



cardno financial report 2011

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Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 2011.

1. Directors

The Directors of the Company in office during or since the year ended 30 June 2011 are set out below:

John Massey (Chairman - Non-executive)
Graham Tamblyn (Deputy Chairman - Executive) (retired 21 October 2010)
Andrew Buckley (Managing Director - Executive)
Anthony Barnes (Non-executive)
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.

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 2011

Director	Experience	Special Responsibilities
<p>John C Massey BCom, CPA, FAICD(Life), FAIM Non-executive Chairman Age 65</p>	<p>John Massey has been Chairman of Cardno Limited since July 2004 and a Non-Executive Director since March 2004. He has extensive commercial and leadership experience as a Chairman, Director and Chief Executive spanning many different industries.</p> <p>John is also Chairman of Sunstate Cement Limited and UQ Holdings, and a Director of Ambre Energy Limited and the Stockyard Beef Group. His previous appointments include such diverse companies as Brisbane Airport, Dairy Australia, Macmahon, Symbiosis, Grainco, Thomas Cook and QDL Pharmaceuticals.</p> <p>In 2006, John was made a Life Fellow of the Australian institute of Company Directors for eminence in the field of directorship and was also subsequently awarded the 2010 Gold Medal which recognises the Outstanding Company Director in Queensland for achievements in corporate life and to the community.</p>	<p>As well as being Chairman of the Company, John is Chairman of the Board's Remuneration and Nominations Committees.</p>
<p>Andrew D Buckley BE(Hons), FIEAust, FAICD, CPEng, RPEQ Managing Director Age 54</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. He has worked in executive management roles in the engineering, construction and development assistance sectors since 1991. Under Andrew's leadership the Cardno Group has grown from an annual turnover of approximately \$14 million in FY1997 to \$831 million in FY2011 and from less than 200 people to over 4,000.</p>	<p>Andrew is a member of the Nominations Committee</p>
<p>Anthony H (Tony) Barnes BCom Non-executive Director Age 61</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. He also held the position of Chief Executive Officer of Zinifex Limited for a period. He 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. Tony 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 and a member of the Remuneration Committee.</p>

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

Director	Experience	Special Responsibilities
<p>Peter J Cosgrove AC, MC ndc (Ind), jssc, psc (US), Dip Mil Stud, FAICD Non-executive Director Age 64</p>	<p>Retired General Peter Cosgrove joined Cardno as a Non-Executive Director in March 2007, bringing with him a wealth of experience and credentials. Peter is a director of Qantas Airways Limited, Qantas Superannuation Limited, and Australian Rugby Union Limited. He is Chancellor of the Australian Catholic University and holds a number of prestigious memberships and appointments including being a member of the Trustee Board of the Commonwealth Superannuation Corporation. 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>
<p>Jeffrey I Forbes BCom, MAICD, MAusIMM Chief Financial Officer, Company Secretary, Executive Director Age 58</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>Trevor C Johnson BE, MEngSc, PhD, FIEAust, CPEng, RPEQ, MAICD Executive Director Age 54</p>	<p>Trevor has been a director of the Cardno Group since 1996, and an employee of the company for more than 25 years. He is a member of the Senior Executive team which assists the Managing Director in running the company.</p> <p>In his executive role as Director Corporate, Trevor is responsible for a number of acquisitions, co-ordination and communication activities within the Group.</p> <p>Trevor has more than 30 years' experience as a civil engineer, with special expertise in the fields of hydraulics, water quality and environmental analysis. He remains significantly involved in the company's operational activity, and is frequently commissioned as a technical expert witness on engineering matters.</p>	<p>Trevor is a member of the Board's Audit, Risk & Compliance Committee.</p>

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

Director	Experience	Special Responsibilities
<p>Ian J Johnston DipCM, GradDip App Fin & Inv, ASIA, ACIS, FAICD Non-executive Director Age 62</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 Data #3 Limited and RBSM Foundation 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 and the Nominations Committee.</p>

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 \$58.8 million for the year ended 30 June 2011, a 56.4% increase over the 2010 financial year. Basic earnings per share increased to 56.29 cents, 28.3%. EBITDA rose 81.2% to \$100.2 million compared to \$55.3 million prior year.

Cardno has delivered this result for its shareholders during a period of challenging economic conditions.

The performance is due to the Company's successful strategy of growing its business both organically and by acquisition. The result has been achieved through geographic and market diversification.

This is the seventh consecutive year of record profit and earnings per share growth since listing in 2004.

Revenue was \$831.2 million, which was a 74.2% increase on 2010, despite the impact of a stronger Australian dollar.

Cardno had strong operating cash flow of \$73.0 million in 2011, an increase of 56.1% over 2010, and had cash of \$84.1 million at 30 June 2010.

The Company's balance sheet remains strong with low net debt.

The Board has declared a final dividend of 17 cents per share (70% franked) to be paid on 14 October 2011 to all shareholders registered on 16 September 2011. With the interim dividend of 17 cents per share in March 2011, this will result in a full year dividend of 34 cents, which is also a record for Cardno.

During the financial year Cardno made three acquisitions:

- Cardno BEC, a 100 person business with specialised electrical engineering expertise in the resources sector increasing Cardno's exposure to the resources sector. Cardno BEC is based in Perth with offices in Brisbane and Tanzania.
- Cardno Roadtest, a 60-person construction materials testing and geotechnical engineering firm based in Central Queensland, will strengthen the existing construction materials testing and geotechnical operations, providing a strategic presence in the extensive gas and coal developments in Central Queensland.
- Cardno JFNew, a US based 150 person environmental consulting firm, adds to Cardno's expertise in the environmental and natural resources management market in the US.

Cardno's strategy continues to deliver business growth in a difficult global economic environment. The company is well positioned for FY2012.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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	Date of payment
<i>Declared and paid during the year</i>				
- Final 2010 ordinary	15.0	15,842	100%	15 October 2010
- Interim 2011 ordinary	17.0	18,131	70%	25 March 2011
<i>Declared after end of year</i>				
- Final 2011 ordinary	17.0	18,663	70%	14 October 2011
<i>Dealt with in the financial report as:</i>				
- Dividends paid or provided		33,973		
- Noted as a subsequent event (Note 29)		18,663		
		<hr/>		
		52,636		

6. Events Subsequent to the Reporting Date

On 16 August 2011, the Directors of Cardno Limited declared a final dividend of 17.0 cents per share (70% franked) for the 2011 financial year. The dividend will be paid on 14 October 2011 to shareholders registered on 16 September 2011 and will total \$18,662,605. The dividend has not been provided for in the 30 June 2011 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

There have been no significant changes in the state of affairs since 30 June 2011.

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 or 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 2011

10. Directors' Meetings

Attendance at Board meetings and Board Committee meetings for the year ended 30 June 2011 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	5	5	♦	♦
A D Buckley	13	13	♦	♦	♦	♦	1	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	5	5	2	2
J C Massey	13	13	♦	♦	5	5	2	2
G G Tamblyn	2	3	♦	♦	♦	♦	♦	♦

♦ 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.

11. REMUNERATION REPORT - AUDITED

Principles of Compensation

Compensation levels for Executive Directors and Senior Executives of the Group are competitively set to attract and retain suitably qualified staff, reward the achievement of financial performance, strategic objectives and achieve the broader outcome of creating value for shareholders. The remuneration structure takes into account:

- the capability and experience of the Executive Directors and Senior Executives;
- the Executive 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 Executive Director's and Senior Executive's remuneration.

Total shareholder return is an essential element of the Company's strategy, and the remuneration framework supports this strategy by seeking to attract and retain high calibre executives. Since Cardno Limited was listed on the ASX in May 2004 the Company has exceeded the profit and growth targets set by the Board and this successful performance has been reflected in the remuneration of Executive Directors and Senior Executives.

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

Cardno 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 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 will be entitled to 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 2011

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 five times during the year.

Executive remuneration decisions are made by the Board in the absence of the Executive Directors on the recommendation of the Remuneration Committee. 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.

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.

External Consultants were appointed by the Board to provide market information to be used in determining the Executive Directors and Senior Executives' remuneration. Comparator groups for benchmarking are reviewed on the basis of similar industry sectors, market capitalisation and employee numbers.

Performance-linked Compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward Executive Directors and Senior Executives 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 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 Executive Directors and Senior Executives. The KPIs generally include measures relating to the consolidated entity, the relevant segment and 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 recommends to the Board which approves, in the absence of the Executive Directors, the discretionary bonus to be paid to individuals. 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 2011

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 at which the individual ceases 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 2011 are detailed in the table below:

Grant Date	Issue Price	Restricted at 30 June 2011
23 February 2009	\$3.18	297,672
9 March 2010	\$4.07	336,834
25 February 2011	\$6.05	360,648

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 2011 financial year, options with a grant date fair value of \$2,521,365 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 commencing 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 2010/11 financial year. Options with a grant date fair value of \$264,144 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 2011

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 & Expired Not Exercised	Number of Options as at 30 June 2011
25 October 2007	19 October 2010	25 October 2010	7.57	0.92	330,000	-	-	330,000	-
5 December 2007	29 November 2010	5 December 2010	7.71	0.95	1,538,500	-	-	1,538,500	-
5 December 2008	29 November 2011	5 December 2011	3.35	0.41	2,258,000	-	257,000	-	2,001,000
2 December 2009	2 December 2012	2 December 2013	4.43	0.77	2,244,900	-	206,200	-	2,038,700
25 November 2010	25 November 2013	25 November 2014	4.84	0.77	-	3,274,500	-	-	3,274,500
Weighted average exercise price					5.00	4.84	3.83	7.69	4.32
Weighted average remaining contract life									857 days
Total expense recognised \$1,681,706 (2010: \$454,311)									

The options outstanding at 30 June 2011 have not vested, are not exercisable at 30 June 2011 and have an exercise price in the range of \$3.35 to \$4.84.

