

Financial Report

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Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

The Directors present their report together with the consolidated financial statements of Cardno Limited ("the Company") being the Company and the entities it controlled at the end of, or during, the year ended 30 June 2010.

1. Directors

The Directors of the Company in office during or since the year ended 30 June 2010 are set out below:

John Massey (Chairman - Non-executive)
Graham Tamblyn (Deputy Chairman - Executive)
Andrew Buckley (Managing Director - Executive)
Anthony Barnes (Non-executive) (appointed 31 July 2008)
Peter Cosgrove (Non-executive)
Jeffrey Forbes (Executive and Company Secretary)
Trevor Johnson (Executive)
Ian Johnston (Non-executive)

Details of the qualifications, experience and responsibilities of the Directors are on pages 4 to 6.

2. Company Secretary

Jeffrey Forbes BCom, MAICD, MAusIMM was appointed to the position of Company Secretary on 10 July 2006. Mr Forbes had been a Company Secretary of another unrelated listed company for 6 years prior to joining Cardno.

Michael Pearson LLB, BA, ACIS was appointed to the position of Joint Company Secretary on 24 September 2009.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Director	Experience	Special Responsibilities
<p>John C Massey BCom, CPA, FAICD(Life), FAIM Non-executive Chairman Age 64</p>	<p>John Massey has been Chairman of Cardno Limited since July 2004 and a Non-Executive Director since March 2004. He has extensive and broadly-based commercial experience, leadership and strategic development skills developed as a Chairman, Director and Chief Executive spanning many different industries.</p> <p>John is also Chairman of Sunstate Cement Limited and a Director of Macmahon Holdings Limited and the Stockyard / Kerwee Beef Group.</p> <p>He has been actively involved in corporate governance and director issues and was made a Life Fellow of the Australian Institute of Company Directors in recognition of his eminence in the field of directorship and for distinguished service, and is a member of the Board of Governors of the Committee for the Economic Development of Australia.</p> <p>John's previous Board appointments include being Chairman of Symbiosis Group and Ventracor and Director of SEQ Water, Dairy Australia, Brisbane Airport Corporation and KR Castlemaine Foods.</p>	<p>As well as being Chairman of the Company, John is also Chairman of the Board's Remuneration and Nominations Committees.</p>
<p>Graham G Tamblyn DipCE, MIEAust, CPEng, RPEQ, FAICD Deputy Chairman Executive Director Age 60</p>	<p>Graham commenced work with the engineering consultancy Cardno & Davies in 1973. He is an experienced civil engineer in the urban development field with involvement in such notable projects as the Kawana Waters master planned community, Noosa Waters, Twin Waters, and Pelican Waters. Graham's commitment to the urban development and engineering industry is evidenced by his considerable involvement in industry associations such as the Urban Development Institute of Australia of which he was Sunshine Coast Branch President for 6 years up to 2002. Graham's career has included periods as Managing Director and Chairman of Cardno Holdings Pty Ltd.</p> <p>Apart from ongoing technical project work Graham plays a role in assisting with the implementation of the Cardno Group's growth strategy of merger and acquisition.</p>	

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Director	Experience	Special Responsibilities
<p>Andrew D Buckley BE(Hons), FIEAust, FAICD, CPEng, RPEQ Managing Director Age 53</p>	<p>Andrew was appointed Managing Director of the Cardno Group in 1997. He has thirty years' experience in executive management, project management, design and implementation of engineering and development assistance projects. Andrew has worked in the management, design and construction of mining, engineering and infrastructure projects in Australia, Africa, USA and Asia. For the last 15 years he has worked in executive management roles in the engineering, construction and development assistance sectors with a special focus on growth. Under Andrew's leadership the Cardno Group has grown from an annual turnover of approximately \$14 million in FY1997 to \$477 million in FY2010 and from less than 200 people to over 3,700.</p> <p>Andrew was a Non-executive Director of CBD Professional Services Pty Ltd, which is associated with Carter Newell Lawyers until December 2009.</p>	<p>Andrew is a member of the Nominations Committee</p>
<p>Anthony H (Tony) Barnes BCom Non-executive Director Age 60</p>	<p>Tony Barnes has been a non-executive Director of Cardno since 31 July 2008. He was formerly the Chief Financial Officer of Zinifex Limited, an international mining, exploration and development company. Mr Barnes also held the position of Chief Executive Officer of Zinifex Limited during a management change. Mr Barnes played a key role in the successful IPO of Zinifex Limited in May 2004 and its subsequent restructure culminating in the merger with Oxiana Limited in July 2008 to form Oz Minerals Limited. He has extensive financial experience following a career which included more than 32 years with BHP, both within Australia and Internationally.</p> <p>Tony is also a Director of the Victorian Rugby Union.</p>	<p>Tony is Chairman of the Board's Audit, Risk & Compliance Committee, the Standing Due Diligence Committee and a member of the Remuneration Committee.</p>
<p>Peter J Cosgrove AC, MC ndc (Ind), jssc, psc (US), Dip Mil Stud, FAICD Non-executive Director Age 63</p>	<p>Retired General Peter Cosgrove joined Cardno as a Non Executive Director on 26 March 2007, bringing with him a wealth of experience and credentials. Peter is a Director of Qantas Airways Limited and Qantas Superannuation Limited, and a Fellow of the Australian Institute of Company Directors. Peter was a director of Australian Rugby Union Limited until April 2010. He also holds a number of prestigious memberships and board appointments. Peter was Chief of the Australian Defence Force from July 2002 until July 2005. In 1999 he was appointed as Commander of the International Forces in East Timor and helped the country transition to independence. Peter was awarded the Military Cross in Vietnam and he was appointed as a Companion of the Military Division of the Order of Australia, Companion of the New Zealand Order of Merit (CNZM) and Commander of the United States Legion of Merit. In 2001 Peter was the Australian of the Year.</p>	<p>Peter is a member of the Nominations Committee</p>

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Director	Experience	Special Responsibilities
<p>Jeffrey I Forbes BCom, MAICD, MAusIMM Chief Financial Officer, Company Secretary, Executive Director Age 57</p>	<p>Jeff joined Cardno in July 2006 as Chief Financial Officer, Company Secretary and Executive Director, Finance. Jeff has more than 32 years experience as a finance manager, primarily in the resources sector prior to joining Cardno.</p> <p>Jeff has significant experience in the financing and development of resource projects in both Australia and in the Asia Pacific region. He has held senior positions domestically and internationally. Prior to joining Cardno he was an Executive Director, Chief Financial Officer and Company Secretary of Highlands Pacific Limited. Jeff has significant experience in capital raisings and during his career Jeff has worked for a number of major companies including Rio Tinto, BHP and CSR.</p>	<p>Jeff is a member of the Standing Due Diligence Committee.</p>
<p>Trevor C Johnson BE, MEngSc, PhD, FIEAust, CPEng, RPEQ, MAICD Executive Director Age 53</p>	<p>Trevor has 30 years experience as a civil engineer, with special expertise in the fields of hydraulics, water quality and environmental analysis. He continues to act as Project Director for many of Cardno's major urban development projects, and regularly appears as an expert witness on engineering matters. In his executive role as Director Corporate, he is also responsible for a number of acquisition, co-ordination and communication activities within the Group.</p> <p>Trevor has been an employee of Cardno for over 25 years, and has been a Director of Cardno Holdings Pty Ltd and subsequently Cardno Limited since 1996.</p>	<p>Trevor is Chairman of the Standing Due Diligence Committee and is a member of the Board's Audit, Risk & Compliance Committee.</p>
<p>Ian J Johnston DipCM, GradDip App Fin & Inv, ASIA, ACIS, FAICD Non-executive Director Age 61</p>	<p>Ian Johnston became a Non Executive Director of Cardno Limited in November 2004 bringing with him extensive experience in treasury, corporate banking and equity capital markets.</p> <p>Following a career of nearly 25 years in the banking industry, Ian joined RBS Morgans in 1988 as Head of Corporate Finance and is now Chairman Corporate Finance and a member of its advisory board.</p> <p>He is also a Director of RBSM Foundation Limited and Data#3 Limited. He is also a member of the National Trust of Queensland Brisbane City Hall Conservation Appeal Committee and Rowland advisory board.</p> <p>Ian's previous Board appointments include Symbiosis Group Limited and The Rock Building Society Limited.</p>	<p>Ian is a member of the Board's Audit, Risk & Compliance Committee, the Remuneration Committee, the Nominations Committee and the Standing Due Diligence Committee.</p>

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

3. Principal Activities

The principal activity of the consolidated entity during the financial year was operating as a provider of professional services in physical and social infrastructure. There were no changes to the principal activities of the Cardno Group during the financial year under review.

4. Review of Results and Operations

Cardno achieved a record net profit after tax of \$37.60 million for the year ended 30 June 2010, a 10.1% increase over the 2009 financial year. Basic earnings per share increased to 43.86 cents.

Cardno had strong operating cash flow of \$46.75 million in 2010, an increase of 21% over 2009, and had cash of \$56.28 million at 30 June 2010.

The Company's balance sheet remains strong with low net debt. In August 2010, the company completed a successful Rights issue raising \$49 million.

The Board has declared a fully franked final dividend of 15 cents per share to be paid on 15 October 2010 to all shareholders registered on 17 September 2010. With the interim dividend of 14 cents per share in March 2010, this will result in a full year dividend of 29 cents, which is also a record for Cardno.

Revenue was \$477.24 million, which was slightly down from 2009, with most of this reduction resulting from the strengthening Australian dollar in 2010.

Cardno delivered another record profit for its shareholders during a period of significant adverse economic conditions. This is the sixth consecutive year of record profit and earnings per share growth since listing in 2004 with total shareholder return in this period of over 400%.

Cardno has performed strongly through the global financial crisis. The company's strategy of diversifying its operations through acquisitions and growth across multiple geographic regions and disciplines has proven successful. The company now employs over 3,700 staff worldwide, operating out of 150 offices.

During the financial year Cardno made four acquisitions. The 615-person Cardno ENTRIX and the 155 person Cardno ERI have increased Cardno's exposure to the highly strategic and growing environmental consulting market, as well as the oil and gas sector in the US and internationally. In Australia, Cardno acquired two specialist businesses: Cardno ITC a 100-person Australia wide electrical, mechanical and specialist engineering group providing services to the building sector; and Cardno AUS a utility detection and mapping services business based in Victoria.

The Board noted that the Company's second half performance was stronger than the first half as expected, reflecting the impact of improving market conditions and the benefit of acquisitions undertaken in recent months.

Cardno's markets continue to improve. Cardno has traditionally achieved organic growth of 7% to 9% before the global financial crisis. With the strong performance of recent major acquisitions and a return to organic growth, the company is well positioned for 2011.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

5. Dividends

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

Type	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
<i>Declared and paid during the year</i>				
- Final 2009 ordinary	14.0	11,801	Franked	13 October 2009
- Interim 2010 ordinary	14.0	12,154	Franked	26 March 2010
<i>Declared after end of year</i>				
- Final 2010 ordinary	15.0	15,840	Franked	15 October 2010
<i>Dealt with in the financial report as:</i>				
- Dividends paid or provided		23,955		
- Noted as a subsequent event (Note 29)		15,840		
		<hr/>		
		39,795		

All dividends paid or declared by the Company since the end of the previous financial year were fully franked at 30%.

6. Events Subsequent to the Reporting Date

On 11 August Cardno completed a \$49m capital raising via a 1:6 fully underwritten renounceable rights issue. The number of ordinary shares issued under the rights issue was 15,089,139. The capital raised will be used to reduce debt used for the June 2010 acquisition of ENTRIX and ERI and for working capital.

On 16 August 2010, the Directors of Cardno Limited declared a final dividend of 15.0 cents per share for the 2010 financial year. The fully franked dividend will be paid on 15 October 2010 to shareholders registered on 17 September 2010 and will total \$15,839,940. The dividend has not been provided for in the 30 June 2010 financial statements.

7. Likely Developments

The consolidated entity will continue to manage its global business in physical and social infrastructure and pursue its policy of growing the Company both organically and by acquisition during the next financial year.

8. Significant Changes in the State of Affairs

Other than detailed elsewhere, there have been no significant changes in the state of affairs since 30 June 2009.

9. Indemnification and Insurance of Officers

The Company has agreements with each of the Directors and Officers of the Company in office at the date of this report indemnifying them against liabilities to any person other than the Company or a related body corporate that may arise from their acting as Directors or Officers of the Company. The indemnity continues to have effect when the Directors and Officers cease to hold office, other than where such liabilities arise out of conduct involving a wilful breach of duty by the Officers, the improper use by the Directors or Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

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, as such disclosures are prohibited under the terms of the contract.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

10. Directors' Meetings

Attendance at Board meetings and Board Committee meetings for the year ended 30 June 2010 is set out below:

No. of Meetings Held	Board of Directors		Audit, Risk & Compliance Committee		Remuneration Committee		Nominations Committee	
	A	B	A	B	A	B	A	B
A H Barnes	13	13	4	4	4	4	♦	♦
A D Buckley	13	13	♦	♦	♦	♦	2	2
P J Cosgrove	13	13	♦	♦	♦	♦	2	2
J I Forbes	13	13	♦	♦	♦	♦	♦	♦
T C Johnson	13	13	4	4	♦	♦	♦	♦
I J Johnston	13	13	4	4	4	4	2	2
J C Massey	13	13	1	1	4	4	2	2
G G Tamblyn	12	13	♦	♦	♦	♦	♦	♦

♦ not a member of this committee

A = number of meetings attended.

B = number of meetings held during the time the Director held office during the year or was a committee member.

The Standing Due Diligence Committee was not required to meet during the year. The Board established a specific Due Diligence Committee in relation to the ENTRIX and ERI acquisitions and associated equity raising.

11. REMUNERATION REPORT - AUDITED

Principles of Compensation

Compensation levels for Directors and secretaries of the Company and relevant key management personnel of the consolidated entity are competitively set to attract and retain suitable qualified staff, reward the achievement of strategic objectives and achieve the broader outcome of creating value for shareholders. The remuneration structure takes into account:

- the capability and experience of the Directors and Senior Executives;
- the Directors' and Senior Executives' ability to control the performance of areas of the Company's business;
- the Company's performance; and
- the amount of incentives within each Director's and Senior Executive's remuneration.

Total shareholder return is an essential element of the Company's strategy, and the remuneration framework serves this aim by seeking to attract and retain high calibre executives. Since Cardno Limited was established in March 2004 the Company has exceeded the growth and profit targets set by the Board and this successful performance has been reflected in the remuneration of Executives.

The Executive Director and Senior Executive Remuneration Policy is set out below:

Cardno Limited seeks to set fair and market competitive remuneration for its Executive Directors and Senior Executives to ensure high performance and long-term commitment while taking into consideration the best interest of shareholders. Executive Directors and Senior Executives remuneration consists of fixed salary, potential Performance Equity Plan participation, discretionary cash bonuses and other benefits including superannuation and salary sacrificing. In determining the salary of Executive Directors and Senior Executives, an assessment of performance is completed and a review of the market is conducted. The Company takes into account the responsibilities of the individual's position, the level of skill and experience as well as the Company's business.

If the employment of an Executive Director or Senior Executive is terminated, the Executive Director or Senior Executive may be entitled to receive from the employer pay in lieu of notice and compensation for employee entitlements such as annual leave and long service leave up to the termination date and by reference to the Executive's remuneration.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration issues and policies applicable to all staff for the consolidated entity. It is also responsible for reviewing share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The members of the Remuneration Committee during the year were John Massey (Chairman), Ian Johnston and Tony Barnes, all independent Non-Executive Directors.

The Remuneration Committee is required to meet at least twice a year. The Remuneration Committee met four times during the year.

Compensation levels are reviewed annually by the Remuneration Committee through a process that considers individual, segment and overall performance of the consolidated entity. In addition, external consultants provide analysis and advice to ensure the Directors' and Senior Executive's compensations are competitive in the market place where required.

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis) and includes any FBT charges related to employee benefits (including motor vehicles), as well as employer contributions to superannuation funds.

Fixed compensation is generally reviewed on an annual basis.

Performance-linked Compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial, divisional and personal objectives. In 2009 the Cardno Board had an independent review undertaken of the long term incentive plan for Senior Executives. Changes recommended by the consultants were approved by shareholders at the 2009 AGM and have been adopted.

The short-term incentive is an 'at risk' bonus provided in the form of cash. The long-term incentive consists of the issue of Performance Options or Rights which are subject to certain vesting conditions related to the Company's Earnings Per Share Growth and, in the case of Rights, also Total Shareholder Return over 3 years. The Executive Directors did not participate in the 2008 PEP and so the Company implemented an alternative cash based transitional long-term incentive plan linked to the performance of the Company over 3 years commencing in the 2009 financial year.

Short-Term Incentive Bonus

Each year the Remuneration Committee reviews the key performance indicators (KPIs) for the key management personnel. The KPIs generally include measures relating to the consolidated entity, the relevant segment, the individual and include financial, people, customers, strategy and risk measures. The principal financial performance objectives are compared to budgeted amounts. The non-financial objectives vary with position and responsibility.

