

10 August 2011



**COMPANY ANNOUNCEMENTS PLATFORM**  
**AUSTRALIAN SECURITIES EXCHANGE**

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

**CODAN LIMITED RESULTS**  
**YEAR ENDED 30 JUNE 2011**

PO Box 96  
Campbelltown SA 5074  
Australia

**FY11 Highlights**

- Second highest revenue and underlying profit in the company's history
- Highest reported profit
- Annual dividend increased by 12.5% to 9 cents
- Continued strength of gold detector sales
- Radio Communications poised for significant growth
- Strategic options for satellite products well progressed
- Successfully transitioned to a new Managing Director

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

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

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

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

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

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

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

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

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

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

## **Metal detection**

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

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

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

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

## **Communications products**

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

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

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

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

## **Integration and restructuring**

The key activities undertaken over the year were as follows:

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

## **Outlook**

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

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

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

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

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

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

### **Results presentation and AGM**

Codan Limited's financial year 2011 audited annual financial report is posted on the company's website, [www.codan.com.au](http://www.codan.com.au)

The company will hold its Annual General Meeting in Adelaide at 11am on Wednesday, 19<sup>th</sup> October at the Hilton Adelaide, 233 Victoria Square, Adelaide, South Australia.

On behalf of the Board



Michael Barton  
Company Secretary  
10 August 2011

### **FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-**

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

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

**Codan Limited**

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

**For the year ended 30 June 2011**

ABN

77 007 590 605

Previous corresponding period

30 June 2010

<b>Results for announcement to the market</b>				<b>\$A'000</b>
Revenue from ordinary activities	Down	10.4%	to	169,607
Profit from ordinary activities after tax attributable to members	Up	51.4%	to	21,792
Underlying profit after tax	Down	24.8%	to	23,412
<b>Dividends</b>	Amount per security		Franked amount per security at 30% tax	
Final dividend	5.0 cents		5.0 cents	
Interim dividend	4.0 cents		4.0 cents	
Record date for determining entitlements to dividends:	15 September 2011			
<p><i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i></p> <p>The profit from ordinary activity after tax of \$21.8m includes gains on sale of investments of \$4.8m but is after impairment of goodwill and intangibles totalling \$5.3m and integration and restructuring expenses of \$1.1m.</p> <p>The underlying net profit after tax before gains on sale of investments, impairment, integration and restructuring expenses, was \$23.4m for FY11 compared with \$31.1m in FY10 and \$12.8m in FY09.</p> <p>The 30 June 2011 Financial Report and the Market Announcement dated 10 August 2011 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).</p>				
<p>This report is based on financial statements that have been audited. The audit report is included in the 30 June 2011 Financial Report.</p>				

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

**Financial Report  
30 June 2011**

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# Directors' report

Codan Limited and its Controlled Entities

The directors present their report together with the financial statements of the group comprising Codan Limited ("the company") and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

## DIRECTORS

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

<b>Name and qualifications</b>	<b>Age</b>	<b>Experience and special responsibilities</b>
<b>Dr David Klingner</b> B.Sc(Hons), PhD, FAusIMM Chairman, Independent Non-Executive Director	67	Dr Klingner was appointed by the board as Chairman in May 2007. Dr Klingner has been a director with Codan since December 2004. Dr Klingner, a geologist, was previously employed by Rio Tinto, where he was engaged in a number of senior roles involving business leadership, project development and worldwide exploration activities, and where he gained extensive experience in the establishment and management of overseas operations. He is a former chairman of Coal & Allied Industries Ltd, Bougainville Copper Limited and the World Coal Institute. He was appointed as a director of Energy Resources of Australia Limited in July 2004 and is presently Chairman.
<b>Mr Donald McGurk</b> HNC(Mech Eng), MBA Managing Director and Chief Executive Officer	49	Mr McGurk was appointed to the board as Managing Director in November 2010 and has been a director since May 2010. Mr McGurk joined the company in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. In addition to his manufacturing role, from 2005 to 2007 Mr McGurk held executive responsibility for sales of the company's communications products, and from 2007 to 2010, executive responsibility for the business performance of the company's HF radio products. Mr McGurk came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries.
<b>Mr Peter Griffiths</b> B.Ec (Hons), CPA, FAICD Independent Non-Executive Director	69	Mr Griffiths was appointed to the Codan board in July 2001. He is a former senior executive of Coca-Cola Amatil Limited, with 10 years' experience working in Central and Eastern Europe and South East Asia. He has also held the positions of Company Secretary, Chief Financial Officer and Managing Director of C-C Bottlers Limited and held board positions in Australia, New Zealand and the USA. He is a Certified Practising Accountant and a former President of the South Australian branch of the Financial Executives Institute, as well as State and Federal President of his industry association. Mr Griffiths has also been a director of several not-for-profit organisations.
<b>Mr David Klingberg AO</b> FTSE, BTech(Civil), DUniSA, FIEAust, FAusIMM, FAICD Independent Non-Executive Director	67	Mr Klingberg was appointed to the board in July 2005. He is an engineer with extensive national and international experience, having been Managing Director of Kinhill Limited from 1986 to 1998. Mr Klingberg was Chancellor of the University of South Australia for 10 years, retiring in 2008. His private sector and government appointments include Chairman of Centrex Metals Limited and Barossa Infrastructure Limited and directorships of Snowy Hydro Limited and E & A Limited. He is a member of the Board of Renewables SA and a former chairman of the South Australian Premier's Climate Change Council. He is a patron of the Cancer Council of South Australia and the St Andrew's Hospital Foundation.

# Directors' report

Codan Limited and its Controlled Entities

## DIRECTORS (continued)

<b>Name and qualifications</b>	<b>Age</b>	<b>Experience and special responsibilities</b>
<b>Mr David Simmons</b> BA (Acc) Independent Non-Executive Director	57	Mr Simmons was appointed to the board in May 2008. Mr Simmons has worked in the manufacturing industry throughout his career and has extensive financial and general management experience. Mr Simmons joined Hills Industries Limited in 1984, where he was appointed Finance Director in 1987 and Managing Director in 1992. He retired from Hills Industries Limited in June 2008. He is Chairman of Commercial Motor Vehicles Group and Innovate SA. He is a board member of Gunns Limited, Thomson Lawyers and Detmold Group. He is a former chairman of the SA Government Economic Development Board and of Korvest Ltd.
<b>Lt-Gen Peter Leahy AC</b> BA (Military Studies), MMAS, GAICD Independent Non-Executive Director	58	Lieutenant General Peter Leahy was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37 year career and 6 years as Chief of Army. Since leaving the Army he has been appointed as Professor and Foundation Director of the National Security Institute at the University of Canberra. He is a member of the Defence South Australia Advisory Board, a director of the Kokoda Foundation and a director of Electro Optic Systems Holdings Limited.
<b>Mr Scott Davies</b> LLB Independent Non-Executive Director	49	Mr Davies was appointed to the board in May 2011. In July 2011 he was appointed to the position of Global Head of Infrastructure for AMP Capital Investors. Mr Davies was Chief Executive Officer of Macquarie Communications Infrastructure Group, a leading global provider of communications infrastructure, from 2002 to 2009. Prior to that, Mr Davies held roles with Macquarie Capital and Hambros Bank, where he gained valuable experience in relation to business development and mergers and acquisitions. Prior to that, Mr Davies practised as a commercial lawyer.
<b>Mrs Corinne Namblard</b> PhD (Pol Sci), HEC CAP Independent Non-Executive Director	55	Mrs Namblard was appointed to the board in August 2011. Mrs Namblard has more than 30 years' experience in large projects in finance, infrastructure and related industries and has worked in the United States of America, Canada, Australia and Europe. During the 10 years prior to her appointment to Codan, Mrs Namblard was Chief Executive Officer of Galaxy Fund, a dedicated transportation infrastructure equity fund. Mrs Namblard developed the fund from its inception in 2000. Prior to that, she was Executive Vice President of leading international French engineering firm, Egis Group, and led their worldwide strategy and business development activities. Prior to her time with Egis Group, Mrs Namblard spent 19 years with Banque Nationale de Paris. She was involved in capital market activities, mergers and acquisitions and project finance transactions, eventually becoming Vice President and Head of Financial Advisory in the Project Finance team. Mrs Namblard has previously held a number of board positions including Flinders Ports Pty Ltd in Australia. She has been a director of Qantas Airways Limited since June 2011.
<b>Mr Michael Heard</b> BE (Hons), MBA, FIE Aust, CPEng Managing Director and Chief Executive Officer	63	Mr Heard retired from the company and the board in November 2010. He was appointed to the board as Managing Director in 1991. He was formerly General Manager and a director of Ribloc Group Ltd (civil engineering technology industry) and Chief Executive of Cheviot Manufacturing Pty Ltd (automotive components industry). Before that, Mr Heard held various engineering, marketing and management positions with CIG Ltd (now BOC Ltd) in Brisbane, the United Kingdom, Sydney and Adelaide. Mr Heard is a director of the Leaders Institute of South Australia. He is a former member of the Australian Space Council and the Australian National Telescope Steering Committee. Mr Heard was the founding president of South Australia's Electronics Industry Association (now Technology Industry Association) and Chairman of that association's Industry Leaders Forum. He is a former director of Amdel Limited.