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 and since 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 2011 financial year 530,000 rights with a grant date fair value of \$1,797,238 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 unless the Board determines otherwise. The rights may be exercised at any time during a one-year period commencing 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 2011

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 2011
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
21 October 2010	22 October 2013	22 October 2014	EPS Growth	3.78	-	76,250	-	-	76,250
			TSR	2.71	-	76,250	-	-	76,250
25 November 2010	25 November 2013	25 November 2014	EPS Growth	3.94	-	188,750	-	-	188,750
			TSR	2.96	-	188,750	-	-	188,750
Total expense recognised \$609,182 (2010: \$95,899)									

The rights outstanding at 30 June 2011 have not vested, are not exercisable at 30 June 2011 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 implemented in FY2010.

Under the 2009 TLTI plan 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 2011

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.

The total remuneration for all of the Non-Executive Directors was approved by shareholders at the 2007 AGM with a maximum of \$600,000 including superannuation. The current fee structure is outlined below:

- Chairman of the Board: \$200,000 (covers all responsibilities as Chairman of the Board and as Chairman of the Remuneration and Nomination Committees).
- Other Non-Executive Directors: \$100,000 (covers all responsibilities as a member of the Board, other Committee memberships and other duties including representing the Company externally).

In considering the level of remuneration for Non-Executive Directors, the Remuneration Committee uses independent external advice, industry survey data and other information about the level of fees and benefits being paid to Non-Executive Directors by comparable companies.

As a consequence of Cardno's growth, the increasing demands on directors and the need to plan for Non-Executive Director succession, the Board intends to seek shareholder approval at the 2011 Annual General Meeting for an increase in the total amount of Non-Executive Director remuneration.

The limit is being raised to allow for the continuing growth and development of Cardno and to attract suitably qualified and experienced directors in the future.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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	2011	183,486	-	-	183,486	16,514	-	-	-	-	200,000	-	-
	2010	147,321	-	-	147,321	22,679	-	-	-	-	170,000	-	-
Anthony Barnes	2011	49,464	-	-	49,464	50,536	-	-	-	-	100,000	-	-
	2010	33,000	-	-	33,000	47,000	-	-	-	-	80,000	-	-
Peter Cosgrove	2011	91,743	-	-	91,743	8,257	-	-	-	-	100,000	-	-
	2010	73,394	-	-	73,394	6,606	-	-	-	-	80,000	-	-
Ian Johnston	2011	91,743	-	-	91,743	8,257	-	-	-	-	100,000	-	-
	2010	73,394	-	-	73,394	6,606	-	-	-	-	80,000	-	-
Executive													
Andrew Buckley	2011	641,137	810,000*	4,000	1,455,137	103,725	329,981**	-	-	89,488***	1,978,331	62.1%	4.5%
	2010	594,121	540,000*	4,000	1,138,121	52,121	114,916**	-	-	166,779**	1,471,937	55.8%	11.3%
Jeffrey Forbes	2011	341,193	105,000*	4,000	450,193	53,807	91,066**	-	-	44,252***	639,318	37.6%	6.9%
	2010	288,564	96,000*	4,000	388,564	52,436	28,750**	-	-	80,149***	549,899	37.3%	14.6%
Trevor Johnson	2011	341,919	50,000*	4,000	395,919	43,006	92,099**	-	-	35,321***	566,345	31.3%	6.2%
	2010	298,925	30,000	4,000	332,925	50,000	29,310**	-	-	60,732***	472,967	25.4%	12.8%
Former													
Graham Tamblyn (resigned 21/10/ 2010)	2011	100,083	20,000*	4,000	124,083	14,033	79,076**	-	-	27,372***	244,564	51.7%	11.2%
	2010	250,568	10,000	4,000	264,568	46,557	25,056**	-	-	43,851***	380,032	20.8%	11.5%
Total Compensation – 2011		1,840,768	985,000	16,000	2,841,768	298,135	592,222**	-	-	196,433***	3,928,558	45.1%	5.0%
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%

* STI cash bonuses which have been accrued but not paid.

** TLTI cash bonuses which have been accrued but not paid based on 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. 2010 comparative also 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 2011

Director, Executive Officer and Key Management Remuneration continued

Executives		Short-Term				Post Employment	Long Term	Termination Benefits \$	Share Based Payments		Total \$	Proportion of Remuneration 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	2011	363,699	85,000*	4,000	452,699	36,531	-	-	1,000	45,508**	535,738	24.4%	8.5%
	2010	317,752	40,000	4,000	361,752	30,848	-	-	1,000	63,153**	456,753	22.6%	13.8%
Paul Gardiner	2011	367,761	60,000*	4,000	431,761	33,009	-	-	1,000	48,244**	514,014	21.1%	9.4%
	2010	335,428	40,000	4,000	379,428	32,755	-	-	1,000	77,987**	491,170	24.0%	15.9%
Michael Renshaw	2011	418,213	120,000*	-	538,213	-	-	-	1,000	45,508**	584,721	28.3%	7.8%
	2010	381,476	43,798	-	425,274	-	-	-	1,000	63,153**	489,427	21.9%	12.9%
Kylie Sprott (appointed 12/10/09)	2011	244,754	65,000*	-	309,754	22,608	-	-	1,000	14,946**	348,308	23.0%	4.3%
	2010	156,410	-	-	156,410	13,780	-	-	-	2,501**	172,691	1.4%	1.4%
Jean –Francois Flourey (appointed 11/03/11)	2011	111,688	25,000*	-	136,688	10,052	-	-	-	-	146,740	17.0%	0.0%
	2010	-	-	-	-	-	-	-	-	-	-	-	-
Ross Thompson (effective 1/7/11)	2011	220,183	65,000*	-	285,183	22,179	-	-	1,000	10,599**	318,961	23.7%	3.3%
	2010	-	-	-	-	-	-	-	-	-	-	-	-
Former													
Steven Coote (ceased employment 25/09/09)	2011	-	-	-	-	-	-	-	-	-	-	-	-
	2010	101,018	-	-	101,018	7,058	-	-	-	-	108,076	-	-
Charles Tapp (ceased employment 15/04/10)	2011	-	-	-	-	-	-	-	-	-	-	-	-
	2010	273,301	27,000	-	300,301	36,097	-	131,022	1,000	43,198**	511,618	13.7%	8.4%
Total compensation – 2011		1,726,298	420,000*	8,000	2,154,298	124,379	-	-	5,000	164,805**	2,448,482	23.9%	6.7%
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%

* Includes STI 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. 2010 comparative also includes amounts relating to revised estimates for the number of equity instruments likely to vest not recognised in prior periods.

Additional Information – Cash Bonuses Name	STI		TLTI	
	Vested%	Forfeited %	Vested %	Forfeited %
Andrew Buckley	90%	10%	86%	14%
Jeffrey Forbes	81%	19%	86%	14%
Trevor Johnson	Note 1	Note 1	86%	14%
Graham Tambllyn	Note 1	Note 1	86%	14%
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
Ross Thompson	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 2011

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.

	2011	2010	2009	2008	2007
Net Profit After Tax ('000's)	\$58,802	\$37,597	\$34,154	\$27,452	\$18,468
Dividends Paid or Provided (000's)	\$33,975	\$23,955	\$21,434	\$16,349	\$9,903
Change in Share Price – year on year	\$1.49	\$0.53	-\$1.06	-\$2.69	\$2.83
Basic Earnings Per Share Growth	28.3%	0.1%	4.3%	12.6%	18.9%
Return on Capital Employed	24.9%	17.3%	19.0%	25.8%	35.5%

Over the past four years, the Group's profit after income tax has grown at an average rate per annum of 34% and revenue from \$265 million (2007) to \$831 million (2011). During the same period average key management personnel total compensation has grown by approximately 12% 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 Senior Executives and to the most highly remunerated Officers of the Group and still outstanding at 30 June 2011, 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				
Executive Directors						
Andrew Buckley	-	70,000	21-Oct-10	21-Oct-13	0.0%	0.0%
	-	60,000	22-Oct-09	22-Oct-12	0.0%	0.0%
Jeffrey Forbes	-	35,000	21-Oct-10	21-Oct-13	0.0%	0.0%
	-	30,000	22-Oct-09	22-Oct-12	0.0%	0.0%
Trevor Johnson	-	27,500	21-Oct-10	21-Oct-13	0.0%	0.0%
	-	25,000	22-Oct-09	22-Oct-12	0.0%	0.0%
Graham Tamblyn*	-	20,000	21-Oct-10	21-Oct-13	0.0%	0.0%
	-	20,000	22-Oct-09	22-Oct-12	0.0%	0.0%
Senior Executives						
Roger Collins-Woolcock	-	35,000	25-Nov-10	25-Nov-13	0.0%	0.0%
	-	30,000	2-Dec-09	2-Dec-12	0.0%	0.0%
	60,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
Paul Gardiner	-	35,000	25-Nov-10	25-Nov-13	0.0%	0.0%
	-	30,000	2-Dec-09	2-Dec-12	0.0%	0.0%
	70,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
Michael Renshaw	-	35,000	25-Nov-10	25-Nov-13	0.0%	0.0%
	-	30,000	2-Dec-09	2-Dec-12	0.0%	0.0%
	60,000	-	5-Dec-08	29-Nov-11	0.0%	0.0%
Kylie Sprott	-	25,000	25-Nov-10	25-Nov-13	0.0%	0.0%
	-	8,000	2-Dec-09	2-Dec-12	0.0%	0.0%
Ross Thompson	-	25,000	25-Nov-10	25-Nov-13	0.0%	0.0%

*resigned from board of directors 21 October 2010

No options were issued to Executive Directors and Senior Executives 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 11.