At the end of the financial year the Remuneration Committee assesses the actual performance of the consolidated entity, the relevant segment and individual against the KPI's set at the beginning of the financial year. The Remuneration Committee approves the discretionary bonus to be paid to individuals on the delegated authority of the board. The method of assessment was chosen as it provides the committee with an objective assessment of the individual performance. Half of the bonus is paid in the year the bonus is granted while the balance is paid 12 months later, subject to continuing employment.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Long-Term Incentive Bonus

Employee Share Acquisition Plans ("ESAP")

Shares are issued under the ESAP, in accordance with thresholds approved by shareholders at the 2009 AGM. It provides employees with the opportunity to acquire shares in the Company for no consideration as a bonus component of their remuneration. Employees with 12 months service or greater who have worked an average of 100 hours or more per month are entitled to \$1,000 of shares each year and employees with 6 to 12 months service are entitled to \$500 of shares each year. Employees who work part time, who have greater than 12 months service and who have worked more than 600 hours per year are also entitled to \$500 of shares each year. Shares issued under ESAP rank equally with other fully paid ordinary shares from the date of issue.

Shares are issued in the name of the participating employee and are subject to a restriction period. The shares are restricted under the plan until the earlier of three years from the date of acquisition or the date they cease to be an employee. Once the restriction period is lifted the shares can be traded as fully paid ordinary shares. The ESAP has no conditions that could result in the recipient forfeiting ownership of shares.

The number of shares still under a restriction period at 30 June 2010 are detailed in the table below:

Grant Date	Issue Price	Restricted at 30 June 2010
29 January 2008	\$6.19	121,739
23 February 2009	\$3.18	352,779
9 March 2010	\$4.07	401,373

Shares issued during the reporting period are valued at the average market price over the 5 trading days prior to the date of the issue to employees, which approximates the fair value.

Performance Equity Plan (PEP)

The PEP is designed to reward strong performance by individuals within the Cardno Group of companies. Options and Rights are issued under the PEP, in accordance with thresholds approved at the 2009 AGM, which provides certain employees, as determined by the Managing Director and Remuneration Committee, with the opportunity to acquire shares in the Company, or rights to acquire shares in the Company.

The plan rules contain a restriction on removing the "at risk" aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the "at risk" aspect of an instrument before it vests.

▪ *Options*

The plan operates by granting an option to key staff to purchase a prescribed number of shares at a pre-determined time in the future. During the 2010 financial year, options with a grant date fair value of \$1,728,573 were issued with a vesting period of three years from the grant date.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the rules of the plan, is based on the weighted average price of the Company's shares traded during the five days preceding the date of offering the option. All options expire on the earlier of their expiry date or termination of the employee's employment. The options may be exercised at any time during a 12 month period ending thirty-six months after the date the options are issued.

There are no voting or dividend rights attached to the options. Voting rights and dividends will be attached to the unissued ordinary shares when the options have been exercised.

No options were exercised during the 2009/10 financial year. Options with a grant date fair value of \$310,405 lapsed during the year as a result of vesting conditions not being satisfied.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Grant Date	Vesting Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date \$	Number of Options at Beginning of Year	Options Granted	Options Lapsed	Options Vested Not Exercised	Number of Options as at 30 June 2010
25 October 2007	19 October 2009	25 October 2009	7.57	0.68	230,000	-	-	230,000	-
25 October 2007	19 October 2010	25 October 2010	7.57	0.92	330,000	-	-	-	330,000
5 December 2007	29 November 2009	5 December 2009	7.71	0.70	1,272,500	-	103,000	1,169,500	-
5 December 2007	29 November 2010	5 December 2010	7.71	0.95	1,719,000	-	180,500	-	1,538,500
5 December 2008	29 November 2011	5 December 2011	3.35	0.41	2,421,000	-	163,000	-	2,258,000
2 December 2009	2 December 2012	2 December 2013	4.43	0.77	-	2,244,900	-	-	2,244,900
Weighted average exercise price					5.93	4.43	6.12	7.69	5.00
Weighted average remaining contract life									670 days
Total expense recognised \$454,311 (2009: \$552,687)									

The options outstanding at 30 June 2010 have not vested, are not exercisable at 30 June 2010 and have an exercise price in the range of \$3.35 to \$7.71.

The options issued prior to FY2010 are subject to a performance hurdle and will not vest unless there has been at least a 5% improvement per year (compounded) in the earnings per share of the Company over the vesting periods.

The options issued during FY2010 are subject to a performance hurdle and to vest the Company must achieve earnings per share (EPS) growth in accordance with the following scale:

EPS Growth Over 3 Years	% of Performance Options in Tranche to Vest
<12.5% (<4% pa)	0%
12.5% (4% pa)	30%
>12.5% (4% pa) & <26% (8% pa)	Pro rata
26% (8% pa)	70%
>26% (8% pa) & <40% (12% pa)	Pro rata
≥40% (12% pa)	100%

The fair values of options granted during the year has been calculated using the Black-Scholes model, taking into account price volatility, risk free interest rates and the dividend yield.

▪ Rights

At the 2009 AGM the Board proposed, upon recommendations by an independent consultant to the Remuneration Committee, the introduction of performance rights alongside changes to the vesting criteria and hurdles.

The plan operates by granting a right to acquire an ordinary share at nil consideration at a predetermined time in the future. During the 2010 financial year 359,000 rights with a grant date fair value of \$1,098,625 were issued with a vesting period of three years from the grant date.

Each right is convertible to one ordinary share. All rights expire on the earlier of their expiry date or termination of the employee's employment. The rights may be exercised at any time during a one-year period ending thirty-six months after the date the rights are issued if performance hurdles have been met.

There are no voting or dividend rights attached to the rights. Voting rights and dividends will be attached to the ordinary shares issued when the rights have been exercised.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Grant Date	Exercise Date	Expiry Date	Performance Hurdle	Fair Value at Grant Date \$	Number of Rights at Beginning of Year	Rights Granted	Rights Lapsed	Rights Vested Not Exercised	Number of Rights as at 30 June 2010
22 October 2009	22 October 2012	22 October 2013	EPS Growth	3.96	-	67,500	-	-	67,500
			TSR	3.19	-	67,500	-	-	67,500
2 December 2009	2 December 2012	2 December 2013	EPS Growth	3.20	-	112,000	-	-	112,000
			TSR	2.30	-	112,000	-	-	112,000
Total expense recognised \$95,899 (2009: NIL)									

The rights outstanding at 30 June 2010 have not vested, are not exercisable at 30 June 2010 and have no exercise price.

The rights are subject to performance hurdles of total shareholder return (Tranche 1: 50%) and EPS growth (Tranche 2: 50%) in accordance with the following scale:

TSR of Cardno Relative to TSRs of Companies in Comparator Group Over 3 Years	% of Rights to Vest (Tranche 1 50%)	EPS Growth Over 3 Years	% of Rights to Vest (Tranche 2 50%)
<50 th percentile	0%	<12.5% (<4% pa)	0%
50 th percentile	50%	12.5% (4% pa)	30%
>50 th & <75 th percentiles	Pro rata	>12.5% (4% pa) & <26% (8% pa)	Pro rata
75 th percentile and above	100%	26% (8% pa)	70%
		>26% (8% pa) & <40% (12% pa)	Pro rata
		≥40% (12% pa)	100%

The fair values of rights granted during the year with a total shareholder return performance hurdle, have been calculated using a Monte-Carlo simulation valuation model taking into account price volatility, risk free interest rates and comparator company shareholder return performance. A Black-Scholes model has been used to value the rights with an EPS performance hurdle taking into account price volatility, risk free interest rates and the dividend yield.

Executive Director 2009 Transition Long Term Incentive Plan (TLTI)

The Executive Directors did not participate in the 2008 PEP. In 2009 the Board determined to introduce an alternative cash based transitional long term incentive plan while the Company developed a new long term incentive plan for Executive Directors and senior management. The new long term incentive plan was developed in FY2010.

The Group's performance will be measured over a period of three years commencing with FY2009. Performance will be measured by reference to two measures each weighted at 50%. The first measure will be total shareholder return (TSR) compared to the TSR of the smallest 100 companies in the S&P/ASX300 excluding companies in the resources and financial sectors and the second measure will be absolute growth in earnings per share (EPS). The Board has discretion to adjust earnings so that they accurately reflect ongoing Company performance. Each measure will have an equal weighting and is pro-rated between a base threshold and stretch targets. Performance will be measured at the end of FY2011.

In the event of a takeover or change-in-control, the stretch TLTI award opportunities will become immediately payable to participants. A takeover or change in control is deemed to have occurred when more than 30% of ordinary issued shares are acquired by, or their voting is controlled by, a person or group of related persons.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

The award opportunities for the participants will be a percentage of the Executive Director's base package as at 1 July 2008 and be paid in cash:

Performance Level	Managing Director	Other Executive Directors
Below threshold	0%	0%
Threshold	25%	12.5%
Between threshold & target	Pro rata	Pro rata
Target	50%	25%
Between target & stretch	Pro rata	Pro rata
Stretch & above	100%	50%

The respective measures for TSR and EPS are:

Performance Level	Relative TSR	EPS Growth
Threshold	50 th Percentile	3% per annum compound
Target	62.5 th Percentile	5% per annum compound
Stretch	75 th Percentile	15% per annum compound

Employment Agreements

Employment Agreements have been entered into with Executive Directors and Senior Executives. The agreements contain remuneration, performance and confidentiality obligations on the part of both the employer and the employee. The Executives covenant that during the term of employment and for at least six months after termination they will not solicit any existing client or employee of the Company.

Non-executive Directors

The Non-executive Directors of Cardno Limited are entitled to a fee that is determined by the Board on commencement of the role and reviewed on an annual basis thereafter. The fee includes compulsory superannuation contributions. Non-executive Directors do not participate in equity plans of the Company and do not receive retirement benefits.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Director, Executive Officer and Key Management Remuneration

Details of the nature and amount of each major element of remuneration of each Director of the Company and each of the five named Company executives and relevant Group executives who receive the highest remuneration are:

Director		Short Term				Post Employment	Long Term	Termination Benefits \$	Share Based Payments		Total \$	Proportion of Remuneration Performance Related	Value of Options & Rights as a Proportion of Remuneration
		Salary and Fees \$	STI Cash Bonus \$	Non-Monetary Benefits \$	Total \$	Super-annuation Benefits \$	Other Long Term Benefits*		Shares	Options & Rights*			
Non-Executive													
John Massey	2010	147,321	-	-	147,321	22,679	-	-	-	170,000	-	-	
	2009	87,000	-	-	87,000	83,000	-	-	-	170,000	-	-	
Anthony Barnes	2010	33,000	-	-	33,000	47,000	-	-	-	80,000	-	-	
	2009	-	-	-	-	73,623	-	-	-	73,623	-	-	
Peter Cosgrove	2010	73,394	-	-	73,394	6,606	-	-	-	80,000	-	-	
	2009	73,394	-	-	73,394	6,606	-	-	-	80,000	-	-	
Ian Johnston	2010	73,394	-	-	73,394	6,606	-	-	-	80,000	-	-	
	2009	73,394	-	-	73,394	6,606	-	-	-	80,000	-	-	
Executive													
Andrew Buckley	2010	594,121	540,000*	4,000	1,138,121	52,121	114,916*	-	-	166,779**	1,471,937	55.8%	11.3%
	2009	524,633	225,000*	4,000	753,633	101,234	114,916*	-	-	23,575**	993,358	36.6%	2.4%
Jeffrey Forbes	2010	288,564	96,000*	4,000	388,564	52,436	28,750*	-	-	80,149**	549,899	37.3%	14.6%
	2009	228,083	60,000*	4,000	292,083	112,917	28,750*	-	-	11,254**	445,004	22.5%	2.5%
Trevor Johnson	2010	298,925	30,000	4,000	332,925	50,000	29,310*	-	-	60,732**	472,967	25.4%	12.8%
	2009	297,425	57,500	4,000	358,925	50,105	29,310*	-	-	8,363**	446,703	21.3%	1.9%
Graham Tamblyn	2010	250,568	10,000	4,000	264,568	46,557	25,056*	-	-	43,851**	380,032	20.8%	11.5%
	2009	240,688	27,737	4,000	272,425	55,987	25,056*	-	-	4,267**	357,735	16.0%	1.2%
Former													
James Verco	2010	-	-	-	-	-	-	-	-	-	-	-	-
	2009	-	-	-	-	-	-	-	-	5,015**	5,015	-	-
Total Compensation – 2010		1,759,287	676,000	16,000	2,451,287	284,005	198,032*	-	-	351,511**	3,284,835	33.3%	5.0%
Total Compensation – 2009		1,524,617	370,237	16,000	1,910,854	490,078	198,032*	-	-	52,474**	2,651,438	23.4%	2.0%

* Includes STI and TLTI cash bonuses which have been accrued but not paid based on estimates of achievement of performance targets.

** The amount included in remuneration is the grant date fair value which has been recognised in accordance with accounting standards over the expected vesting period and includes amounts relating to revised estimates for the number of equity instruments likely to vest not recognised in prior periods.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Director, Executive Officer and Key Management Remuneration continued

Executives		Short-Term				Post Employment	Long Term	Termination Benefits \$	Share Based Payments		Total \$	Proportion of Remuneration Performance Related	Value of Options & Rights as a Proportion of Remuneration
		Salary \$	STI Cash Bonus \$	Non-Monetary Benefits \$	Total \$	Super-annuation Benefits \$	Other Long Term Benefits \$		Shares	Options & Rights*			
Executives													
Roger Collins-Woolcock	2010	317,752	40,000	4,000	361,752	30,848	-	-	1,000	63,153*	456,753	22.6%	13.8%
	2009	314,107	60,000	4,000	378,107	30,889	-	-	1,000	6,671*	416,667	16.0%	1.6%
Paul Gardiner	2010	335,428	40,000	4,000	379,428	32,755	-	-	1,000	77,987*	491,170	24.0%	15.9%
	2009	339,577	80,000	4,000	423,577	28,592	-	-	1,000	8,937*	462,106	19.2%	1.9%
Michael Renshaw	2010	381,476**	43,798	-	425,274	-	-	-	1,000	63,153*	489,427	21.9%	12.9%
	2009	444,904**	45,000	3,600	493,504	-	-	-	1,000	6,671*	501,175	10.3%	1.3%
Kylie Sprott (appointed 12/10/09)	2010	156,410	-	-	156,410	13,780	-	-	-	2,501*	172,691	1.4%	1.4%
	2009	-	-	-	-	-	-	-	-	-	-	-	-
Former													
Steven Coote (ceased employment 25/09/10)	2010	101,018	-	-	101,018	7,058	-	-	-	-	108,076	-	-
	2009	335,779	80,000	4,000	419,779	32,470	-	-	1,000	8,937*	462,186	19.2%	1.9%
Charles Tapp (ceased employment 15/04/10)	2010	273,301	27,000	-	300,301	36,097	-	131,022	1,000	43,198*	511,618	13.7%	8.4%
	2009	324,807	45,000	-	369,807	28,795	-	-	1,000	5,406*	405,008	12.7%	1.6%
Total compensation – 2010		1,565,385	150,798	8,000	1,724,183	120,538	-	131,022	4,000	249,992*	2,229,735	18.0%	11.2%
Total compensation – 2009		1,759,174	310,000	15,600	2,084,774	120,746	-	-	5,000	36,622*	2,247,142	15.4%	1.6%

* The amount included in remuneration is the grant date fair value which has been amortised on a straight line basis over the expected vesting period.

** Salary includes expatriate benefits and is payable in USD.

Additional Information – Cash Bonuses

Name	STI		TLTI	
	Vested%	Forfeited %	Vested %	Forfeited %
Andrew Buckley	72%	28%	0%	0%
Jeffrey Forbes	80%	20%	0%	0%
Trevor Johnson	Note 1	Note 1	0%	0%
Graham Tamblyn	Note 1	Note 1	0%	0%
Roger Collins-Woolcock	Note 1	Note 1	N/A	N/A
Paul Gardiner	Note 1	Note 1	N/A	N/A
Michael Renshaw	Note 1	Note 1	N/A	N/A
Kylie Sprott	Note 1	Note 1	N/A	N/A
Charles Tapp	Note 1	Note 1	N/A	N/A

Note 1: No STI incentive maximum or minimum amount is contracted between Cardno and the individuals noted in the table.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

Consequences of Performance on Shareholder Wealth

In considering the Group's performance and benefits for shareholder wealth, the Remuneration Committee has regard to the following indices in respect of the current financial year and the previous four financial years.

	2010	2009	2008	2007	2006
Net Profit After Tax ('000's)	\$37,597	\$34,154	\$27,452	\$18,468	\$12,663
Dividends Paid or Provided (000's)	\$23,955	\$21,434	\$16,349	\$9,903	\$6,859
Change in Share Price – year on year	\$0.53	-\$1.06	-\$2.69	\$2.83	\$1.55
Basic Earnings Per Share Growth	0.1%	4.3%	12.6%	18.9%	62.6%
Return on Capital Employed	17.3%	19.0%	25.8%	35.5%	62.7%

Over the past four years, the Group's profit after income tax has grown at an average rate per annum of 42% and revenue from \$101 million (2005) to \$477 million (2010). During the same period average key management personnel total compensation has grown by approximately 16% per annum.