# Directors' report

Codan Limited and its Controlled Entities

## DIRECTORS (continued)

<b>Name and qualifications</b>	<b>Age</b>	<b>Experience and special responsibilities</b>
<b>Mr Brian Burns AM</b> FCPA, FCIS, FAICD Non-Executive Director	72	Mr Burns retired from the board on 30 June 2011. He was appointed to the board in 1996 (alternate director from 1990). Mr Burns is a former managing director of B Seppelt & Sons Ltd and a former chairman of the South Australian Government-owned Institute of Medical and Veterinary Science and of Luminis Pty Ltd, the intellectual property commercialisation company of The University of Adelaide. He is a former director of ASX listed companies National Foods Limited (1991 to 2003) and Select Harvests Limited (1999 to 2004). He is a former director of Cascade Brewery Co. Limited and C-C Bottlers Limited. He has served the accountancy profession as the South Australian president of CPA Australia and as a member of the Auditing Standards Board of the Australian Accounting Research Foundation.

## COMPANY SECRETARY

**Mr Michael Barton** BA (Acc), CA

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

## DIRECTORS' MEETINGS

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

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

**A** – Number of meetings attended

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT

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

### **Board of directors**

#### ***Role of the board***

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

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

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

#### ***Board processes***

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

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

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.

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Board of directors (continued)

#### **Composition of the board**

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

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

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

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

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

#### **Nomination committee**

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

#### **Remuneration report - audited**

##### **Remuneration Committee**

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report - audited (continued)

#### **Remuneration Committee (continued)**

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 may obtain independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

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

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

Certain executives may receive bonuses based on the achievement of performance hurdles. The bonus is capped at 60% of the executive's fixed salary inclusive of superannuation.

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

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

#### **Service contracts**

It is the group's policy that service contracts for key management personnel are unlimited in term but capable of termination on 1 to 6 months' notice, and that the group retains the right to terminate the contract immediately by making payment in lieu of notice. The group has entered into a service contract with each key management person.

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report - audited (continued)

#### Performance Rights

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

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

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

	Number of performance rights granted during year	Grant date	Fair value per right at grant date (cents)	Exercise price per right (cents)	Expiry date	Number of rights vested during year
<b>DIRECTORS</b>						
Mr D S McGurk	136,733	14 December 2010	111.3	-	30 June 2014	-
<b>EXECUTIVES</b>						
Mr P D Charlesworth	88,877	14 December 2010	111.3	-	30 June 2014	-
Mr G K Shmith	68,367	14 December 2010	111.3	-	30 June 2014	-
Mr M Barton	64,675	14 December 2010	111.3	-	30 June 2014	-

The performance rights become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three year period using the group's earnings per share for the year ended 30 June 2010 as the base. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three year period from the base earnings per share. The threshold level of the group's earnings per share before vesting is an increase in aggregate of 10% per annum over the three year period from the base earnings per share. A pro-rata vesting will occur between the 10% and 15% levels of earnings per share for the three year period.

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report – audited (continued)

#### Performance Rights (continued)

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

Performance rights granted					
Directors	Number	Date	Percentage vested in year	Percentage forfeited in year	Financial years in which shares will be issued if vesting achieved
<b>DIRECTORS</b>					
Mr D S McGurk	146,667	11 November 2008	0%	0%	2012
	132,850	23 October 2009	0%	0%	2013
	136,733	14 December 2010	0%	0%	2014
Mr M K Heard	320,000	11 November 2008	100%	0%	2011
	289,855	30 October 2009	100%	0%	2011
<b>EXECUTIVES</b>					
Mr P D Charlesworth	146,667	11 November 2008	0%	0%	2012
	132,850	23 October 2009	0%	0%	2013
	88,877	14 December 2010	0%	0%	2014
Mr G K Shmith	120,000	11 November 2008	0%	0%	2012
	108,696	23 October 2009	0%	0%	2013
	68,367	14 December 2010	0%	0%	2014
Mr M Barton	64,675	14 December 2010	0%	0%	2014

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report - audited (continued)

#### Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration paid or payable to each director of the company and each of the five named officers of the company and the group receiving the highest remuneration are:

Directors		Salary & fees	Short term bonuses	Non-monetary benefits	Post-employment and superannuation contributions	Other long term	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	%	%
<b>NON-EXECUTIVE</b>										
Dr G D Klingner	2011	165,000	-	-	14,850	-	-	179,850	-	-
	2010	150,000	-	-	13,500	-	-	163,500	-	-
Mr P R Griffiths	2011	90,000	-	-	8,100	-	-	98,100	-	-
	2010	75,000	-	-	6,750	-	-	81,750	-	-
Mr D J Klingberg	2011	82,500	-	-	7,425	-	-	89,925	-	-
	2010	75,000	-	-	6,750	-	-	81,750	-	-
Mr D J Simmons	2011	87,500	-	-	7,875	-	-	95,375	-	-
	2010	75,000	-	-	6,750	-	-	81,750	-	-
Lt-Gen P F Leahy	2011	82,500	-	-	7,425	-	-	89,925	-	-
	2010	75,000	-	-	6,750	-	-	81,750	-	-
Mr S W Davies	2011	13,750	-	-	1,237	-	-	14,987	-	-
Mr B P Burns	2011	89,925	-	-	-	-	-	89,925	-	-
	2010	81,750	-	-	-	-	-	81,750	-	-
<b>Total non-executives' remuneration</b>	2011	611,175	-	-	46,912	-	-	658,087	-	-
	2010	531,750	-	-	40,500	-	-	572,250	-	-

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report - audited (continued)