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 \$	Vested in year \$ (not exercised)
Executive Directors			
Andrew Buckley	227,150	-	138,000
Jeffrey Forbes	113,575	-	64,400
Trevor Johnson	89,238	-	46,000
Graham Tamblyn*	64,900	-	36,800
Senior Executives			
Roger Collins-Woolcock	120,750	-	42,750
Paul Gardiner	120,750	-	52,250
Michael Renshaw	120,750	-	42,750
Kylie Sprott	86,250	-	-
Ross Thompson	86,250	-	-

*resigned from board of directors 21 October 2010

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
Anthony Barnes	4,307	-	-	-
Andrew Buckley	2,450,261	-	-	130,000
Peter Cosgrove	-	-	-	-
Jeffrey Forbes	26,466	-	-	65,000
Trevor Johnson	2,050,001	-	-	52,500
Ian Johnston	241,955	-	-	-
John Massey	58,334	-	-	-
Graham Tamblyn*	1,009,516	-	-	40,000

*resigned from board of directors 21 October 2010

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 2010	Purchases	Received as Compensation	Sales	Held at 30 June 2011
Non-Executive Directors					
John Massey	50,000	8,334	-	-	58,334
Anthony Barnes	3,466	841	-	-	4,307
Peter Cosgrove	-	-	-	-	-
Ian Johnston	207,390	34,565	-	-	241,955
Executive Directors					
Andrew Buckley	2,359,037	91,224	-	-	2,450,261
Jeffrey Forbes	21,305	5,161	-	-	26,466
Trevor Johnson	1,967,399	82,602	-	-	2,050,001
Graham Tamblyn*	1,216,851	31,360	-	(238,695)	1,009,516
Senior Executives					
Roger Collins-Woolcock	653,897	50,041	165	-	704,103
Jean-Francois Flourey	-	-	-	-	-
Paul Gardiner	800,386	50,388	165	-	850,939
Michael Renshaw	163,817	27,304	165	-	191,286
Kylie Sprott	3,580	1,420	165	-	5,165
Ross Thompson	348	82	-	-	430

*resigned from board of directors 21 October 2010

Directors' Report

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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
29 November 2011	5 December 2011	\$3.35	2,001,000
2 December 2012	2 December 2013	\$4.43	2,038,900
25 November 2013	25 November 2014	\$4.48	3,274,500

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
21 October 2013	21 October 2014	Nil	152,500
25 November 2013	25 November 2014	Nil	377,500

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, did not perform any non-audit services.

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 2011.

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 2011



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 2011, there have been:

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

KPMG

Robert S Jones
Partner

Brisbane
16 August 2011

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 three 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;

Corporate Governance Statement

- 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;
- 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.

Corporate Governance Statement

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.

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. During the year this process was enhanced with the establishment of a Whistleblower hotline which is managed by an independent operator and accessible to all the company's staff 24 hours a day, 7 days a week.

The Board has adopted a policy for trading in Cardno securities by Directors, Senior Executives and staff. The purpose of this policy 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 updated in 2010 and disclosed on the ASX in December 2010 in accordance with the ASX Listing Rules. The updated policy addresses each of the ASX requirements including provisions relating to the prohibition of trading by directors and senior executives in the company's securities during defined blackout periods.

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.

The company is currently finalising the adoption of the Diversity Policy which will be available on the company website.

The company respects and values the competitive advantage of diversity and recognises the benefits of its integration throughout the company by improving corporate performance, increasing shareholder value and enhancing the profitability of the company's objectives.

Specifically diversity will be reinforced through both strategic and operational means such as being attuned to diverse corporate, business and market opportunities and by management nurturing and developing the collective relevant skills of personnel within the company.

The company has established objectives with the aim of increasing diversity within the organisation and the continued promotion of staff members to and within the business to senior and executive management roles regardless of gender, age or race.

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.

Corporate Governance Statement

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 specific 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;
- 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

Corporate Governance Statement

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 2011

	Note	2011 \$'000	2010 \$'000
Revenue	2	831,201	477,238
Employee expenses		(321,233)	(211,888)
Consumables and materials used		(158,212)	(108,342)
Sub-consultant and contractor costs		(216,345)	(80,648)
Depreciation and amortisation expenses	3	(11,356)	(8,525)
Financing costs	3	(4,501)	(3,166)
Other expenses		(35,251)	(21,090)
Profit before income tax		84,303	43,579
Income tax expense	4	(25,501)	(5,982)
Profit for the year		58,802	37,597
Profit attributable to:			
Owners of the Company		58,802	37,597
		58,802	37,597
Basic earnings per share (cents per share)	30	56.29	43.86
Diluted earnings per share (cents per share)	30	55.35	43.61

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 2011

	2011 \$'000	2010 \$'000
Profit for the year	58,802	37,597
Other comprehensive income		
Exchange differences on translation of foreign operations	(26,908)	(4,214)
Other comprehensive income for the year, net of tax	(26,908)	(4,214)
Total comprehensive income for the year	31,894	33,383
Total comprehensive income attributable to:		
Owners of the Company	31,894	33,383
	31,894	33,383

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 2011

	Note	2011 \$'000	2010 \$'000
CURRENT ASSETS			
Cash and cash equivalents	6	84,047	56,282
Trade and other receivables	7	118,205	103,275
Inventories	8	80,107	71,496
Other current assets	9	4,957	6,211
TOTAL CURRENT ASSETS		287,316	237,264
NON-CURRENT ASSETS			
Trade and other receivables	10	535	1,504
Other financial assets	11	669	836
Property, plant and equipment	12	31,937	29,208
Deferred tax assets	13	5,446	3,551
Intangible assets	14	355,709	339,099
Other non-current assets	15	-	89
TOTAL NON-CURRENT ASSETS		394,296	374,287
TOTAL ASSETS		681,612	611,551
CURRENT LIABILITIES			
Trade and other payables	16	153,584	82,462
Loans and borrowings	17	1,859	49,250
Current tax liabilities		5,514	1,528
Short term provisions	18	17,199	15,501
Other current liabilities	19	32,934	29,250
TOTAL CURRENT LIABILITIES		211,090	177,991
NON-CURRENT LIABILITIES			
Loans and borrowings	20	104,535	125,990
Deferred tax liabilities	13	140	442
Long term provisions	21	8,023	6,527
Other non-current liabilities	22	628	629
TOTAL NON-CURRENT LIABILITIES		113,326	133,588
TOTAL LIABILITIES		324,416	311,579
NET ASSETS		357,196	299,972
EQUITY			
Issued capital	23	311,383	252,080
Reserves		(35,415)	(8,507)
Retained earnings		81,228	56,399
TOTAL EQUITY		357,196	299,972

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 2011

	Note	Share Capital Ordinary \$'000	Retained Earnings \$'000	Foreign Translation Reserve \$'000	Total \$'000
BALANCE AT 1 JULY 2009		227,457	42,757	(4,293)	265,921
Profit for the year		-	37,597	-	37,597
Exchange differences on translation of foreign operations		-	-	(4,214)	(4,214)
Total comprehensive income for the year		-	37,597	(4,214)	33,383
Transactions with owners in their capacity as owners:					
Shares issued	23	24,623	-	-	24,623
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
Profit for the year		-	58,802	-	58,802
Exchange differences on translation of foreign operations		-	-	(26,908)	(26,908)
Total comprehensive income for the year		-	58,802	(26,908)	31,894
Transactions with owners in their capacity as owners:					
Shares issued	23	59,303	-	-	59,303
Dividends paid or provided	5	-	(33,973)	-	(33,973)
		59,303	(33,973)	-	25,330
BALANCE AT 30 JUNE 2011		311,383	81,228	(35,415)	357,196

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 2011

	Note	2011 \$'000	2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		858,262	508,714
Interest received		1,949	1,474
Finance costs paid		(5,338)	(2,968)
Cash paid to suppliers and employees		(757,529)	(451,683)
Income tax paid		(23,816)	(8,792)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25(a)	73,528	46,745
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	25(d)	(10,503)	(129,486)
Proceeds from sale of property, plant & equipment		588	691
Payments for property, plant & equipment		(9,063)	(3,126)
NET CASH USED IN INVESTING ACTIVITIES		(18,978)	(131,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		54,694	20,704
Share issue transaction costs		(2,054)	(56)
Proceeds from borrowings		10,294	101,086
Repayment of borrowings		(52,042)	(19,427)
Finance lease payments		(2,474)	(2,589)
Dividends paid		(31,942)	(22,301)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		(23,524)	77,417
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		31,026	(7,759)
CASH AND CASH EQUIVALENTS AT 1 JULY			
		56,282	65,808
Effects of exchange rate changes on cash and cash equivalents at the end of year		(3,261)	(1,767)
CASH AND CASH EQUIVALENTS AT 30 JUNE	25(b)	84,047	56,282

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 2011

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 2011 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 2011.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the consolidated entity also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of Preparation

The financial report has been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value.

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

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(c) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. 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 Group.

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

Transactions eliminated on consolidation

Intra-group balances and transactions, 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 tax authority is included as a current asset or liability in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 tax authority are classified as operating cash flows.

(e) Foreign Currency

(i) 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, (see (ii) below) 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.

(ii) 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.

(iii) 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.

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.

Dividends

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

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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.

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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Income Tax continued

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

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.

(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 receivables 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 Group'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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(n) Property, Plant and Equipment continued

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.

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

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. 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.

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the gain is recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(o) Intangible Assets continued

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 July 2004 and 1 July 2009

For acquisitions between 1 July 2004 and 1 July 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, the gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Works contracts, software intangibles and customer relationships

Works contracts, software intangibles and customer relationships are acquired by the Group 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 Group 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.

(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 each year at the same time. 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 Group's assets, other than inventories (see paragraph (m)), and deferred tax assets (see paragraph (i)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment test is performed. The Group 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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(q) Impairment continued

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 Group'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 Group. Trade accounts payable are normally settled within 60 days. Trade and other payables are stated at cost.

(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 Group 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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(t) Employee Benefits continued

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 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 Group 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 statement of financial position.

(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.

