



**Cardno Limited**

ABN 70 108 112 303

**and its controlled entities**

Interim Financial Report  
for the half-year ended 31 December 2010



## Table of Contents

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### Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|   |    |
|---|----|
| Directors' Report.....  | 3  |
| Auditor's Independence Declaration.....                       | 5  |
| Consolidated Interim Statement of Financial Performance ..... | 6  |
| Consolidated Interim Statement of Comprehensive Income .....  | 7  |
| Consolidated Interim Statement of Financial Position.....     | 8  |
| Consolidated Interim Statement of Changes in Equity.....      | 9  |
| Consolidated Interim Statement of Cash Flows .....            | 10 |
| Notes to the Consolidated Interim Financial Statements .....  | 11 |
| Directors' Declaration .....                                  | 17 |
| Independent Auditor's Review Report .....                     | 18 |

# Directors' Report

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## Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

The directors present their report together with the consolidated financial report of Cardno Limited ("the Company") and its controlled entities for the half-year ended 31 December 2010 and the auditor's review report thereon.

### Directors

The directors of the Company in office during or since the end of the half-year ended 31 December 2010 are set out below:

John Massey (Chairman - Non-executive)  
Andrew Buckley (Managing Director - Executive)  
Anthony Barnes (Non-executive)  
Peter Cosgrove (Non-executive)  
Jeffrey Forbes (Executive and Joint Company Secretary)  
Trevor Johnson (Executive)  
Ian Johnston (Non-executive)  
Graham Tamblyn (Deputy Chairman - Executive) (resigned 21 October 2010)

All directors held office during and since the end of the half-year unless otherwise indicated.

### Company Secretaries

Jeffrey Forbes (Joint Company Secretary)  
Michael Pearson (Joint Company Secretary)

### Review of Results and Operations

The Company achieved a record profit after tax of \$31.7 million for the December 2010 half year, an increase of 98% over the previous corresponding period (pcp) profit of \$16.1 million. Basic earnings per share was 31.00 cents, a 63% increase on the pcp of 18.97 cents. EBITDA rose 122% to \$55.7 million compared to the pcp of \$25.0 million.

The record profit for this period follows the six consecutive record annual profits and earnings per share growth since listing in 2004.

Revenue was \$436 million, which was 91% higher than the pcp of \$229 million. Operating cash flow was \$39.8 million, up 134% on the pcp of \$17.0 million.

The Company's balance sheet remains strong with a low debt to equity ratio of 35% and cash of \$80 million at December 31.

The record profit for the period is due to the Company's successful strategy of geographical and discipline diversification. Performance by Cardno ENTRIX and Cardno ERI in the Americas region was particularly strong, endorsing the Company's focus on high growth market sectors and integration of strategic acquisitions.

The effective tax rate for the half year was 33.1% compared to 16.3% in the pcp due to higher tax rates in the USA and lower R&D benefits.

Second half profit performance is expected to be robust although slightly weaker than the first half. It is expected that the impact of lower workload on the Gulf of Mexico oil spill will be offset by improving conditions across the business.

The impact of the recent floods and wet weather on the east coast of Australia is expected to be neutral in the half with any loss of revenue in the first quarter offset by increased work in the second quarter.

## Directors' Report

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### Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

On 31 December 2010 Cardno acquired JFNew, an environmental consulting firm with 150 staff located in six offices around the USA. This acquisition extends Cardno's exposure to the environmental and natural resources management market in the Americas. It also has strong potential to cross-sell its capabilities with the Company's existing businesses.

The acquisition is earnings per share accretive in 2011 and is expected to contribute approximately USD18 million in revenue and USD2.7 million in EBITDA for the 2012 financial year.

The company continues to perform strongly and remains well positioned for further expansion through organic growth and strategic acquisitions.

#### Dividends

The Board has declared an increased interim dividend of 17 cents per share (up from 14 cents pcp) franked to 70% to be paid on 25 March 2011 to all shareholders registered on 11 March 2011.