#### Directors' and senior executives' remuneration (continued)

Directors		Salary & fees	Short term bonuses	Non-monetary benefits	Post-employment and superannuation contributions	Other long term	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	%	%
<b>EXECUTIVE</b>										
Mr D S McGurk	2011	462,575	253,500	-	25,067	64,153	69,397	874,692	29.0	7.9
	2010	292,584	96,300	-	13,791	15,573	98,866	517,114	18.6	19.1
Mr M K Heard	2011	256,562	170,182	-	2,533	21,722	-	450,999	37.7	-
	2010	617,374	370,500	-	14,461	27,859	297,291	1,327,485	27.9	22.4
<b>Total directors' remuneration</b>	2011	1,330,312	423,682	-	74,512	85,875	69,397	1,983,778	-	-
	2010	1,441,708	423,682	-	68,752	43,432	396,157	2,416,849	-	-

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report - audited (continued)

- *Directors' and senior executives' remuneration (continued)*

Executive officers		Salary & fees	Short term bonuses	Non-monetary benefits	Post-employment and superannuation contributions	Other long term	Performance rights	Total	Proportion of remuneration performance related	Value of performance rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	%	%
Mr M Barton (Chief Financial Officer and Company Secretary)	2011	221,561	141,900	-	18,993	8,430	16,659	407,543	34.8	4.1
	2010	168,817	66,650	-	13,688	10,504	-	259,659	25.7	-
Mr R R Carpenter (President and Executive General Manager, Satellite Communications)	2011	102,016	33,000	2,295	-	-	-	137,311	24.0	-
	2010	281,527	180,000	-	15,748	12,295	98,866	588,436	30.6	16.8
Mr P D Charlesworth (General Manager, Minelab)	2011	363,984	78,000	42,383	-	3,881	-	488,248	16.0	-
	2010	74,969	18,156	-	6,538	3,768	17,605	121,036	15.0	14.5
Mr G K Shmith (General Manager, Satellite Communications)	2011	226,826	62,500	-	20,036	8,609	80,890	398,861	15.7	20.3
	2010	677,170	309,150	-	49,472	31,408	179,756	1,246,956	-	-
<b>Total executive officers' remuneration</b>	2011	1,071,113	466,056	44,678	40,731	28,132	91,334	1,742,044	-	-
	2010	677,170	309,150	-	49,472	31,408	179,756	1,246,956	-	-

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Remuneration report - audited (continued)

#### *Directors' and senior executives' remuneration (continued)*

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

Short term incentive bonuses which vested during the year are as follows: Mr M K Heard 100%, Mr D S McGurk 97.5% (2.5% forfeited), Mr M Barton 100%, Mr R R Carpenter 100%, Mr P D Charlesworth 100%, Mr K J Kane 50% (50% forfeited) and Mr G K Shmith 47% (53% forfeited).

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

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

#### **Corporate Performance**

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

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

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

#### **Board Audit, Risk and Compliance Committee**

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

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

- Mr P R Griffiths (Chairman) – Independent Non-Executive Director
- Mr B P Burns – Non-Executive Director (retired 30 June 2011)
- Mr D J Klingberg – Independent Non-Executive Director
- Mr S W Davies – Independent Non-Executive Director (appointed 1 May 2011)

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (continued)

### Board Audit, Risk and Compliance Committee (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, 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.

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (continued)

### Risk management (continued)

#### *Oversight of the risk management system*

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

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

#### *Risk management and compliance and control*

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

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Risk management (continued)

#### *Environmental regulation*

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

#### *Internal audit*

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

#### *Effectiveness of risk management*

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

#### *Ethical standards*

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

#### *Conflict of interest*

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

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

#### *Code of conduct*

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

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of professionalism, product quality and service;
- acting at all times with fairness, honesty, consistency and integrity;
- employment practices such as occupational health and safety and anti-discrimination;
- responsibilities to the community, such as environmental protection;

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (continued)

### Ethical standards (continued)

#### *Code of conduct (continued)*

- responsibilities to the individual in respect of the use of confidential information;
- compliance with legislation including compliance in countries where the legal systems and protocols are significantly different from Australia's;
- conflicts of interest;
- responsible and proper use of company property and funds; and
- reporting of unlawful behaviour.

#### *Trading in general company securities by directors and employees*

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

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

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

### Communication with shareholders

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

In summary, the Continuous Disclosure policy operates as follows:

- the managing director and the chief financial officer and company secretary are responsible for interpreting the company's policy and where necessary informing the board. The chief financial officer and company secretary is responsible for all communications with the ASX. Reportable matters are promptly advised to the ASX;
- the annual report is provided via the company's website and distributed to all shareholders who request a copy. It includes relevant information about the operations of the group during the year, changes in the state of affairs and details of future developments
- the half-yearly report contains summarised financial information and a review of the operations of the group during the period. This review is sent to all shareholders. The half-year reviewed financial report is lodged with the ASX, and sent to any shareholder who requests it;

# Directors' report

Codan Limited and its Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (continued)

### Communication with shareholders (continued)

- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), is placed on the company's website after they are released to the ASX; and
- the full texts of notices of meetings and associated explanatory material are placed on the company's website.

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

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

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

## OPERATING AND FINANCIAL REVIEW

### FY11 Highlights

- Second highest revenue and underlying profit in the company's history
- Highest reported profit
- Annual dividend increased by 12.5% to 9 cents
- Continued strength of gold detector sales
- Radio Communications poised for significant growth
- Strategic options for satellite products well progressed
- Successfully transitioned to a new Managing Director

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

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

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

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

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

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

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

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

# Directors' report

Codan Limited and its Controlled Entities

## OPERATING AND FINANCIAL REVIEW (continued)

### FY11 Highlights (continued)

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

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

### Metal detection

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

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

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

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

# Directors' report

Codan Limited and its Controlled Entities

## OPERATING AND FINANCIAL REVIEW (continued)

### Communications products

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

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

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

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

### Integration and restructuring

The key activities undertaken over the year were as follows:

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

### Outlook

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

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

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

# Directors' report

Codan Limited and its Controlled Entities

## OPERATING AND FINANCIAL REVIEW (continued)

### Outlook (continued)

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

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

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

## DIVIDENDS

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

	<b>Cents per share</b>	<b>Total amount \$000</b>	<b>Franked</b>	<b>Date of payment</b>
<b>DECLARED AND PAID DURING THE YEAR ENDED 30 JUNE 2011:</b>				
Final 2010 ordinary	4.5	7,387	100%	1 October 2010
Interim 2011 ordinary	4.0	6,566	100%	1 April 2011
<b>DECLARED AFTER THE END OF THE YEAR:</b>				
Final 2011 ordinary	5.0	8,207	100%	3 October 2011

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

## EVENTS SUBSEQUENT TO REPORTING DATE

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

## LIKELY DEVELOPMENTS

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

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

# Directors' report

Codan Limited and its Controlled Entities

## DIRECTORS' INTERESTS

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

	<b>Ordinary shares</b>
Dr G D Klingner	467,840
Mr D S McGurk	1,000
Mr P R Griffiths	138,065
Mr D J Klingberg	66,765
Mr D J Simmons	-
Lt-Gen P F Leahy	44,065
Mr S W Davies	-
Mrs C Namblard	-

## INDEMNIFICATION AND INSURANCE OF OFFICERS

### Indemnification

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

### Insurance premiums

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

## NON-AUDIT SERVICES

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

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

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

Refer page 23 for a copy of the auditor's independence declaration as required under Section 307C of the Corporations Act.

## Directors' report

Codan Limited and its Controlled Entities

### NON-AUDIT SERVICES (continued)

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

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

### 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



**D S McGurk**

Director

Dated at Newton this 10th day of August 2011.



