the group, being the company and its controlled entities, for the year ended 30 June 2010 and the auditor's report thereon.

DIRECTORS

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

Dr David Klingner B.Sc(Hons), PhD, FAusIMM
Chairman, Independent Non-Executive Director
Age 66

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 Michael Heard BE (Hons), MBA, FIE Aust, CPEng
Managing Director and Chief Executive Officer
Age 62

Mr Heard was appointed to the board as Managing Director in 1991. He was formerly General Manager and a director of Ribloc Group Ltd (civil engineering technology industry) and Chief Executive of Cheviot Manufacturing Pty Ltd (automotive components industry). Before that, Mr Heard held various engineering, marketing and management positions with CIG Ltd (now BOC Ltd) in Brisbane, the United Kingdom, Sydney and Adelaide. 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. In April 2010, Mr Heard announced his intention to retire from the company and the board at the company's annual general meeting in November 2010.

Mr Brian Burns, AM FCPA, FCIS, FAICD
Non-Executive Director
Age 71

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

Mr Peter Griffiths B.Ec (Hons), CPA, FAICD
Independent Non-Executive Director
Age 68

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

Mr David Klingberg, AO FTSE, BTech(Civil), DUniSA, FIEAust, FAusIMM, FAICD
Independent Non-Executive Director
Age 66

Mr Klingberg was appointed to the board in July 2005. He is an engineer with extensive national and international experience, having been with Kinhill Limited for 34 years and Managing Director from 1986 to 1998. Mr Klingberg was Chancellor of the University of South Australia for 10 years, retiring in 2008. He has a number of private sector and government appointments, including Chairman of Centrex Metals Limited and Barossa Infrastructure Limited and directorships of Snowy Hydro Limited and E & A Limited. He is Chairman of the South Australian Premier's Climate Change Council and recently retired as Chairman of the Leaders Institute of South Australia. He is a patron of the Cancer Council of South Australia.

Lt-Gen Peter Leahy, AC BA (Military Studies), MMAS, GAICD
Independent Non-Executive Director
Age 57

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 David Simmons BA (Acc)
Independent Non-Executive Director
Age 56

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 and Thomsons Lawyers. He is a former chairman of the SA Government Economic Development Board and of Korvest Ltd.

Mr Donald McGurk HNC (Mech Eng), MBA
Executive Director
Age 48

Mr McGurk was appointed to the board in May 2010 and will succeed Mr Heard as the company's Managing Director and Chief Executive Officer when Mr Heard retires in November 2010. Mr McGurk joined the company in December 2000 and had executive responsibility for group-wide manufacturing until December 2009. 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 the present, 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.

DIRECTORS' REPORT

COMPANY SECRETARIES

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

Mr Moody was appointed to the position of company secretary in October 2007 and resigned from the company in September 2009. Mr Moody had the responsibility for the financial control, reporting and information technology across the Codan group. Prior to joining Codan, he was the Chief Financial Officer with Elders Australia Limited and Corporate Financial Controller and Group General Manager Finance and Administration with Adelaide Brighton Limited.

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:

	Board Meetings		Board Audit, Risk and Compliance Committee Meetings		Remuneration Committee Meetings	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Dr G D Klingner	11	11			1	1
Mr M K Heard	11	11				
Mr B P Burns	10	11	5	6		
Mr P R Griffiths	10	11	6	6		
Mr D J Klingberg	11	11	5	6		
Lt-Gen P F Leahy	10	11			1	1
Mr D S McGurk	2	2				
Mr D J Simmons	11	11			1	1

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

CORPORATE GOVERNANCE STATEMENT

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

Board of directors

Role of the board

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

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

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

Board processes

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

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

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

Director and executive education

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

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

Independent professional advice and access to company information

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

Composition of the board

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

- a broad range of expertise both nationally and internationally;
- a majority of non-executive directors;
- directors having extensive knowledge of the 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.

CORPORATE GOVERNANCE STATEMENT
(CONTINUED)

Remuneration report – audited

Remuneration Committee

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

The members of the Remuneration Committee during the year were:

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

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

Remuneration policies

Key management personnel comprises the directors and executives of the group, 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 obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

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 executive's salary package.

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

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

The board considered that for the year ended 30 June 2010 the above performance-linked remuneration structure was appropriate.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2003 AGM, is not to exceed $750,000 per annum. Non-executive directors do not receive any performance related remuneration nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees.

Performance rights

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

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:

	No. of performance rights granted during year	Grant date	Fair value per right at grant date (cents)	Exercise price per right (cents)	Expiry date	Number of rights vested during year
DIRECTORS						
Mr M K Heard	289,855	30 October 2009	68.9	–	30 June 2013	–
Mr D S McGurk	132,850	23 October 2009	66.7	–	30 June 2013	–
EXECUTIVES						
Mr P D Charlesworth	132,850	23 October 2009	66.7	–	30 June 2013	–
Mr G K Shmith	108,696	23 October 2009	66.7	–	30 June 2013	–

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 2009 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				
Directors	Number	Date	% vested in year	% forfeited in year	Financial years in which shares will be issued if vesting achieved
DIRECTORS					
Mr M K Heard	320,000	11 November 2008	0%	0%	2012
	289,855	30 October 2009	0%	0%	2013
Mr D S McGurk	146,667	11 November 2008	0%	0%	2012
	132,850	23 October 2009	0%	0%	2013
EXECUTIVES					
Mr P D Charlesworth	146,667	11 November 2008	0%	0%	2012
	132,850	23 October 2009	0%	0%	2013
Mr R J B Moody	160,000	11 November 2008	0%	100%	n/a
Mr G K Shmith	120,000	11 November 2008	0%	0%	2012
	108,696	23 October 2009	0%	0%	2013

DIRECTORS' REPORT

CODAN LIMITED AND ITS CONTROLLED ENTITIES

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 $	Performance rights $	Post-employment super contributions $	Total $	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration %
NON-EXECUTIVE							
Dr G D Klingner	**2010**	**150,000**	**–**	**–**	**13,500**	**163,500**	**–**
	2009	150,000	–	–	13,500	163,500	–
Mr B P Burns	**2010**	**81,750**	**–**	**–**	**–**	**81,750**	**–**
	2009	78,375	–	–	3,375	81,750	–
Mr P R Griffiths	**2010**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2009	75,000	–	–	6,750	81,750	–
Mr D J Klingberg	**2010**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2009	75,000	–	–	6,750	81,750	–
Lt-Gen P F Leahy	**2010**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2009	58,716	–	–	5,284	64,000	–
Mr D J Simmons	**2010**	**75,000**	**–**	**–**	**6,750**	**81,750**	**–**
	2009	75,000	–	–	6,750	81,750	–
Mr I B Wall	2009	81,750	–	–	–	81,750	–
Total Non-Executives' Remuneration	**2010**	**531,750**	**–**	**–**	**40,500**	**572,250**	**–**
	2009	593,841	–	–	42,409	636,250	–
EXECUTIVE							
Mr M K Heard	**2010**	**645,233**	**370,500**	**297,291**	**14,461**	**1,327,485**	**22.4%**
	2009	562,940	249,600	47,413	13,745	873,698	5.4%
Mr D S McGurk	**2010**	**308,157**	**96,300**	**98,866**	**13,791**	**517,114**	**19.1%**
	2009	262,610	140,250	21,731	19,451	444,042	4.9%
Total Directors' Remuneration	**2010**	**1,485,140**	**466,800**	**396,157**	**68,752**	**2,416,849**	**–**
	2009	1,419,391	389,850	69,144	75,605	1,953,990	–

Mr Wall retired as a director on 30 June 2009 and Mr McGurk was appointed as a director on 19 May 2010.