#### Subsequent Event

Subsequent to the acquisition of JFNew, the vendors subscribed for shares in Cardno Limited to the value of \$2,390,073. The fair value of the ordinary shares issued was \$5.43 which was based upon the 10 day VWAP of Cardno Limited shares. The shares were issued on 10 January 2011.

#### Lead Auditor's Independence Declaration

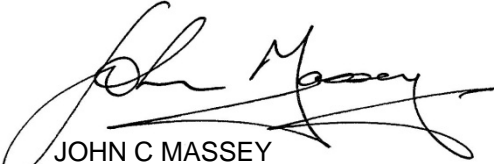
The lead auditor's independence declaration under Section 307C of the Corporations Act is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2010.

#### Rounding of Amounts

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

Signed in accordance with a resolution of directors.

On behalf of the Directors



JOHN C MASSEY  
Chairman

Brisbane  
15 February 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 review for the half-year ended 31 December 2010 there have been:

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

Kpmg

KPMG

A handwritten signature in blue ink, appearing to read 'Robert S. Jones', with a stylized flourish at the end.

Robert Jones  
*Partner*

Brisbane

15 February 2011

# Consolidated Interim Statement of Financial Performance

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|  | Note | Consolidated        |                     |
|--|------|---------------------|---------------------|
|  |      | 31-Dec-10<br>\$'000 | 31-Dec-09<br>\$'000 |
| <b>Revenue</b>                               | 2    | <b>436,375</b>      | <b>228,621</b>      |
| Consumables and materials used               |      | (167,656)           | (66,254)            |
| Sub-consultant and contractor costs          |      | (32,030)            | (26,808)            |
| Employee benefits expense                    |      | (165,069)           | (100,723)           |
| Depreciation and amortisation expenses       | 3    | (5,870)             | (4,283)             |
| Finance costs                                | 3    | (2,396)             | (1,572)             |
| Other expenses                               |      | (15,931)            | (9,798)             |
| <b>Profit before income tax</b>              |      | <b>47,423</b>       | <b>19,183</b>       |
| Income tax expense                           | 4    | (15,706)            | (3,132)             |
| <b>Profit for the half-year</b>              |      | <b>31,717</b>       | <b>16,051</b>       |
| <b>Profit attributable to:</b>               |      |                     |                     |
| Owners of the Company                        |      | 31,717              | 16,051              |
|  |      | <b>31,717</b>       | <b>16,051</b>       |
| Basic earnings per share (cents per share)   | 9    | 31.00               | 18.97               |
| Diluted earnings per share (cents per share) | 9    | 30.69               | 18.86               |

## Consolidated Interim Statement of Comprehensive Income

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 31-Dec-10<br>\$'000 | 31-Dec-09<br>\$'000 |
| <b>Profit for the period</b>                                 | <b>31,717</b>       | <b>16,051</b>       |
| <b>Other comprehensive income</b>                            |                     |                     |
| Exchange differences on translation of foreign operations    | (20,969)            | (7,034)             |
| <b>Other comprehensive income for the period, net of tax</b> | <b>(20,969)</b>     | <b>(7,034)</b>      |
| <b>Total comprehensive income for the period</b>             | <b>10,748</b>       | <b>9,017</b>        |
| <b>Total comprehensive income attributable to:</b>           |                     |                     |
| Owners of the Company  | 10,748              | 9,017               |
|  | <b>10,748</b>       | <b>9,017</b>        |