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

To: the directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

KPMG

N. T. Faulkner  
*Partner*

Adelaide

10 August 2011

## Consolidated income statement for the year ended 30 June 2011

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2011 \$000	2010 \$000
Revenue	4	169,607	189,321
Cost of sales		<u>(79,175)</u>	<u>(91,254)</u>
Gross profit		90,432	98,067
Other income	5	6,373	864
Administrative expenses		(15,601)	(15,810)
Sales and marketing expenses		(31,585)	(30,185)
Engineering expenses		(9,481)	(8,739)
Net financing costs	6	(3,819)	(3,644)
Impairment of goodwill and intangible assets	3	(6,000)	(14,900)
Other expenses		<u>(722)</u>	<u>(318)</u>
<b>Profit before tax</b>		29,597	25,335
Income tax expense	8	<u>(7,805)</u>	<u>(10,941)</u>
<b>Profit for the period</b>		<u>21,792</u>	<u>14,394</u>
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share	31	13.3 cents	8.8 cents
Diluted earnings per share	31	13.2 cents	8.7 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 61.

**Consolidated statement of comprehensive income  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

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

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 29 to 61.

## Consolidated balance sheet as at 30 June 2011

Codan Limited and its Controlled Entities

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

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 29 to 61.

**Consolidated statement of changes in equity  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

2011

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

2010

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

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 29 to 61.

## Consolidated statement of cash flows for the year ended 30 June 2011

Codan Limited and its Controlled Entities

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

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 29 to 61.

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

Codan Limited (the "company") is a company domiciled in Australia. The consolidated financial report of the company as at and for the year ended 30 June 2011 comprise the company and its subsidiaries (together referred to as the "group" and individually as "Group entities"). The financial report was authorised for issue by the directors on 10 August 2011.

**(a) Statement of compliance**

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

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

**(b) Basis of preparation**

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010 were available for early adoption, and have not been applied in preparing these consolidated financial statements. None of these standards are expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

***Use of estimates and judgements***

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

***Changes in accounting policies***

For the year ended 30 June 2011 the group has not changed any of its significant accounting policies.

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

**(c) Basis of consolidation**

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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 passes to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Control usually passes when the goods are shipped to the customer.

**Rendering of services**

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

**(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.

**Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at the foreign exchange rates ruling at the reporting date. Equity items are translated at historical rates. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are taken directly to the foreign currency translation reserve (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 the Income Statement. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to the Income Statement as an adjustment to the Income Statement on disposal.

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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SIGNIFICANT ACCOUNTING POLICIES (continued)

**(g) Derivative financial instruments**

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

**Hedging**

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

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

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

**(h) Taxation**

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

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

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

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

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

**Tax consolidation**

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

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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SIGNIFICANT ACCOUNTING POLICIES (continued)

**(i) Goods and services tax**

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

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

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

**(j) Cash and cash equivalents**

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

**(k) Trade and other receivables**

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

**(l) Inventories**

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

**(m) 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.

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill**

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

*Measuring goodwill*

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

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

*Contingent liabilities*

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

*Non-controlling interest*

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

*Transaction costs*

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

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

**Licences and other intangible assets**

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

**Subsequent expenditure**

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

**Amortisation**

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

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

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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SIGNIFICANT ACCOUNTING POLICIES (continued)

**(n) Property, plant and equipment**

**Owned assets**

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

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

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

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

**Subsequent costs**

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

**Leased assets**

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

Other leases are operating leases and the leased assets are not recognised in the Balance Sheet.

**Depreciation**

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

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

Buildings	4%
Leasehold property	33%
Plant and equipment	5% to 40%

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

**(o) Impairment**

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

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from other 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 worker's 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 plans**

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

**(s) Provisions**

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

**Dividends**

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

**Restructuring and employee termination benefits**

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011  
Codan Limited and its Controlled Entities**

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SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

## Notes to and forming part of the financial statements for the year ended 30 June 2011

Codan Limited and its Controlled Entities

	Consolidated	
	2011	2010
	\$000	\$000
<b>2 DIVIDENDS</b>		
i. an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2009	-	5,745
ii. an ordinary interim dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2010	-	5,745
iii. an ordinary final dividend of 4.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2010	7,387	-
iv. an ordinary interim dividend of 4.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2011	6,566	-
	13,952	11,490

### Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 5.0 cents per share, franked to 100% with 30% franking credits. The dividend of \$8,207,299 will be paid on 3 October 2011. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial reports.

### Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%)	9,472	8,031
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The franking credits available are based on the balance of the dividend franking account at year-end adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$3,517,413 (2010: \$3,165,672).

## 3 IMPAIRMENT

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

## 4 SEGMENT ACTIVITIES

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

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

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

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

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

### Business segments

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

### Geographical segments

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

## Notes to and forming part of the financial statements for the year ended 30 June 2011

Codan Limited and its Controlled Entities

### 4. SEGMENT REPORTING

Business segments	Communications		Metal Detection		Other		Elimination		Consolidated	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
<b>Revenue</b>										
External segment revenue	69,783	70,073	92,105	106,604	7,719	12,644	-	-	169,607	189,321
Inter segment revenue	-	-	-	-	2,105	3,617	(2,105)	(3,617)	-	-
Total segment revenue	69,783	70,073	92,105	106,604	9,824	16,261	(2,105)	(3,617)	169,607	189,321
Other unallocated revenue									-	-
Total revenue									169,607	189,321
<b>Result</b>										
Segment result before impairment and restructure costs	10,624	12,638	36,302	43,568	62	456	100	104	47,088	56,766
Impairment charge (non-cash)	(6,000)	(14,900)	-	-	-	-	-	-	(6,000)	(14,900)
Restructure costs	(1,248)	(578)	(270)	(1,894)	(453)	(49)	-	-	(1,971)	(2,521)
Segment result	3,376	(2,840)	36,032	41,674	(391)	407	100	104	39,117	39,345
Unallocated corporate expenses and other income									(9,520)	(14,010)
Profit from operating activities									29,597	25,335
Income tax expense									(7,805)	(10,941)
Net Profit									21,792	14,394
<b>Non Cash Items included above</b>										
Depreciation and amortisation	4,710	4,769	2,551	3,509	174	494	-	-	7,436	8,772
Unallocated depreciation and amortisation									1,595	1,525
Total Depreciation and amortisation									9,031	10,297
<b>Assets</b>										
Segment assets	32,792	43,474	84,500	81,508	2,970	4,939	-	-	120,262	129,922
Investments									-	50
Unallocated corporate assets									27,164	33,266
Consolidated total assets									147,426	163,238

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were Australia totalling \$21,788,346 (2010: \$32,030,268) the United States of America with total revenue of \$26,022,791 (2010: \$43,167,444) and to a customer in Turkey with revenue of \$25,849,129 (2010: \$6,218,765).