(x) 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 2011

	2011 \$'000	2010 \$'000
2. REVENUE		
Fees from services	562,566	366,760
Fees from sale of goods	7,532	8,227
Fees from recoverable expenses	257,567	98,765
Dividends received	-	6
Interest received	1,948	1,429
Royalties	189	126
Rental income	616	889
Other	783	1,036
Revenue	831,201	477,238
3. EXPENSES, LOSSES AND (GAINS)		
Depreciation		
Motor vehicles	1,048	689
Plant & equipment	7,209	5,923
Total Depreciation	8,257	6,612
Amortisation of non-current assets		
Works contracts	1,146	216
Software intangibles	156	205
Customer relationships	163	-
Motor vehicles under lease	1,462	1,290
Plant & equipment under lease	172	202
Total Amortisation	3,099	1,913
Total Depreciation & Amortisation	11,356	8,525
Bad and doubtful debts	3,713	2,211
Financing costs		
Interest and finance charges	3,673	2,896
Amortisation of borrowing costs	828	270
Total financing costs	4,501	3,166
Rental expense relating to operating leases		
Minimum lease payments	21,969	19,027
Net loss/(gain) on disposal of property, plant and equipment	2	(58)
Foreign exchange (gains) / losses	(668)	396
4. INCOME TAX EXPENSE		
(a) The components of tax expense comprises:		
Current tax expense		
Current year	27,674	7,856
Adjustments for prior years	(625)	(514)
	27,049	7,342
Deferred tax expense		
Origination and reversal of temporary differences	(1,548)	(1,351)
Change in New Zealand tax rate	-	(9)
Total income tax expense/(benefit)	25,501	5,982

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
4. INCOME TAX EXPENSE CONTINUED		
(b) Numerical reconciliation between tax expense and pre-tax profit		
Profit before tax	84,303	43,579
Income tax using the Australian corporation tax rate of 30% (2010: 30%)	25,291	13,074
Increase (decrease) in income tax expense due to:		
Non-deductible expenses	1,212	338
Adjustment for branch office taxation	3,361	326
Allowances for R&D expenditure	(3,353)	(5,329)
Tax exempt revenue	-	(162)
Benefit arising from amendment to Australian tax legislation	-	(1,335)
Sundry items	(385)	(407)
Effect of tax rates in foreign jurisdictions	-	(9)
	26,126	6,496
Under / (over) provided in prior years	(625)	(514)
Income tax expense	25,501	5,982
5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends proposed subsequent to year end not recognised as a liability 70% franked dividend (2010: 100%) at 30% (2010: 30%) (Refer Note 29)	18,663	15,840
(b) Dividends paid during the year (Final 2010 15 cents per share, 100% franked at 30%. Interim 2011 17 cents per share, 70% franked at 30%) (2010: all dividends 100% franked at 30%)	33,973	23,955
(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%	10,256	7,021
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	7,925	3,186
	18,181	10,207
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 \$5,598,782 (2010: \$6,788,546)		
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	57,016	34,438
Restricted cash (project advances)	4,652	-
Bank short term deposits	22,379	21,844
	84,047	56,282
7. TRADE & OTHER RECEIVABLES (CURRENT)		
Trade debtors	119,415	109,366
Provision for doubtful debts	(6,376)	(8,986)
	113,039	100,380
Sundry debtors	5,166	2,895
	118,205	103,275
8. INVENTORIES (CURRENT)		
Work in progress	80,107	71,496

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
9. OTHER CURRENT ASSETS		
Prepayments	3,040	4,825
Project advances	172	176
Security deposits	1,745	1,210
	4,957	6,211
10. TRADE & OTHER RECEIVABLES (NON-CURRENT)		
Sundry debtors	535	1,504
11. OTHER FINANCIAL ASSETS (NON-CURRENT)		
Investments in non-related entities	669	836
12. PROPERTY, PLANT & EQUIPMENT		
Laboratory equipment, instruments & amenities	13,694	12,714
Less accumulated depreciation	(8,554)	(8,261)
	5,140	4,453
Motor vehicles	18,830	15,442
Less accumulated depreciation & amortisation	(11,360)	(9,341)
	7,470	6,101
Office furniture & equipment	40,147	52,782
Less accumulated depreciation & amortisation	(27,501)	(40,291)
	12,646	12,491
Leasehold improvements	9,899	10,145
Less accumulated depreciation & amortisation	(4,497)	(3,994)
	5,402	6,151
Property	1,974	75
Less accumulated depreciation	(695)	(63)
	1,279	12
Total Property Plant & Equipment	31,937	29,208

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
12. PROPERTY, PLANT & EQUIPMENT CONTINUED		
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</i>		
Carrying amount at the beginning of the year	4,453	3,769
Additions	1,914	919
Increase through merger acquisition	685	1,098
Disposals	(64)	(78)
Depreciation expense	(1,422)	(1,163)
Transfer between classes	(226)	(12)
Foreign exchange	(200)	(80)
Carrying amount at the end of the year	5,140	4,453
<i>Motor vehicles</i>		
Carrying amount at the beginning of the year	6,101	6,173
Additions	3,629	1,107
Increase through merger acquisition	747	1,104
Disposals	(270)	(308)
Depreciation and amortisation expense	(2,509)	(1,980)
Foreign exchange	(136)	(59)
Transfer between classes	(92)	64
Carrying amount at the end of the year	7,470	6,101
<i>Office furniture & equipment</i>		
Carrying amount at the beginning of the year	12,491	11,137
Additions	5,053	1,761
Increase through merger acquisitions	1,067	4,204
Disposals	(220)	(175)
Depreciation and amortisation expense	(4,863)	(4,133)
Foreign exchange	(955)	(188)
Transfer between classes	73	(115)
Carrying amount at the end of the year	12,646	12,491
<i>Leasehold improvements</i>		
Carrying amount at the beginning of the year	6,151	5,772
Additions	446	278
Increase through merger acquisitions	(17)	957
Disposals	(37)	(19)
Depreciation and amortisation expense	(1,044)	(828)
Foreign exchange	(342)	(72)
Transfer between classes	245	63
Carrying amount at end of the year	5,402	6,151
<i>Property</i>		
Carrying amount at the beginning of the year	12	163
Additions	13	-
Increase through merger acquisition	1,372	-
Disposal	-	(151)
Depreciation expense	(50)	-
Foreign exchange	(68)	-
Carrying amount at the end of the year	1,279	12
Carrying amount at the end of the year	31,937	29,208

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

13. DEFERRED TAX ASSETS & LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Assets

	2011 \$'000	2010 \$'000
Accruals	7,906	2,193
Provisions	10,645	10,034
Carried forward tax losses	466	482
Lease timing	472	404
Property, plant and equipment	141	88
Change in tax rate (NZ)	-	9
Discretionary reserve	502	342
Capitalised software	157	340
Unearned Revenue	2,133	-
Unrealised Foreign Exchange losses	73	-
Other	-	10
Total deferred tax assets	22,495	13,902
Set-off of deferred tax liabilities	(17,049)	(10,351)
Net deferred tax assets	5,446	3,551
Liabilities		
Unrealised foreign exchange gains	548	741
Work in progress	10,140	7,544
Prepayments	134	440
Property, plant and equipment	1,067	227
Intangible items	300	300
Retentions	51	68
Goodwill on acquisition	4,946	1,473
Other	3	-
Total deferred tax liabilities	17,189	10,793
Set-off of deferred tax assets	(17,049)	(10,351)
Net deferred tax liabilities	140	442
NET DEFERRED TAX ASSETS (LIABILITIES)	5,306	3,109

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

13. DEFERRED TAX ASSETS & LIABILITIES CONTINUED

30 June 2011	1 July 2010	Recognised in profit or loss	Recognised in other comprehen- sive income	Acquired in business combination	30 June 2011
	\$'000	\$'000	\$'000	\$'000	\$'000
Movement in temporary differences during the year:					
Accruals	2,335	4,357	-	312	7,004
Provisions	10,032	55	-	556	10,643
Capitalised software	340	(183)	-	-	157
Carried forward tax losses	482	(16)	-	-	466
Lease timing	262	210	-	-	472
Unearned revenue	-	2,133	-	-	2,133
Sundry items	297	202	-	-	499
Property, plant & equipment	(139)	(68)	-	-	(207)
Cash to accruals adjustment	-	475	-	-	475
Unrealised foreign exchange gains	(741)	267	-	-	(474)
Work in progress	(7,544)	(2,374)	-	(221)	(10,139)
Prepayments	(375)	241	-	-	(134)
Goodwill on acquisition (USA)	(1,472)	(3,766)	-	-	(5,238)
Retainage	(68)	17	-	-	(51)
Intangible items	(300)	-	-	-	(300)
	3,109	1,550	-	647	5,306

30 June 2010	1 July 2009	Recognised in profit or loss	Recognised in other comprehen- sive income	Acquired in business combination	30 June 2010
	\$'000	\$'000	\$'000	\$'000	\$'000
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 2011

	2011 \$'000	2010 \$'000
14. INTANGIBLE ASSETS		
Goodwill at cost	352,133	335,671
Works contracts	3,622	2,840
Accumulated amortisation	(3,415)	(2,518)
	207	322
Patents and trademarks	2,110	2,110
Software intangibles	1,319	1,550
Accumulated amortisation	(616)	(554)
	703	996
Customer relationships	710	-
Accumulated amortisation	(154)	-
	556	-
Total Intangibles	355,709	339,099

	Goodwill \$'000	Works Contracts \$'000	Patents and Trademarks \$'000	Software Intangibles \$'000	Customer Relation- ships \$'000
Reconciliation of movement in carrying amounts from beginning of year to end of year:					
Consolidated					
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	-
2011					
Balance at the beginning of year	335,671	322	2,110	996	-
Additions:					
- acquisition through business combinations					
- current year	57,743	-	-	-	-
- prior year*	(1,545)	1,053	-	-	747
Amortisation charges	-	(1,146)	-	(156)	(163)
Effect of foreign exchange	(39,736)	(22)	-	(137)	(28)
Closing value at 30 June 2011	352,133	207	2,110	703	556

* Amounts were reclassified from goodwill to identifiable intangible assets following completion of the purchase price accounting for acquisitions which occurred in 2010.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

14. INTANGIBLE ASSETS CONTINUED

Goodwill is allocated to the following cash-generating units:

	2011 \$'000	2010 \$'000
Americas and Software	162,002	194,619
Emerging Markets Region	33,285	34,201
South East Australia & NZ	47,103	47,377
North & Western Australia	22,473	22,473
Geotechnical Division	47,210	37,001
Electrical Engineering Division	40,060	-
	352,133	335,671

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.