Executive officers		Salary & fees $	Short term bonuses $	Performance rights $	Post-employment super contributions $	Total $	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration %
Mr M Barton (Chief Financial Officer and Company Secretary)	**2010**	**179,321**	**66,650**	**–**	**13,688**	**259,659**	**–**
Mr P D Charlesworth (General Manager – Minelab)	**2010**	**293,822**	**180,000**	**98,866**	**15,748**	**588,436**	**16.8%**
	2009	257,054	66,000	21,731	22,181	366,966	5.9%
Mr R J B Moody (Chief Financial Officer and Company Secretary)	**2010**	**86,891**	**–**	**–**	**8,227**	**95,118**	**–**
	2009	275,497	115,500	–	24,680	415,677	–
Mr G K Shmith (General Manager – Satcom)	**2010**	**235,435**	**62,500**	**80,890**	**20,036**	**398,861**	**20.3%**
	2009	210,861	52,425	17,780	18,488	299,554	5.9%
Total Executive officers' remuneration	**2010**	**795,469**	**309,150**	**179,756**	**57,699**	**1,342,074**	**–**
	2009	743,412	233,925	39,511	65,349	1,082,197	–

On 22 September 2009, Mr R Moody resigned from Codan Limited and Mr M Barton replaced him as Chief Financial Officer and Company Secretary.

Short term incentive bonuses which vested during the year are as follows: Mr M Heard 95% (5% forfeited), Mr D McGurk 53.5% (46.5% forfeited), Mr M Barton 100%, Mr P Charlesworth 100% and Mr G Shmith 41.7% (58.3% 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:

	2010	2009	2008	2007	2006
Net profit after tax	**14,394,218**	12,006,000	1,009,000	11,239,000	8,487,870
Dividends paid	**11,490,222**	10,532,955	10,532,955	10,532,955	9,722,728
Change in share price at 30 June	**$0.82**	$0.04	($0.34)	$0.02	($0.48)

The net profit after tax of $14.4 million was determined after deducting impairment write downs of $14.9 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 Griffiths (Chairman) – Independent Non-Executive Director
- Mr B P Burns – Non-Executive Director
- Mr D J Klingberg – Independent Non-Executive Director

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.

CORPORATE GOVERNANCE STATEMENT
(CONTINUED)

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

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing management processes supporting external reporting;
- assessing corporate risk assessment processes;
- assessing the need for an internal audit function;
- establishing procedures for selecting, appointing and, if necessary, removing the external auditor;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual independence declaration in relation to the audit;
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act;
- reviewing the nomination and performance of the external auditor;
- 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, to organise, review and report on any special reviews or investigations deemed necessary by the board.

Risk management

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

Oversight of the risk management system

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

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

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

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

- financial reporting accuracy and compliance with the financial reporting regulatory framework; and
- environmental regulation compliance.

Quality and integrity of personnel

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

Financial reporting

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

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

Environmental regulation

The group's operations are not subject to significant environmental regulation under either Commonwealth or State legislation. However the board believes that the group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the group.

Internal audit

The Board Audit, Risk and Compliance Committee is responsible for determining the need for an internal audit function for the group. While the Committee has not implemented a formal internal audit function, it does initiate internal control projects by reference to the company's risk register.

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;

DIRECTORS' REPORT

CODAN LIMITED AND ITS CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Trading in general company securities by directors and employees

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

- identification of those restricted from trading – directors, executives and senior managers may acquire shares in the company, but are prohibited from dealing in company shares:
  - except between twenty four hours and four weeks after the release of the half-year and annual results, the holding of the Annual General Meeting and following the release of an announcement that gives informative guidance on the company's upcoming results; or
  - whilst in possession of price sensitive information not yet released to the market;
- raising the awareness of legal prohibitions in respect of insider trading;
- prohibiting short-term or speculative trading in the company's shares; and
- identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

Communication with shareholders

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

In summary, the Continuous Disclosure policy operates as follows:

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

All of the above information, including that of the previous years, is made available on the 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

The board of Codan has announced a record performance in the year ended 30 June 2010. Underlying net profit after tax was $31.1 million from $189.3 million of revenue. This compares to a $12.8 million underlying NPAT from $132.4 million of revenue in the previous year, a 142% profit increase.

The audited net profit after tax is $14.4 million compared to $12.0 million in the previous year.

Cash flow during the year was very strong and net debt was reduced from $59 million to $30 million over the period.

The company announced a final dividend of 4.5 cents per share, bringing the full year dividend to 8.0 cents compared to 6.5 cents for FY09, an increase of 23%.

The difference between the audited and the underlying net profit after tax arises from $1.8 million of expenses post-tax associated with the integration and restructuring of recently acquired Minelab Electronics Pty Ltd and US-based Locus Microwave Inc, and a $14.9 million non-cash impairment charge against goodwill associated with the company's satellite communications product group (as previously announced to the market).

The non-cash impairment charge relates to goodwill associated with the acquisition, in 1997, of Mitec Limited in Queensland. Since this acquisition the global satellite communications market, and Codan's approach to the market, has changed considerably. In addition the global financial crisis significantly impacted the market.

The company very substantially increased manufacturing capacity during the year to meet a boom in demand for Minelab metal detectors. Output of detectors was 75% greater than in FY09. While building additional capacity the manufacturing group was stretched to the limit. Indeed more metal detectors and satellite communications products could have been sold had we had capacity earlier. The business is now very well positioned to address such booms in the future.

Codan Summary Financial Performance

	Year ended 30 June			
Full year results	FY10 $m	FY10 %	FY09 $m	FY09 %
REVENUE				
Communication Products	**$70.1**	**37.0%**	$77.3	58.4%
Metal Detection	**$106.6**	**56.3%**	$41.7	31.5%
Other	**$12.6**	**6.7%**	$13.4	10.1%
Total Revenue	**$189.3**	**100.0%**	$132.4	100.0%
UNDERLYING BUSINESS PERFORMANCE				
EBITDA	**$56.1**	**29.6%**	$29.4	22.2%
EBIT	**$45.8**	**24.2%**	$21.5	16.2%
Interest	**($3.1)**		($4.6)	
Underlying net profit before tax	**$42.7**	**22.6%**	$16.9	12.8%
Underlying net profit after tax	**$31.1**	**16.4%**	$12.8	9.7%
Net non-recurring expense after tax*	**$1.8**		$0.8	
Impairment of goodwill	**$14.9**		–	
Net profit after tax	**$14.4**		$12.0	
Underlying earnings per share, fully diluted	**18.8 cents**		7.9 cents	
Dividend per share	**8.0 cents**		6.5 cents	

* Integration and restructuring expenses following the acquisition of Minelab and Locus Microwave.

Metal Detection

The company's record performance was driven by the exceptional performance of Minelab Electronics Pty Ltd, contributing 56% of total group revenue. The business was strong in the consumer and mine clearance markets. Minelab benefited in particular from a boom in demand for its detectors in the artisanal gold mining market.

Communications Products

The company continued to improve its position in the newly targeted global security and protection, peacekeeping and military market segments and the pipeline of sales opportunities grew strongly during the year. Sales of HF radio products were buoyant in the first half but below expectations in the second half. Given the strong pipeline, much stronger sales are expected in FY11.

DIRECTORS' REPORT

CODAN LIMITED AND ITS CONTROLLED ENTITIES

OPERATING AND FINANCIAL REVIEW
(CONTINUED)

Satellite communications products experienced difficult business conditions all year as a continuation of the effects of budgetary cutbacks from Codan's customers due to the Global Financial Crisis. In addition the technology-driven shift in demand to Codan's new, lower-priced product family resulted in increased unit sales but at significantly reduced unit price. The demands on the Adelaide factory also limited production capacity. In the fourth quarter the recovering global market, and the release of some important new products, saw order intake levels improve significantly.