# Consolidated Interim Statement of Financial Position

Cardno Limited and its Controlled Entities as at 31 December 2010

|                                       | Note | Consolidated        |                     |
|---------------------------------------|------|---------------------|---------------------|
|                                       |      | 31-Dec-10<br>\$'000 | 30-Jun-10<br>\$'000 |
| <b>CURRENT ASSETS</b>                 |      |                     |                     |
| Cash and cash equivalents             |      | 80,115              | 56,282              |
| Trade and other receivables           |      | 119,032             | 103,275             |
| Inventories                           |      | 73,007              | 71,496              |
| Other current assets                  |      | 7,990               | 6,211               |
| <b>TOTAL CURRENT ASSETS</b>           |      | <b>280,144</b>      | <b>237,264</b>      |
| <b>NON-CURRENT ASSETS</b>             |      |                     |                     |
| Trade and other receivables           |      | 2,418               | 1,504               |
| Other financial assets                |      | 703                 | 836                 |
| Property, plant and equipment         |      | 30,250              | 29,208              |
| Deferred tax assets                   |      | 3,388               | 3,551               |
| Intangible assets                     |      | 313,905             | 339,099             |
| Other non-current assets              |      | 136                 | 89                  |
| <b>TOTAL NON-CURRENT ASSETS</b>       |      | <b>350,800</b>      | <b>374,287</b>      |
| <b>TOTAL ASSETS</b>                   |      | <b>630,944</b>      | <b>611,551</b>      |
| <b>CURRENT LIABILITIES</b>            |      |                     |                     |
| Trade and other payables              |      | 97,151              | 82,462              |
| Interest-bearing loans and borrowings | 6    | 8,149               | 49,250              |
| Current tax liabilities               |      | 13,116              | 1,528               |
| Employee benefits                     |      | 15,586              | 15,501              |
| Other current liabilities             |      | 33,789              | 29,250              |
| <b>TOTAL CURRENT LIABILITIES</b>      |      | <b>167,791</b>      | <b>177,991</b>      |
| <b>NON-CURRENT LIABILITIES</b>        |      |                     |                     |
| Interest-bearing loans and borrowings | 7    | 111,677             | 125,990             |
| Deferred tax liabilities              |      | 1,214               | 442                 |
| Employee benefits                     |      | 6,926               | 6,527               |
| Other non-current liabilities         |      | 586                 | 629                 |
| <b>TOTAL NON-CURRENT LIABILITIES</b>  |      | <b>120,403</b>      | <b>133,588</b>      |
| <b>TOTAL LIABILITIES</b>              |      | <b>288,194</b>      | <b>311,579</b>      |
| <b>NET ASSETS</b>                     |      | <b>342,750</b>      | <b>299,972</b>      |
| <b>EQUITY</b>                         |      |                     |                     |
| Issued capital                        | 8    | 299,950             | 252,080             |
| Reserves                              |      | (29,476)            | (8,507)             |
| Retained earnings                     |      | 72,276              | 56,399              |
| <b>TOTAL EQUITY</b>                   |      | <b>342,750</b>      | <b>299,972</b>      |

## Consolidated Interim Statement of Changes in Equity

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|  | Note | Issued<br>Share<br>Capital | Retained<br>Earnings | Foreign<br>Currency<br>Translation<br>Reserve | Total          |
|--|------|----------------------------|----------------------|---|----------------|
|  |      | \$'000                     | \$'000               | \$'000  | \$'000         |
| <b>BALANCE AT 1 JULY 2009</b>                                |      | <b>227,457</b>             | <b>42,757</b>        | <b>(4,293)</b>                                | <b>265,921</b> |
| Profit for the period  |      | -                          | 16,051               | -   | 16,051         |
| Exchange differences on translation of foreign operations    |      | -                          | -                    | (7,034)                                       | (7,034)        |
| <b>Total comprehensive income for the period</b>             |      | <b>-</b>                   | <b>16,051</b>        | <b>(7,034)</b>                                | <b>9,017</b>   |
| <b>Transactions with owners in their capacity as owners:</b> |      |                            |                      |   |                |
| Shares issued  |      | 2,802                      | -                    | -   | 2,802          |
| Dividends paid or provided for on ordinary shares            | 5    | -                          | (11,801)             | -   | (11,801)       |
|  |      | <b>2,802</b>               | <b>(11,801)</b>      | <b>-</b>                                      | <b>(8,999)</b> |
| <b>BALANCE AT 31 DECEMBER 2009</b>                           |      | <b>230,259</b>             | <b>47,007</b>        | <b>(11,327)</b>                               | <b>265,939</b> |
| <b>BALANCE AT 1 JULY 2010</b>                                |      | <b>252,080</b>             | <b>56,399</b>        | <b>(8,507)</b>                                | <b>299,972</b> |
| Profit for the period  |      | -                          | 31,717               | -   | 31,717         |
| Exchange differences on translation of foreign operations    |      | -                          | -                    | (20,969)                                      | (20,969)       |
| <b>Total comprehensive income for the period</b>             |      | <b>-</b>                   | <b>31,717</b>        | <b>(20,969)</b>                               | <b>10,748</b>  |
| <b>Transactions with owners in their capacity as owners:</b> |      |                            |                      |   |                |
| Shares issued  | 8    | 47,870                     | -                    | -   | 47,870         |
| Dividends paid or provided for on ordinary shares            | 5    | -                          | (15,840)             | -   | (15,840)       |
|  |      | <b>47,870</b>              | <b>(15,840)</b>      | <b>-</b>                                      | <b>32,030</b>  |
| <b>BALANCE AT 31 DECEMBER 2010</b>                           |      | <b>299,950</b>             | <b>72,276</b>        | <b>(29,476)</b>                               | <b>342,750</b> |