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 ranging from 10.5% to 14.6% (2010: 11.7%) (adjusted for risks specific to the cash generating unit) based on an estimate of the Group's weighted average cost of capital.

The value-in-use calculations are based on budget forecasts for each cash generating unit for the 2012 year and longer term year-on-year growth rates which are based on underlying economic conditions and cash generating unit sector specific forecasts. Revenue, gross margin and costs have been estimated using growth assumptions ranging from 1% to 5%. Sensitivity analysis performed indicates any reasonable possible change in any of the key assumptions would not result in impairment.

15. OTHER NON-CURRENT ASSETS

Borrowing costs

	2011 \$'000	2010 \$'000
Borrowing costs	-	89

16. TRADE & OTHER PAYABLES (CURRENT)

Trade payables & accruals

Vendor liability

Trade payables & accruals	84,929	63,988
Vendor liability	68,655	18,474
	153,584	82,462

17. LOANS & BORROWINGS (CURRENT)

Lease liabilities

Hire purchase liabilities

Bank loans

Lease liabilities	1,609	1,539
Hire purchase liabilities	239	506
Bank loans	11	47,205
	1,859	49,250

(i) Details of the terms and conditions of loans and borrowings are set out in Note 20

18. SHORT-TERM PROVISIONS

Employee benefits

Training benefits

Employee benefits	17,147	15,457
Training benefits	52	44
	17,199	15,501

19. OTHER CURRENT LIABILITIES

Unearned revenue

Deferred rent

Unearned revenue	32,923	29,194
Deferred rent	11	56
	32,934	29,250

20. LOANS & BORROWINGS (NON-CURRENT)

Lease liabilities

Hire purchase liabilities

Bank Loans

Lease liabilities	3,128	3,291
Hire purchase liabilities	2	124
Bank Loans	101,405	122,575
	104,535	125,990

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

20. LOANS & BORROWINGS (NON-CURRENT) CONTINUED

Bank Loans

As at 30 June 2011 the Group has bank loans totalling \$101,416,141 (2010: \$169,779,591), with an effective interest rate of 2.48% (2010: 2.72%).

The facility limits comprise a multi-currency working capital facility of AUD35.0 million (2010: AUD19.0 million) and term acquisition financing facilities of USD129.1 million (2010: USD129.1 million) and GBP8.55 million (2010: GBP8.55 million) all maturing in July 2014. The weighted average interest rate for term facilities ranges from 2.56% to 2.91% (2010: 2.74% to 2.93%). Funding available to the Group from undrawn facilities is AUD66.6 million at 30 June 2011 (2010: AUD17.4 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 2011 (2010: Nil).

21. LONG-TERM PROVISIONS

Employee benefits

22. OTHER NON-CURRENT LIABILITIES

Deferred rent

Other

	2011 \$'000	2010 \$'000
Employee benefits	8,023	6,527
Deferred rent	297	394
Other	331	235
	628	629

23. ISSUED CAPITAL OF CARDNO LIMITED

Balance at the beginning of the period

Shares issued during the period:

- Dividend reinvestment scheme
- Shares issued for cash (net of transaction costs)
- Employee Tax Exempt Share Acquisition Plan
- Employee share based payments

Balance at the end of the year

	30 June 2011		30 June 2010	
	No. of shares	\$'000	No. of shares	\$'000
Balance at the beginning of the period	90,510,461	252,080	84,272,249	227,457
Shares issued during the period:				
- Dividend reinvestment scheme	399,663	2,033	392,854	1,646
- Shares issued for cash (net of transaction costs)	16,106,665	52,654	5,410,426	20,663
- Employee Tax Exempt Share Acquisition Plan	388,936	2,351	434,932	1,764
- Employee share based payments	-	2,265	-	550
Balance at the end of the year	107,405,725	311,383	90,510,461	252,080

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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 and Expired Not Exercised	Number of Options as at 30 June 2011
25 October 2007	19 October 2010	25 October 2010	7.57	0.92	330,000	-	-	330,000	-
5 December 2007	29 November 2010	5 December 2010	7.71	0.95	1,538,500	-	-	1,538,500	-
5 December 2008	29 November 2011	5 December 2011	3.35	0.41	2,258,000	-	257,000	-	2,001,000
2 December 2009	2 December 2012	2 December 2013	4.43	0.77	2,244,900	-	206,200	-	2,038,700
25 November 2010	25 November 2013	25 November 2014	4.84	0.77	-	3,274,500	-	-	3,274,500
Weighted average exercise price					5.00	4.84	3.83	7.69	4.32
Weighted average remaining contract life									857 days
Total expense recognised \$1,681,706 (2010: \$454,311)									

The options outstanding at 30 June 2011 have an exercise price in the range of \$3.35 to \$4.84. These options do not entitle the holder to participate in any share issue of the Company.

The options issued prior to 2010 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 and since 2010 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 2011 include share price at grant date of \$4.86 (2010: \$4.07), expected price volatility of the Company's shares of 30% (2010: 42%), expected dividend yield of 7.00% (2010: 8.00%) and risk free interest rate of 4.90% (2010: 4.61%).

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 2011
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
21 October 2010	22 October 2013	22 October 2014	EPS Growth	3.78	-	76,250	-	-	76,250
			TSR	2.71	-	76,250	-	-	76,250
25 November 2010	25 November 2013	25 November 2014	EPS Growth	3.94	-	188,750	-	-	188,750
			TSR	2.96	-	188,750	-	-	188,750
Total expense recognised \$609,182 (2010: \$95,899)									

The fair values of rights granted during the year with a total shareholder return (TSR) 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 2011 include share price of \$4.67 for Rights granted on 21 October 2010 (FY10: \$5.03, 22 October 2009) and \$4.86 for Rights granted on 25 November 2010 (FY10: \$4.07, 2 December 2009), expected price volatility of 32% and 30% (FY10: 42%), expected dividend yield of 7.00% (FY10: 8.00%) and risk free interest rate of 4.90% (FY10: 5.25% and 4.61%).

The rights are subject to performance hurdles measured over three financial years. 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.

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 Reserve

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 2011

	2011 \$'000	2010 \$'000
25. NOTES TO THE CASH FLOW STATEMENTS		
(a) Reconciliation of Net Cash from Operating Activities to Net profit for the year		
Net profit for the year	58,802	37,597
Adjust for non-cash items		
Depreciation	8,257	6,612
Amortisation	3,097	1,913
Gain/(loss) on sale of property, plant & equipment	2	33
Net exchange differences	(12,648)	1,037
Share based remuneration	4,630	2,321
Adjust for changes in assets and liabilities		
(increase) / decrease in assets:		
Inventories	(7,574)	(1,258)
Deferred tax assets	(604)	(691)
Trade receivables	227	13,366
Provision for doubtful debts	(3,822)	1,322
Other receivables	(1,166)	1,642
Prepayments	2,002	1,197
Other assets	(1,209)	(871)
Increase / (decrease) in liabilities:		
Trade payables	16,711	(5,375)
Income tax payable	2,813	(1,222)
Employee provisions	1,402	(101)
Unearned revenue	3,174	(9,630)
Other liabilities	(42)	(250)
Deferred tax liabilities	(524)	(897)
	73,528	46,745
(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)	84,047	56,282
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 \$1,992,336 (2010: \$939,867) by means of finance leases. These acquisitions are not reflected in the cash flow statement.		
(d) Acquisition of entities		
Details of the acquisitions are as follows:		
Purchase consideration		
Cash consideration paid	21,940	132,670
Vendor liability	55,304	18,474
Consideration	77,244	151,144

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
25. NOTES TO THE CASH FLOW STATEMENTS CONTINUED		
Assets and liabilities held at acquisition date:		
Cash	11,437	3,184
Receivables	9,598	29,282
Deferred tax assets	1,291	750
Property, plant & equipment	4,109	7,363
Intangibles*	-	-
Inventories	1,037	13,819
Creditors and borrowings	(4,230)	(24,756)
Deferred tax liabilities	(222)	(281)
Provisions	(3,520)	(2,719)
	19,500	26,642
Goodwill on acquisition*	57,744	124,502
Consideration	77,244	151,144
Net cash outflow on acquisition		
Cash consideration paid	21,940	132,670
Less balance acquired	(11,437)	(3,184)
	10,503	129,486

* As disclosed in note 34, the acquisition of BEC Engineering Pty Ltd was completed in June 2011. 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.

	2011 \$'000	2010 \$'000
26. CAPITAL AND LEASING COMMITMENTS		
Finance leases and hire purchase		
Commitments in relation to finance leases are payable as follows:		
- Within one year	2,351	2,531
- Later than one year but not later than 5 years	3,749	3,922
- Later than 5 years	-	-
- Minimum lease payments	6,100	6,453
Less: Future finance charges	(1,122)	(993)
Recognised as a liability	4,978	5,460
Present value of minimum lease and hire purchase payment		
Commitments in relation to finance leases are payable as follows:		
- Within one year	1,848	2,045
- Later than one year but not later than 5 years	3,130	3,415
- Later than 5 years	-	-
Recognised as a liability	4,978	5,460
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)	1,848	2,045
Non-current (note 20)	3,130	3,415
	4,978	5,460

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
26. CAPITAL AND LEASING COMMITMENTS CONTINUED		
Operating Leases		
- Within one year	23,720	25,970
- Later than one year but not later than 5 years	47,740	52,032
- Later than 5 years	23,557	28,021
Commitments not recognised in the financial statements	95,017	106,023
<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)	16,025	15,063
Provisions (current) (note 18)	17,199	15,501
Provisions (non-current) (note 21)	8,023	6,527
	41,247	37,091
Number of employees	No.	No.
Number of employees at 30 June	4,342	3,657
	\$	\$
Defined contribution superannuation expense	11,994,190	9,752,309

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 Group, or which is likely to have a material effect on the financial performance of the Group.