Performance Options & Rights

Options and Rights granted to Executive Directors and Officers of the Company

Details of vesting profiles of options and rights granted as remuneration to the Executive Directors and key management personnel and to the most highly remunerated Offices of the Group and still outstanding at 30 June 2010, including Rights granted during the financial year are as follows:

Key Management Personnel	Outstanding		Grant Date	Vesting Date	% Vested in Year	% Forfeited in Year
	Options	Rights				
Directors						
Andrew Buckley	-	60,000	22-Oct-09	22-Oct-12	0.0%	0.0%
	150,000	-	25-Oct-07	19-Oct-10	0.0%	0.0%
Jeffrey Forbes	-	30,000	22-Oct-09	22-Oct-12	0.0%	0.0%
	70,000	-	25-Oct-07	19-Oct-10	0.0%	0.0%
Trevor Johnson	-	25,000	22-Oct-09	22-Oct-12	0.0%	0.0%
	50,000	-	25-Oct-07	19-Oct-10	0.0%	0.0%
Graham Tamblyn	-	20,000	22-Oct-09	22-Oct-12	0.0%	0.0%
	40,000	-	25-Oct-07	19-Oct-10	0.0%	0.0%
Executives						
Roger Collins-Woolcock	-	30,000	2-Dec-09	2-Dec-12	0.0%	0.0%
	60,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
	45,000	-	5-Dec-07	29-Nov-10	0.0%	0.0%
Paul Gardiner	-	30,000	2-Dec-09	2-Dec-12	0.0%	0.0%
	70,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
	55,000	-	5-Dec-07	29-Nov-10	0.0%	0.0%
Michael Renshaw	-	30,000	2-Dec-09	2-Dec-12	0.0%	0.0%
	60,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
	45,000	-	5-Dec-07	29-Nov-10	0.0%	0.0%
Kylie Sprott	-	8,000	2-Dec-09	2-Dec-12	0.0%	0.0%
Charles Tapp	50,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
	35,000	-	5-Dec-07	29-Nov-10	0.0%	0.0%

No options were issued to Executive Directors and key management personnel during the financial year. Non-Executive Directors do not participate in any of the Company's incentive plans.

No options and rights granted during the financial year have vested. No options or rights have been granted since the end of the financial year and up to the date of this report. No options or rights were exercised during the financial year. Details of the performance criteria are included on page 13.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

The movement during the reporting period, by value, of options and rights over ordinary shares in Cardno Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Key Management Personnel	Granted in year \$	Exercised in year \$	Lapsed in year \$
Directors			
Andrew Buckley	214,500	-	-
Jeffrey Forbes	107,250	-	-
Trevor Johnson	89,375	-	-
Graham Tamblyn	71,500	-	-
Executives			
Roger Collins-Woolcock	82,500	-	-
Paul Gardiner	82,500	-	-
Michael Renshaw	82,500	-	-
Kylie Sprott	22,000	-	-

12. Directors' and Executives' Interests

As at the date of this report, the interests of the Directors in the shares of Cardno Limited were:

	Cardno Limited Ordinary Shares	Shares held in Escrow	Options over Ordinary Shares	Performance Rights
A H Barnes	4,044	-	-	-
A D Buckley	2,450,261	-	150,000	60,000
P J Cosgrove	-	-	-	-
J I Forbes	24,856	-	70,000	30,000
T C Johnson	2,050,001	-	50,000	25,000
I J Johnston	241,955	-	-	-
J C Massey	58,334	-	-	-
G G Tamblyn	1,248,211	-	40,000	20,000

The movement during the reporting period in the number of ordinary shares in Cardno Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2009	Purchases	Received as Compensation	Sales	Held at 30 June 2010
Non-Executive Directors					
John Massey	44,382	5,618	-	-	50,000
Anthony Barnes	3,348	118	-	-	3,466
Peter Cosgrove	-	-	-	-	-
Ian Johnston	207,390	-	-	-	207,390
Executive Directors					
Graham Tamblyn	1,426,330	521	-	210,000	1,216,851
Andrew Buckley	2,359,037	-	-	-	2,359,037
Jeffrey Forbes	19,947	1,358	-	-	21,305
Trevor Johnson	1,967,399	-	-	-	1,967,399
Executives					
Roger Collins-Woolcock	653,652	-	245	-	653,897
Paul Gardiner	800,141	-	245	-	800,386
Michael Renshaw	153,213	10,359	245	-	163,817
Kylie Sprott	-	3,580	-	-	3,580

13. Unissued shares under options and rights

At the date of this report unissued ordinary shares of the Company under option are:

Exercise Date	Expiry date	Exercise price	Number of options
19 October 2010	25 October 2010	\$7.57	330,000
29 November 2010	5 December 2010	\$7.71	1,538,500
29 November 2011	5 December 2011	\$3.35	2,258,000
2 December 2012	2 December 2013	\$4.43	2,244,900

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

At the date of this report unissued ordinary shares of the Company in relation to performance rights are:

Exercise Date	Expiry date	Exercise price	Number of rights
22 October 2012	22 October 2013	Nil	135,000
2 December 2012	2 December 2013	Nil	224,000

These options and rights do not entitle the holder to participate in any share issue of the Company.

14. 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 auditors and in accordance with written advice provided by resolution of the Audit, Risk & Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Risk & Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- that 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, in that they do 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.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 31.

15. Lead Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

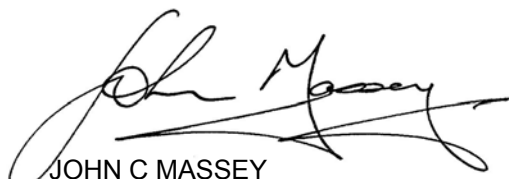
The lead auditor's independence declaration is set out on page 20 and forms part of the Directors' report for the year ended 30 June 2010.

16. Rounding of Amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial statements. Amounts in the Directors' report and financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of Directors.

On behalf of the Directors



JOHN C MASSEY
Chairman

Brisbane
16 August 2010

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

To the directors of Cardno Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010, there have been:

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



KPMG



Robert S Jones
Partner

Brisbane
16 August 2010

Corporate Governance Statement

The Board of Directors of Cardno Limited is ultimately responsible for all corporate governance matters of the consolidated entity and is accountable to the shareholders for the overall business performance of the company. Details of the corporate governance policies of the company can be found in the Investor Centre of the company's website, www.cardno.com.au.

Cardno Limited is committed to implementing and maintaining sound corporate governance practices and has considered the *ASX Corporate Governance Principles and Recommendations (Second Edition)* in the development of its corporate governance. The Board has assessed the company's current practice against these Principles and Recommendations and notes that the company's practices are consistent except where stated below.

Principle 1: Lay solid foundation for management and oversight

The role of the Board and delegation to Senior Executives has been formalised. The most significant responsibilities of the Board are:

- providing strategic guidance to the company including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- reviewing the operational and financial performance of the company's activities;
- reporting to shareholders and the market;
- ensuring compliance with prudential regulations and standards;
- ensuring adequate risk management processes are in place;
- reviewing internal controls and internal and external audit reports;
- monitoring and influencing the culture and reputation of the company;
- monitoring board composition, director selection and board process and performance;
- approving key executive appointments and ensuring executive succession planning;
- reviewing the performance and remuneration of the Managing Director and Senior Executives;
- ensuring that the Board as a whole has an appropriate understanding of each substantial segment of the business; and
- authorising and monitoring major investment and strategic commitments.

The Board has delegated to Senior Executives responsibility for the implementation of the company's strategic direction, business plans and day-to-day management of the company's operations.

The performance of Senior Executives is evaluated by the Board through formal performance reviews undertaken on an annual basis. The individual performance of each Senior Executive is reviewed against goals set in the previous year and new objectives are established for the following financial year. The performance reviews were completed during the year in accordance with the process agreed by the Board.

The Board endorses a culture of continuous improvement and will therefore continue to refine and develop its role and the delegation of responsibilities to management as the company develops.

The Board's responsibilities and functions are also contained in the company's Corporate Governance Policy which can be accessed in the Investor Centre on the company's website.

Principle 2: Structure the Board to add value

To add value, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. Collectively the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business. Details of the skills and experience of each Director are contained in the Directors' Report and on the company's website.

The Board currently comprises four Non-executive Directors including the Chairman, and four Executive Directors.

The Board has adopted the following criteria to determine the independence of a Director as someone who must be a Non-executive Director and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years has not 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 of a material professional adviser or a material consultant to the company or another group member or an employee materially associated with the service provided;
- 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 other group member other than as a Director of the company;

Corporate Governance Statement

- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company; and
- is free from any interest and any business or other relationship which 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 has confirmed that based on this definition of independence, Mr Massey, General Cosgrove and Mr Barnes are independent Non-executive Directors. The Board determined that Mr Johnston meets the independence definition except with respect to his former role as a Director of RBS Morgans Limited. The Board does not consider that Mr Johnston's current role with RBS Morgans materially interferes with his ability to act independently in the interests of the company.

It is currently considered appropriate to have a number of Executive Directors on the Board as they have a strong awareness of management issues and a deep knowledge of the company. The company has reduced the number of Executive Directors and increased the number of Non-executive Directors over recent years. The Board considers it appropriate to transition over time to a majority of Non-executive Directors.

The role of the Chairman and Chief Executive Officer are separate. The Chairman of the Board is Mr Massey who is an independent Non-executive Director. The Chief Executive Officer and Managing Director is Mr Buckley. Each Director, as part of his agreement with the company has the ability to seek independent advice at the company's expense after consultation with the Chairman.

The Nomination Committee is comprised by three Non-executive Directors, Mr Massey (Chairman), General Cosgrove, Mr Johnston and the Managing Director Mr Buckley. Details of the number of meetings of the Committee and members' attendance can be found in the Directors' Report.

The Nomination Committee facilitates Board and individual Director performance reviews and evaluation on at least an annual basis using an external facilitator as necessary to ensure independent professional scrutiny and benchmarking against developing best practices. The results of the review are presented to the Chairman and to the Board. A performance evaluation in the financial year 2010 was undertaken in accordance with board procedure and involved an independent board consultant.

The Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance both individually and collectively.

The Nomination Committee assists the Board in determining the composition of the Board and its committees. When considering a candidate as a Director, consideration is given to the candidate's ability to act in the best interests of shareholders as well as specific skills and expertise. Consideration is also given to the candidate's capacity to understand the impacts of various laws and regulations on their role and on the company including company law, trade practices legislation, environmental law, occupational health and safety, equal opportunity and taxation.

As the company has significant operations outside of Australia, consideration is also given to the candidate's ability to understand the impacts of foreign jurisdiction legislation, foreign currency issues and the business environment in the countries in which the company operates. In addition, consideration is given to the candidate's knowledge of the areas of the company's operations, risk management concepts and how they apply to the company and also whether the candidate is up to date with issues of corporate governance.

New Directors undergo an induction process in which they are given an extensive briefing on the company. This includes meetings with key executives, tours of the relevant premises, an induction package and presentations. A formal letter of appointment is provided.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continuing professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

The Nomination Committee has responsibility for independently supervising the company's Leadership Development Programme as part of its succession considerations.

The roles and responsibilities of the Nomination Committee are summarised in the Investor Centre of the company's website.

Principle 3: Promote ethical and responsible decision making

The Board has adopted a Code of Conduct for Directors, Senior Executives and staff. The Code of Conduct is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour, professionalism and practices necessary to maintain confidence in the company's integrity. The code has six governing principles namely honesty and integrity, confidentiality of information, integrity of personal dealings, conflicts of interest, abiding by the law and gifts and entertainment.

Corporate Governance Statement

The Board also promotes the maintenance of an open working environment in which all employees and contractors are able to report instances of unethical, improper, unlawful or undesirable conduct without fear of intimidation or reprisal. This is endorsed through the Whistleblowers Protection Policy.

The Board has adopted a policy for trading in Cardno securities by Directors, Senior Executives and staff. The purpose of these codes is to guide Directors and Senior Executives in the performance of their activities and to define the circumstances in which both they and staff, and any associates, are permitted to deal in securities. This policy was reviewed and updated during the year to ensure best practice principles continue to be incorporated in the policy in line with the Listing Rules.

These codes and policy have been designed with a view to ensuring the highest ethical and professional standards as well as compliance with legal obligations. Both codes and the policy are available for review in the Investor Centre of the company's website.

Principle 4: Safeguard integrity in financial reporting

The Managing Director and Chief Financial Officer have provided the Board with a statement confirming that the company's financial reports present a true and fair view of the company's financial position and are in accordance with relevant accounting standards. The Audit, Risk & Compliance Committee consists of two Non-executive Directors, Mr Barnes and Mr Johnston, and one Executive Director, Dr Johnson. Mr Barnes, an independent Non-executive Director, is Chairman of the Audit, Risk & Compliance Committee. Mr Barnes is not the Chairman of the company. Mr Massey stepped down from his position on the Committee on 18 August 2009 so as to avoid any potential conflict of interest between his role as a member of the Committee and his role as Chairman of the Board. Details of the number of meetings of the Committee and members attendance can be found in the Directors' Report.

The guidelines provide for the Audit, Risk & Compliance Committee to consist of at least three members and consist only of Non-executive Directors. The Board considers that it is appropriate to have one Executive Director on the Audit, Risk & Compliance Committee to ensure there is appropriate insight when considering the company's operations and risks.

The Audit, Risk & Compliance Committee requires the rotation at least every five years of the external audit engagement partner. The selection of the external audit engagement partner is assessed against specific criteria established and agreed by the Audit, Risk & Compliance Committee.

The role, objective and responsibilities of the Audit, Risk & Compliance Committee are able to be accessed in the Investor Centre of the company's website.

Principle 5: Make timely and balanced disclosure

The company has adopted a Continuous Disclosure Policy which can be viewed in the Investor Centre of the company's website. The purpose of this policy is to set out the procedures to be followed to enable accurate, timely, clear and adequate disclosure to the market and compliance with the ASX Listing Rules regarding disclosure. The Policy also operates to ensure that all employees are aware of their obligations for compliance within the continuous disclosure obligations. The Board regularly reviews its disclosure to ensure the market is kept informed of price sensitive or significant information in accordance with the Listing Rules.

During the year the company approved a Confidential Information Policy which established standards of behaviour and processes regarding the manner in which the executives and employees handle confidential information relating to the company's business. A copy of the policy has been distributed to all staff and is accessible on the company intranet.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Further comments related to making timely and balanced disclosure are covered with consideration of the next Principle.

Principle 6: Respect the rights of shareholders

The Board recognises the important rights of shareholders and strives to communicate with shareholders regularly and clearly – both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The company's auditors attend the Annual General Meeting of the company and are available to answer shareholders' questions.

The Communications Policy adopted by the company includes:

- communicating effectively with shareholders through releases to the market via the ASX, the media, the company's website, information mailed to shareholders and the general meetings of the company;
- all information disclosed to the ASX is posted on the company's website when it is disclosed to the ASX. Presentation material used in public presentations and to brief analysts is released to the ASX and posted on the company's website;

Corporate Governance Statement

- giving shareholders ready access to balanced and understandable information about the company and corporate proposals; and
- the external auditor attending the Annual General Meeting and being available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

A copy of the company's Communications Policy is able to be reviewed in the Investor Centre of the company's website.

Principle 7: Recognise and manage risk

The Board, together with management, has sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and wherever possible, improved. The issue of risk management is formalised in the company's Corporate Governance Policy and in the Audit, Risk & Compliance Committee Terms of Reference which are both kept under regular review. The review takes place at both committee level through the Board's Audit, Risk & Compliance Committee which meets at least four times each year, and at board level. The Audit, Risk & Compliance Committee has established policies and procedures to identify and monitor business risks as well as adopting an internal compliance and control system to manage material business risk.

The Operational Risk Management Committee, which is comprised of the Managing Director and Senior Executives who are representative of all aspects of the company's business across the globe, regularly reports to the Audit, Risk & Compliance Committee. The Operational Risk Management Committee has responsibility for oversight and maintenance of the Enterprise Wide Risk Management System, the company's Operational Risk Management Plan, which has been established in accordance with AS/NZ 4360:2004. The Operational Risk Management Committee also has responsibility for operational risks, quality control issues and operations processes.

The Audit, Risk & Compliance Committee reports to the Board regularly on the implementation and management of the Enterprise Wide Risk Management System and identifies significant risks to the company and how they are being mitigated and managed by management via the Operational Risk Management Committee.

This structure allows the company to assess risks ranging from low to very high and it is those risks that are identified as significant that are referred to in the Financial Report.

The company also monitors the quality and accuracy of its services through a Quality Management System. The details of the Quality Management System are available to staff via the company's intranet and client feedback is a feature of the system.

The Managing Director and Chief Financial Officer attest to the Board the soundness of the risk management and internal control systems each year and that the system is operating effectively in all material aspects in relation to financial risks.

The objective, roles and responsibilities of the Audit & Risk Compliance Committee and Operational Risk Management Committee and each committee's terms of reference are able to be accessed in the Investor Centre of the company's website.

Principle 8: Remunerate fairly and responsibly

The company has established a Remuneration Committee. The Remuneration Committee, which advises and reports to the Board, is chaired by the Chairman, Mr Massey and includes Mr Barnes and Mr Johnston, all Non-executive Directors. Details of the number of meetings of the committee and members' attendance can be found in the Directors' Report. The current remuneration of the Directors and the Senior Executives is published in the Directors' Report.