Integration and Restructuring

The integration and restructuring expenses arose from two acquisitions, Minelab in Adelaide (acquired in March 2008) and Locus Microwave in the US (acquired in May 2009).

For Minelab the activities related to the closure of Minelab's manufacturing facility in Ireland and transfer of production to Codan's outsourcing partner in Malaysia, and the rollout of the company's SAP enterprise resource planning system to all Minelab sites and activities. The latter activity was completed by the end of the financial year. The outsourcing activity will be completed by December 2010 with all Minelab manufacturing occurring in Adelaide and Malaysia. Restructuring and integration of Minelab will then be complete.

Integration work began during the year with Locus Microwave. Codan's sales office in Washington DC was closed and the satellite communications activities of that office are being transferred to the Locus site in Pennsylvania. Work is underway to convert Locus to the company's IT and SAP systems.

These activities have already significantly reduced costs and expanded production capacity.

Management

The company announced in April that Mike Heard, Codan Limited's Managing Director for more than 19 years, intended to retire at the company's AGM in November 2010. It was also announced that he would be replaced by Donald McGurk, General Manager – HF Radio and an executive of the company for nearly ten years. Mr McGurk has now appointed, from outside the company, his own replacement and Mr Heard and Mr McGurk are progressing very effectively with the transition of responsibilities.

Outlook

Minelab Metal Detectors

The business is expected to continue strong trend line growth with excellent prospects in its three market segments of consumer, mine clearance and artisanal gold mining. Sales for artisanal gold mining will be achieved in a greater number of countries where Minelab is marketing its technology to make such mining much more efficient. However, the exceptional peak in artisanal sales achieved from the FY10 boom is unlikely to be reached in FY11. Thus, while overall Minelab sales are expected to decline in FY11, revenues are expected to be well above those achieved in FY09.

Codan Communication Products

Because of the strong sales opportunity pipeline built in FY10, the company expects to further penetrate the global security and protection, peacekeeping and military market segments and grow HF radio sales in FY11. For satellite communications, indications are positive for stronger overall market demand, and for success in sales of Locus Microwave branded products, principally at X-Band, for US government applications and new Codan branded products for commercial applications. Thus good growth is expected after two very difficult years.

Overall

A very good result is expected in FY11. It is unlikely that the company will achieve the exceptional level of performance that has been the case in FY10, however annual sales in the region of $160 million and underlying NPAT in the region of $20 million are expected for FY11. This result would deliver in excess of 20% compound growth per annum in underlying profit after tax since FY08.

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 2010				
Final 2009 ordinary	3.5	5,745	100%	1 October 2009
Interim 2010 ordinary	3.5	5,745	100%	1 April 2010
DECLARED AFTER THE END OF THE YEAR				
Final 2010 ordinary	4.5	7,387	100%	1 October 2010

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

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date Codan Limited has entered into an arrangement to sell the shares of Codan Broadcast Products Pty Limited. The transaction is still subject to due diligence, with settlement scheduled for completion on 31 August 2010.

Other than noted above, 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
Mr B P Burns	11,671,424
Mr P R Griffiths	138,065
Mr M K Heard	4,407,587
Mr D J Klingberg	66,765
Dr G D Klingner	417,840
Lt-Gen P F Leahy	44,065
Mr D S McGurk	1,000
Mr D J Simmons	–

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.

DIRECTORS' REPORT

CODAN LIMITED AND ITS CONTROLLED ENTITIES

INDEMNIFICATION AND INSURANCE OF OFFICERS (CONTINUED)

Insurance premiums

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

NON-AUDIT SERVICES

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

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

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

Refer page 31 for a copy of the auditor's independence declaration as required under Section 307C of the Corporations Act.

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

	Consolidated	
	2010 $	2009 $
STATUTORY AUDIT		
Audit and review of financial reports (KPMG Australia)	**194,830**	175,000
Audit of financial reports (overseas KPMG firms)	**64,097**	71,746
	258,927	246,746
SERVICES OTHER THAN STATUTORY AUDIT		
Other assurance services		
Due diligence and corporate finance services	**57,727**	42,055
Accounting advice	**3,453**	8,500
Other services		
Taxation compliance services (KPMG Australia)	**98,223**	117,076
Taxation compliance services (overseas KPMG firms)	**213,973**	156,674
	373,376	324,305

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 D Klingner
Director

M K Heard
Director

Dated at Newton this 11th day of August 2010.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

ABCD

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 2010 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

Neil T Faulkner
Partner

Adelaide

11 August 2010

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $000	2009 $000
Revenue	4	**189,321**	132,364
Cost of sales		**(91,254)**	(70,158)
Gross profit		**98,067**	62,206
Other income	5	**864**	1,651
Administrative expenses		**(14,855)**	(10,955)
Sales and marketing expenses		**(31,140)**	(23,659)
Engineering expenses		**(8,739)**	(7,372)
Net financing costs	6	**(3,644)**	(6,219)
Impairment of goodwill	3	**(14,900)**	–
Other expenses		**(318)**	–
Profit before tax		**25,335**	15,652
Income tax expense	8	**(10,941)**	(3,646)
Profit for the period		**14,394**	12,006
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	32	**8.8 cents**	7.4 cents
Diluted earnings per share	32	**8.7 cents**	7.4 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 37 to 71.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated	
	Note	**2010 $000**	2009 $000
Profit for the period		**14,394**	12,006
Other comprehensive income			
Changes in fair value of cash flow hedges, net of income tax	23	**(1,098)**	(356)
Exchange differences on translation of foreign operations, net of income tax	23	**(1,211)**	(353)
Other comprehensive income for the period, net of income tax		**(2,309)**	(709)
Total comprehensive income for the period		**12,085**	11,297

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 37 to 71.

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2010

	Note	Consolidated 2010 $000	2009 $000
CURRENT ASSETS			
Cash and cash equivalents	9	**21,745**	13,895
Trade and other receivables	10	**12,474**	16,094
Inventory	11	**25,114**	14,230
Current tax assets	8	**55**	577
Other assets	12	**1,813**	2,097
Total current assets		**61,201**	46,893
NON-CURRENT ASSETS			
Investments	14	**50**	50
Property, plant and equipment	15	**21,134**	23,222
Product development	16	**18,956**	15,205
Intangible assets	17	**61,897**	77,168
Deferred tax assets	8	**–**	26
Total non-current assets		**102,037**	115,671
Total assets		**163,238**	162,564
CURRENT LIABILITIES			
Trade and other payables	18	**27,389**	17,479
Other liabilities	19	**1,065**	–
Loans and borrowings	20	**–**	10
Current tax payable	8	**7,503**	163
Provisions	21	**5,133**	3,914
Total current liabilities		**41,090**	21,566
NON-CURRENT LIABILITIES			
Loans and borrowings	20	**52,098**	72,997
Deferred tax liabilities	8	**1,553**	1,031
Provisions	21	**3,451**	2,998
Total non-current liabilities		**57,102**	77,026
Total liabilities		**98,192**	98,592
Net assets		**65,046**	63,972
EQUITY			
Share capital	22	**25,328**	24,849
Reserves	23	**(1,574)**	735
Retained earnings	24	**41,292**	38,388
Total equity		**65,046**	63,972

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 37 to 71.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated				
2010	**Share Capital $000**	**Translation Reserve $000**	**Hedging Reserve $000**	**Retained Earnings $000**	**Total $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)**
Transfer from reserves	**–**	**–**	**–**	**–**	**–**
Profit for the period	**–**	**–**	**–**	**14,394**	**14,394**
Dividends recognised during the period	**–**	**–**	**–**	**(11,490)**	**(11,490)**
Performance rights issue	**479**	**–**	**–**	**–**	**479**
Balance at 30 June 2010	**25,328**	**(1,319)**	**(255)**	**41,292**	**65,046**