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

	Consolidated	
	2011	2010
	\$000	\$000
<b>5 OTHER INCOME</b>		
Dividend income from GroundProbe Pty Ltd	680	49
Other items	312	815
Gain on sale of minority interest in GroundProbe Pty Ltd	3,745	-
Gain from the disposal of Codan Broadcast Products Pty Ltd	727	-
Insurance recoveries	909	-
	<u>6,373</u>	<u>664</u>
<b>6 EXPENSES</b>		
<b>Net financing costs:</b>		
Interest income	(294)	(372)
Net foreign exchange (gain) / loss	779	495
Interest expense	3,334	3,521
	<u>3,819</u>	<u>3,644</u>
<b>Depreciation of:</b>		
Buildings	526	761
Leasehold property	23	135
Plant and equipment	1,747	2,370
	<u>2,296</u>	<u>3,266</u>
<b>Amortisation of:</b>		
Product development costs	3,863	4,047
Intellectual property	1,710	1,945
Computer software	1,162	1,039
Licenses	-	-
	<u>6,735</u>	<u>7,031</u>
<b>Personnel expenses:</b>		
Wages and salaries	28,204	30,536
Other associated personnel expenses	2,371	2,332
Contributions to defined contribution superannuation plans	2,321	2,393
Increase in liability for long service leave	609	644
Increase in liability for annual leave	1,731	1,761
	<u>35,236</u>	<u>37,666</u>
<b>Additional expenses disclosed:</b>		
Impairment of trade receivables	(120)	23
Operating lease rental expense	1,648	1,467
Loss on sale of property, plant and equipment	722	318
Restructuring costs expensed as incurred	1,971	2,521

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

Consolidated  
2011      2010  
\$            \$

**7 AUDITORS' REMUNERATION**

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

Consolidated  
2011      2010  
\$000      \$000

**8 INCOME TAX**

**A. Income tax expense**

<b>Current tax expense:</b>		
Current tax paid or payable for the financial year	7,845	11,239
Adjustments for prior years	(1,047)	(553)
	<u>6,798</u>	<u>10,686</u>
<b>Deferred tax expense:</b>		
Origination and reversal of temporary differences	756	50
Income tax recognised directly in equity	251	205
	<u>7,805</u>	<u>10,941</u>
<b>Total income tax expense in income statement</b>		

**Reconciliation between tax expense and pre-tax net profit:**

The prima facie income tax expense calculated at 30% on the profit from ordinary activities	8,879	7,600
<b>Decrease in income tax expense due to:</b>		
Additional deduction for research and development expenditure	392	465
Over-provision for taxation in previous years	1,047	553
Rebate on dividend income	204	15
Effect of tax rates in foreign jurisdictions	465	617
Recognition of previously unrecognised tax losses	1,097	-
Sundry items	109	38
	<u>5,565</u>	<u>5,912</u>
<b>Increase in income tax expense due to:</b>		
Non-deductible expenses	789	304
Depreciation	-	26
Impairment of goodwill	1,143	4,470
Sundry items	308	229
<b>Income tax expense</b>	<u>7,805</u>	<u>10,941</u>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

Consolidated  
2011      2010  
\$000      \$000

**8 INCOME TAX (continued)**

**B. Current tax liabilities / assets**

Balance at the beginning of the year	(7,448)	414
Net foreign currency differences on translation of foreign entities	(31)	21
Income tax paid	11,195	2,309
Adjustments from prior year	353	1,047
Current year's income tax paid or payable on operating profit	<u>(7,845)</u>	<u>(11,239)</u>
	<u>(3,776)</u>	<u>(7,448)</u>

**Disclosed in balance sheet as:**

Current tax asset	80	55
Income tax payable	<u>(3,856)</u>	<u>(7,503)</u>
	<u>(3,776)</u>	<u>(7,448)</u>

**C. Deferred tax liabilities**

Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:

Expenditure currently tax deductible but deferred and amortised for accounting	6,102	5,783
Sundry items	860	82
Difference in depreciation of property, plant and equipment	249	737
<b>Set off of tax in relation to deferred tax assets:</b>		
Difference in intellectual property	(1,176)	(483)
Provisions for employee benefits not currently deductible	(1,857)	(1,916)
Provisions and accruals not currently deductible	(1,989)	(2,650)
	<u>2,189</u>	<u>1,553</u>

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

**9 CASH AND CASH EQUIVALENTS**

Petty cash	14	14
Cash at bank	8,611	10,708
Short term deposits	<u>18</u>	<u>11,023</u>
	<u>8,643</u>	<u>21,745</u>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2011 \$000	2010 \$000
<b>10 TRADE AND OTHER RECEIVABLES</b>			
<b>Current</b>			
Trade receivables		13,561	12,105
Less: Impairment losses recognised		(365)	(584)
		<u>13,196</u>	<u>11,521</u>
Other debtors		1,398	953
		<u>14,594</u>	<u>12,474</u>
<b>11 INVENTORIES</b>			
<b>Current</b>			
Raw materials		15,090	18,712
Work in progress		1,782	1,311
Finished goods		6,448	5,091
		<u>23,320</u>	<u>25,114</u>
<b>12 OTHER ASSETS</b>			
Prepayments		1,170	1,180
Net foreign currency hedge receivable		476	-
Other		236	633
		<u>1,882</u>	<u>1,813</u>
<b>13 INVESTMENTS</b>			
Unlisted shares at cost		-	50
		<u>-</u>	<u>50</u>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

Consolidated  
2011      2010  
\$000      \$000

**14 PROPERTY, PLANT AND EQUIPMENT**

Freehold land and buildings at cost	14,166	14,746
Accumulated depreciation	<u>(3,297)</u>	<u>(2,771)</u>
	<u>10,869</u>	<u>11,975</u>
Leasehold property at cost	475	615
Accumulated amortisation	<u>(322)</u>	<u>(464)</u>
	<u>153</u>	<u>151</u>
Plant and equipment at cost	32,792	33,012
Accumulated depreciation	<u>(23,335)</u>	<u>(24,099)</u>
	<u>9,457</u>	<u>8,913</u>
Capital work in progress at cost	212	95
<b>Total property, plant and equipment</b>	<u>20,691</u>	<u>21,134</u>

**Reconciliations**

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

***Freehold land and buildings***

Carrying amount at beginning of year	11,975	12,895
Additions	106	24
Transfers	-	-
Disposals	(660)	-
Depreciation	(526)	(761)
Net foreign currency differences on translation of foreign entities	<u>(26)</u>	<u>(183)</u>
<b>Carrying amount at end of year</b>	<u>10,869</u>	<u>11,975</u>

***Leasehold property improvements***

Carrying amount at beginning of year	151	292
Additions	28	-
Disposals	-	-
Depreciation	(23)	(135)
Net foreign currency differences on translation of foreign entities	<u>(3)</u>	<u>(16)</u>
<b>Carrying amount at end of year</b>	<u>153</u>	<u>151</u>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2011 \$000	2010 \$000
<b>14 PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
<i>Plant and equipment</i>			
Carrying amount at beginning of year		8,913	9,741
Additions		3,264	2,088
Transfers		-	64
Transfers to Computer software		-	(12)
Disposals		(820)	(504)
Depreciation		(1,747)	(2,370)
Net foreign currency differences on translation of foreign entities		(153)	(94)
<b>Carrying amount at end of year</b>		<b>9,457</b>	<b>8,913</b>
<i>Capital work in progress at cost</i>			
Carrying amount at beginning of year		95	294
Additions		212	-
Transfers		(95)	(198)
Net foreign currency differences on translation of foreign entities		-	(1)
<b>Carrying amount at end of year</b>		<b>212</b>	<b>95</b>
<b>Total carrying amount at end of year</b>		<b>20,691</b>	<b>21,134</b>
<b>15 PRODUCT DEVELOPMENT</b>			
Product development - at cost		64,327	56,947
Accumulated amortisation		(43,987)	(37,991)
		<b>20,340</b>	<b>18,956</b>
<b>Reconciliation</b>			
Carrying amount at beginning of year		18,956	15,205
Capitalised in current period		7,436	7,798
Impairment		(2,189)	-
Amortisation		(3,863)	(4,047)
		<b>20,340</b>	<b>18,956</b>
<b>16 INTANGIBLE ASSETS</b>			
Goodwill		57,545	73,357
Impairment		(3,588)	(14,900)
		<b>53,957</b>	<b>58,457</b>
Intellectual property - at cost		4,934	3,298
Accumulated amortisation		(4,532)	(2,606)
		<b>402</b>	<b>692</b>
Computer software - at cost		11,285	10,779
Accumulated amortisation		(9,068)	(8,031)
		<b>2,217</b>	<b>2,748</b>
Licences - at cost		1,300	-
Accumulated amortisation		-	-
		<b>1,300</b>	<b>-</b>
<b>Total intangible assets</b>		<b>57,876</b>	<b>61,897</b>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