The Group had contingent liabilities at 30 June 2011 in respect of:

	2011 \$'000	2010 \$'000
Bank guarantees	9,391	7,287

The Group has bank guarantees with financial institutions. A multiple guarantee facility is available to the Group totalling \$19 million (2010: \$19 million). These facilities are secured by an unlimited interlocking guarantee and indemnity.

29. SUBSEQUENT EVENTS

On 16 August 2011, the Directors of Cardno Limited declared a final dividend of 17.0 cents per share (70% franked) for the 2011 financial year. The dividend will be paid on 14 October 2011 to shareholders registered on 16 September 2011 and will total \$18,662,605. The dividend has not been provided for in the 30 June 2011 financial statements.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$	2010 \$
30. EARNINGS PER SHARE		
Basic earnings per share		
The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of \$58,802,020 (2010: \$37,597,311) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2011 of 104,463,652 (2010: 85,716,101), calculated as follows:		
Profit attributable to ordinary shareholders	58,802,020	37,597,311
Weighted average number of ordinary shares	No.	No.
Issued ordinary shares at 1 July	90,510,461	84,272,249
Effect of shares issued for cash consideration	13,824,398	1,308,010
Effect of shares issued in respect of employee share scheme	128,793	135,842
Weighted average number of ordinary shares at 30 June	104,463,652	85,716,101
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	58,802,020	37,597,311
Profit attributable to ordinary shareholders (diluted)	58,802,020	37,597,311
Weighted average number of ordinary shares (diluted)	No.	No.
Weighted average number of ordinary shares at 30 June	104,463,652	85,716,101
Effect of share options and rights on issue	1,771,232	493,905
Weighted average number of ordinary shares (diluted) at 30 June	106,234,884	86,210,006

7,314,200 options issued during the 2008 and 2011 financial years and still on issue as at 30 June 2011 have not been included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2011 due to the exercise price being higher than the average market share price for the period. These options could potentially dilute basic earnings per share in the future.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

	2011 \$	2010 \$
31. AUDITOR'S REMUNERATION		
Audit services		
Auditors of the Company		
KPMG Australia:		
- Audit and review of financial reports	305,500	220,000
Overseas KPMG firms:		
- Audit and review of financial reports	350,063	272,000
	655,563	492,000
Other services		
Auditors of the Company		
KPMG Australia:		
- Other assurance services	-	-
- Taxation services	-	-
Overseas KPMG firms:		
- Taxation services	-	2,350
	-	2,350

32. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	2011 \$'000	2010 \$'000
Short-term employee benefits	4,996	4,184
Long-term benefits	592	198
Post-employment benefits	423	396
Termination benefits	-	131
Equity compensation benefits	366	606
	6,377	5,515

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 2011

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:

2011 OPTIONS	Held at 1 July 2010	Granted as compensation	Lapsed	Vested & expired (not exercised)	Held at 30 June 2011	Vested and exercisable at 30 June 2011
Executive Directors						
Andrew Buckley	150,000	-	-	(150,000)	-	-
Jeffrey Forbes	70,000	-	-	(70,000)	-	-
Trevor Johnson	50,000	-	-	(50,000)	-	-
Graham Tamblyn*	40,000	-	-	(40,000)	-	-
Senior Executives						
Roger Collins-Woolcock	105,000	-	-	(45,000)	60,000	-
Jean-Francois Floury	-	-	-	-	-	-
Paul Gardiner	125,000	-	-	(55,000)	70,000	-
Michael Renshaw	105,000	-	-	(45,000)	60,000	-
Kylie Sprott	-	-	-	-	-	-
Ross Thompson	-	-	-	-	-	-

*Retired from board of directors 21 October 2010

No options held by key management personnel had vested and were exercisable as at 30 June 2011.

2010 OPTIONS	Held at 1 July 2009	Granted as compensation	Lapsed	Vested & expired (not exercised)	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Executive Directors						
Andrew Buckley	250,000	-	-	(100,000)	150,000	-
Jeffrey Forbes	120,000	-	-	(50,000)	70,000	-
Trevor Johnson	90,000	-	-	(40,000)	50,000	-
Graham Tamblyn	60,000	-	-	(20,000)	40,000	-
Senior Executives						
Roger Collins-Woolcock	135,000	-	-	(30,000)	105,000	-
Paul Gardiner	170,000	-	-	(45,000)	125,000	-
Michael Renshaw	135,000	-	-	(30,000)	105,000	-
Kylie Sprott	-	-	-	-	-	-
Steven Coote *	170,000	-	170,000	-	-	-
Charles Tapp *	110,000	-	-	(25,000)	85,000	-

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

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:

2011 RIGHTS	Held at 1 July 2010	Granted as compensation	Vested	Held at 30 June 2011	Vested and exercisable at 30 June 2011
Executive Directors					
Andrew Buckley	60,000	70,000	-	130,000	-
Jeffrey Forbes	30,000	35,000	-	65,000	-
Trevor Johnson	25,000	27,500	-	52,500	-
Graham Tamblyn*	20,000	20,000	-	40,000	-
Senior Executives					
Roger Collins-Woolcock	30,000	35,000	-	65,000	-
Jean-Francois Floury	-	-	-	-	-
Paul Gardiner	30,000	35,000	-	65,000	-
Michael Renshaw	30,000	35,000	-	65,000	-
Kylie Sprott	8,000	25,000	-	33,000	-
Ross Thompson	-	25,000	-	25,000	-

*Retired from board of directors 21 October 2010

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

32. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

2010 RIGHTS	Held at 1 July 2009	Granted as compensation	Vested	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Executive Directors					
Andrew Buckley	-	60,000	-	60,000	-
Jeffrey Forbes	-	30,000	-	30,000	-
Trevor Johnson	-	25,000	-	25,000	-
Graham Tamblyn	-	20,000	-	20,000	-
Senior Executives					
Roger Collins-Woolcock	-	30,000	-	30,000	-
Paul Gardiner	-	30,000	-	30,000	-
Michael 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.

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:

2011

	Held at 1 July 2010	Purchases	Received as Compensation	Sales	Held at 30 June 2011
Non-Executive Directors					
John Massey	50,000	8,334	-	-	58,334
Anthony Barnes	3,466	841	-	-	4,307
Peter Cosgrove	-	-	-	-	-
Ian Johnston	207,390	34,565	-	-	241,955
Executive Directors					
Andrew Buckley	2,359,037	91,224	-	-	2,450,261
Jeffrey Forbes	21,305	5,161	-	-	26,466
Trevor Johnson	1,967,399	82,602	-	-	2,050,001
Graham Tamblyn*	1,216,851	31,360	-	(238,695)	1,009,516
Senior Executives					
Roger Collins-Woolcock	653,897	50,041	165	-	704,103
Paul Gardiner	800,386	50,388	165	-	850,939
Michael Renshaw	163,817	27,304	165	-	191,286
Kylie Sprott	3,580	1,420	165	-	5,165
Ross Thompson	348	82	-	-	430

*Retired from board of directors 21 October 2010

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					
Andrew Buckley	2,359,037	-	-	-	2,359,037
Jeffrey Forbes	19,947	1,358	-	-	21,305
Trevor Johnson	1,967,399	-	-	-	1,967,399
Graham Tamblyn	1,426,330	521	-	(210,000)	1,216,851
Senior 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

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

32. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

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.

Mr A D Buckley was a Director of CBD Professional Services Pty Ltd until 17 December 2009. Cardno billed for services performed by him to a total of \$20,688 in the 2010 financial year. The consolidated entity also used Carter Newell Lawyers (associated with CBD Professional Services Pty Ltd) for legal advice throughout the year. The aggregate amount of fees expensed was \$16,268 (2010: \$651).

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:

	2011 \$'000	2010 \$'000
Financial assets		
Cash and cash equivalents	84,047	56,282
Trade and other receivables	118,740	104,779
Investments in non-related entities	669	836
	203,456	161,897
Financial liabilities		
Trade and other payables	153,584	82,462
Interest-bearing loans and borrowings	106,394	175,240
	259,978	257,702

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 material concentrations of credit risk.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

33. FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk continued

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

	2011 \$'000	2010 \$'000
Australia & New Zealand	54,524	39,549
Americas	44,680	41,763
Asia Pacific	8,240	10,587
Europe & Africa	5,595	8,481
	113,039	100,380

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

	2011		2010	
	Gross \$'000	Impairment \$'000	Gross \$'000	Impairment \$'000
Not past due (current)	58,428	-	58,705	-
Past due 0-30 days (30 day ageing)	31,056	-	23,912	-
Past due 31-60 days (60 day ageing)	7,895	-	6,303	-
Past due more than 60 days (+90 day ageing)	22,036	6,376	20,446	8,986
	119,415	6,376	109,366	8,986

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:

	2011 \$'000	2010 \$'000
Balance at 1 July	8,986	5,403
Impairment loss recognised	3,713	2,699
Receivables written off	(6,622)	(1,242)
Merger acquisition	1,212	2,218
Foreign exchange	(913)	(92)
Balance at 30 June	6,376	8,986

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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

33. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk continued

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

30 June 2011	Carrying amount	Contractual cash flows \$'000	Less than 1 year	1 – 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	153,584	153,584	153,584	-	-
Finance leases & hire purchase	4,978	6,100	2,351	3,749	-
Bank loans*	101,416	101,635	238	101,397	-
	259,978	261,319	156,173	105,146	-

* Bank loans are term facilities all maturing in July 2014.