The Executive Director and Senior Executive Remuneration Policy is:

Cardno Limited seeks to set fair and market competitive remuneration for its Executive Directors and Senior Executives to ensure high performance and long-term commitment while taking into consideration the best interest of shareholders. Executive Directors and Senior Executives' remuneration consists of fixed salary, potential Performance Equity Plan participation, discretionary cash bonuses and other benefits including superannuation and salary sacrificing. In determining the salary of Executive Directors and Senior Executives, an assessment of performance is completed and a review of the market is conducted. The company takes into account the responsibilities of the individual's position, the level of skill and experience as well as the company's business.

If the employment of an Executive Director or Senior Executive is terminated, the Executive Director or Senior Executive may be entitled to receive from the employer pay in lieu of notice and compensation for employee entitlements such as annual leave and long service leave up to the termination date and by reference to the Executive's remuneration.

Where the Executive Directors participate in equity-based incentive plans, the details are submitted to shareholders for approval.

Corporate Governance Statement

The Remuneration Policy in regard to Non-executive Directors is:

The Non-executive Directors of Cardno Limited are entitled to a fee that is determined by the Board on commencement of the role and reviewed on an annual basis thereafter. The fee includes compulsory superannuation contributions. Non-executive Directors do not participate in equity plans of the company and do not receive retirement benefits. The fee covers both Board and sub-committee responsibilities.

The company's Trading Policy specifically prohibits any Director, Senior Executive or employee from transacting in short selling, trading in products which limit the risk associated with the holding of unvested securities or profiting from trading in securities which decrease in market value. A copy of this policy can be accessed in the Investor Centre of the company's website.

The role, objectives and responsibilities of the Remuneration Committee is able to be accessed in the Investor Centre of the company's website.

Consolidated Statement of Financial Performance

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
Revenue	2	477,238	515,842
Employee expenses		(211,888)	(231,464)
Consumables and materials used		(135,520)	(145,272)
Sub-consultant and contractor costs		(53,470)	(61,848)
Depreciation and amortisation expenses	3	(8,525)	(11,003)
Financing costs	3	(3,166)	(4,637)
Other expenses		(21,090)	(19,526)
Profit/(loss) before income tax		43,579	42,092
Income tax (expense) / benefit	4	(5,982)	(7,939)
Net profit/(loss) for the year		37,597	34,153
Profit attributable to:			
Owners of the Company		37,597	34,153
		37,597	34,153
Basic earnings per share (cents per share)	30	43.86	43.82
Diluted earnings per share (cents per share)	30	43.61	43.82

The statement of financial performance should be read in conjunction with notes 1 to 38 which form part of the financial statements.

Consolidated Statement of Comprehensive Income

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
Profit for the period	37,597	34,153
Other comprehensive income		
Exchange differences on translation of foreign operations	(4,214)	(258)
Other comprehensive income for the period, net of tax	(4,214)	(258)
Total comprehensive income for the period	33,383	33,895
Total comprehensive income attributable to:		
Owners of the Company	33,383	33,895
	33,383	33,895

The statement of comprehensive income should be read in conjunction with notes 1 to 38 which form part of the financial statements.

Consolidated Statement of Financial Position

Cardno Limited and its Controlled Entities as at 30 June 2010

	Note	2010 \$'000	2009 \$'000
CURRENT ASSETS			
Cash and cash equivalents	6	56,282	65,808
Trade and other receivables	7	103,275	92,072
Inventories	8	71,496	56,419
Other current assets	9	6,211	4,794
TOTAL CURRENT ASSETS		237,264	219,093
NON-CURRENT ASSETS			
Trade and other receivables	10	1,504	1,650
Other financial assets	11	836	553
Property, plant and equipment	12	29,208	27,014
Deferred tax assets	13	3,551	2,110
Intangible assets	14	339,099	222,091
Other non-current assets	15	89	213
TOTAL NON-CURRENT ASSETS		374,287	253,631
TOTAL ASSETS		611,551	472,724
CURRENT LIABILITIES			
Trade and other payables	16	82,462	58,779
Interest-bearing loans and borrowings	17	49,250	8,976
Current tax liabilities		1,528	4,115
Short term provisions	18	15,501	13,206
Other current liabilities	19	29,250	38,033
TOTAL CURRENT LIABILITIES		177,991	123,109
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	20	125,990	76,076
Deferred tax liabilities	13	442	1,058
Long term provisions	21	6,527	5,629
Other non-current liabilities	22	629	931
TOTAL NON-CURRENT LIABILITIES		133,588	83,694
TOTAL LIABILITIES		311,579	206,803
NET ASSETS		299,972	265,921
EQUITY			
Issued capital	23	252,080	227,457
Reserves		(8,507)	(4,293)
Retained earnings		56,399	42,757
TOTAL EQUITY		299,972	265,921

The statement of financial position should be read in conjunction with notes 1 to 38 which form part of the financial statements.

Consolidated Statement of Changes in Equity

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	Note	Share Capital Ordinary \$'000	Retained Earnings \$'000	Foreign Translation Reserve \$'000	Total \$'000
BALANCE AT 1 JULY 2008		192,063	30,038	(4,035)	218,066
Profit for the period		-	34,153	-	34,153
Exchange differences on translation of foreign operations		-	-	(258)	(258)
Total comprehensive income for the period		-	34,153	(258)	33,895
Transactions with owners in their capacity as owners:					
Shares issued	23	32,741	-	-	32,741
Notes converted to shares	23	2,653	-	-	2,653
Dividends paid or provided	5	-	(21,434)	-	(21,434)
		35,394	(21,434)	-	13,960
BALANCE AT 30 JUNE 2009		227,457	42,757	(4,293)	265,921
Profit for the period		-	37,597	-	37,597
Exchange differences on translation of foreign operations		-	-	(4,214)	(4,214)
Total comprehensive income for the period		-	37,597	(4,214)	33,383
Transactions with owners in their capacity as owners:					
Shares issued	23	24,623	-	-	24,623
Notes converted to shares		-	-	-	-
Dividends paid or provided	5	-	(23,955)	-	(23,955)
		24,623	(23,955)	-	668
BALANCE AT 30 JUNE 2010		252,080	56,399	(8,507)	299,972

The statement of changes in equity should be read in conjunction with notes 1 to 38 which form part of the financial statements.

Consolidated Statement of Cash Flows

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		508,714	550,769
Interest received		1,474	1,492
Finance costs		(2,968)	(4,768)
Cash paid to suppliers and employees		(451,683)	(494,189)
Income tax paid		(8,792)	(14,715)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	25(a)	46,745	38,589
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	25(d)	(129,486)	(42,023)
Payment of direct costs of acquisition		-	(620)
Proceeds from sale of property, plant & equipment		691	1,588
Payments for property, plant & equipment		(3,126)	(9,716)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(131,921)	(50,771)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		20,704	28,587
Share issue transaction costs		(56)	-
Proceeds from borrowings		101,086	-
Repayment of borrowings		(19,427)	14,350
Finance lease payments		(2,589)	-
Dividends paid		(22,301)	(19,374)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		77,417	23,563
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		(7,759)	11,381
CASH AND CASH EQUIVALENTS AT 1 JULY			
		65,808	52,624
Effects of exchange rate changes on cash and cash equivalents at the end of year		(1,767)	1,803
CASH AND CASH EQUIVALENTS AT 30 JUNE	25(b)	56,282	65,808

The statement of cash flow should be read in conjunction with notes 1 to 38 which form part of the financial statements.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Cardno Limited (the "Company") is a company incorporated and domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2010 encompasses the Company and its subsidiaries (together referred to as the "Group").

The financial report was authorised for issue by the Board of Directors on 16 August 2010.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations ("UIG") and the Corporations Act 2001. The financial report of the consolidated entity also complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

(b) Basis of Preparation

The financial report has been prepared on an accrual and historical cost basis.

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

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

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have significant impact on the financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments Australian Interpretation (AI) 8 *Scope of AASB 2* and AI 11 *AASB 2 – Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) 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.

(c) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company 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 presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

A list of the controlled entities is contained in Note 38 to the financial statements. All controlled entities have a June financial year-end.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Basis of Consolidation continued

Transactions eliminated on consolidation

Intra-group balances, unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(d) Goods and Services Tax

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

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 consolidated balance sheet.

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

(e) Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

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

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from 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 are recognised in other comprehensive income and are presented within equity in the FCTR.

Hedge of net investment in foreign operation

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the FCTR. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

(f) Revenue Recognition

Revenue is recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) Revenue Recognition continued

Sale of goods

Revenue from the sale of goods is recognised (net of rebates, discounts and other allowances) upon the delivery of goods to the customer.

Consulting revenue

Revenue from consulting services which are provided on a time and material basis is recognised at the contractual hourly rates as labour hours are delivered and direct expenses are incurred. For long term contracts, revenue and expenses are recognised in accordance with the percentage of completion method. Where a loss is expected to arise from a contract, the loss is recognised immediately as an expense. The percentage of completion is determined by costs to date versus estimated total project costs.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Dividends

Revenue from dividends is recognised by the consolidated entity when dividends are received.

(g) Leases

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. The corresponding rental obligations, net of finance charges, are included in current and non-current interest-bearing loans and borrowings. 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.

Other leases are operating leases and are not recognised in the Group's statement of financial position. Payments made under operating leases which are subject to fixed annual increments 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.

(h) Net Financing Costs

Interest income is recognised in the profit and loss as it accrues, using the effective interest method.

Borrowing costs are calculated using the effective interest method and include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings and foreign exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is the amount incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(i) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Income Tax continued

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probably 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from the date of forming the tax consolidated Group. The head entity within the tax-consolidated Group is Cardno Limited.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated Group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

(j) Segment Reporting

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Managing Director and Chief Financial Officer, who have been identified as the Group's chief operating decision makers. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows:

- Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.
- 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 chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.
- Segment results that are reported to the chief operating decision-makers include items directly attributed to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise of mainly head office expenses, financing costs, and income tax expense.
- Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(k) Non-current Assets Held for Sale and Discontinued Operations

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(l) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. Interest income is recognised as it accrues. The recoverability of trade receivables is reviewed on an ongoing basis. An estimate for impairment of doubtful debts is made when there is objective evidence collection of the full nominal amount is no longer probable. Bad debts are written off as incurred.

(m) Inventories

Work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented as unearned revenue under other liabilities.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the consolidated entity's activities in general.

(n) Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

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

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(n) Property, Plant and Equipment continued

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|---|------------|
| • buildings | 40 years |
| • laboratory equipment, instruments and amenities | 4-7 years |
| • equipment and motor vehicles | 4-7 years |
| • leasehold improvements | 4-5 years |
| • office furniture and equipment | 3-11 years |

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

(o) Intangible Assets

Business Combinations and Goodwill

The Group has adopted revised AASB 3 *Business Combinations (2008)* and amended AASB 127 *Consolidated and Separate Financial Statements (2008)* for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

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. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

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.

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.

Works contracts and software intangibles

Works contracts and software intangibles are acquired by the consolidated entity and are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 1 to 7 years.

Patents and Licenses

Patents and licenses acquired by the consolidated entity are considered to have indefinite useful lives and are stated at cost less any impairment losses. Patents and licences are not amortised but tested for impairment annually.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(p) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite life are not amortised but are systematically tested for impairment at each annual balance sheet date. Works contracts which are assigned a value are amortised over the life of the contract from the date they are available for use.

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

(q) Impairment

The carrying amount of the consolidated entity's assets, other than inventories (see paragraph (m)), and deferred tax assets (see paragraph (i)), are reviewed at each statutory reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment test is performed. The consolidated entity performs impairment testing of goodwill and intangibles with indefinite useful lives annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit and loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and 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.

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates 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.

(r) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade accounts payable are normally settled within 60 days. Trade and other payables are stated at cost.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(s) Interest Bearing Borrowings

Interest bearing borrowings are recognised initially at 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 profit and loss over the period of the borrowings on an effective interest rate basis.

(t) Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the period end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long-term service benefits

The provisions for employee entitlements to long service leave and other deferred employee benefits represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date and include related on-costs. In determining the liability for long service leave, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures.

Liabilities for employee entitlements which are not expected to be settled within 12 months are discounted using the rates attached to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

Defined contribution 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. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Share-based payment transactions

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, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date.

(u) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal, equitable or constructive obligation as a result of a past event, and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. If the effect is material, provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dividends

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

(v) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and investments in money market instruments. Bank overdrafts are shown within Interest-bearing loans and borrowings in current liabilities on the balance sheets.

(w) Earnings per Share

The Group presents basic and diluted 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 share options and rights granted to employees.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(x) Presentation of Financial Statements

The Group applies revised AASB 101 *Presentation of Financial Statements*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

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

(y) Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Estimating impairment of goodwill – refer to notes 1(q) and 14.
- Revenue recognition in relation to long term contracts including estimating stage of completion and total contract costs – refer notes 1(f) and 2.
- Accounting for business combinations including estimating fair values of identifiable assets acquired and liabilities assumed – refer notes 1(o) and 34.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
2. REVENUE		
Fees from services	366,760	402,030
Fees from sale of goods	8,227	8,643
Fees from recoverable expenses	98,765	101,911
Dividends received	6	-
Interest received	1,429	1,472
Royalties	126	147
Rental income	889	-
Other	1,036	1,639
Revenue	477,238	515,842
3. EXPENSES, LOSSES AND (GAINS)		
Depreciation		
Motor vehicles	689	1,472
Plant & equipment	5,923	6,019
Total Depreciation	6,612	7,491
Amortisation of non-current assets		
Works contracts	216	770
Software intangibles	205	303
Motor vehicles under lease	1,290	1,119
Plant & equipment under lease	202	1,320
Total Amortisation	1,913	3,512
Total Depreciation & Amortisation	8,525	11,003
Bad and doubtful debts	2,211	3,263
Financing costs		
Interest and finance charges	2,896	4,409
Amortisation of borrowing costs	270	228
Total financing costs	3,166	4,637
Rental expense relating to operating leases		
Minimum lease payments	19,027	19,303
Net loss on disposal of property, plant and equipment	(58)	432
Foreign exchange (gains) / losses	396	(4,144)
4. INCOME TAX EXPENSE		
(a) The components of tax expense comprises:		
Current tax expense		
Current year	7,856	13,438
Adjustments for prior years	(514)	(3,747)
	7,342	9,691
Deferred tax expense		
Origination and reversal of temporary differences	(1,351)	(1,752)
Change in New Zealand tax rate	(9)	-
Total income tax expense/(benefit)	5,982	7,939

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
4. INCOME TAX EXPENSE CONTINUED		
(b) Numerical reconciliation between tax expense and pre-tax profit		
Profit before tax	43,579	42,092
Income tax using the Australian corporation tax rate of 30% (2009: 30%)	13,074	12,628
Increase (decrease) in income tax expense due to:		
Non-deductible expenses	338	218
Adjustment for branch office taxation	326	623
Allowances for R&D expenditure	(5,329)	(1,855)
Tax exempt revenue	(162)	(840)
Benefit arising from amendment to Australian tax legislation	(1,335)	-
Sundry items	(407)	(879)
Effect of tax rates in foreign jurisdictions	(9)	-
	6,496	9,895
Under / (over) provided in prior years	(514)	(1,956)
Income tax expense	5,982	7,939
5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends proposed subsequent to year end not recognised as a liability 100% franked dividend at 30% (2009: 30%) (Refer Note 29)	15,840	11,798
(b) Dividends paid during the year (28 cents per share) 100% franked dividend at 30% (2009: 30%)	23,955	21,434
(c) Franking credit balance The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year at 30%	7,021	9,384
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	3,186	2,273
	10,207	11,657
The impact on the franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$6,788,546 (2009: \$5,056,335)		
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	34,438	34,796
Restricted cash (project advances)	-	5,005
Bank short term deposits	21,844	26,007
	56,282	65,808
7. TRADE & OTHER RECEIVABLES (CURRENT)		
Trade debtors	109,366	93,283
Provision for doubtful debts	(8,986)	(5,403)
	100,380	87,880
Sundry debtors	2,895	3,976
Forward exchange contract	-	216
	103,275	92,072
8. INVENTORIES (CURRENT)		
Work in progress	71,496	56,419

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
9. OTHER CURRENT ASSETS		
Prepayments	4,825	4,069
Project advances	176	109
Security deposits	1,210	616
	6,211	4,794
10. TRADE & OTHER RECEIVABLES (NON-CURRENT)		
Sundry debtors	1,504	1,650
11. OTHER FINANCIAL ASSETS (NON-CURRENT)		
Investments in non-related entities	836	553
12. PROPERTY, PLANT & EQUIPMENT		
Laboratory equipment, instruments & amenities – at cost	12,714	9,834
Less accumulated depreciation	(8,261)	(6,065)
	4,453	3,769
Equipment & motor vehicles – at cost	8,992	6,741
Less accumulated depreciation	(6,328)	(4,449)
	2,664	2,292
Office furniture & equipment – at cost	52,782	39,397
Less accumulated depreciation	(40,291)	(29,363)
	12,491	10,034
Leasehold improvements – at cost	9,612	6,904
Less accumulated depreciation	(3,616)	(1,443)
	5,996	5,461
Office furniture & equipment under lease	15	2,091
Less accumulated amortisation	(15)	(988)
	-	1,103
Motor vehicles – under hire purchase	1,197	1,193
Less accumulated depreciation	(497)	(395)
	700	798
Motor vehicles & field lab equipment – under lease		
	5,253	5,014
Less accumulated amortisation	(2,516)	(1,931)
	2,737	3,083
Leasehold improvements – under lease	533	1,200
Less accumulated amortisation	(378)	(889)
	155	311
Property	75	233
Less accumulated depreciation	(63)	(70)
	12	163
Total Property, Plant & Equipment	29,208	27,014