	Note	Consolidated	
		2011 \$000	2010 \$000
<b>16 INTANGIBLE ASSETS (continued)</b>			
<b>Reconciliations</b>			
<b>Goodwill</b>			
Carrying amount at beginning of year		58,457	73,504
Acquisitions		-	-
Adjustment on prior year's acquisition		-	62
Net foreign currency differences on translation of foreign entities		(912)	(209)
Impairment		(3,588)	(14,900)
		<u>53,957</u>	<u>58,457</u>
<b>Intellectual Property</b>			
Carrying amount at beginning of year		692	737
Additions		1,709	1,902
Amortisation		(1,710)	(1,945)
Disposals		-	-
Net foreign currency differences on translation of foreign entities		(66)	(2)
Impairment		(223)	-
		<u>402</u>	<u>692</u>
<b>Computer Software</b>			
Carrying amount at beginning of year		2,748	2,927
Acquisitions through entity acquired		-	-
Additions		586	878
Transfers from capital work in progress		95	146
Amortisation		(1,162)	(1,039)
Disposals		(23)	(159)
Net foreign currency differences on translation of foreign entities		(27)	(5)
		<u>2,217</u>	<u>2,748</u>
<b>Licences</b>			
Carrying amount at beginning of year		-	-
Acquisitions		1,300	-
Amortisation		-	-
Disposals		-	-
		<u>1,300</u>	<u>-</u>
The following segments have significant carrying amounts of goodwill:			
Satellite communications products		-	4,499
Minelab products		53,957	53,958
		<u>53,957</u>	<u>58,457</u>

**Goodwill**

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

The recoverable amount of all other cash generating units is based on value-in-use calculations. Those calculations use cash flow projections based on the oncoming year's budget. Key assumptions for future years relate to sales, gross margin and expense levels. Sales are based on management assessments which allow for future growth. Gross margins and expense levels are largely consistent with past experience. A terminal value has been determined at the conclusion of five years assuming a growth rate of 2.5%. Pre-tax discount rates of 15% to 17% (2010: 15% to 17%) have been used in discounting the projected cash flows.

**Intellectual Property**

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

**Licences**

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

**17 TRADE AND OTHER PAYABLES**

**Current**

Trade payables		12,191	14,555
Other payables and accruals		14,247	12,834
		<u>26,438</u>	<u>27,389</u>

**18 OTHER LIABILITIES**

**Current**

Net foreign currency hedge payable		-	1,065
		<u>-</u>	<u>1,065</u>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2010**

Codan Limited and its Controlled Entities

Consolidated  
2011      2010  
\$000      \$000

**19 LOANS AND BORROWINGS**

**Non-Current**

Cash advance	34,140	52,088
Unsecured loans	10	10
	34,150	52,098

The Group has access to the following lines of credit:

**Total facilities available at balance date:**

Multi-option facility	10,000	8,800
Documentary letters of credit	-	800
Guarantee facility	-	2,935
Commercial credit card	120	335
Cash advance facility	75,000	75,000
	85,120	87,870

**Facilities utilised at balance date:**

Multi-option facility	1,222	-
Documentary letters of credit	-	277
Guarantee facility	-	880
Commercial credit card	8	269
Cash advance facility	34,140	52,088
	35,370	53,514

**Facilities not utilised at balance date:**

Multi-option facility	8,778	8,800
Documentary letters of credit	-	523
Guarantee facility	-	2,055
Commercial credit card	112	66
Cash advance facility	40,860	22,912
	49,750	34,356

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**Consolidated**  
**2011**      **2010**  
**\$000**      **\$000**

**19 LOANS AND BORROWINGS (continued)**

**Bank Facilities**

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

**Weighted Average Interest rates:**

Cash at bank	3.22%	2.72%
Short term deposits	4.95%	4.14%
Bank overdraft	11.08%	-
Cash advance	5.66%	4.37%

**20 PROVISIONS**

**Current**

Employee benefits	2,592	2,637
Warranty repairs	2,846	2,496
	<u>5,438</u>	<u>5,133</u>

**Non-Current**

Employee benefits	<u>3,476</u>	<u>3,451</u>
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**Reconciliation of warranty provision**

Carrying amount at beginning of year	2,496	1,551
Provisions made during the year	1,860	2,293
Payments made during the year	(1,510)	(1,348)
	<u>2,846</u>	<u>2,496</u>

**21 SHARE CAPITAL**

**Share capital**

Opening balance (164,145,980 ordinary shares fully paid)	25,328	24,849
Performance rights expensed	236	479
Shares purchased	(955)	-
Issue of ordinary shares	-	-
<b>Closing balance (164,145,980 ordinary shares fully paid)</b>	<u>24,609</u>	<u>25,328</u>

**Terms and conditions**

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**Consolidated**  
**2011**      2010  
**\$000**      \$000

**22 RESERVES**

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

**Foreign currency translation**

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

Balance at beginning of year	(1,319)	(108)
Net translation adjustment	(1,880)	(1,211)
<b>Balance at end of year</b>	<b>(3,199)</b>	<b>(1,319)</b>

**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	(255)	843
Gains / (Losses) on cash flow hedges taken to / from hedging reserve	1,592	(1,088)
<b>Balance at end of year</b>	<b>1,337</b>	<b>(255)</b>

**23 RETAINED EARNINGS**

Retained earnings at beginning of year	41,292	38,388
Net profit attributable to members of the parent entity	21,792	14,394
Dividends recognised during the year	(13,952)	(11,490)
<b>Retained earnings at end of year</b>	<b>49,132</b>	<b>41,292</b>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and Its Controlled Entities

Consolidated	
2011	2010
\$000	\$000

**24 COMMITMENTS**

**I. Capital expenditure commitments**

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

Within one year	134	655
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**II. Non-cancellable operating lease expense and other commitments**

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

Within one year	1,486	1,648
One year or later and no later than five years	2,115	3,388
Later than five years	146	265
	3,747	5,301

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

**III. Finance lease and hire purchase payment commitments**

Within one year	-	-
One year or later and no later than five years	-	-
Later than five years	-	-
	-	-
Less: future finance charges	-	-
	-	-

**Lease and hire purchase liabilities provided for in the financial statements:**

Current	-	-
Non-current	-	-
	-	-

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

## Notes to and forming part of the financial statements for the year ended 30 June 2011

Codan Limited and its Controlled Entities

### 25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

#### Financial risk management

##### Overview

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

- credit risk.
- liquidity risk.
- market risk.

This note presents information about the group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and their 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 group's activities. The group, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

#### (a) Credit Risk

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

The credit risk on the financial assets of the consolidated entity is the carrying amount of the asset, net of any impairment losses recognised. The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. The group is not materially exposed to any individual overseas region or customer as at 30 June 2011.