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	-
	257,702	259,035	132,812	126,223	-

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 \$91.3 million (2010: \$148.3 million) denominated in US dollars (USD) and \$11.0 million (2010: \$14.0 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 2011, a 10% strengthening of the Australian dollar against the USD and GBP would have increased equity by \$8.3 million (2010: \$13.5 million) and \$1.0 million (2010: \$1.3 million) respectively. A 10% weakening of the Australian dollar against the USD and GBP would have decreased equity by \$10.1 million (2010: \$16.5 million) and \$1.2 million (2010: \$1.6 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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

33. FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

(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 transactions which are of a speculative nature.

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

	30 June 2011		30 June 2010	
	Effective Interest Rate	Balance \$'000	Effective Interest Rate	Balance \$'000
Variable rate instruments				
Cash assets	2.43%	84,047	3.10%	56,282
Bank loans	2.48%	(101,408)	2.72%	(169,769)
		(17,361)		(113,487)
Fixed rate instruments				
Finance leases & hire purchase	7.89%	(4,978)	7.93%	(5,460)
Bank loans	8.00%	(8)	8.00%	(11)
		(4,986)		(5,471)

Group sensitivity

At 30 June 2011, 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 \$64,000 higher/lower (2010: \$397,000 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 2011

- (a) In December 2010, the group acquired JF New & Associates (JFNEW), an environmental consulting firm specialising in natural resources management, environmental permitting, habitat restoration, mitigation banking, native plant materials and cultural resources consulting. The effective date was 31 December 2010.

For the period 1 January 2011 - 30 June 2011, the acquired business contributed revenues of \$7,919,751 and net profit after tax of \$596,691. If the acquisition had occurred on 1 July 2010 revenue and NPAT for the Group would have been \$842,869,782 and \$59,874,331 respectively.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

34. BUSINESS COMBINATIONS CONTINUED

Details of acquisitions

	\$'000
Purchase Consideration	
Cash	9,655
Vendor liability and contingent consideration	2,528
Total purchase consideration	12,183
Fair value of net identifiable assets acquired*	4,708
Goodwill	7,475

At the time of purchase the vendors of JF New & Associates subscribed for shares in Cardno Ltd to the value of \$2,409,835. The fair value of the ordinary shares issued was based on the 10 day VWAP of Cardno Ltd shares. The fair value price was \$5.43 for the purchase of shares by vendors of JF New issued 7 January 2011.

Cardno Limited has agreed to pay the selling shareholders of JFNew, additional consideration of USD\$2,000,000 if the acquiree's normalised EBITDA over the period 1 January 2011 to 31 December 2012 is USD\$2,400,000. Where the normalised EBIT is between USD\$2,000,000 and USD\$2,400,000 the payment will be pro-rated.

The goodwill is attributable to the skills and technical talent of the employees of JF New & Associates and the synergies expected to be achieved from integrating the Company into the Group's existing operations.

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

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	606	606
Receivables	1,997	1,997
Property, plant and equipment	2,467	2,467
Inventories	339	339
Creditors & borrowings	(568)	(568)
Provisions	(133)	(133)
Net identifiable assets acquired	4,708	4,708

Outflow of cash to acquire subsidiaries, net of cash acquired

Cash consideration paid	9,655
Cash balance acquired	606
Outflow of cash	9,049

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

34. BUSINESS COMBINATIONS CONTINUED

- (b) In June 2011, the group acquired Roadtest Services Pty Ltd, an Australian based construction materials testing and geotechnical engineering firm with around 60 staff based in Central Queensland. The effective date of acquisition was 1 April 2011.

For the period 1 April 2011 - 30 June 2011, the acquired business contributed revenues of \$2,428,405 and net profit after tax of \$975,569. If the acquisition had occurred on 1 July 2010 revenue and NPAT for the Group would have been \$839,067,516 and \$61,106,731 respectively.

Details of acquisitions

	\$'000
Purchase Consideration	
Cash	12,285
Vendor liability and contingent consideration	465
Total purchase consideration	12,750
Fair value of net identifiable assets acquired	2,542
Goodwill	10,208

At the time of purchase the vendors of Roadtest Services Pty Ltd subscribed for shares in Cardno Ltd to the value of \$3,071,322. The fair value of the ordinary shares issued was based on the 5 day VWAP of Cardno Ltd shares in the 5 days prior to the date of issuance of the shares. The fair value price was \$5.66 for the purchase of shares by vendors of Roadtest issued 15 June 2011.

The goodwill is attributable to the skills and technical talent of the employees of Roadtest Services and the synergies expected to be achieved from integrating the company into the Group's existing operations.

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

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	1,978	1,978
Receivables	943	943
Property, plant and equipment	502	502
Creditors & borrowings	(374)	(374)
Provisions	(507)	(507)
Net identifiable assets acquired	2,542	2,542

Outflow of cash to acquire subsidiaries, net of cash acquired

Cash consideration paid	12,285
Cash balance acquired	1,978
Outflow of cash	10,307

- (c) In June 2011 the Group acquired BEC Engineering Pty Ltd, an Australian based electrical engineering services firm with around 100 staff. The effective date of acquisition was 1 June 2011.

For the period 1 June to 30 June 2011, the acquired business contributed revenues of \$3,783,473 and net profit after tax of \$599,795. If the acquisition had occurred on 1 July 2010 revenue and NPAT for the group would have been \$863,137,384 and \$63,959,562 respectively.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

34. BUSINESS COMBINATIONS CONTINUED

Details of acquisitions

	\$'000
Purchase Consideration	
Cash	51,310
Vendor liability and contingent consideration	1,000
Total purchase consideration	52,310
Fair value of net identifiable assets acquired	12,251
Goodwill*	40,059

* The acquisition of BEC Engineering was completed during June 2011. 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.

Under the purchase agreement, the vendors of BEC subscribed for shares in Cardno Ltd to the value of \$11,250,015. The fair value of the ordinary shares issued was based on the 5 day VWAP of Cardno Ltd shares in the 5 days prior to the date of issuance of the shares. The fair value price was \$5.52 for the purchase of shares by vendors of BEC issued 6 July 2011.

Cardno Limited has agreed to pay the selling shareholders of BEC Group additional consideration of \$1,000,000 if the acquiree's normalised EBIT over the period 1 July 2011 to 30 June 2012 is \$9,000,000 or more. Where the normalised EBIT is between \$8,000,000 and \$9,000,000 the payment will be pro-rated.

The goodwill is attributable to the skills and technical talent of the employees of the BEC Group and the synergies expected to be achieved from integrating the company into the Group's existing operations.

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

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	8,853	8,853
Receivables	6,532	6,532
Deferred tax assets	868	1,290
Property, plant and equipment	1,140	1,140
Inventories	699	699
Creditors and borrowings	(3,717)	(3,717)
Deferred tax liabilities	(221)	(221)
Provisions	(1,903)	(2,325)
Net identifiable assets acquired	12,251	12,251

Outflow of cash to acquire subsidiaries, net of cash acquired

Cash consideration paid*	-
Less: Balances acquired	
Cash	8,853
Outflow of cash	(8,853)

* The cash component of the purchase consideration was paid on 6 July 2011. As at 30 June 2011, the amount payable of \$51,310,000 has been recognised as a vendor liability and included in note 16.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

34. BUSINESS COMBINATIONS CONTINUED

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 and contingent consideration	<u>2,775</u>
Total purchase consideration	27,768
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.

Cardno Limited 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. This was calculated and paid during the year ended 30 June 2011.

Cardno Limited 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 was \$1,700,000 or more. This amount was included in the purchase consideration based on estimates of the acquiree's financial performance over the earn-out period. This has now been achieved and will be paid for in accordance with the Share Sale Agreement being 50% in April 2011, 25% in April 2012 and 25% in April 2013.

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.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

34. BUSINESS COMBINATIONS CONTINUED

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 paid		24,993
Less: Balances acquired		
Cash		1,439
Outflow of cash		23,554

- (b) In June 2010, the Group acquired 100% of ENTRIX, a US based consultancy firm 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 and contingent consideration	4,294
Total purchase consideration	85,361
Fair value of net identifiable assets acquired	18,255
Goodwill	67,106

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 employees of ENTRIX and 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 2011

34. BUSINESS COMBINATIONS CONTINUED

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
Intangibles	-	1,167
Creditors & borrowings	(19,254)	(19,254)
Deferred tax liabilities	(239)	(239)
Provisions	(1,257)	(1,257)
Net identifiable assets acquired	17,088	18,255

Outflow of cash to acquire subsidiaries, net of cash acquired

Cash consideration paid	81,067
Cash balance acquired	1,071
Outflow of cash	79,996

- (c) In 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

	\$'000
Purchase Consideration	
Cash	26,610
Vendor liability and contingent consideration	11,404
Total purchase consideration	38,014
Fair value of net identifiable assets acquired	4,280
Goodwill	33,734

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.

Cardno Limited agreed to pay the selling shareholders of Environmental Resolutions, Inc additional consideration of USD\$8,089,000 if the acquiree's normalised EBITDA over the period 1 June 2010 to 31 May 2011 exceeded USD\$6,371,000. This amount was included in the purchase consideration based on estimates of the acquiree's financial performance over the earn-out period. This has now been achieved and paid in July 2011.

The goodwill is attributable to the skills and technical talent of the employees of Environmental Resolutions Inc and 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 2011

34. BUSINESS COMBINATIONS CONTINUED

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	1,111	1,111
Intangibles	-	975
Creditors & borrowings	(3,541)	(3,540)
Deferred tax liabilities	(42)	(42)
Provisions	(576)	(576)
Net identifiable assets acquired	3,304	4,280

Outflow of cash to acquire subsidiaries, net of cash acquired

Cash consideration paid	26,610
Cash balance acquired	674

Outflow of cash

25,936

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, electrical engineering 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*.