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
12. PROPERTY, PLANT & EQUIPMENT CONTINUED		
(a) Movements in carrying amounts		
Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.		
<i>Laboratory equipment, instruments & amenities – at cost</i>		
Carrying amount at the beginning of the year	3,769	2,821
Additions	919	689
Increase through merger acquisition	1,098	1,375
Disposals	(78)	(390)
Depreciation expense	(1,163)	(1,087)
Transfer between classes	(12)	436
Foreign exchange	(80)	(75)
Carrying amount at the end of the year	4,453	3,769
<i>Equipment & motor vehicles – at cost</i>		
Carrying amount at the beginning of the year	2,292	3,144
Additions	182	357
Increase through merger acquisition	1,104	941
Disposals	(308)	(840)
Depreciation expense	(689)	(1,472)
Foreign exchange	(47)	446
Transfer between classes	130	(284)
Carrying amount at the end of the year	2,664	2,292
<i>Office furniture & equipment – at cost</i>		
Carrying amount at the beginning of the year	10,034	9,165
Additions	1,761	4,794
Increase through merger acquisitions	4,204	588
Disposals	(175)	(267)
Depreciation expense	(4,041)	(4,389)
Foreign exchange	(188)	349
Transfer between classes	896	(206)
Carrying amount at the end of the year	12,491	10,034
<i>Leasehold improvements – at cost</i>		
Carrying amount at the beginning of the year	5,461	2,181
Additions	263	3,726
Increase through merger acquisitions	957	301
Disposals	(12)	(508)
Depreciation expense	(716)	(543)
Foreign exchange	(72)	264
Transfer between classes	115	40
Carrying amount at end of the year	5,996	5,461
<i>Office furniture & equipment – under lease</i>		
Carrying amount at the beginning of the year	1,103	1,474
Additions	-	174
Disposals	-	(15)
Amortisation expense	(92)	(1,050)
Foreign exchange	-	130
Transfer between classes	(1,011)	390
Carrying amount at the end of the year	-	1,103
<i>Motor vehicles – under hire purchase</i>		
Carrying amount at the beginning of the year	798	39
Additions	-	679
Depreciation expense	(135)	(37)
Transfer between classes	37	117
Carrying amount at the end of the year	700	798

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
12. PROPERTY, PLANT & EQUIPMENT CONTINUED		
(a) Movements in carrying amounts continued		
<i>Motor vehicles & field lab equipment – under lease</i>		
Carrying amount at the beginning of the year	3,083	2,184
Additions	925	1,977
Amortisation expense	(1,156)	(1,082)
Foreign exchange	(12)	33
Transfer between classes	(103)	(29)
Carrying amount at the end of the year	2,737	3,083
<i>Leasehold improvements – under lease</i>		
Carrying amount at the beginning of the year	311	1,007
Increase through merger acquisitions	-	19
Additions	15	19
Disposals	(7)	-
Amortisation expense	(112)	(270)
Transfer between classes	(52)	(464)
Carrying amount at the end of the year	155	311
<i>Property – at fair value</i>		
Carrying amount at the beginning of the year	163	11
Additions	-	150
Disposals	(151)	-
Foreign exchange	-	2
Carrying amount at the end of the year	12	163
Total Property, Plant & Equipment		
Carrying amount at the beginning of the year	27,014	22,026
Additions	4,065	12,565
Increase through merger acquisitions	7,363	3,224
Disposals	(731)	(2,020)
Depreciation & amortisation expense	(8,104)	(9,930)
Transfer between classes	-	-
Foreign exchange	(399)	1,149
Carrying amount at the end of the year	29,208	27,014
13. DEFERRED TAX ASSETS & LIABILITIES		
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Assets		
Accruals	2,193	1,719
Provisions	10,034	8,176
Carried forward tax losses	482	932
Lease timing	404	326
Property, plant and equipment	88	393
Change in tax rate (NZ)	9	-
Discretionary reserve	342	-
Capitalised software	340	-
Other	10	446
Total deferred tax assets	13,902	11,992
Set-off of deferred tax liabilities	(10,351)	(9,882)
Net deferred tax assets	3,551	2,110

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
13. DEFERRED TAX ASSETS & LIABILITIES CONTINUED		
Liabilities		
Unrealised foreign exchange gains	741	1,026
Work in progress	7,544	7,122
Prepayments	440	403
Property, plant and equipment	227	2
Cash to accrual adjustment	-	1,447
Intangible items	300	823
Retentions	68	-
Goodwill on acquisition	1,473	-
Other	-	117
Total deferred tax liabilities	10,793	10,940
Set-off of deferred tax assets	(10,351)	(9,882)
Net deferred tax liabilities	442	1,058
NET DEFERRED TAX ASSETS (LIABILITIES)	3,109	1,052

	1 July 2009	Recognised in profit or loss	Recognised directly in equity	Acquired in business combination	30 June 2010
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2010					
Movement in temporary differences during the year:					
Accruals	1,719	616	-	-	2,335
Provisions	8,176	877	-	979	10,032
Capitalised Software	-	340	-	-	340
Carried forward tax losses	932	(450)	-	-	482
Lease Timing	326	(64)	-	-	262
Property, plant & equipment	391	(249)	-	(281)	(139)
Cash to accruals adjustment	(1,447)	1,447	-	-	-
Unrealised foreign exchange gains	(1,026)	285	-	-	(741)
Work in progress	(7,122)	(422)	-	-	(7,544)
Prepayments	(403)	28	-	-	(375)
Goodwill on Acquisition (USA)	-	(1,472)	-	-	(1,472)
Retainage	-	(68)	-	-	(68)
Intangible Items	(823)	523	-	-	(300)
Sundry Items	329	(32)	-	-	297
	1,052	1,359	-	698	3,109

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

13. DEFERRED TAX ASSETS & LIABILITIES CONTINUED

30 June 2009	1 July 2008	Recognised in profit or loss	Recognised directly in equity	Acquired in business combination	30 June 2009
	\$'000	\$'000	\$'000	\$'000	\$'000
Movement in temporary differences during the year:					
Amortised Expenses	51	(51)	-	-	-
Accruals	1,310	409	-	-	1,719
Provisions	6,140	1,775	-	261	8,176
Carried forward tax losses	177	755	-	-	932
Lease timing	164	162	-	-	326
Deferred Rent	131	(131)	-	-	-
Property, plant & equipment	(150)	541	-	-	391
Cash to Accruals Adjustment	(2,133)	686	-	-	(1,447)
Unrealised foreign exchange gains	408	(1,434)	-	-	(1,026)
Work in progress	(6,280)	(837)	-	(5)	(7,122)
Prepayments	(106)	(297)	-	-	(403)
Intangible Items	(300)	130	-	(653)	(823)
Other	285	44	-	-	329
	(303)	1,752	-	(397)	1,052

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
14. INTANGIBLE ASSETS		
Goodwill at cost	335,671	218,035
Works contracts	2,840	2,900
Accumulated amortisation	(2,518)	(2,336)
	322	564
Patents and licenses	2,110	2,110
Software intangibles	1,550	1,795
Accumulated amortisation	(554)	(413)
	996	1,382
	339,099	222,091

	Goodwill \$'000	Works Contracts \$'000	Patents and Trademarks \$'000	Software Intangibles \$'000
Reconciliation of movement in carrying amounts from beginning of year to end of year:				
Consolidated				
Year ended 30 June 2009				
Balance at the beginning of year	161,346	36	2,115	1,678
Additions:				
- acquisition through business combinations				
- current year	47,236	1,039	-	-
- prior year	(36)	-	(5)	-
Amortisation charges	-	(770)	-	(303)
Effect of foreign exchange	9,489	259	-	7
Closing value at 30 June 2009	218,035	564	2,110	1,382
Year ended 30 June 2010				
Balance at the beginning of year	218,035	564	2,110	1,382
Additions:				
- acquisition through business combinations				
- current year	124,502	-	-	-
- prior year	(24)	-	-	-
Amortisation charges	-	(216)	-	(205)
Effect of foreign exchange	(6,842)	(26)	-	(181)
Closing value at 30 June 2010	335,671	322	2,110	996

	2010 \$'000	2009 \$'000
Goodwill is allocated to the following cash-generating units:		
Americas and Software	194,619	99,016
Emerging Markets Region	34,201	34,512
South East Australia & N.Z	47,377	25,033
North & Western Australia	22,473	22,473
Geotechnical Division	37,001	37,001
	335,671	218,035

For the purposes of impairment testing, goodwill is allocated to the Group's management divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

14. INTANGIBLE ASSETS CONTINUED

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period including a terminal value at the end of year five. The cash flows are discounted using a pre-tax discount rate of 11.7% (2009: 12.8%) based on an estimate of the Group's weighted average cost of capital. This is a blended rate based on Cardno's debt to equity profile. Sensitivity analysis at higher rates shows no impairment.

The value-in-use calculations are based on budget forecasts for each cash generating unit for the 2010 year and longer term year-on-year growth rates as assessed by operational management of the businesses. The growth rate is calculated as the average growth rate over the forecast period based upon 2010 baseline performance. These forecasts are based on underlying economic conditions and historical growth of project revenue. Costs are calculated taking into account historical gross margins as well as estimated cost inflation over the period.

The following assumptions were used in the value-in-use calculations:

	Growth Rate	Pre-Tax Discount Rate
Americas and Software	4.7%	11.7%
Emerging Markets Region	2.2%	11.7%
South East Australia & N.Z	3.6%	11.7%
North & Western Australia	6.6%	11.7%
Geotechnical Division	9.3%	11.7%

	2010 \$'000	2009 \$'000
15. OTHER NON-CURRENT ASSETS		
Borrowing costs	89	213
16. TRADE & OTHER PAYABLES (CURRENT)		
Trade payables & accruals	63,988	48,633
Forward exchange contract	-	236
Vendor liability	18,474	9,910
	82,462	58,779
17. INTEREST-BEARING LOANS & BORROWINGS (CURRENT)		
Lease liabilities	1,539	1,928
Hire purchase liabilities	506	418
Bank Loans	47,205	6,630
	49,250	8,976
(i) Details of the terms and conditions of loans and borrowings are set out in Note 20		
18. SHORT-TERM PROVISIONS		
Employee benefits	15,457	13,128
Training benefits	44	78
	15,501	13,206
19. OTHER CURRENT LIABILITIES		
Unearned revenue	29,194	38,033
Deferred Rent	56	-
	29,250	38,033
20. INTEREST-BEARING LOANS & BORROWINGS (NON-CURRENT)		
Lease liabilities	3,291	3,482
Hire purchase liabilities	124	340
Bank Loans	122,575	72,254
	125,990	76,076

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

20. INTEREST-BEARING LOANS & BORROWINGS (NON-CURRENT)

Bank Loans

As at 30 June 2010 the Group has bank loans totalling \$169,779,591 (2009: \$78,884,102), with an effective interest rate of 2.72% (2009: 3.01%).

The facility limits are multi-currency comprising an on-demand working capital / guarantee facility of AUD19.0 million and term acquisition financing facilities of USD129.1 million and GBP8.55m repayable in July 2012. Pricing of the working capital facility is BBSY plus a margin ranging from 2.25% to 3.00% depending on the Maximum Financial Leverage Ratio, while current interest rates on term facilities range from 2.60% pa. to 3.07% pa. The undrawn portion of facilities at 30 June 2010 was AUD17.4 million (2009: AUD10.0 million). Facilities are secured by an unlimited interlocking guarantee and indemnity.

The portion of the bank loans disclosed as a current liability represents amounts due to be repaid within one year.

There were no bank overdrafts in existence at 30 June 2010 (2009: Nil).

	2010 \$'000	2009 \$'000
21. LONG-TERM PROVISIONS		
Employee entitlements	6,527	5,629
22. OTHER NON-CURRENT LIABILITIES		
Deferred rent	394	420
Other	235	511
	629	931

	30 June 2010		30 June 2009	
	No. of shares	\$'000	No. of shares	\$'000
23. ISSUED CAPITAL OF CARDNO LIMITED				
Balance at the beginning of the period	84,272,249	227,457	73,509,653	192,063
- Shares issued during the period:				
- Dividend reinvestment scheme	392,854	1,646	558,162	2,036
- Shares issued for cash	5,410,426	20,663	8,658,018	28,612
- Employee Tax Exempt Share Acquisition Plan	434,932	1,764	485,287	1,541
- Employee share based payments	-	550	-	552
- Conversion of Convertible Notes	-	-	1,061,129	2,653
Balance at the end of the year	90,510,461	252,080	84,272,249	227,457

The Company does not have authorised capital or par value in respect of its issued shares.

All shares are ordinary shares and have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of members.

The Company issued shares subsequent to year end – refer to note 29.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

23. ISSUED CAPITAL OF CARDNO LIMITED CONTINUED

Performance Equity Plan (PEP)

The PEP is designed to reward strong performance by individuals within the Cardno Group of companies. Options and Rights are issued under the PEP (made in accordance with thresholds set in the plan approved at the 2009 AGM) which provides certain employees (as determined by the Managing Director and Remuneration Committee) with the opportunity to acquire shares in the Company, or rights to acquire shares in the Company.

Movements in options throughout the year were as follows:

Grant Date	Exercise Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date \$	Number of Options at Beginning of Year	Options Granted	Options Lapsed	Options Vested Not Exercised	Number of Options as at 30 June 2010	
25 October 2007	19 October 2009	25 October 2009	7.57	0.68	230,000	-	-	230,000	-	
25 October 2007	19 October 2010	25 October 2010	7.57	0.92	330,000	-	-	-	330,000	
5 December 2007	29 November 2009	5 December 2009	7.71	0.70	1,272,500	-	103,000	1,169,500	-	
5 December 2007	29 November 2010	5 December 2010	7.71	0.95	1,719,000	-	180,500	-	1,538,500	
5 December 2008	29 November 2011	5 December 2011	3.35	0.41	2,421,000	-	163,000	-	2,258,000	
2 December 2009	2 December 2012	2 December 2013	4.43	0.77	-	2,244,900	-	-	2,244,900	
Weighted average exercise price						5.93	4.43	6.12	7.69	5.00
Weighted average remaining contract life										670 days
Total expense recognised \$454,311 (2009: \$552,687)										

The options outstanding at 30 June 2010 have an exercise price in the range of \$3.35 to \$7.71. These options do not entitle the holder to participate in any share issue of the Company.

The options issued prior to FY2010 are subject to a performance hurdle and will not vest unless there has been at least a 5% improvement per year (compounded) in the earnings per share of the Company over the vesting periods.

The options issued during FY2010 are subject to a performance hurdle and to vest the Company must achieve earnings per share (EPS) growth in accordance with the following scale:

EPS Growth Over 3 Years	% of Performance Options in Tranche to Vest
<12.5% (<4% pa)	0%
12.5% (4% pa)	30%
>12.5% (4% pa) & <26% (8% pa)	Pro rata
26% (8% pa)	70%
>26% (8% pa) & <40% (12% pa)	Pro rata
≥40% (12% pa)	100%

The fair values of options granted during the year has been calculated using the Black-Scholes model, taking into account price volatility, risk free interest rates and the dividend yield.

The model inputs for the fair value of options granted during the year ended 30 June 2010 include share price at grant date of \$4.07 (2009: \$3.26), expected price volatility of the companies shares of 42% (2009: 33%), expected dividend yield of 8.00% (2009: 8.28%) and risk free interest rate of 4.61% (2009: 6.73%).

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

23. ISSUED CAPITAL OF CARDNO LIMITED CONTINUED

Movements in rights throughout the year were as follows:

Grant Date	Exercise Date	Expiry Date	Performance Hurdle	Fair Value at Grant Date \$	Number of Rights at Beginning of Year	Rights Granted	Rights Lapsed	Rights Vested Not Exercised	Number of Rights as at 30 June 2010
22 October 2009	22 October 2012	22 October 2013	EPS Growth	3.96	-	67,500	-	-	67,500
			TSR	3.19	-	67,500	-	-	67,500
2 December 2009	2 December 2012	2 December 2013	EPS Growth	3.20	-	112,000	-	-	112,000
			TSR	2.30	-	112,000	-	-	112,000
Total expense recognised \$95,899 (2009: NIL)									

The fair values of rights granted during the year with a total shareholder return performance hurdle, have been calculated using a Monte-Carlo simulation valuation model taking into account price volatility, risk free interest rates and comparator company shareholder return performance. The fair value of rights with the EPS growth hurdle was calculated using a Black-Scholes model taking into account price volatility, risk free interest rates and the dividend yield.