##### Trade and other receivables

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

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

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

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

##### Guarantees

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2010**

Codan Limited and its Controlled Entities

**25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

**(a) Credit Risk (continued)**

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

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

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

	Carrying Amount	
	Consolidated	
	2011	2010
	\$000	\$000
Australia / Oceania	3,582	2,397
Europe	3,932	2,404
Americas	3,422	4,217
Asia	1,437	2,792
Africa / Middle East	1,188	295
	<u>13,561</u>	<u>12,105</u>

**Impairment losses**

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

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

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

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

	Consolidated	
	2011	2010
	\$000	\$000
Balance at 1 July	584	755
Impairment loss recognised as an expense	(120)	23
Allowance for impairment from acquisition of subsidiary	-	-
Trade receivables written off to the allowance for impairment	(99)	(104)
Recovery of written off receivables	-	-
Balance at 30 June	<u>365</u>	<u>584</u>

**(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 groups' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and without incurring unacceptable losses or risking damage to the group's reputation. Refer to Note 19 for a summary of banking facilities available.

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

**(b) Liquidity Risk (continued)**

The following are the contractual maturities of financial liabilities:

**Consolidated - 30 June 2011**

	Carrying Amount \$000	Contractual Cash Flows \$000	12 months or less \$000	1-5 years \$000	More than 5 years \$000
<b>Non-derivative financial liabilities</b>					
Secured loan	-	-	-	-	-
Trade and other payables	26,438	(26,438)	(26,070)	(368)	-
Unsecured loans	10	(10)	-	(10)	-
Cash advance	34,140	(39,687)	(1,849)	(37,838)	-
	<u>60,588</u>	<u>(66,135)</u>	<u>(27,919)</u>	<u>(38,216)</u>	<u>-</u>

**Consolidated - 30 June 2010**

	Carrying Amount \$000	Contractual Cash Flows \$000	12 months or less \$000	1-5 years \$000	More than 5 years \$000
<b>Non-derivative financial liabilities</b>					
Secured loan	-	-	-	-	-
Trade and other payables	27,389	(27,389)	(26,157)	(1,232)	-
Unsecured loans	10	(10)	-	(10)	-
Cash advance	52,088	(56,185)	(2,458)	(53,727)	-
	<u>79,487</u>	<u>(83,584)</u>	<u>(28,615)</u>	<u>(54,969)</u>	<u>-</u>

**(c) Market risk**

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

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

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

**Interest Rate Risk**

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

**Profile**

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

	Carrying Amount	
	Consolidated	
	2011 \$000	2010 \$000
<b>Fixed rate instruments</b>		
Financial assets	-	-
Financial liabilities	-	-
	<u>-</u>	<u>-</u>
<b>Variable rate instruments</b>		
Financial assets	8,643	21,745
Financial liabilities	(34,140)	(52,088)
	<u>(25,497)</u>	<u>(30,343)</u>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

**Interest Rate Risk (continued)**

**Cash flow sensitivity**

If interest rates varied by 100 basis points for the full financial year then based on the balance of variable rate instruments held at reporting date, profit and equity would have been affected as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

**Consolidated**

	Profit / (loss) before tax		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	\$000	\$000	\$000	\$000
<b>30 June 2011</b>				
Variable rate instruments	(255)	255	-	-
<b>30 June 2010</b>				
Variable rate instruments	(303)	303	-	-

**Currency Risk**

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

The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally US dollars and Euro). The terms of these commitments are less than twelve months. As at reporting date, the group has forward exchange contracts for FY12 sales transactions of USD \$4,000,000, at an average exchange rate of 93 cents. In addition the group has entered into effective collar cash flow hedge instruments which will limit the foreign exchange risk on USD \$20,000,000 of FY12 sales, which represents approximately half of the USD exposure for FY12. The cap has been set at 107.6 cents while the floor is set at 93 cents. Therefore the group will be protected from an increase in the USD foreign exchange rate above 107.6 cents but will not participate if the USD foreign exchange rate falls below 93 cents.

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

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

	Consolidated 30 June 2011		
	Euro	GBP	USD
	\$000	\$000	\$000
Cash and cash equivalents	355	337	5,380
Trade receivables	631	39	7,581
Trade payables	(386)	(158)	(7,004)
Cash advance	-	-	(9,460)
Gross Balance Sheet exposure	600	217	(3,503)
Hedge transactions relating to Balance Sheet exposure	-	-	(1,855)
Cash advance designated as a hedge of foreign subsidiary	-	-	2,821
Net exposure at reporting date	600	217	(2,537)

	Consolidated 30 June 2010		
	Euro	GBP	USD
	\$000	\$000	\$000
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	(2,409)

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

**Currency Risk (continued)**

*Sensitivity Analysis*

**2011**

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
EURO	-	(74)
GBP	-	(30)
USD	464	217
	<u>464</u>	<u>113</u>

**2010**

	Consolidated Equity / Reserve \$000	Profit/(Loss) before tax \$000
EURO	-	(230)
GBP	-	(3)
USD	1,217	219
	<u>1,217</u>	<u>(14)</u>

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

**(d) Fair value hierarchy**

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year financial instruments valued at fair value were limited to net foreign currency hedge receivables (\$476,000) in which an independent valuation was obtained from the relevant banking institution.

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**26 GROUP ENTITIES**

Name / Country of incorporation	Class of Share	Interest Held 2011 %	2010 %
<b>Parent Entity</b>			
Codan Limited/Australia	Ordinary		
<b>Controlled Entities</b>			
IMP Printed Circuits Pty Ltd /Australia	Ordinary	100	100
Codan (UK) Ltd /England	Ordinary	100	100
Codan (Qld) Pty Ltd /Australia	Ordinary	100	100
Codan (US) Inc /United States of America	Ordinary	100	100
Codan Telecommunications Pty Ltd /Australia	Ordinary	100	100
Codan Broadcast Products Pty Ltd* /Australia	Ordinary	-	100
Minelab Electronics Pty Ltd /Australia	Ordinary	100	100
Minelab USA Inc /United States of America	Ordinary	100	100
Minelab International Ltd /Ireland	Ordinary	100	100
Parketronics Pty Ltd /Australia	Ordinary	100	100
Codan Holdings US Inc /United States of America	Ordinary	100	100
Locus Microwave, Inc /United States of America	Ordinary	100	100
Codan Executive Share Plan Pty Ltd /Australia	Ordinary	100	100

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**Consolidated**  
**2011**      **2010**  
**\$000**      **\$000**

**27 NOTES TO THE STATEMENT OF CASH FLOWS**

**I. Reconciliation of cash**

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

Petty cash	14	14
Cash at bank	8,611	10,708
Short term deposits	18	11,023
Bank overdraft	-	-
	<u>8,643</u>	<u>21,745</u>

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

Consolidated	
2011	2010
\$000	\$000

**28 EMPLOYEE BENEFITS**

**Aggregate liability for employee benefits, including on costs:**

Current - other creditors and accruals	2,682	3,017
Current - employee entitlements	2,592	2,637
Non-current - employee entitlements	3,476	3,451
	8,750	9,105

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

Assumed rate of increase in wage and salary rates	4.00%	4.00%
Discount rate	5.03%	4.80%
Settlement term (years)	10 years	10 years

**Performance Rights Plan**

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

**Performance Rights issued in financial year 2009**

The company issued 893,334 performance rights in November 2008 to certain executives. The fair value of the rights was 44.5 cents based on the Black-Scholes formula. The model inputs were: the share price of 60 cents, no exercise price, expected volatility 50%, dividend yield 10%, a term of three years and a risk free rate of 5.75%. The total expense recognised as employee costs in 2011 in relation to the performance rights issued was \$nil (2010: \$264,725).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three year period. For executives to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three year period. During the current year Mr M K Heard (Chief Executive Officer) retired from Codan and the performance rights issued to him in 2009 became qualifying performance rights. As a result the company has transferred 320,000 shares to Mr M K Heard during the year.