	Consolidated				
2009	Share Capital $000	Translation Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total $000
Balance as at 1 July 2008	23,685	245	1,199	36,915	62,044
Change in fair value of cash flow hedges	–	–	(356)	–	(356)
Exchange differences on translation of foreign operations	–	(353)	–	–	(353)
Transfer from reserves	–	–	–	–	–
Profit for the period	–	–	–	12,006	12,006
Dividends recognised during the period	–	–	–	(10,533)	(10,533)
Issue of ordinary shares	1,164	–	–	–	1,164
Balance at 30 June 2009	24,849	(108)	843	38,388	63,972

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 37 to 71.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $000	Consolidated 2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**197,285**	139,706
Cash payments to suppliers and employees		**(139,933)**	(106,025)
Interest received		**372**	350
Interest paid		**(3,521)**	(4,955)
Income taxes paid		**(2,310)**	(3,599)
Net cash from operating activities	28(II)	**51,893**	25,477
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries		**–**	(5,989)
Proceeds from sale of property, plant and equipment		**345**	1,605
Dividends received		**49**	46
Payments for capitalised product development		**(7,798)**	(6,563)
Payments for intellectual property		**(1,040)**	(553)
Acquisition of property, plant and equipment		**(2,112)**	(1,808)
Acquisition of intangibles (computer software)		**(878)**	(349)
Net cash used in investing activities		**(11,434)**	(13,610)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**–**	5,979
Repayments of borrowings		**(21,010)**	(10)
Proceeds from issue of shares		**–**	1,164
Dividends paid		**(11,490)**	(10,533)
Net cash from/(used in) financing activities		**(32,500)**	(3,400)
Net increase/(decrease) in cash held		**7,959**	8,467
Cash and cash equivalents at the beginning of the financial year		**13,895**	5,417
Effects of exchange rate fluctuations on cash held		**(109)**	11
Cash and cash equivalents at the end of the financial year	28(I)	**21,745**	13,895

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 37 to 71.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

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 2010 comprises the company and its subsidiaries (together referred to as the "group" and individually as "group entities"). The financial report was authorised for issue by the directors on 11 August 2010.

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. The following standards, amendments and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010 but have not been applied in preparing this financial report:

AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ending 30 June 2012 or earlier. The group has not yet determined the potential effect of the standard.

AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes.

The amendments, which become mandatory for the group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

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.

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

Starting as of 1 July 2009, the group has changed its accounting policies in the following areas:

- Accounting for business combinations
- Determination and presentation of operating segments
- Presentation of financial statements

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF CONSOLIDATION

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

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

Associates

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

Unrealised gains resulting from transactions with associates, including those related to contributions of non-monetary assets on establishment, are eliminated to the extent of the group's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless there is evidence of a recoverable amount impairment.

D. REVENUE RECOGNITION

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

Sale of goods

Revenue from the sale of 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.

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 which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the 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 re-translation of a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income and presented within equity, to the extent that the hedge is effective.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at the foreign exchange rates ruling at the reporting date. Equity items are translated at historical rates. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are taken directly to the foreign currency translation reserve (FCTR) until the disposal, or partial disposal, of the foreign operations.

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and on consolidation they are recognised in 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 profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

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 forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in comprehensive income and presented within equity. When the forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax consolidation

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

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

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

I. GOODS AND SERVICES TAX

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

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

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

J. CASH AND CASH EQUIVALENTS

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

K. TRADE AND OTHER RECEIVABLES

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

L. INVENTORY

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 inventory and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventory to its 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

Change in accounting policy

As from 1 July 2009, the group has adopted the revised AASB 3 *Business Combinations* (2008) and the amended AASB 127 *Consolidated and Separate Financial Statements* (2008). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009.

The change in accounting policy had no material impact, as the group has not made any acquisitions during the year.

All business combinations are accounted for by applying the acquisition method.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

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 AIFRS, being 1 July 2004, is recognised on the basis of deemed cost, which represents the amount recorded under previous GAAP.

Other intangible assets

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

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in 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 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 assets to a working condition for their 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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 reporting date, calculated at undiscounted amounts based on remuneration rates that the group expects to pay as at the reporting date, including related on-costs such as workers' compensation insurance and payroll tax.

Long service leave

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

Defined contribution superannuation funds

The group contributes to defined contribution superannuation plans. Contributions are expensed in the Income Statement as incurred.

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.

V. PRESENTATION OF FINANCIAL STATEMENTS

The group applies AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the group presents in the Consolidated Statement of Changes in Equity all owner changes in equity, whereas all non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. DIVIDENDS

	Consolidated 2010 $000	2009 $000
i. an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2008	–	5,672
ii. an ordinary interim dividend of 3 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2009	–	4,861
iii. an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2009	**5,745**	–
iv. 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**	–
	11,490	10,533

SUBSEQUENT EVENTS

Since the end of the financial year, the directors declared an ordinary final dividend of 4.5 cents per share, franked to 100% with 30% franking credits. The dividend of $7,386,569 will be paid on 1 October 2010. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports.

DIVIDEND FRANKING ACCOUNT

Franking credits available to shareholders for subsequent financial years (30%)	**8,031**	3,346

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 $3,165,672 (2009: $2,462,190).

3. IMPAIRMENT OF GOODWILL

The Satcom products cash generating unit has continued to experience difficult trading conditions, with the global financial crisis significantly impacting this product range. As a result, the carrying amount of the unit was determined to be higher than its recoverable amount and an impairment loss of $14,900,000 was recognised.

4. SEGMENT ACTIVITIES

As of 1 July 2009, the group determines and presents operating segments based on the information that is internally provided to the CEO, who is the group's chief operating decision maker.

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

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

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

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

BUSINESS SEGMENTS

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The group comprises three business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The other business segment includes the manufacture and marketing of printed circuit boards, a specialist electronic component manufacturing business and the manufacture of electronic equipment for the broadcast industry.

	Communications		Metal Detection		Other		Elimination		Consolidated	
Business segments	**2010 $000**	2009 $000	**2010 $000**	2009 $000	**2010 $000**	2009 $000	**2010 $000**	2009 $000	**2010 $000**	2009 $000
REVENUE										
External segment revenue	**70,073**	77,335	**106,604**	41,650	**12,644**	13,379	**–**	–	**189,321**	132,364
Inter segment revenue	**–**	–	**–**	67	**3,617**	5,059	**(3,617)**	(5,126)	**–**	–
Total segment revenue	**70,073**	77,335	**106,604**	41,717	**16,261**	18,438	**(3,617)**	(5,126)	**189,321**	132,364
RESULT										
Segment result before impairment and restructure costs	**12,638**	17,672	**43,568**	13,140	**456**	(176)	**104**	106	**56,766**	30,742
Impairment charge (non-cash)	**(14,900)**	–	**–**	–	**–**	–	**–**	–	**(14,900)**	–
Restructure costs	**(578)**	(153)	**(1,894)**	(1,097)	**(49)**	(323)	**–**	–	**(2,521)**	(1,573)
Segment result	**(2,840)**	17,519	**41,674**	12,043	**407**	(499)	**104**	106	**39,345**	29,169
Unallocated corporate expenses									**(14,010)**	(13,517)
Profit from operating activities									**25,335**	15,652
Income tax expense									**(10,941)**	(3,646)
Net Profit									**14,394**	12,006
NON-CASH ITEMS INCLUDED ABOVE										
Depreciation and amortisation	**4,769**	6,053	**3,509**	1,506	**494**	333	**–**	–	**8,772**	7,892
Unallocated depreciation and amortisation									**1,525**	–
Total Depreciation and amortisation									**10,297**	7,892
ASSETS										
Segment assets	**43,508**	68,880	**79,475**	71,265	**4,941**	5,777	**–**	–	**127,924**	145,922
Investments									**50**	50
Unallocated corporate assets									**35,264**	16,592
Consolidated total assets									**163,238**	162,564

4. SEGMENT ACTIVITIES (CONTINUED)

GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenue has been based on the geographic location of the 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, Germany, India, China and Ireland.