The model inputs for the fair value of rights granted during the year ended 30 June 2010 include share price of \$5.03 (22 October 2009) and \$4.07 (2 December 2009) at grant date, expected price volatility of 42%, expected dividend spread of 8.00% and risk free interest rate of 5.25% (22 October 2009) and 4.61% (2 December 2009).

The rights are subject to performance hurdles being 50% of the Rights, may vest, on a sliding scale, dependent on relative total shareholder return performance and 50% of the Rights, may vest, on a sliding scale, dependent on earnings per share growth. The EPS performance hurdle tranche of the rights vest on a sliding scale depending on EPS growth averaged over 3 years.

Employee Share Acquisition Plans ("ESAP")

Shares are issued under the ESAP (made in accordance with thresholds set out in plans approved by shareholders at the 2009 AGM). It provides employees with the opportunity to acquire shares in the Company for no consideration as a bonus component of their remuneration. Employees with 12 months service or greater who have worked an average of 100 hours or more per month are entitled to \$1,000 of shares each year and employees with 6 to 12 months service are entitled to \$500 of shares each year. Employees who work part time, who have greater than 12 months service and who have worked more than 600 hours per year are also entitled to \$500 of shares each year. Shares issued under ESAP rank equally with other fully paid ordinary shares from the date of issue.

Shares are issued in the name of the participating employee and are subject to a restriction period. The shares are restricted under the plan until the earlier of three years from the date of acquisition or the date they cease to be an employee. Once the restriction period is lifted the shares can be traded as fully paid ordinary shares. The ESAP has no conditions that could result in the recipient forfeiting ownership of shares.

24. RESERVES

Foreign Currency Translation

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign Group entities where their functional currency is different to the presentation currency of the reporting entity as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
25. NOTES TO THE CASH FLOW STATEMENTS		
(a) Reconciliation of Net Cash from Operating Activities to Net profit/(loss) for the year		
Net profit/(loss) for the year	37,597	34,153
Adjust for non-cash items		
Depreciation	6,612	7,492
Amortisation	1,913	3,511
Dividend received	-	-
Gain/(loss) on sale of property, plant & equipment	33	432
Net exchange differences	1,037	(2,528)
Share based remuneration	2,321	2,094
Adjust for changes in assets and liabilities		
(increase) / decrease in assets:		
Inventories	(1,258)	(4,714)
Deferred tax assets	(691)	(3,027)
Trade receivables	13,366	1,856
Provision for doubtful debts	1,322	1,540
Other receivables	1,642	65
Prepayments	1,197	(181)
Other assets	(871)	(44)
Increase / (decrease) in liabilities:		
Trade payables	(5,375)	(4,133)
Income tax payable	(1,222)	(5,654)
Employee provisions	(101)	(2,591)
Unearned revenue	(9,630)	7,894
Other liabilities	(250)	519
Deferred tax liabilities	(897)	1,905
	46,745	38,589
(b) Reconciliation of cash		
For the purposes of the cash flow statements, cash includes cash on hand, restricted cash and bank deposits at call net of bank overdrafts. Cash at the end of the year as shown in the cash flow statements is reconciled to related items in the accounts as follows:		
Cash and cash equivalents (Note 6)	56,282	65,808
Restricted cash (project advances) can only be drawn in relation to specific projects for which it has been provided.		
(c) Non-cash financing and investing activities		
During the financial year, the consolidated entity acquired property, plant and equipment with an aggregate fair value of \$939,867 (2009: \$2,848,899) by means of finance leases. These acquisitions are not reflected in the cash flow statements.		
(d) Acquisition of entities		
Details of the acquisitions are as follows:		
Purchase consideration		
Cash consideration	132,670	43,973
Vendor liability	18,474	9,027
Accrued costs relating to acquisition	-	91
Direct costs relating to acquisition	-	620
Consideration	151,144	53,711

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
25. NOTES TO THE CASH FLOW STATEMENTS CONTINUED		
Assets and liabilities held at acquisition date:		
Cash	3,184	1,950
Receivables	29,282	15,217
Deferred tax assets	750	233
Property, plant & equipment	7,363	3,224
Intangibles*	-	1,039
Inventories	13,819	3,795
Creditors and borrowings	(24,756)	(10,721)
Deferred tax liabilities	(281)	
Provisions	(2,719)	(8,262)
	26,642	6,475
Goodwill on acquisition*	124,502	47,236
Consideration	151,144	53,711
Net cash outflow on acquisition		
Cash consideration	132,670	43,973
Less balance acquired	(3,184)	(1,950)
	129,486	42,023

* As disclosed in note 34, the acquisitions of ENTRIX and ERI were completed on 10 June 2010. Accordingly, the accounting for these acquisitions has been completed on a provisional basis. Further analysis will be performed to determine the existence and fair value of any identifiable intangible assets acquired as part of the acquisition.

	2010 \$'000	2009 \$'000
26. CAPITAL AND LEASING COMMITMENTS		
Finance leases and hire purchase		
Commitments in relation to finance leases are payable as follows:		
- Within one year	2,531	2,975
- Later than one year but not later than 5 years	3,922	4,481
- Later than 5 years	-	-
- Minimum lease payments	6,453	7,456
Less: Future finance charges	(993)	(1,288)
Recognised as a liability	5,460	6,168
Present value of minimum lease and hire purchase payment		
Commitments in relation to finance leases are payable as follows:		
- Within one year	2,045	2,346
- Later than one year but not later than 5 years	3,415	3,822
- Later than 5 years	-	-
Recognised as a liability	5,460	6,168
Finance leases are taken out over motor vehicle, leasehold improvements and plant and equipment, with terms varying between 3 and 5 years.		
Representing lease and hire purchase liabilities:		
Current (note 17)	2,045	2,346
Non-current (note 20)	3,415	3,822
	5,460	6,168

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
26. CAPITAL AND LEASING COMMITMENTS CONTINUED		
Operating Leases		
- Within one year	25,970	20,347
- Later than one year but not later than 5 years	52,032	42,163
- Later than 5 years	28,021	20,683
Commitments not recognised in the financial statements	106,023	83,193
<p>The Group leases office premises under operating leases, with terms varying from 3 to 10 years. The majority of leases provide for an option of renewal at the end of the lease term. Premise leases are subject to annual review for changes in the CPI index and contain restrictions on sub-leasing. The Group also leases various plant & equipment under terms between 2 and 5 years as well as software licenses with a term of 3 years subject to annual review based on the number of licences exercised.</p>		
27. EMPLOYEE BENEFITS & COMPENSATION COMMITMENT		
The aggregate employee benefit liability is comprised of:		
Accrued wages, salaries and on-costs (included in payables)	15,063	13,693
Provisions (current) (note 18)	15,501	13,206
Provisions (non-current) (note 21)	6,527	5,629
	37,091	32,528
Number of employees		
Number of full time equivalent employees at 30 June	3,657	3,008
Defined contribution superannuation expense for the year ended 30 June 2010 was \$9,752,309 (2009: \$10,295,787)		

28. CONTINGENT LIABILITIES

As at the date of this report, there is no current litigation or pending or threatened litigation which would not be covered by professional indemnity insurance or has not already been provided for in the financial statements of the Company, or which is likely to have a material effect on the financial performance of the consolidated entity.

The consolidated entity had contingent liabilities at 30 June 2010 in respect of:

	2010 \$'000	2009 \$'000
Bank guarantees	7,287	9,891

The Group has bank guarantees with financial institutions. A multiple guarantee facility is available to the Group totalling \$19 million (2009: \$19 million). These facilities are secured by an unlimited interlocking guarantee and indemnity.

29. SUBSEQUENT EVENTS

On 11 August 2010 Cardno completed a \$49 million capital raising via a 1:6 fully underwritten renounceable rights issue. The number of ordinary shares issued under the rights issue was 15,089,139. The capital raised will be used to reduce debt used for the June 2010 acquisition of ENTRIX and ERI and for working capital.

On 16 August 2010, the Directors of Cardno Limited declared a final dividend of 15.0 cents per share for the 2010 financial year. The fully franked dividend will be paid on 15 October 2010 to shareholders registered on 17 September 2010 and will total \$15,839,940. The dividend has not been provided for in the 30 June 2010 financial statements.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010	2009
30. EARNINGS PER SHARE		
Basic earnings per share		
The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of \$37,597,311 (2009: \$34,153,794) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 85,716,101 (2009: 77,932,437), calculated as follows:		
Profit attributable to ordinary shareholders	37,597,311	34,153,794
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	84,272,249	73,509,653
Effect of shares issued for cash consideration	1,308,010	3,201,881
Effect of shares issued in respect of employee share scheme	135,842	168,496
Effect of shares issued from conversion of convertible notes	-	1,052,407
Weighted average number of ordinary shares at 30 June	85,716,101	77,932,437
Options and rights are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share.		
Diluted earnings per share		
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Profit attributable to ordinary shareholders (diluted)		
Profit attributable to ordinary shareholders	37,597,311	34,153,794
After-tax effect of interest on convertible notes	-	-
Profit attributable to ordinary shareholders (diluted)	37,597,311	34,153,794
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 30 June	85,716,101	77,932,437
Effect of convertible notes	-	9,069
Effect of share options and rights on issue	493,905	1,066
Weighted average number of ordinary shares (diluted) at 30 June	86,210,006	77,942,572

4,113,400 options issued during the 2008 and 2010 financial years and still on issue as at 30 June 2010 have not been included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2010. These options could potentially dilute basic earnings per share in the future.

Subsequent Event – Impact of Rights Issue

On 11 August 2010 Cardno completed a \$49 million capital raising via a 1:6 fully underwritten renounceable rights issue. The number of ordinary shares issued under the rights issue was 15,089,139.

The current and prior year basic and diluted earnings per share have not been adjusted by the bonus element associated with the rights issue (factor of 1.02) as it is not material.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

	2010 \$	2009 \$
31. AUDITOR'S REMUNERATION		
Audit services		
Auditors of the Company		
KPMG Australia:		
- Audit and review of financial reports	220,000	-
Overseas KPMG firms:		
- Audit and review of financial reports	272,000	-
	492,000	-
Other auditors		
- Audit and review of financial reports	127,117	667,176
	619,117	667,176
Other services		
Auditors of the Company		
KPMG Australia:		
- Other assurance services	-	-
- Taxation services	-	-
Overseas KPMG firms:		
- Taxation services	2,350	-
	2,350	-
Other auditors		
- Other assurance services	54,535	21,548
- Taxation services	131,262	127,590
	188,147	149,138

32. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation included in employee benefits are as follows:

	2010 \$'000	2009 \$'000
Short-term employee benefits	4,175	3,996
Other long-term benefits	198	198
Post-employment benefits	405	611
Termination benefits	131	-
Equity compensation benefits	606	94
	5,515	4,899

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

32. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Cardno Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2010 OPTIONS	Held at 1 July 2009	Granted as compensation	Lapsed	Vested (not exercised)	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Directors						
A D Buckley	250,000	-	-	100,000	150,000	-
J I Forbes	120,000	-	-	50,000	70,000	-
T C Johnson	90,000	-	-	40,000	50,000	-
G G Tamblyn	60,000	-	-	20,000	40,000	-
Executives						
R J K Collins-Woolcock	135,000	-	-	30,000	105,000	-
P W Gardiner	170,000	-	-	45,000	125,000	-
M J Renshaw	135,000	-	-	30,000	105,000	-
Kylie Sprott	-	-	-	-	-	-
S V Coote *	170,000	-	170,000	-	-	-
C W N Tapp *	110,000	-	-	25,000	85,000	-

* ceased to be employed during the financial year ended 30 June 2010

No options held by key management personnel had vested and were exercisable as at 30 June 2010.

2009 OPTIONS	Held at 1 July 2008	Granted as compensation	Vested (not exercised)	Held at 30 June 2009	Vested and exercisable at 30 June 2009
Directors					
A D Buckley	310,000	-	60,000	250,000	-
J I Forbes	150,000	-	30,000	120,000	-
T C Johnson	120,000	-	30,000	90,000	-
G G Tamblyn	75,000	-	15,000	60,000	-
Executives					
R J K Collins-Woolcock	100,000	60,000	25,000	135,000	-
S V Coote	140,000	70,000	40,000	170,000	-
P W Gardiner	140,000	70,000	40,000	170,000	-
M J Renshaw	100,000	60,000	25,000	135,000	-
C W N Tapp	60,000	50,000	-	110,000	-

The movement during the reporting period in the number of rights over ordinary shares in Cardno Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2010 RIGHTS	Held at 1 July 2009	Granted as compensation	Vested	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Directors					
A D Buckley	-	60,000	-	60,000	-
J I Forbes	-	30,000	-	30,000	-
T C Johnson	-	25,000	-	25,000	-
G G Tamblyn	-	20,000	-	20,000	-
Executives					
R J K Collins-Woolcock	-	30,000	-	30,000	-
P W Gardiner	-	30,000	-	30,000	-
M J Renshaw	-	30,000	-	30,000	-
Kylie Sprott	-	8,000	-	8,000	-

The fair value of options and rights are provided in the Remuneration Report section of the Directors' Report and in note 23.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

32. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Movements in shares

The movement during the reporting period in the number of ordinary shares in Cardno Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2010

	Held at 1 July 2009	Purchases	Received as Compensation	Sales	Held at 30 June 2010
Non-Executive Directors					
John Massey	44,382	5,618	-	-	50,000
Anthony Barnes	3,348	118	-	-	3,466
Peter Cosgrove	-	-	-	-	-
Ian Johnston	207,390	-	-	-	207,390
Executive Directors					
Graham Tamblyn	1,426,330	521	-	210,000	1,216,851
Andrew Buckley	2,359,037	-	-	-	2,359,037
Jeffrey Forbes	19,947	1,358	-	-	21,305
Trevor Johnson	1,967,399	-	-	-	1,967,399
Executives					
Roger Collins-Woolcock	653,652	-	245	-	653,897
Paul Gardiner	800,141	-	245	-	800,386
Michael Renshaw	153,213	10,359	245	-	163,817
Kylie Sprott	-	3,580	-	-	3,580

2009

	Held at 1 July 2008	Purchases	Received as Compensation	Sales	Held at 30 June 2009
Non-Executive Directors					
John Massey	30,687	13,695	-	-	44,382
Anthony Barnes	-	3,348	-	-	3,348
Peter Cosgrove	-	-	-	-	-
Ian Johnston	200,000	7,390	-	-	207,390
Executive Directors					
Graham Tamblyn	1,407,000	19,330	-	-	1,426,330
Andrew Buckley	2,322,952	36,085	-	-	2,359,037
Jeffrey Forbes	3,377	16,570	-	-	19,947
Trevor Johnson	1,963,704	3,695	-	-	1,967,399
Executives					
Roger Collins-Woolcock	791,090	-	314	137,752	653,652
Steven Coote*	556,546	-	314	-	556,860
Paul Gardiner	796,132	3,695	314	-	800,141
Michael Renshaw	149,284	3,615	314	-	153,213
Charles Tapp*	161	-	314	-	475

* ceased to be employed during the financial year ended 30 June 2010.

Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

One of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

32. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

- (i) Mr A D Buckley was a Director of CBD Professional Services Pty Ltd (until 17 December 2009). The aggregate amount the consolidated entity billed for services performed by Mr Buckley was \$20,688 (2009: \$25,220). The consolidated entity also used Carter Newell Lawyers (associated with CBD Professional Services Pty Ltd) for legal advice throughout the year and the aggregate amount of fees expensed was \$651 (2009: \$5,136).

33. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and ageing analysis for credit risk. The Board through the Audit, Risk & Compliance Committee reviews and agrees policies for managing these risks and ensures strategies are implemented in the business. A Quality Management System and an Operational Risk Committee supports consistent risk mitigation practices and procedures in order to maintain a consistent level of quality across the Group which includes the minimisation of risk. The policies for managing each of the Group's risks are summarised below and remain unchanged from the prior year.

The Group holds the following financial instruments:

	2010 \$'000	2009 \$'000
Financial assets		
Cash and cash equivalents	56,282	65,808
Trade and other receivables	104,779	93,722
Investments in non-related entities	836	553
	161,897	160,083
Financial liabilities		
Trade and other payables	82,462	58,779
Interest-bearing loans and borrowings	175,240	85,052
	257,702	143,831

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 maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised above.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers in accordance with the policy. The Group does not require collateral in respect of financial assets. Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than an approved rating. There are no significant concentrations of credit risk within the Group.

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

	2010 \$'000	2009 \$'000
Australia & New Zealand	39,549	35,459
Americas	41,763	29,055
Asia Pacific	10,587	12,920
Europe & Africa	8,481	10,446
	100,380	87,880

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

33. FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk continued

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

	2010		2009	
	Gross \$'000	Impairment \$'000	Gross \$'000	Impairment \$'000
Not past due (current)	58,705	-	42,122	-
Past due 0-30 days (30 day ageing)	23,912	-	17,341	-
Past due 31-60 days (60 day ageing)	6,303	-	9,024	-
Past due more than 60 days (+90 day ageing)	20,446	8,986	24,796	5,403
	109,366	8,986	93,283	5,403

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of receivables not past due or past due by up to 60 days. For those receivables outstanding more than 60 days each debtor has been individually analysed and a provision for impairment established as necessary.