**Performance Rights issued in financial year 2010**

The company issued 664,251 performance rights in October 2009 to certain executives. The fair value of the rights was on average 68.5 cents based on the Black-Scholes formula. The model inputs were: the share price of 91 cents, no exercise price, expected volatility 64%, dividend yield 8%, a term of three years and a risk free rate of 5.7%. The total expense recognised as employee costs in 2011 in relation to the performance rights issued was \$96,319 (2010: \$358,600).

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

**Performance Rights issued in financial year 2011**

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

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**29 KEY MANAGEMENT PERSONNEL DISCLOSURES**

**Key management personnel compensation**

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

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

**Individual directors' and executives' compensation disclosures**

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

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

**Equity holdings and transactions**

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

	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011
<b>Directors</b>				
Dr G D Klingner	417,840	50,000	-	467,840
Mr B P Burns	11,671,424	-	-	11,671,424
Mr S W Davies	n/a	-	-	-
Mr P R Griffiths	138,065	-	-	138,065
Mr M K Heard	4,407,587	-	-	N/A
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	-	-	-	-
<b>Specified executives</b>				
Mr M Barton	5,000	-	-	5,000
Mr R R Carpenter	n/a	-	-	-
Mr P D Charlesworth	26,130	-	-	26,130
Mr K J Kane	n/a	-	-	-
Mr G K Shmith	28,491	-	-	N/A

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

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

	Held at 1 July 2009	Purchases	Sales	Held at 30 June 2010
<b>Directors</b>				
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	-	-	-	-
<b>Specified executives</b>				
Mr M Barton	n/a	-	-	5,000
Mr P D Charlesworth	26,130	-	-	26,130
Mr R J Moody	-	-	-	n/a
Mr G K Shmith	28,491	-	-	28,491

**Notes to and forming part of the financial statements  
for the year ended 30 June 2010**

Codan Limited and its Controlled Entities

**29 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**Performance rights**

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

	Held at 1 July 2010	Issued	Vested	Held at 30 June 2011
<b>Specified executives</b>				
Mr M K Heard	609,855	-	609,855	-
Mr D S McGurk	279,517	136,733	-	416,250
Mr P D Charlesworth	279,517	88,877	-	368,394
Mr G K Shmith	228,696	68,367	-	297,063
Mr M Barton	-	64,675	-	64,675
	Held at 1 July 2009	Issued	Vested	Held at 30 June 2010
<b>Specified executives</b>				
Mr M K Heard	320,000	289,855	-	609,855
Mr D S McGurk	146,667	132,850	-	279,517
Mr P D Charlesworth	146,667	132,850	-	279,517
Mr G K Shmith	120,000	108,696	-	228,696

**Other transactions with the Company or its controlled entities**

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

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

**30 OTHER RELATED PARTIES**

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

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

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

**31 EARNINGS PER SHARE**

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

	Consolidated	
	2011	2010
Net profit used for the purpose of calculating basic and diluted earnings per share	21,792	14,394

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

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

**32 NET TANGIBLE LIABILITY PER SHARE**

	Consolidated	
	2011	2010
Net tangible liability per share	2.5 cents	8.6 cents

**33 CAPITAL MANAGEMENT**

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

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

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

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

**Notes to and forming part of the financial statements  
for the year ended 30 June 2011**

Codan Limited and its Controlled Entities

**34 DEED OF CROSS GUARANTEE**

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

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

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

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

**Summarised income statement and retained earnings**

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

**Balance Sheet**

<b>CURRENT ASSETS</b>		
Cash and cash equivalents	7,486	18,241
Trade and other receivables	25,855	23,719
Inventory	14,031	19,017
Current tax assets	-	-
Other assets	<u>1,053</u>	<u>1,360</u>
<b>Total current assets</b>	<b>48,425</b>	<b>62,337</b>
<b>NON-CURRENT ASSETS</b>		
Investments	14,641	14,641
Property, plant and equipment	18,592	17,974
Product development	20,340	18,956
Intangible assets	57,250	56,379
Deferred tax assets	<u>4,981</u>	<u>3,975</u>
<b>Total non-current assets</b>	<b>115,804</b>	<b>111,925</b>
<b>Total assets</b>	<b>164,229</b>	<b>174,262</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	18,564	23,167
Other liabilities	26,285	19,511
Current tax liabilities	3,778	7,441
Provisions	<u>5,014</u>	<u>4,484</u>
<b>Total current liabilities</b>	<b>53,641</b>	<b>54,603</b>
<b>NON-CURRENT LIABILITIES</b>		
Loans and borrowings	34,140	52,088
Deferred tax liabilities	7,167	6,101
Provisions	<u>3,324</u>	<u>3,135</u>
<b>Total non-current liabilities</b>	<b>44,631</b>	<b>61,324</b>
<b>Total liabilities</b>	<b>98,272</b>	<b>115,927</b>
<b>Net assets</b>	<b>65,957</b>	<b>58,335</b>
<b>EQUITY</b>		
Share capital	25,722	25,326
Reserves	524	36
Retained earnings	<u>39,711</u>	<u>32,971</u>
<b>Total equity</b>	<b>65,957</b>	<b>58,335</b>

**Notes to and forming part of the financial statements  
for the year ended 30 June 2010**

Codan Limited and its Controlled Entities

**35 PARENT ENTITY DISCLOSURES**

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

	<b>Company</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Result of parent entity</b>		
Profit for the period	23,791	14,742
Other comprehensive income	816	(650)
<b>Total comprehensive income for the period</b>	<b>24,607</b>	<b>13,992</b>
<b>Financial position of parent entity at year end</b>		
Current assets	41,275	55,126
Total assets	144,918	159,142
Current liabilities	38,965	46,419
Total liabilities	80,241	105,513
<b>Total equity of the parent entity comprising of:</b>		
Share capital	25,722	25,328
Reserves	809	(6)
Retained earnings	38,146	28,307
<b>Total Equity</b>	<b>64,677</b>	<b>53,629</b>

## DIRECTOR'S DECLARATION

Codan Limited and controlled entities

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

- (a) the consolidated financial statements and notes, set out on pages 24 to 61, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(A);
- (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001;
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (e) there are reasonable grounds to believe that the company and the group entity identified in Note 34 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and the group entity pursuant to ASIC Class Order 98/1418;
- (f) the directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the chief executive officer and the chief finance officer for the financial year ended 30 June 2011.

Dated at Newton this 10th day of August 2011.

Signed in accordance with a resolution of the directors:



Dr D Klingner  
Director



D S McGurk  
Director



## **Independent auditor's report to the members of Codan Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Codan Limited (the company), which comprises the consolidated balance sheet as at 30 June 2011 and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

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

#### *Auditor's responsibility*

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

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

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

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



### *Independence*

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

### *Auditor's opinion*

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

### **Report on the remuneration report**

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Codan Limited for the year ended 30 June 2011 complies with Section 300A of the *Corporations Act 2001*.

KPMG

N. T. Faulkner  
Partner

Adelaide

10 August 2011