The group derived its revenues from a number of countries. The two significant countries where revenue was 10% or more of total revenue were Australia totalling $32,030,268 (2009: $26,773,559) and the United States of America with total revenue of $43,167,444 (2009: $36,314,448).

The locations of the group's non-current assets excluding financial instruments and deferred tax assets were as follows: Australia $95,671,973 (2009: $108,752,089), the United States of America $5,393,698 (2009: $5,258,845), Ireland $858,768 (2009: $1,486,110) and United Kingdom $112,190 (2009: $147,954).

5. OTHER INCOME

	Consolidated	
	2010 $000	**2009 $000**
Dividend income	**49**	46
Services income	**–**	761
Other items	**815**	465
Rental income	**–**	19
Gain on sale of property, plant and equipment	**–**	360
	864	1,651

6. EXPENSES

	Consolidated 2010 $000	2009 $000
NET FINANCING COSTS:		
Interest income	**(372)**	(350)
Net foreign exchange (gain)/loss	**495**	1,614
Interest expense	**3,521**	4,955
	3,644	6,219
DEPRECIATION OF:		
Buildings	**761**	727
Leasehold property	**135**	34
Plant and equipment	**2,370**	1,810
	3,266	2,571
AMORTISATION OF:		
Product development costs	**4,047**	3,875
Intellectual property	**1,945**	533
Computer software	**1,039**	913
	7,031	5,321
PERSONNEL EXPENSES:		
Wages and salaries	**30,536**	28,107
Other associated personnel expenses	**2,332**	2,755
Contributions to defined contribution superannuation plans	**2,393**	2,906
Increase in liability for long service leave	**644**	323
Increase in liability for annual leave	**1,781**	1,339
	37,686	35,430
Impairment of trade receivables	**23**	(277)
Operating lease rental expense	**1,467**	1,423
Loss on sale of property, plant and equipment	**318**	–
Restructuring costs expensed as incurred	**2,521**	1,573

7. AUDITOR'S REMUNERATION

	Consolidated 2010 $	2009 $
AUDIT SERVICES:		
KPMG Australia – audit and review of financial reports	**194,830**	175,000
Overseas KPMG firms – audit of financial reports & assurance services	**64,097**	71,746
OTHER SERVICES:		
KPMG Australia – taxation services	**98,223**	117,076
KPMG Australia – other assurance services	**3,453**	8,500
Overseas KPMG firms – taxation services	**213,973**	156,674
KPMG related practices – due diligence and corporate finance services	**57,727**	42,055
	632,303	571,051

8. INCOME TAX

	Consolidated 2010 $000	2009 $000
A. INCOME TAX EXPENSE		
Current tax expense:		
Current tax paid or payable for the financial year	**11,239**	2,982
Adjustments for prior years	**(553)**	67
	10,686	3,049
Deferred tax expense:		
Origination and reversal of temporary differences	**50**	597
Income tax recognised directly in equity	**205**	–
Total income tax expense in income statement	**10,941**	3,646
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**7,600**	4,696
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**465**	482
Over-provision for taxation in previous years	**553**	87
Effect of tax rates in foreign jurisdictions	**617**	472
Sundry items	**53**	153
	5,912	3,502
Increase in income tax expense due to:		
Non-deductible expenses	**304**	106
Depreciation	**26**	28
Impairment of goodwill	**4,470**	–
Sundry items	**229**	10
Income tax expense	**10,941**	3,646

	Consolidated 2010 $000	2009 $000
B. CURRENT TAX LIABILITIES/ASSETS		
Balance at the beginning of the year	**414**	(1,202)
Net foreign currency differences on translation of foreign entities	**21**	(2)
Income tax paid/(received)	**2,309**	3,599
Adjustments from prior year	**1,047**	1,001
Current year's income tax paid or payable on operating profit	**(11,239)**	(2,982)
	(7,448)	414
Disclosed in balance sheet as:		
Current tax asset	**55**	577
Income tax payable	**(7,503)**	(163)
	(7,448)	414
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	**5,783**	4,561
Sundry items	**82**	88
Difference in depreciation of property, plant and equipment	**254**	507
Set off of tax in relation to deferred tax assets:		
Provisions for employee benefits not currently deductible	**(1,916)**	(1,504)
Provisions and accruals not currently deductible	**(2,650)**	(2,621)
	1,553	1,031
D. DEFERRED TAX ASSETS		
Future income tax benefit comprises the estimated benefit at the applicable rate of 30% on the following items:		
Sundry items	**–**	26
	–	26

9. CASH AND CASH EQUIVALENTS

	2010 $000	2009 $000
Petty cash	**14**	11
Cash at bank	**10,708**	5,884
Short term deposit	**11,023**	8,000
	21,745	13,895

10. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010 $000	**2009 $000**
CURRENT		
Trade receivables	**12,105**	16,061
Less: Impairment losses recognised	**(584)**	(755)
	11,521	15,306
Other debtors	**953**	788
	12,474	16,094

11. INVENTORY

CURRENT		
Raw materials	**18,712**	10,166
Work in progress	**1,311**	687
Finished goods	**5,091**	3,377
	25,114	14,230

12. OTHER ASSETS

Prepayments	**1,180**	1,322
Deferred foreign currency hedge exchange difference	**–**	683
Other	**633**	92
	1,813	2,097

13. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

Shares in Associates	**–**	–

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

14. INVESTMENTS

Unlisted shares at cost	**50**	50
	50	50

15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2010 $000	2009 $000
Freehold land and buildings at cost	**14,746**	14,905
Accumulated depreciation	**(2,771)**	(2,010)
	11,975	12,895
Leasehold property at cost	**615**	623
Accumulated amortisation	**(464)**	(331)
	151	292
Plant and equipment at cost	**33,012**	34,329
Accumulated depreciation	**(24,099)**	(24,588)
	8,913	9,741
Capital work in progress at cost	**95**	294
Total property, plant and equipment	**21,134**	23,222

RECONCILIATIONS

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

	2010 $000	2009 $000
Freehold land and buildings		
Carrying amount at beginning of year	**12,895**	14,953
Additions	**24**	31
Transfers	**–**	(247)
Disposals	**–**	(1,196)
Depreciation	**(761)**	(727)
Net foreign currency differences on translation of foreign entities	**(183)**	81
Carrying amount at end of year	**11,975**	12,895
Leasehold property improvements		
Carrying amount at beginning of year	**292**	291
Additions	**–**	53
Disposals	**–**	(19)
Depreciation	**(135)**	(34)
Net foreign currency differences on translation of foreign entities	**(6)**	1
Carrying amount at end of year	**151**	292

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated	
	2010 $000	2009 $000
Plant and equipment		
Carrying amount at beginning of year	**9,741**	9,634
Acquisitions through entity acquired	**–**	314
Additions	**2,088**	1,419
Transfers	**64**	172
Transfers to computer software	**(12)**	–
Disposals	**(504)**	(29)
Depreciation	**(2,370)**	(1,810)
Net foreign currency differences on translation of foreign entities	**(94)**	41
Carrying amount at end of year	**8,913**	9,741
Capital work in progress at cost		
Carrying amount at beginning of year	**294**	156
Additions	**–**	305
Transfers	**(198)**	(172)
Net foreign currency differences on translation of foreign entities	**(1)**	5
Carrying amount at end of year	**95**	294
Total carrying amount at end of year	**21,134**	23,222