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

	2010 \$'000	2009 \$'000
Balance at 1 July	5,403	3,112
Impairment loss recognised	2,699	2,951
Receivables written off	(1,242)	(1,602)
Merger acquisition	2,218	751
Foreign exchange	(92)	191
Balance at 30 June	8,986	5,403

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient committed credit lines available to meet the Group's requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated 30 June 2010	Carrying amount	Contractual cash flows \$'000	Less than 1 year	1 – 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	82,462	82,462	82,462	-	-
Finance leases & hire purchase	5,460	6,453	2,531	3,922	-
Bank loans	169,780	170,120	47,819	122,301*	-
Derivative financial liabilities					
Forward exchange contract	-	-	-	-	-
	257,702	259,035	132,812	126,223	-

* Bank loans are a term facility repayable in July 2012.

On 11 August 2010 Cardno completed a \$49 million capital raising via a 1:6 fully underwritten renounceable rights issue. The number of ordinary shares issued under the rights issue was 15,089,139. The capital raised will be used to reduce debt used for the June 2010 acquisition of ENTRIX and ERI and for working capital.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

33. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk continued

Consolidated 30 June 2009	Carrying amount	Contractual cash flows \$'000	Less than 1 year	1 – 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	58,543	58,543	58,543	-	-
Finance leases & hire purchase	6,168	7,456	2,975	4,481	-
Bank loans	78,884	79,067	6,919	72,148	-
Derivative financial liabilities					
Forward exchange contract	236	236	236	-	-
	143,831	145,302	68,673	76,629	-

Market risk

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the functional currency of the respective Group entities. The Group operates internationally and is exposed to foreign exchange risk arising from the currency exposure to the Australian dollar.

The Group borrows funds in foreign currencies to hedge its net investments in foreign operations. The Group has loans totalling \$148.3 million (2009: \$54.7 million) denominated in US dollars (USD) and \$14.0 million (2009: \$17.5 million) denominated in sterling (GBP) which have been designated as hedges of the Group's net investments in subsidiaries with functional currencies in those currencies.

As at 30 June 2010, a 10% strengthening of the Australian dollar against the USD and GBP would have increased equity by \$13.5 million (2009 \$5.0 million) and \$1.3 million (2009: \$1.6 million) respectively. A 10% weakening of the Australian dollar against the USD and GBP would have decreased equity by \$16.5 million (2009 \$6.1 million) and \$1.6 million (2009: \$1.9 million) respectively. There would be no impact on profit and loss as the loans are designated as net investment hedges.

Other than interest bearing liabilities, there are no other significant foreign currency exposures in relation to financial instruments at year end.

(b) Interest rate risk

The Group manages its exposure to interest rate fluctuation by continuously monitoring its debt to ensure any significant movement would not have a material impact on the performance of the Group. The Group does not engage in any significant transactions which are of a speculative nature.

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

Consolidated	30 June 2010		30 June 2009	
	Effective Interest Rate	Balance \$'000	Effective Interest Rate	Balance \$'000
Variable rate instruments				
Cash assets	3.10%	56,282	2.48%	65,808
Bank loans	2.72%	(169,769)	3.00%	(78,728)
		(113,487)		(12,920)
Fixed rate instruments				
Finance leases & hire purchase	7.93%	(5,460)	8.49%	(6,168)
Bank loans	8.00%	(11)	6.56%	(156)
		(5,471)		(6,324)

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

33. FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

Group sensitivity

At 30 June 2010, if interest rates had changed by +/- 50 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$397,000 higher/lower (2009: \$45,000 higher/lower), mainly as a result of lower/higher interest expense on variable bank loans partially offset by higher/lower interest income from cash and cash equivalents. There have been no changes in the underlying assumptions from the previous year.

Fair values

The carrying values of financial assets and liabilities approximate their fair values due to their relatively short term nature.

Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

34. BUSINESS COMBINATIONS

Year ended 30 June 2010

- (a) During the year the Group acquired 100% of the net assets of ITC Group with an effective date of 1 January 2010 and Australian Underground Services Pty Ltd (AUS) with an effective date of 1 April 2010.

ITC is an Australian based services consulting engineering firm with offices in five Australian States and Territories with around 100 staff. AUS is an Australian based utility detection and mapping services firm with around 30 staff based in Victoria.

The acquired businesses contributed revenues of \$9,840,744 and net profit after tax (NPAT) of \$1,457,039 to the Group for the year. If the acquisitions had occurred on 1 July 2009 revenue and NPAT for the Group would have been \$489,280,901 and \$38,696,379 respectively.

Details of acquisitions

	<u>\$'000</u>
Purchase Consideration	
Cash	24,993
Vendor liability (including contingent consideration)	<u>2,775</u>
Total purchase consideration	<u>27,768</u>
Fair value of net identifiable assets acquired	5,929
Goodwill	<u>21,839</u>

At the time of purchase the vendors of ITC Group subscribed for shares in Cardno Limited to the value of \$5,801,549 and the vendors of Australian Underground Services Pty Ltd (AUS) subscribed for shares in Cardno Limited to the value of \$1,498,038. The fair value of the ordinary shares issued was based on the 10 day volume weighted average price (VWAP) for AUS of Cardno Limited shares and the 30 day VWAP for ITC Group of Cardno Limited shares. The fair value price was \$4.16 for the purchase of shares by vendors of ITC Group issued 11 February 2010 and \$3.99 for the purchase of shares by vendors of Australian Underground Services Pty Ltd issued 14 May 2010.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

34. BUSINESS COMBINATIONS CONTINUED

Contingent consideration

Cardno Limited has agreed to pay an amount of \$1,775,170 to the selling shareholders of ITC Group as additional consideration relating to the collection of accounts receivable as at 1 January 2010. This has been included in purchase consideration based on estimates of the amount that will be payable to the acquiree.

Cardno Limited has agreed to pay the selling shareholders of Australian Underground Services Pty Ltd additional consideration of \$1,000,000 if the acquiree's normalised EBIT over the period 1 January 2010 to 31 December 2010 is \$1,700,000. This amount has been included in the purchase consideration based on estimates of the acquiree's financial performance over the earn-out period.

The goodwill is attributable to the skills and technical talent of the employee's of the ITC Group and Australian Underground Services, the synergies expected to be achieved from integrating the Company into the Group's existing operations.

The Group incurred acquisition related costs of \$137,506 relating to external legal fees and due diligence costs. These legal fees and due diligence costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

The assets and liabilities arising from the acquisitions are as follows:

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	1,439	1,439
Receivables	5,512	5,512
Deferred tax assets	261	261
Property, plant and equipment	1,795	1,795
Creditors & borrowings	(1,963)	(1,963)
Provisions	(1,115)	(1,115)
Net identifiable assets acquired	5,929	5,929
Outflow of cash to acquire subsidiaries, net of cash acquired		
Cash consideration		24,993
Less: Balances acquired		
Cash		1,439
Outflow of cash		23,554

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

34. BUSINESS COMBINATIONS CONTINUED

- (b) On 10 June 2010, the Group acquired 100% of ENTRIX, a US based consultancy specialising in water resources management, environmental risk management, facility permitting and compliance, and natural resource economics. The effective date of acquisition was 1 June 2010.

For the period 1 June 2010 – 30 June 2010, the acquired business contributed revenue of \$16,845,375 and net profit after tax of \$3,005,122.

If the acquisition had occurred on 1 July 2009 revenue and NPAT for the Group would have been \$584,149,348 and \$41,702,922 respectively.

Details of acquisitions

	\$'000
Purchase Consideration	
Cash	81,067
Vendor liability	4,294
Total purchase consideration	85,361
Fair value of net identifiable assets acquired*	17,088
Goodwill*	68,273

* The acquisition of ENTRIX was completed on 10 June 2010. Accordingly, the accounting for this acquisition has been completed on a provisional basis. Further analysis will be performed to determine the existence and fair value of any identifiable intangible assets acquired as part of the acquisition.

At the time of purchase the vendors of ENTRIX subscribed for shares in Cardno Limited to the value of \$4,428,168. The fair value of the ordinary shares issue was based on the 10 day VWAP of Cardno Limited shares. The fair value price was \$3.71 for the purchase of shares by vendors of ENTRIX issued 10 June 2010.

The goodwill is attributable to the skills and technical talent of the employee's of ENTRIX, the synergies expected to be achieved from integrating the Company into the Group's existing operations.

The Group incurred acquisition related costs of \$752,730 relating to external legal fees and due diligence costs. These legal fees and due diligence costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

The assets and liabilities arising from the acquisitions are as follows:

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	1,071	1,071
Receivables	20,079	20,079
Inventories	11,832	11,832
Deferred tax assets	718	718
Property, plant and equipment	4,138	4,138
Creditors & borrowings	(19,254)	(19,254)
Deferred tax liabilities	(239)	(239)
Provisions	(1,257)	(1,257)
Net identifiable assets acquired	17,088	17,088
Outflow of cash to acquire subsidiaries, net of cash acquired		
Cash consideration		81,067
Cash balance acquired		1,071
Outflow of cash		79,996

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

34. BUSINESS COMBINATIONS CONTINUED

- (c) On 10 June 2010 the Group acquired 100% of Environmental Resolutions, Inc, an environmental soil and groundwater remediation firm primarily focussed on the petro-chemical market in the US. The effective date was 1 June 2010.

For the period 1 January 2010 – 30 June 2010, the acquired business contributed revenues of \$1,456,831 and net profit after tax of \$425,548.

If the acquisition had occurred on 1 July 2009 revenue and NPAT for the Group would have been \$517,633,465 and \$42,052,758 respectively.

Details of acquisitions

	<u>\$'000</u>
Purchase Consideration	
Cash	26,610
Vendor liability (including contingent consideration)	<u>11,404</u>
Total purchase consideration	38,014
Fair value of net identifiable assets acquired*	3,624
Goodwill*	<u>34,390</u>

* The acquisition of ERI was completed on 10 June 2010. Accordingly, the accounting for this acquisition has been completed on a provisional basis. Further analysis will be performed to determine the existence and fair value of any identifiable intangible assets acquired as part of the acquisition.

At the time of purchase the vendors of Environmental Resolutions Inc. subscribed for shares in Cardno Limited to the value of \$6,784,390. The fair value of the ordinary shares issued based on the 10 day VWAP of Cardno Limited shares. The fair value price was \$3.71 for the purchase of shares by vendors of Environmental Resolutions Inc issued 10 June 2010.

Contingent consideration

Cardno Limited has agreed to pay the selling shareholders of Environmental Resolutions, Inc additional consideration of USD8,089,000 if the acquiree's normalised EBITDA over the period 1 June 2010 to 31 May 2011 exceeds USD6,371,000. This amount has been included in the purchase consideration based on estimates of the acquiree's financial performance over the earn-out period.

The goodwill is attributable to the skills and technical talent of the employee's of Environmental Resolutions Inc, the synergies expected to be achieved from integrating the Company into the Group's existing operations.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

34. BUSINESS COMBINATIONS CONTINUED

The Group incurred acquisition related costs of \$546,593 relating to external legal fees and due diligence costs. These legal fees and due diligence costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

The assets and liabilities arising from the acquisitions are as follows:

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	674	674
Receivables	3,693	3,693
Inventories	1,985	1,985
Deferred tax assets	-	-
Property, plant and equipment	1,431	1,431
Creditors & borrowings	(3,541)	(3,540)
Deferred tax liabilities	(42)	(42)
Provisions	(576)	(576)
Net identifiable assets acquired	3,624	3,624
Outflow of cash to acquire subsidiaries, net of cash acquired		
Cash consideration		26,610
Cash balance acquired		674
Outflow of cash		25,936

Year ended 30 June 2009

- (a) The Group acquired the issued share capital of The Ecology Lab Pty Ltd and Spectrum Survey & Mapping Pty Ltd with an effective acquisition date of 1 July 2008.

The acquired businesses contributed revenues of \$8,876,918 and net profit after tax of \$981,663 to the Group for the year.

The Ecology Lab is a Sydney based consultant specialising in marine and freshwater ecology while Spectrum Survey & Mapping is a specialist survey firm based in Perth and Kalgoorlie.

Details of acquisitions

	\$'000
Purchase Consideration	
Cash	7,400
Direct costs relating to the acquisitions	122
Total purchase consideration	7,522
Fair value of net identifiable assets acquired	2,987
Goodwill	4,535

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

34. BUSINESS COMBINATIONS CONTINUED

The assets and liabilities arising from the acquisitions are as follows:

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	1,527	1,527
Receivables	1,995	1,995
Inventories	17	17
Deferred tax assets	233	233
Property, plant and equipment	1,581	1,581
Creditors & borrowings	(1,288)	(1,288)
Provisions	(1,078)	(1,078)
Net identifiable assets acquired	2,987	2,987
Outflow of cash to acquire subsidiaries, net of cash acquired		
Cash consideration		7,400
Less: Balances acquired		
Cash		1,527
Outflow of cash		5,873

(b) The Group also acquired the issued share capital of TBE Group Inc, a US based infrastructure services firm with offices across 19 US states as well as China, the UK and Canada, with an effective acquisition date of 15 September 2008 and contributed revenues of \$75,381,574 and net profit after tax (NPAT) of \$6,260,221 to the Group.

If the acquisition had occurred on 1 July 2008 revenue and NPAT for the Group would have been \$606,730,344 and \$41,856,788 respectively.

Details of acquisition

	\$'000
Purchase Consideration	
Cash	36,573
Vendor liability – earn-out agreement	9,027
Direct costs relating to the acquisitions	589
Total purchase consideration	46,189
Fair value of net identifiable assets acquired	3,488
Goodwill	42,701

The assets and liabilities arising from the acquisition are as follows:

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	423	423
Receivables	13,222	13,222
Inventories	3,778	3,778
Property, plant and equipment	1,643	1,643
Intangibles	-	1,039
Provisions	(7,184)	(7,184)
Creditors & borrowings	(9,433)	(9,433)
Net identifiable assets acquired	2,449	3,488
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration		36,573
Less: Balances acquired		
Cash		423
Outflow of cash		36,150

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

35. SEGMENT INFORMATION

The Group has three reportable segments managed separately by location and service provided. Internal management reports on the performance of these reportable segments, are reviewed monthly by the Managing Director, Chief Financial Officer and Group Operations Manager. The following summary describes the operations in each of the Group's reportable segments:

- Professional Services Australia and New Zealand – provides consulting engineering, planning, surveying, landscape architecture, environmental services and geotechnical services in that region.
- Professional Services Americas and Software – provides consulting engineering, planning, surveying, landscape architecture and environmental services in the Americas and software sales globally.
- International Development Assistance – manages aid projects on behalf of unilateral and multilateral government agencies and private clients.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments*.

2010	Professional Services Australia & NZ	Professional Services Americas & Software	International Development Assistance	Total \$'000
Segment revenue				
Fees from services and sale of goods	208,353	71,875	96,349	376,577
Fees from recoverable expenses	10,146	42,655	45,964	98,765
Inter-segment revenue	-	-	(1,590)	(1,590)
External sales	218,499	114,530	140,723	473,752
Other income	1,586	186	285	2,057
Total segment revenue	220,085	114,716	141,008	475,809
Segment result before financing costs	34,285	11,065	4,009	49,359
Segment assets	217,452	283,807	97,961	599,220
Segment liabilities	91,260	37,040	48,148	176,448
Other				
Acquisitions of non-current segment assets	26,980	69,576	237	96,793
Depreciation and amortisation of segment assets	6,032	1,872	621	8,525

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

35. SEGMENT INFORMATION CONTINUED

2009	Professional Services Australia & NZ	Professional Services Americas & Software	International Development Assistance	Total \$'000
Segment revenue				
Fees from services and sale of goods	224,962	70,309	118,595	413,866
Fees from recoverable expenses	11,788	38,265	51,858	101,911
Inter-segment revenue	-	-	(3,193)	(3,193)
External sales	236,750	108,574	167,260	512,584
Other income	1,028	234	524	1,786
Total segment revenue	237,778	108,808	167,784	514,370
Segment result				
before financing costs	29,886	6,873	7,004	43,763
Segment assets	202,767	140,119	109,022	451,908
Segment liabilities	82,903	12,530	52,599	148,032
Other				
Acquisitions of non-current segment assets	62,242	1,783	268	64,293
Depreciation and amortisation of segment assets	7,308	2,833	862	11,003

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2010 \$'000	2009 \$'000
Revenues		
Total revenue for reportable segments	475,342	515,777
Elimination of inter-segment revenue	(1,590)	(3,193)
Interest revenue	1,429	1,472
Other income	2,057	1,786
Consolidated revenue	477,238	515,842
Profit or loss		
Reportable segment result before net financing costs	49,359	43,763
Interest Revenue	1,429	1,472
Finance costs	(3,166)	(4,637)
Other corporate (costs)/gains	(4,043)	1,494
Profit before tax	43,579	42,092
Income tax expense	(5,982)	(7,939)
Profit after tax	37,597	34,153
Assets		
Total assets for reportable segments	599,220	451,908
Unallocated assets	12,331	20,816
Consolidated total assets	611,551	472,724
Liabilities		
Total liabilities for reportable segments	176,448	148,032
Other liabilities	22,727	23,315
Other unallocated amounts	112,404	35,456
Consolidated total liabilities	311,579	206,803

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

35. SEGMENT INFORMATION CONTINUED

Geographical information

In presenting information on a geographical basis segment revenue from external customers and segment assets are attributed based on geographic locations of business unit.