2011	Professional Services Australia & NZ	Professional Services Americas & Software	International Development Assistance	Total \$'000
Segment revenue				
Fees from services and sale of goods	229,607	257,303	84,282	571,192
Fees from recoverable expenses	26,022	184,701	46,844	257,567
Inter-segment revenue	-	(133)	(960)	(1,093)
External sales	255,629	441,871	130,166	827,666
Other income	758	447	382	1,587
Total segment revenue	256,387	442,318	130,548	829,253
Segment result				
before financing costs	34,021	51,806	4,175	90,002
Segment assets	285,907	272,162	90,876	648,945
Segment liabilities	128,778	19,404	48,059	196,241
Other				
Acquisitions of non-current assets	58,852	13,643	542	73,037
Depreciation and amortisation of assets	6,325	4,512	519	11,356

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

35. SEGMENT INFORMATION CONTINUED

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 assets	26,980	69,576	237	96,793
Depreciation and amortisation of assets	6,032	1,872	621	8,525

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

	2011 \$'000	2010 \$'000
Revenues		
Total revenue for reportable segments	828,759	475,342
Elimination of inter-segment revenue	(1,093)	(1,590)
Interest revenue	1,948	1,429
Other income	1,587	2,057
Consolidated revenue	831,201	477,238
Profit or loss		
Reportable segment result before net financing costs	90,002	49,359
Interest Revenue	1,948	1,429
Finance costs	(4,501)	(3,166)
Other corporate (costs)/gains	(3,146)	(4,043)
Profit before tax	84,303	43,579
Income tax expense	(25,501)	(5,982)
Profit after tax	58,802	37,597
Assets		
Total assets for reportable segments	648,945	599,220
Unallocated assets	32,667	12,331
Consolidated total assets	681,612	611,551
Liabilities		
Total liabilities for reportable segments	196,241	176,448
Other liabilities	35,968	22,727
Other unallocated amounts	92,207	112,404
Consolidated total liabilities	324,416	311,579

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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.

	2011		2010	
	Revenues	Total Non-Current Assets	Revenues	Total Non-Current Assets
Australia & NZ	306,471	151,534	286,652	129,277
Americas	480,874	214,160	141,301	214,182
Asia Pacific	15,334	687	15,042	545
UK & Africa	26,574	21,785	32,814	25,807
Other segments	-	6,130	-	4,476
	829,253	394,296	475,809	374,287

36. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2011 the parent Company of the Group was Cardno Limited.

	Company	
	2011 \$'000	2010 \$'000
Results of the parent entity		
Profit for the year	42,696	29,692
Other comprehensive income	-	-
Total comprehensive income for the year	42,696	29,692
Financial position of the parent entity at year end		
Current assets	291,975	208,711
Total assets	449,661	327,402
Current liabilities	108,086	53,833
Total liabilities	108,141	53,907
Total equity of the parent entity comprising of:		
Share capital	311,383	252,080
Revaluation reserve	-	-
Retained earnings	30,137	21,415
Total equity	341,520	273,495
Parent entity contingencies		
Bank guarantees	2,214	2,151

A multiple guarantee facility is available to the Group totalling \$19 million (2010: \$19 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 2011

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 2011 is set out as follows:

Statement of comprehensive income and retained earnings

	2011 \$'000	2010 \$'000
Revenue	287,971	234,201
Employee expenses	(143,792)	(119,870)
Consumables and materials used	(50,712)	(41,514)
Sub-consultant and contractor costs	(41,983)	(39,305)
Depreciation and amortisation expenses	(50)	(38)
Finance costs	(3,883)	(2,384)
Other expenses	725	4,572
Profit before income tax	48,276	35,662
Income tax expense	(7,184)	(380)
Net profit for the year	41,092	35,282
Other comprehensive income for the year	(2,639)	(475)
Total comprehensive income for the year	38,453	34,807
Retained earnings at the beginning of the year	30,508	19,181
Transfers to and from reserves	2,639	475
Dividends recognised during the year	(33,975)	(23,955)
Retained earnings at the end of the year	37,625	30,508
Attributable to:		
Owners of the Company	37,625	30,508

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

37. DEED OF CROSS GUARANTEE CONTINUED

Statement of financial position

	2011 \$'000	2010 \$'000
CURRENT ASSETS		
Cash and cash equivalents	24,422	22,337
Trade and other receivables	294,771	408,965
Inventories	18,569	18,542
Other current assets	879	735
TOTAL CURRENT ASSETS	338,641	450,579
NON-CURRENT ASSETS		
Trade and other receivables	-	-
Other financial assets	269,304	174,948
Property, plant and equipment	517	73
Deferred tax assets	6,571	5,816
Intangible assets	40,738	35,663
Other non-current assets	370	89
TOTAL NON-CURRENT ASSETS	317,500	216,589
TOTAL ASSETS	656,141	667,168
CURRENT LIABILITIES		
Trade and other payables	172,485	197,076
Interest-bearing loans and borrowings	102,344	162,300
Current tax liabilities	6,681	3,174
Short term provisions	10,935	9,120
Other current liabilities	6,776	4,187
TOTAL CURRENT LIABILITIES	299,221	375,857
NON-CURRENT LIABILITIES		
Trade and other payables	-	-
Interest-bearing loans and borrowings	-	-
Deferred tax liabilities	4,497	3,807
Long term provisions	7,333	6,234
Other non-current liabilities	31	-
TOTAL NON-CURRENT LIABILITIES	11,861	10,041
TOTAL LIABILITIES	311,082	385,898
NET ASSETS	345,059	281,270
EQUITY		
Issued capital	311,384	252,080
Reserves	(3,950)	(1,318)
Retained earnings	37,625	30,508
TOTAL EQUITY	345,059	281,270

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 2011

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%
Cardno JF New, Inc	United States of America	100%
Cardno AUS Pty Ltd	Australia	100%
Roadtest Emerald Pty Ltd	Australia	100%
BEC Engineering Pty Ltd	Australia	100%
BEC Engineering (Qld) Pty Ltd	Australia	100%
Cardno (Colombia) S.A.S.	Colombia	100%

Directors' Declaration

Cardno Limited and its Controlled Entities for the year ended 30 June 2011

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 2011 and of its performance for the financial year ended on that date; and
 - (i) 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 37 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 2011.
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 2011.

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 Cardno Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2011, 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, notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included on pages 9 to 18 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

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

KPMG

Robert S Jones
Partner

Brisbane
16 August 2011

Additional Shareholder Information

Distribution of Ordinary Shareholders

The number of shareholders, by size of holding, as at 31 August 2011 were:

	Ordinary Shares	
	Number of Holders	Number of Shares
1 – 1,000	5,204	2,131,485
1,001 – 5,000	3,793	9,803,678
5,001 – 10,000	1,226	8,813,440
10,001 – 100,000	1,107	26,739,604
100,001 – and over	118	62,291,825
Total	11,448	109,780,032

As at 31 August 2011 there were 745 shareholders who held less than a marketable parcel of 96 shares.

Twenty Largest Ordinary Shareholders

The names of the twenty largest holders as at 31 August 2011 were:

	Listed Ordinary Shares	
	Number Held	Percentage
RBC Dexia Investor Services Australia Nominees Pty Limited < PIPOOLED A/C>	6,565,427	5.98%
J P Morgan Nominees Australia Limited	6,067,398	5.53%
National Nominees Limited	3,729,674	3.40%
HSBC Custody Nominees (Australia) Limited	3,367,200	3.07%
Andrew Buckley	2,450,261	2.23%
Pat Beyer	2,128,796	1.94%
Trevor Johnson	2,050,001	1.87%
J P Morgan Nominees Australia Limited <Cash Income A/C>	2,031,367	1.85%
Cogent Nominees Pty Limited	1,826,974	1.66%
Geoffrey Allen Bailey & Wendy Ann Bailey <Gatling A/C>	1,776,797	1.62%
Merrill Lynch (Australia) Nominees Pty Limited	1,489,473	1.36%
Steve M Zigan	1,217,985	1.11%
Joseph E O'Connell	1,170,381	1.06%
Malcolm David Pound	1,061,741	0.97%
Graham Tamblyn	1,010,299	0.92%
Sandhurst Trustees Ltd <Harper Bernays Ltd A/C>	970,455	0.88%
Citicorp Nominees Pty Limited	873,511	0.80%
Paul Gardiner	850,939	0.77%
R A Young Investments Pty Ltd <Young Super Fund A/C>	783,609	0.71%
Anne Felicity Phillips	767,358	0.70%
Total	42,189,646	38.43%

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%

Voting Rights

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

Additional Shareholder Information

Escrowed Shares

There are currently 6,785,509 ordinary shares held in escrow. This is approximately 6.2% of the company's issued share capital. The details are as follows:-

- 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 400,146 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 a period of 18 months to 11 December 2011. This agreement affects 1,194,588 shares, being approximately 1.09% 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 a period of 18 months to 11 December 2011. This agreement affects 2,166,665 shares, being approximately 1.97% of the company's issued share capital.
- In accordance with the Stock Purchase Agreement between Cardno Limited and the stockholders of JF New & Associates completed on 7 January 2011, ordinary shares issued as part of the purchase price are escrowed for a period of 18 months to 7 July 2012. This agreement affects 444,052 shares, being approximately 0.40% of the company's issued share capital.
- In accordance with the Share Sale Agreement between Cardno Limited and the shareholders of Roadtest completed on 15 June 2011, ordinary shares issued as part of the purchase price are escrowed for a period of 18 months to 15 December 2012. This agreement affects 542,189 shares, being approximately 0.49% of the company's issued share capital.
- In accordance with the Share Sale Agreement between Cardno Limited and the shareholders of BEC Engineering Pty Ltd completed on 6 July 2011, ordinary shares issued as part of the purchase price are escrowed for periods of 12 and 18 months with 217,374 escrowed to 6 July 2012 and 1,820,495 escrowed to 6 January 2013. This agreement affects 2,037,869 shares, being approximately 1.86% of the company's issued share capital.

Options

As at 31 August 2011 the details of Performance Options on issue are as follows:

Number of Option Holders	Number of Options on Issue
494	7,314,200

Voting Rights of Options

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

Rights

As at 31 August 2011 the details of Performance Rights on issue are as follows:

Number of Rights Holders	Number of Rights on Issue
24	889,000

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

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

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ABN 70 108 112 303

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Website: www.cardno.com

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