16. PRODUCT DEVELOPMENT

Product development – at cost	**56,947**	49,149
Accumulated amortisation	**(37,991)**	(33,944)
	18,956	15,205
RECONCILIATION		
Carrying amount at beginning of year	**15,205**	12,518
Capitalised in current period	**7,798**	6,562
Amortisation	**(4,047)**	(3,875)
	18,956	15,205

17. INTANGIBLE ASSETS

	Consolidated 2010 $000	2009 $000
Goodwill	**73,357**	73,504
Impairment	**(14,900)**	–
	58,457	73,504
Intellectual property – at cost	**3,298**	1,396
Accumulated amortisation	**(2,606)**	(659)
	692	737
Computer software – at cost	**10,779**	9,848
Accumulated amortisation	**(8,031)**	(6,921)
	2,748	2,927
Total intangible assets	**61,897**	77,168
RECONCILIATIONS		
Goodwill		
Carrying amount at beginning of year	**73,504**	69,378
Acquisitions	**–**	4,838
Adjustment on prior year's acquisition	**62**	(206)
Effect of movements in exchange rates	**(209)**	(506)
Impairment charge	**(14,900)**	–
	58,457	73,504
Intellectual Property		
Carrying amount at beginning of year	**737**	347
Acquisitions	**1,902**	923
Amortisation	**(1,945)**	(533)
Effect of movements in exchange rates	**(2)**	–
	692	737
Computer Software		
Carrying amount at beginning of year	**2,927**	3,431
Acquisitions through entity acquired	**–**	63
Acquisitions	**878**	349
Transfers from capital work in progress	**146**	–
Amortisation	**(1,039)**	(913)
Disposals	**(159)**	(1)
Net foreign currency differences on translation of foreign entities	**(5)**	(2)
	2,748	2,927

17. INTANGIBLE ASSETS (CONTINUED)

	Consolidated 2010 $000	2009 $000
The following segments have significant carrying amounts of goodwill:		
Satellite communications products	**4,499**	19,546
Minelab products	**53,958**	53,958
	58,457	73,504

GOODWILL

The recoverable amount of the cash generating units is based on value-in-use calculations. Those calculations use cash flow projections based on the oncoming year's budget. Key assumptions for future years relate to sales, gross margin and expense levels. Sales are based on management assessments which allow for future growth. Gross margins and expense levels are largely consistent with past experience. A terminal value has been determined at the conclusion of five years assuming a growth rate of 2.5%. Pre-tax discount rates of 15% to 17.4% (2009: 15.7% to 17.1%) have been used in discounting the projected cash flows. Refer to Note 3 for details of impairments recognised.

INTELLECTUAL PROPERTY

Subsequent to the acquisition of Minelab Electronics Pty Limited by Codan Limited in 2008, Minelab Electronics Pty Limited acquired ownership of the intellectual property that forms the basis for 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 Limited becomes liable to the payments under the contract.

18. TRADE AND OTHER PAYABLES

CURRENT		
Trade payables	**14,555**	7,938
Other payables and accruals	**12,834**	9,541
	27,389	17,479

19. OTHER LIABILITIES

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

20. LOANS AND BORROWINGS

	Consolidated 2010 $000	Consolidated 2009 $000
CURRENT		
Secured loans	–	10
	–	10
NON-CURRENT		
Cash advance	**52,088**	72,987
Unsecured loans	**10**	10
	52,098	72,997

The group has access to the following lines of credit:

	2010 $000	2009 $000
TOTAL FACILITIES AVAILABLE AT BALANCE DATE:		
Multi-option facility	**8,800**	9,920
Documentary letters of credit	**800**	200
Guarantee facility	**2,935**	2,815
Commercial credit card	**335**	335
Cash advance facility	**75,000**	75,000
	87,870	88,270
FACILITIES UTILISED AT BALANCE DATE:		
Multi-option facility	–	–
Documentary letters of credit	**277**	144
Guarantee facility	**880**	549
Commercial credit card	**269**	139
Cash advance facility	**52,088**	72,987
	53,514	73,819
FACILITIES NOT UTILISED AT BALANCE DATE:		
Multi-option facility	**8,800**	9,920
Documentary letters of credit	**523**	56
Guarantee facility	**2,055**	2,266
Commercial credit card	**66**	196
Cash advance facility	**22,912**	2,013
	34,356	14,451

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

20. LOANS AND BORROWINGS (CONTINUED)

BANK FACILITIES

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

	Consolidated	
	2010	**2009**
WEIGHTED AVERAGE INTEREST RATES		
Cash at bank	**2.72%**	3.05%
Short term deposits	**4.14%**	7.08%
Bank overdraft	**–**	8.77%
Cash advance	**4.37%**	5.78%

21. PROVISIONS

	Consolidated	
	2010 $000	**2009 $000**
CURRENT		
Employee benefits	**2,637**	2,363
Warranty repairs	**2,496**	1,551
	5,133	3,914
NON-CURRENT		
Employee benefits	**3,451**	2,998
RECONCILIATION OF WARRANTY PROVISION		
Carrying amount at beginning of year	**1,551**	1,812
Provisions made during the year	**2,293**	885
Payments made during the year	**(1,348)**	(1,146)
	2,496	1,551

22. SHARE CAPITAL

SHARE CAPITAL		
Opening balance	**24,849**	23,685
Performance rights issue	**479**	–
Issue of ordinary shares	**–**	1,164
Closing balance (164,145,980 ordinary shares fully paid)	**25,328**	24,849

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

TERMS AND CONDITIONS

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

23. RESERVES

	Consolidated 2010 $000	2009 $000
Foreign currency translation	**(1,319)**	(108)
Hedging reserve	**(255)**	843
	(1,574)	735

FOREIGN CURRENCY TRANSLATION

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

Balance at beginning of year	**(108)**	245
Net translation adjustment	**(1,211)**	(353)
Balance at end of year	**(1,319)**	(108)

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments (net of tax) related to hedged transactions that have not yet occurred.

Balance at beginning of year	**843**	1,199
Gains/(Losses) on cash flow hedges taken to/from hedging reserve	**(1,098)**	(356)
Balance at end of year	**(255)**	843

24. RETAINED EARNINGS

Retained earnings at beginning of year	**38,388**	36,915
Net profit attributable to members of the parent entity	**14,394**	12,006
Dividends recognised during the year	**(11,490)**	(10,533)
Retained earnings at end of year	**41,292**	38,388

25. COMMITMENTS

I. CAPITAL EXPENDITURE COMMITMENTS

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

Within one year	**655**	20

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	**1,648**	1,413
One year or later and no later than five years	**3,388**	2,771
Later than five years	**265**	485
	5,301	4,669

25. COMMITMENTS (CONTINUED)

II. NON-CANCELLABLE OPERATING LEASE EXPENSE AND OTHER COMMITMENTS (CONTINUED)

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

	Consolidated	
	2010 $000	2009 $000
III. FINANCE LEASE AND HIRE PURCHASE PAYMENT COMMITMENTS		
Within one year	–	10
One year or later and no later than five years	–	–
Later than five years	–	–
	–	10
Less: future finance charges	–	–
	–	10
Lease and hire purchase liabilities provided for in the financial statements:		
Current	–	10
Non-current	–	–
	–	10

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

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

FINANCIAL RISK MANAGEMENT

Overview

The 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 and as at 30 June 2010 there were two customers which accounted for greater than ten percent of the group's total receivables balance.

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.