	2010		2009	
	Revenues	Total Non-Current Assets	Revenues	Total Non-Current Assets
Australia & NZ	286,652	129,277	278,630	123,391
Americas	141,301	214,182	162,985	97,045
Asia Pacific	15,042	545	22,234	670
UK & Africa	32,814	25,807	50,521	29,649
Other segments	-	4,476	-	2,876
	475,809	374,287	514,370	253,631

36. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2010 the parent Company of the Group was Cardno Limited.

	Company	
	2010 \$'000	2009 \$'000
Results of the parent entity		
Profit for the year	29,692	29,882
Other comprehensive income	-	-
Total comprehensive income for the year	29,692	29,882
Financial position of the parent entity at year end		
Current assets	208,711	196,095
Total assets	327,402	293,675
Current liabilities	53,833	49,725
Total liabilities	53,907	50,541
Total equity of the parent entity comprising of:		
Share capital	252,080	227,457
Revaluation reserve	-	-
Retained earnings	21,415	15,677
Total equity	273,495	243,134
Parent entity contingencies		
Bank guarantees	2,151	4,700

A multiple guarantee facility is available to the Group totalling \$19 million (2009: \$29 million). The facility is secured by an unlimited interlocking guarantee and indemnity.

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed below in note 37.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

37. DEED OF CROSS GUARANTEE

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

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full for any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other 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 subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Cardno Holdings Pty Ltd
- Cardno (QLD) Pty Ltd
- Cardno Staff Pty Ltd
- Cardno Bowler Pty Ltd
- Cardno Emerging Markets (Australia) Pty Ltd
- Cardno (NSW/ACT) Pty Ltd

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2010 is set out as follows:

Statement of comprehensive income and retained earnings

	2010 \$'000	2009 \$'000
Revenue	234,201	211,795
Employee expenses	(119,870)	(117,502)
Consumables and materials used	(41,514)	(34,899)
Sub-consultant and contractor costs	(39,305)	(37,355)
Depreciation and amortisation expenses	(38)	(92)
Finance costs	(2,384)	(3,392)
Other expenses	4,572	13,253
Profit before income tax	35,662	31,808
Income tax expense	(380)	(2,328)
Net profit for the year	35,282	29,480
Other comprehensive income for the year	(475)	(711)
Total comprehensive income for the year	34,807	28,769
Retained earnings at the beginning of the year	19,181	11,134
Transfers to and from reserves	475	711
Dividends recognised during the year	(23,955)	(21,433)
Retained earnings at the end of the year	30,508	19,181
Attributable to:		
Owners of the Company	30,508	19,181

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

37. DEED OF CROSS GUARANTEE CONTINUED

Statement of financial position

	2010 \$'000	2009 \$'000
CURRENT ASSETS		
Cash and cash equivalents	22,337	28,093
Trade and other receivables	408,965	265,366
Inventories	18,542	14,210
Other current assets	735	387
TOTAL CURRENT ASSETS	450,579	308,056
NON-CURRENT ASSETS		
Trade and other receivables	-	-
Other financial assets	174,948	134,482
Property, plant and equipment	73	98
Deferred tax assets	5,816	5,562
Intangible assets	35,663	35,663
Other non-current assets	89	213
TOTAL NON-CURRENT ASSETS	216,589	176,018
TOTAL ASSETS	667,168	484,074
CURRENT LIABILITIES		
Trade and other payables	197,076	139,268
Interest-bearing loans and borrowings	162,300	72,148
Current tax liabilities	3,174	4,989
Short term provisions	9,120	9,183
Other current liabilities	4,187	3,623
TOTAL CURRENT LIABILITIES	375,857	229,211
NON-CURRENT LIABILITIES		
Trade and other payables	-	-
Interest-bearing loans and borrowings	-	-
Deferred tax liabilities	3,807	3,515
Long term provisions	6,234	5,559
Other non-current liabilities	-	-
TOTAL NON-CURRENT LIABILITIES	10,041	9,074
TOTAL LIABILITIES	385,898	238,285
NET ASSETS	281,270	245,789
EQUITY		
Issued capital	252,080	227,458
Reserves	(1,319)	(849)
Retained earnings	30,508	19,180
TOTAL EQUITY	281,270	245,789

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

38. CONTROLLED ENTITIES

Name	Country of Incorporation	Equity Holding
Cardno Holdings Pty Ltd	Australia	100%
Cardno (Qld) Pty Ltd	Australia	100%
Cardno Staff Pty Ltd	Australia	100%
Cardno Staff No. 2 Pty Ltd	Australia	100%
Cardno Operations Pty Ltd	Australia	100%
Cardno Investments Pty Ltd	Australia	100%
Cardno International Pty Ltd	Australia	100%
Advanced Water & Wastewater Technologies Pty Ltd	Australia	100%
Cardno (WA) Pty Ltd	Australia	100%
Cardno CCS Pty Ltd	Australia	100%
Cardno Lawson Treloar Pty Ltd	Australia	100%
Cardno MBK PNG Ltd	Papua New Guinea	100%
Cardno (NSW/ACT) Pty Ltd	Australia	100%
Cardno BLH Pty Limited	Australia	100%
Cardno Willing Pty Ltd	Australia	100%
Cardno Victoria Pty Ltd	Australia	100%
Cardno Alexander Browne Pty Ltd	Australia	100%
Cardno (Vic) Pty Ltd	Australia	100%
Cardno Young Pty Ltd	Australia	100%
Cardno Emerging Markets (Australia) Pty Ltd	Australia	100%
Cardno Eppell Olsen Pty Ltd	Australia	100%
Cardno UK Limited	United Kingdom	100%
Cardno Emerging Markets (UK) Limited	United Kingdom	100%
Cardno Emerging Markets (East Africa) Limited	Kenya	100%
Barton Enterprises Pty Ltd	Australia	100%
Cardno Forbes Rigby Pty Ltd	Australia	100%
Cardno Gilbert Rose Pty Ltd	Australia	100%
Cardno Saraceni Pty Ltd	Australia	100%
Cardno Low & Hooke No. 1 Unit Trust	Australia	100%
Cardno Low & Hooke No. 2 Unit Trust	Australia	100%
Cardno Low & Hooke Pty Ltd	Australia	100%
Cardno Low & Hooke Management Services Pty Ltd	Australia	100%
Bresfine Pty Ltd	Australia	100%
Cardno NZ Limited	New Zealand	100%
Cardno USA, Inc.	United States of America	100%
Cardno Emerging Markets (USA), Ltd	United States of America	100%
Emerging Markets Group (EMG) Ltd	United Kingdom	100%
Emerging Markets Group (Consulting) Limited	United Kingdom	100%
Emerging Markets Group (EMG) s.a.	Belgium	100%
Cardno WRG, Inc.	United States of America	100%
Cardno TCB Limited	New Zealand	100%
Cardno Willing (NSW) Pty Ltd	Australia	100%
Cardno (NT) Pty Ltd	Australia	100%
Cardno (PNG) Ltd	Papua New Guinea	100%
XP Software Pty Ltd	Australia	100%
XP Software Inc.	United States of America	100%
Hydrotech Research Pty Ltd	Australia	100%
Cardno Ullman & Nolan Pty Ltd	Australia	100%
Cardinal Surveys Pty Ltd	Australia	100%
Ullman & Nolan Pty Ltd	Australia	100%
Cardno Ullman & Nolan Geotechnic (NT) Pty Ltd	Australia	100%
TCB Limited	New Zealand	100%
Middleton Williams & Co Limited	New Zealand	100%
Micro Drainage Limited	United Kingdom	100%
Cardno Bowler Pty Ltd	Australia	100%
Bowler Geotechnical Pty Ltd	Australia	100%
Bowler Geotechnical Cairns Pty Ltd	Australia	100%
Bowler Geotechnical Sydney West Pty Ltd	Australia	100%

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

38. CONTROLLED ENTITIES CONTINUED

Name	Country of Incorporation	Equity Holding
Bowler Geotechnical Gold Coast Pty Ltd	Australia	100%
J&D Civil Testing Pty Ltd	Australia	100%
Sandhorse Pty Ltd	Australia	100%
Kurtway Pty Ltd	Australia	100%
Bowler Geotechnical (SC) Pty Ltd	Australia	100%
Dumley Pty Ltd	Australia	100%
Russhan Pty Ltd	Australia	100%
L.A. & S.R. Thorne Pty Ltd	Australia	100%
Cardno Spectrum Survey Pty Ltd	Australia	100%
Cardno Ecology Lab Pty Ltd	Australia	100%
TBE Group, Inc	United States of America	100%
TBE Holdings, Inc	United States of America	100%
TBE International Group, Inc	United States of America	100%
Cardno TBE (Michigan), Inc	United States of America	100%
TBE (UK) Ltd	United Kingdom	100%
TBE Group (Canada), ULC	Canada	100%
TBE H&J Subsurface Utility – Engineering (Beijing) Limited	China	100%
TBE H&J Subsurface Utility – Engineering (Hong Kong) Limited	China	100%
Cardno ITC Pty Ltd	Australia	100%
Cardno ITC (ACT) Pty Ltd	Australia	100%
Cardno ITC (QLD) Pty Ltd	Australia	100%
Cardno ITC (VIC) Pty Ltd	Australia	100%
Cardno ITC (WA) Pty Ltd	Australia	100%
Cardno Australian Underground Services Pty Ltd	Australia	100%
Environmental Resolutions, Inc	United States of America	100%
ENTRIX Holding Company	United States of America	100%
ENTRIX Inc	United States of America	100%
ENTRIX of North Carolina Inc	United States of America	100%
ENTRIX Americas, SA	Ecuador	100%
ENTRIX Canada Limited	Canada	100%
ENTRIX Venezuela, CA	Venezuela	100%
ENTRIX Bolivia, Limitada	Bolivia	100%
Congo Carta de Costa Rica, SA	Costa Rica	100%
ENTRIX, Inc SAC	Peru	100%

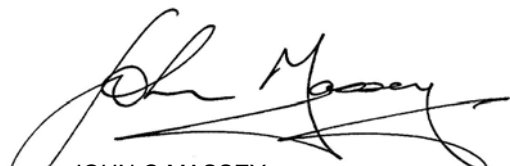
Directors' Declaration

Cardno Limited and its Controlled Entities for the year ended 30 June 2010

1. In the opinion of the Directors of Cardno Limited (the Company):
 - (a) the consolidated financial statements and notes set out on pages 21 to 69 and the Remuneration report in the Directors' report, set out on pages 9 to 19, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the Group entities identified in Note 38 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 those Group entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and Chief Financial Officer for the financial year ended 30 June 2010.
4. The Directors draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Brisbane on the 16th day of August 2010.

Signed in accordance with a resolution of the Directors.



JOHN C MASSEY
Chairman

Independent auditor's report to the members of Cardno Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Cardno Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year. The financial report comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of financial performance, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 38 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

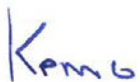
- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

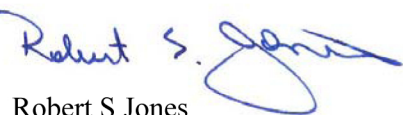
We have audited the remuneration report included in section 11 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Cardno Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Robert S Jones
Partner

Brisbane
16 August 2010

Additional Shareholder Information

Distribution of Ordinary Shareholders

The number of shareholders, by size of holding, as at 26 August 2010 were:

	Ordinary Shares	
	Number of Holders	Number of Shares
1 – 1,000	4,172	1,812,045
1,001 – 5,000	3,627	9,450,162
5,001 – 10,000	1,362	9,653,831
10,001 – 100,000	1,209	27,907,503
100,001 – and over	126	56,776,059
Total	10,496	105,599,600

As at 26 August 2010 there were 717 shareholders who held less than a marketable parcel of 123 shares.

Twenty Largest Ordinary Shareholders

The names of the twenty largest holders as at 24 August 2009 were:

	Listed Ordinary Shares	
	Number Held	Percentage
RBC Dexia Investor Services Australia Nominees Pty Limited < PIPOOLED A/C>	5,707,877	5.41%
J P Morgan Nominees Australia Limited	3,541,647	3.35%
ANZ Nominees Limited <Cash Income A/C>	3,212,378	3.04%
Andrew Buckley	2,450,261	2.32%
National Nominees Limited	2,129,644	2.02%
Pat Beyer	2,128,796	2.02%
Trevor Johnson	2,050,001	1.94%
HSBC Custody Nominees (Australia) Limited	2,028,353	1.92%
Merrill Lynch (Australia) Nominees Pty Limited	1,881,745	1.78%
Cogent Nominees Pty Limited	1,830,536	1.73%
Malcolm David Pound	1,101,741	1.04%
Steve M Zigan <Steve M Zigan Living A/C>	1,046,402	0.99%
Graham Tamblyn	1,009,516	0.96%
Joseph E O'Connell <The O'Connell Family A/C>	1,005,526	0.95%
R A Young Investments Pty Ltd <Young Super Fund A/C>	938,239	0.89%
Paul Gardiner	850,774	0.81%
Anne Felicity Phillips	767,358	0.73%
Citicorp Nominees Pty Limited	670,491	0.63%
Roger Collins-Woolcock	633,938	0.60%
KMS Properties Pty Ltd <Verco Family A/C>	629,811	0.60%
Total	35,615,034	33.73%

Substantial Shareholders

The names of substantial shareholders who have notified the company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares Held	Percentage
Perpetual Limited and subsidiaries	6,847,194	6.48%

Additional Shareholder Information

Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

Escrowed Shares

There are currently 4,793,974 ordinary shares held in escrow. This is approximately 4.54% of the company's issued share capital. The details are as follows:-

- In accordance with the Share Sale Deeds between Cardno Limited and the shareholders of ITC Group Pty Ltd and its associated entities completed on 18 February 2010, ordinary shares issued as part of the purchase price are escrowed for a period of 18 months to 18 August 2011. This agreement affects 1,391,298 shares, being approximately 1.32% of the company's issued share capital.
- In accordance with the Share Sale Agreement between Cardno Limited and the shareholders of Australian Underground Services Pty Ltd completed on 18 May 2010, ordinary shares issued as part of the purchase price are escrowed for a period of 18 months to 18 November 2011. This agreement affects 377,861 shares, being approximately 0.36% of the company's issued share capital.
- In accordance with the Agreement and Plan of Merger between Cardno Limited and the stockholders of ENTRIX Holding Company completed on 11 June 2010, ordinary shares issued as part of the purchase price are escrowed for periods of 18 months to 11 December 2011. This agreement affects 1,194,588 shares, being approximately 1.13% of the company's issued share capital.
- In accordance with the Stock Purchase Agreement between Cardno Limited and the stockholders of Environmental Resolutions, Inc completed on 11 June 2010, ordinary shares issued as part of the purchase price are escrowed for periods of 18 months to 11 December 2011. This agreement affects 1,830,227 shares, being approximately 1.73% of the company's issued share capital.

Options

As at 26 August 2010 the details of Performance Options on issue are as follows:

Number of Option Holders	Number of Options on Issue
469	6,371,400

Voting Rights of Options

The ordinary shares issued on exercise of the options will rank equally with all other ordinary shares.

Rights

As at 26 August 2010 the details of Performance Rights on issue are as follows:

Number of Option Holders	Number of Options on Issue
18	359,000

Voting Rights of Rights

The ordinary shares issued on exercise of the rights will rank equally with all other ordinary shares.

Corporate Directory

Board of Directors

Chairman

John Massey

Deputy Chairman

Graham Tamblyn

Managing Director

Andrew Buckley

Directors

Anthony Barnes

Peter Cosgrove

Jeffrey Forbes

Trevor Johnson

Ian Johnston

Chief Financial Officer & Company Secretary

Jeffrey Forbes

Joint Company Secretary

Michael Pearson

Registered Office

Cardno Limited

ABN 70 108 112 303

Level 11, Green Square North Tower

515 St Paul's Terrace

FORTITUDE VALLEY QLD 4006

Ph: +61 7 3369 9822

Fax: +61 7 3369 9722

Website: www.cardno.com

Share Registry

Computershare Investor Services Pty Limited

Level 19

307 Queen Street

BRISBANE QLD 4000

Ph: 1300 552 270 (within Australia)

+61 3 9415 4000 (outside Australia)

Website: www.computershare.com.au

Auditors

KPMG

Level 16, Riparian Plaza

71 Eagle Street

BRISBANE QLD 4000

Ph: +61 7 3233 3111

Fax: +61 7 3233 3100

Website: www.kpmg.com.au

Lawyers

McCullough Robertson Lawyers

Level 11, Central Plaza Two

66 Eagle Street

BRISBANE QLD 4000

Ph: +61 7 3233 8888

Fax: +61 7 3229 9949

Website: www.mccullough.com.au

Kirkland & Ellis LLP

300 North LaSalle

Chicago, Illinois 60654

USA

Ph: +1 312 862 2000

Fax: +1 312 862 2200

Website: www.kirkland.com

Bankers

HSBC Bank Australia Limited

300 Queen Street

BRISBANE QLD 4000

Ph: +61 7 3835 7820

Fax: +61 7 3835 7830

Website: www.hsbc.com.au