Impairment losses

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	
	Note	**2010 $000**	**2009 $000**
Unlisted shares	14	**50**	50
Trade and other receivables	10	**12,474**	16,094
Cash and cash equivalents	9	**21,745**	13,895
Forward exchange contracts used for hedging	12	**–**	683

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

Australia/Oceania	**2,397**	3,050
Europe	**2,404**	4,216
Americas	**4,217**	6,715
Asia	**2,792**	1,431
Africa	**295**	649
	12,105	16,061

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

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

	Consolidated			
	Gross 2010 $000	**Impairment 2010 $000**	Gross 2009 $000	Impairment 2009 $000
Not past due	**11,286**	**(349)**	13,933	(203)
Past due 0–30 days	**187**	**–**	1,095	(19)
Past due 31–120 days	**513**	**(127)**	481	(43)
More than 120 days	**119**	**(108)**	552	(490)
	12,105	**(584)**	16,061	(755)

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	
	2010 $000	2009 $000
Balance at 1 July	**755**	940
Impairment loss recognised as an expense	**23**	(277)
Allowance for impairment from acquisition of subsidiary	**–**	133
Trade receivables written off to the allowance for impairment	**(194)**	(104)
Recovery of written off receivables	**–**	63
Balance at 30 June	**584**	755

(b) Liquidity Risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and without incurring unacceptable losses or risking damage to the group's reputation. Refer to Note 20 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

	Consolidated				
	Carrying Amount $000	Contractual Cash Flows $000	12 months or less $000	1–5 years $000	More than 5 years $000
30 JUNE 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**	**(52,088)**	**–**	**(52,088)**	**–**
	79,487	**(79,487)**	**(26,157)**	**(53,330)**	**–**
30 JUNE 2009					
Non-derivative financial liabilities					
Secured loan	10	(10)	(10)	–	–
Trade and other payables	17,479	(17,479)	(16,185)	(1,294)	–
Unsecured loans	10	(10)	–	(10)	–
Cash advance	72,987	(72,987)	–	(72,987)	–
	90,486	(90,486)	(16,195)	(74,291)	–

(c) Market risk

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

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

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

The carrying amount of financial assets and financial liabilities approximates their net fair values.

Interest Rate Risk

The group has reduced its exposure to interest rate risk by entering into an interest rate cap in 2009. The cap is for a principal amount of $60 million, reducing to $50 million over its three year term. The capped interest rate is based on the BBSW rate of 9.5%.

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Profile

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

	Carrying Amount Consolidated	
	2010 $000	2009 $000
FIXED RATE INSTRUMENTS		
Financial assets	**–**	–
Financial liabilities	**–**	(10)
	–	(10)
VARIABLE RATE INSTRUMENTS		
Financial assets	**21,745**	13,895
Financial liabilities	**(52,088)**	(72,987)
	(30,343)	(59,092)

Cash flow sensitivity

If interest rates varied by 100 basis points for the full financial year then based on the balance of variable rate instruments held at reporting date, profit and equity would have been affected as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Consolidated			
	Profit/(loss) before tax		Equity	
	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 JUNE 2010				
Variable rate instruments	**(303)**	**303**	**–**	**–**
30 JUNE 2009				
Variable rate instruments	(591)	591	–	–

Currency Risk

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

The group enters into forward exchange contracts or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally US dollars and Euro). The terms of these commitments were less than twelve months. As at reporting date, the group has cash flow hedges designated to future sales transactions of USD $24,000,000, at an average exchange rate of 87 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.

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

	Consolidated		
	Euro $000	GBP $000	USD $000
30 JUNE 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 reporting date	**2,532**	**35**	**(2,410)**
30 JUNE 2009			
Cash and cash equivalents	448	177	1,910
Trade receivables	467	5	8,843
Trade payables	(574)	(159)	(3,103)
Cash advance	–	–	(5,090)
Gross Balance Sheet exposure	341	23	2,560
Hedge transactions relating to Balance Sheet exposure	–	–	(4,733)
Cash advance designated as a hedge of foreign subsidiary	–	–	3,030
Net exposure at reporting date	341	23	857

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Sensitivity Analysis

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

	Consolidated	
	Equity/ Reserve $000	Profit/(Loss) before tax $000
2010		
EURO	**–**	**(230)**
GBP	**–**	**(3)**
USD	**1,217**	**219**
	1,217	**(14)**
2009		
EURO	–	(31)
GBP	–	(2)
USD	1,317	(78)
	1,317	(111)

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.

27. GROUP ENTITIES

		Interest Held	
Name/Country of incorporation	Class of Share	2010 %	2009 %
PARENT ENTITY			
Codan Limited/Australia	Ordinary		
CONTROLLED ENTITIES			
IMP Printed Circuits Pty Ltd/Australia	Ordinary	**100**	100
Codan (UK) Ltd/England	Ordinary	**100**	100
Codan (Qld) Pty Ltd/Australia	Ordinary	**100**	100
Codan (US) Inc/United States of America	Ordinary	**100**	100
Codan Telecommunications Pty Ltd/Australia	Ordinary	**100**	100
Codan Broadcast Products Pty Ltd/Australia	Ordinary	**100**	100
Minelab Electronics Pty Ltd/Australia	Ordinary	**100**	100
Minelab USA Inc/United States of America	Ordinary	**100**	100
Minelab International Ltd/Ireland	Ordinary	**100**	100
Parketronics Pty Ltd/Australia	Ordinary	**100**	100
Codan Holdings US Inc/United States of America	Ordinary	**100**	100
Locus Microwave, Inc/United States of America	Ordinary	**100**	100

28. NOTES TO THE STATEMENT OF CASH FLOWS

I. RECONCILIATION OF CASH

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits, net of outstanding bank overdrafts.

Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	2010 $000	2009 $000
Petty cash	**14**	11
Cash at bank	**10,708**	5,884
Short term deposits	**11,023**	8,000
	21,745	13,895

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

	2010 $000	2009 $000
PROFIT AFTER INCOME TAX	**14,394**	12,006
Add/(less) items classified as investing or financing activities:		
(Profit)/loss on sale of non-current assets	**318**	(360)
Dividend income	**(49)**	(46)
Performance share issue	**479**	–
Add/(less) non-cash items:		
Depreciation of:		
Buildings	**761**	727
Leasehold property	**135**	34
Plant and equipment	**2,370**	1,810
Amortisation	**7,031**	5,321
Net foreign exchange loss	**101**	–
Impairment of inventory and non-current assets	**14,900**	–
(Decrease)/increase in income taxes	**8,934**	190
Increase/(decrease) on net assets affected by translation	**305**	293
Net cash from operating activities before changes in assets and liabilities	**49,679**	19,975
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**3,785**	2,464
Reduction/(increase) in inventory	**(10,884)**	4,525
Reduction/(increase) in other assets	**(2,472)**	(316)
Increase/(reduction) in payables	**10,113**	(1,219)
Increase/(reduction) in provisions	**1,672**	48
Net cash from operating activities	**51,893**	25,477

29. EMPLOYEE BENEFITS

	Consolidated	
	2010 $000	**2009 $000**
AGGREGATE LIABILITY FOR EMPLOYEE BENEFITS, INCLUDING ON COSTS:		
Current – other creditors and accruals	**3,017**	2,272
Current – employee entitlements	**2,637**	2,363
Non-current – employee entitlements	**3,451**	2,998
	9,105	7,633

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

Assumed rate of increase in wage and salary rates	**4.00%**	4.00%
Discount rate	**4.80%**	4.98%
Settlement term (years)	**20 years**	20 years

CODAN EXECUTIVE SHARE PLAN

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

PERFORMANCE RIGHTS PLAN

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

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 2010 in relation to the performance rights issued was $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.

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 2010 in relation to the performance rights issued was $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.

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

CODAN EMPLOYEE SHARE PLAN

The Codan Employee Share Plan was established to provide employees the opportunity to acquire shares. During the 2009 financial year, 56,455 fully paid ordinary shares were issued to eligible employees at a price of 62 cents per share.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Consolidated	
	2010	2009
	$	$
Short-term employee benefits	**2,524,809**	2,192,737
Post-employment benefits	**85,951**	98,545
Share-based payments	**575,913**	108,655
	3,186,673	2,399,937

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 2009	Purchases	Sales	**Held at 30 June 2010**
DIRECTORS				
Dr G D Klingner	367,840	50,000	–	**417,840**
Mr B P Burns	11,671,424	–	–	**11,671,424**
Mr P R Griffiths	138,065	–	–	**138,065**
Mr M K Heard	4,407,587	–	–	**4,407,587**
Mr D J Klingberg	66,765	–	–	**66,765**
Lt-Gen P F Leahy	44,065	–	–	**44,065**
Mr D S McGurk	1,000	–	–	**1,000**
Mr D J Simmons	–	–	–	**–**
SPECIFIED EXECUTIVES				
Mr M Barton	n/a	–	–	**5,000**
Mr P D Charlesworth	26,130	–	–	**26,130**
Mr R J B Moody	–	–	–	**n/a**
Mr G K Shmith	28,491	–	–	**28,491**

On 22 September 2009, Mr R Moody resigned from Codan Limited and Mr M Barton replaced him as Chief Financial Officer and Company Secretary.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

OTHER TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

There have been no loans to key management personnel during the financial year.

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

31. OTHER RELATED PARTIES

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

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

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

32. EARNINGS PER SHARE

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

	Consolidated	
	2010	2009
Net profit used for the purpose of calculating basic and diluted earnings per share	**14,394**	12,006

The weighted average number of shares used as the denominator number for basic earnings per share was 164,145,980 (2009: 162,085,738).

The calculation of diluted earnings per share at 30 June 2010 was based on profit attributable to shareholders of $14.4 million and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 165,380,580 (2009: 162,651,108).

33. NET TANGIBLE LIABILITY PER SHARE

	Consolidated	
	2010	**2009**
Net tangible liability per share	**8.6 cents**	16.6 cents

34. CAPITAL MANAGEMENT

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

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

During the year, the group repaid $21 million in debt and as a result, the group's gearing level has improved significantly.

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

35. DEED OF CROSS GUARANTEE

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

It is a condition of the Class Order that the company and 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

	2010 $000	**2009 $000**
Profit before tax	**20,859**	11,785
Income tax expense	**(10,499)**	(3,086)
Profit after tax	**10,360**	8,699
Retained earnings at beginning of the year	**34,101**	25,402
Retained earnings at end of the year	**32,971**	34,101

35. DEED OF CROSS GUARANTEE (CONTINUED)

BALANCE SHEET

	2010 $000	2009 $000
CURRENT ASSETS		
Cash and cash equivalents	**18,241**	12,612
Trade and other receivables	**23,719**	26,990
Inventory	**19,017**	9,683
Current tax assets	**–**	577
Other assets	**1,360**	1,744
Total current assets	**62,337**	51,606
NON-CURRENT ASSETS		
Investments	**14,641**	33,164
Property, plant and equipment	**17,974**	19,126
Product development	**18,956**	15,572
Intangible assets	**56,379**	56,116
Deferred tax assets	**3,975**	3,064
Total non-current assets	**111,925**	127,042
Total assets	**174,262**	178,648
CURRENT LIABILITIES		
Trade and other payables	**23,167**	12,801
Other liabilities	**19,511**	22,742
Current tax liabilities	**7,441**	–
Provisions	**4,484**	3,004
Total current liabilities	**54,603**	38,547
NON-CURRENT LIABILITIES		
Loans and borrowings	**52,088**	72,987
Deferred tax liabilities	**6,101**	4,630
Provisions	**3,135**	2,691
Total non-current liabilities	**61,324**	80,308
Total liabilities	**115,927**	118,855
Net assets	**58,335**	59,793
EQUITY		
Share capital	**25,328**	24,849
Reserves	**36**	843
Retained earnings	**32,971**	34,101
Total equity	**58,335**	59,793

36. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2010 the parent company of the group was Codan Limited.

	Company	
	2010 $000	**2009 $000**
RESULT OF PARENT ENTITY		
Profit for the period	**14,742**	3,069
Other comprehensive income	**(850)**	(356)
Total comprehensive income for the period	**13,892**	2,713
FINANCIAL POSITION OF PARENT ENTITY AT YEAR-END		
Current assets	**55,126**	36,604
Total assets	**159,142**	156,341
Current liabilities	**46,419**	28,744
Total liabilities	**105,513**	105,591
TOTAL EQUITY OF THE PARENT ENTITY COMPRISING:		
Share capital	**25,328**	24,849
Reserves	**(6)**	843
Retained earnings	**28,307**	25,058
Total Equity	**53,629**	50,750

37. SUBSEQUENT EVENTS

Subsequent to balance date, Codan Limited has entered into an arrangement to sell the shares of Codan Broadcast Products Pty Limited. The transaction is still subject to due diligence, with settlement scheduled for completion on 31 August 2010.

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 32 to 71, 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 2010 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 35 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and the group entity pursuant to ASIC Class Order 98/1418;

f. the directors have been given the declaration required by section 295A of the Corporations Act 2001 from the chief executive officer and the chief financial officer for the financial year ended 30 June 2010.

Dated at Newton this 11th day of August 2010.

Signed in accordance with a resolution of the directors:

Dr D Klingner
Director

M K Heard
Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CODAN LIMITED

KPMG

Independent auditor's report to the members of Codan Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Codan Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the Balance Sheet as at 30 June 2010, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 37 and the Directors' Declaration.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report comprising the financial statements and notes, complies 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CODAN LIMITED

KPMG

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 20 to 23 of the Directors' Report for the year ended 30 June 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

N T Faulkner
Partner

Adelaide

11 August 2010

ASX ADDITIONAL INFORMATION

CODAN LIMITED AND ITS CONTROLLED ENTITIES

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

SHAREHOLDINGS AS AT 6 SEPTEMBER 2010

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	43,527,443
I B Wall and P M Wall	34,801,008
MacKinnon Investments Pty Ltd	20,867,504
Interests associated with Starform Pty Ltd and Pinara Pty Ltd	19,703,405
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	310
1,001 – 5,000	785
5,001 – 10,000	392
10,000 – 100,000	433
100,000 – over	42
TOTAL	**1,962**

The number of shareholders holding less than a marketable parcel of ordinary shares is 30.

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.

ASX ADDITIONAL INFORMATION

CODAN LIMITED AND ITS CONTROLLED ENTITIES

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	Percentage of capital held
Edal Pty Ltd	43,527,443	26.5%
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	8,105,163	4.9%
M K and M C Heard	4,407,587	2.7%
Mitranikitan Pty Limited	2,647,526	1.6%
Warren Glen Pty Ltd	2,560,211	1.6%
J P Morgan Nominees Australia Limited	2,319,838	1.4%
ANZ Nominees Limited	1,014,874	0.6%
L F Choate	843,339	0.5%
Y A and E J Gobolos	754,754	0.5%
B H Candy	678,081	0.4%
D A G McDonough	496,983	0.3%
Bond Street Custodians Limited	471,364	0.3%
D M Heard and J E Jarvinen	460,000	0.3%
Codan Executive Share Plan Pty Ltd	288,100	0.2%
Equity Trustees Limited	269,947	0.2%
Wal Assets Pty Ltd	258,065	0.2%
Total	**145,280,081**	**89%**

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 Michael Heard (Managing Director and Chief Executive Officer)
Mr Brian Burns
Mr Peter Griffiths
Mr David Klingberg
Mr David Simmons
Lt-Gen Peter Leahy
Mr Donald McGurk

COMPANY SECRETARY

Mr Michael Barton

REGISTERED OFFICE

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AUDITOR

KPMG
151 Pirie Street
Adelaide SA 5000

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