## Consolidated Interim Statement of Cash Flows

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 31-Dec-10<br>\$'000 | 31-Dec-09<br>\$'000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                     |                     |
| Cash receipts from customers                                     | 438,855             | 245,297             |
| Interest received  | 1,190               | 699                 |
| Finance costs paid   | (2,546)             | (1,408)             |
| Cash paid to suppliers and employees                             | (394,486)           | (221,826)           |
| Income tax paid  | (3,183)             | (5,741)             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                 | <b>39,830</b>       | <b>17,021</b>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                     |                     |
| Acquisition of subsidiaries, net of cash acquired                | 11 (6,973)          | -                   |
| Payment of direct costs of acquisition                           | -                   | -                   |
| Proceeds from sale of property, plant & equipment                | 416                 | 237                 |
| Payments for property, plant & equipment                         | (3,407)             | (1,081)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                     | <b>(9,964)</b>      | <b>(844)</b>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |                     |                     |
| Proceeds from issue of shares                                    | 49,022              | 1,645               |
| Share issue transaction costs                                    | (2,012)             | (25)                |
| Proceeds from borrowings   | 10,041              | 3,436               |
| Repayment of borrowings  | (44,148)            | (9,312)             |
| Finance lease payments   | (1,436)             | (1,202)             |
| Dividends paid   | (14,981)            | (10,871)            |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                     | <b>(3,514)</b>      | <b>(16,329)</b>     |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b> | <b>26,352</b>       | <b>(152)</b>        |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF HALF-YEAR</b>       | <b>56,282</b>       | <b>65,808</b>       |
| Effect of exchange rate fluctuations on cash held                | (2,519)             | (1,629)             |
| <b>CASH AND CASH EQUIVALENTS AT END OF HALF-YEAR</b>             | <b>80,115</b>       | <b>64,027</b>       |

# Notes to the Consolidated Interim Financial Statements

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Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Cardno Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the half-year ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Group").

The condensed consolidated interim financial report was authorised for issue by the directors on 15 February 2011.

### (a) Statement of compliance

This financial report for the interim half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the information normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the consolidated annual report for the year ended 30 June 2010 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

### (b) Significant accounting policies

This financial report is presented in Australian dollars. The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the consolidated entity in its annual consolidated financial report as at and for the year ended 30 June 2010.

The accounting policies have been consistently applied throughout the Group for the purposes of this condensed consolidated interim financial report.

### (c) Estimates

The preparation of this condensed consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from those estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2010.

## Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 31-Dec-10<br>\$'000 | 31-Dec-09<br>\$'000 |
| <b>2. REVENUE</b>                            |                     |                     |
| Fees from services                           | 283,577             | 166,545             |
| Fees from sale of goods                      | 3,951               | 4,399               |
| Fees from recoverable expenses               | 146,904             | 54,800              |
| Interest received                            | 1,145               | 774                 |
| Royalties                                    | 75                  | 58                  |
| Other  | 723                 | 2,045               |
| <b>Total Revenue</b>                         | <b>436,375</b>      | <b>228,621</b>      |
| <b>3. EXPENSES AND LOSSES</b>                |                     |                     |
| Depreciation                                 |                     |                     |
| Motor vehicles                               | 487                 | 335                 |
| Plant & equipment                            | 3,532               | 2,920               |
| <b>Total Depreciation</b>                    | <b>4,019</b>        | <b>3,255</b>        |
| Amortisation of non-current assets           |                     |                     |
| Works contracts                              | 99                  | 111                 |
| Software intangibles                         | 77                  | 116                 |
| Client related intangibles                   | 934                 | -                   |
| Motor vehicles under finance lease           | 713                 | 649                 |
| Plant & equipment under finance lease        | 28                  | 152                 |
| <b>Total Amortisation</b>                    | <b>1,851</b>        | <b>1,028</b>        |
| <b>Total Depreciation &amp; Amortisation</b> | <b>5,870</b>        | <b>4,283</b>        |
| <b>Impairment of bad and doubtful debts</b>  | <b>1,936</b>        | <b>1,115</b>        |
| Finance costs                                |                     |                     |
| Interest expense                             | 2,095               | 1,435               |
| Amortisation of borrowing costs              | 301                 | 137                 |
| <b>Total Finance Costs</b>                   | <b>2,396</b>        | <b>1,572</b>        |

#### 4. INCOME TAX EXPENSE

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective tax rate in respect of continuing operations for the half-year ended 31 December 2010 was 33.1% (half-year to 31 December 2009 16.3%). This increase in effective tax rate was caused by higher tax rates applicable in the USA and a reduction in R&D tax benefits.

## Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

### 5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

(a) During the reporting period, the Company paid dividends as follows:

|                               | Cents per share | Total Amount \$'000 | Franked / Unfranked | Date of payment |
|-------------------------------|-----------------|---------------------|---------------------|-----------------|
| 30 June 2010 – Final Dividend | 15.0            | 15,840              | 100% Franked        | 15 October 2010 |
| For comparison:               |                 |                     |                     |                 |
| 30 June 2009 – Final Dividend | 14.0            | 11,801              | 100% Franked        | 13 October 2009 |

(b) Subsequent to reporting date

Since 31 December 2010 the Directors have declared the following dividend:

|                       | Cents per share | Total Amount \$'000 | Franked / Unfranked | Expected Date of payment |
|-----------------------|-----------------|---------------------|---------------------|--------------------------|
| 2011 Interim Dividend | 17.0            | 18,063              | 70% Franked         | 25 March 2011            |
| For comparison:       |                 |                     |                     |                          |
| 2010 Interim Dividend | 14.0            | 12,154              | 100% Franked        | 26 March 2010            |

The financial effect of the 2011 interim dividend has not been brought to account in the Group's financial statements for the half-year ended 31 December 2010 and will be recognised in subsequent financial reports.

### 6. INTEREST-BEARING LOANS AND BORROWINGS (CURRENT)

Lease liabilities  
Hire purchase liabilities  
Bank loans

| Consolidated        |                     |
|---------------------|---------------------|
| 31-Dec-10<br>\$'000 | 30-Jun-10<br>\$'000 |
| 1,592               | 1,539               |
| 353                 | 506                 |
| 6,204               | 47,205              |
| <b>8,149</b>        | <b>49,250</b>       |

### 7. INTEREST-BEARING LOANS AND BORROWINGS (NON-CURRENT)

Lease liabilities  
Hire purchase liabilities  
Bank loans

| Consolidated        |                     |
|---------------------|---------------------|
| 31-Dec-10<br>\$'000 | 30-Jun-10<br>\$'000 |
| 3,570               | 3,291               |
| 36                  | 124                 |
| 108,071             | 122,575             |
| <b>111,677</b>      | <b>125,990</b>      |

## Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

|   | Half-year ended<br>31-Dec-10 |                | Year ended<br>30-Jun-10 |                |
|---|------------------------------|----------------|-------------------------|----------------|
|   | No. of<br>shares             | \$'000         | No. of<br>shares        | \$'000         |
| <b>8. ISSUED CAPITAL OF CARDNO LIMITED</b>    |                              |                |                         |                |
| <b>Balance at the beginning of the period</b> | 90,510,461                   | 252,080        | 84,272,249              | 227,457        |
| Shares issued during the period:              |                              |                |                         |                |
| - Dividend reinvestment scheme                | 197,839                      | 826            | 392,854                 | 1,646          |
| - Shares issued for cash                      | 15,089,139                   | 47,044         | 5,410,426               | 20,663         |
| - Employee Tax Exempt Share Acquisition Plan  | -                            | -              | 434,932                 | 1,764          |
| - Employee share based payments               | -                            | -              | -                       | 550            |
| <b>Balance at the end of the period</b>       | <b>105,797,439</b>           | <b>299,950</b> | <b>90,510,461</b>       | <b>252,080</b> |

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.

|  | Consolidated             |                          |
|--|--------------------------|--------------------------|
|  | 31-Dec-10                | 31-Dec-09                |
| <b>9. EARNINGS PER SHARE</b>   |                          |                          |
| (a) Basic earnings per share   |                          |                          |
| <b>Profit attributable to ordinary shareholders</b>                        | <b>\$<br/>31,717,456</b> | <b>\$<br/>16,050,516</b> |
| <b>Weighted average number of ordinary shares</b>                          | <b>No.</b>               | <b>No.</b>               |
| Issued ordinary shares at 1 July   | 90,510,461               | 84,272,249               |
| Effect of shares issued for cash consideration                             | 11,810,752               | 342,514                  |
| <b>Weighted average number of ordinary shares at 31 December</b>           | <b>102,321,213</b>       | <b>84,614,763</b>        |
| <b>Basic earnings per share (cents per share)</b>                          | <b>31.00</b>             | <b>18.97</b>             |
| (b) Diluted earnings per share   |                          |                          |
| <b>Profit attributable to ordinary shareholders (diluted)</b>              | <b>\$<br/>31,717,456</b> | <b>\$<br/>16,050,516</b> |
| Profit attributable to ordinary shareholders                               | 31,717,456               | 16,050,516               |
| <b>Profit attributable to ordinary shareholders (diluted)</b>              | <b>31,717,456</b>        | <b>16,050,516</b>        |
| <b>Weighted average number of ordinary shares (diluted)</b>                | <b>No.</b>               | <b>No.</b>               |
| Weighted average number of ordinary shares at 31 December                  | 102,321,213              | 84,614,763               |
| Effect of share options on issue   | 1,023,434                | 493,451                  |
| <b>Weighted average number of ordinary shares (diluted) at 31 December</b> | <b>103,344,647</b>       | <b>85,108,214</b>        |
| <b>Diluted earnings per share (cents per share)</b>                        | <b>30.69</b>             | <b>18.86</b>             |

4,216,200 options issued during the 2009 and 2010 financial years which are still on issue as at 31 December 2010 have not been included in the calculation of diluted earnings per share because they are not dilutive for the half-year ended 31 December 2010. These options could potentially dilute basic earnings per share in the future.

### Impact of Rights Issue

On 11 August 2010 Cardno completed a \$47m capital raising via a 1:6 fully underwritten renounceable rights issue. The issue resulted in the allotment of 15,089,139 ordinary shares.

### 10. 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 insurance or has not already been provided for in the accounts of the Group, or which is likely to have a material effect on the financial performance of the Group.

# Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

## 11. BUSINESS COMBINATIONS

- (a) No business combinations were entered into during the half-year ended 31 December 2009.
- (b) On 31 December 2010 the Group acquired 100% of JF New & Associates ("JFNew"), a US based environmental consulting firm specialising in natural resources management, environmental permitting, habitat restoration, mitigation banking, native plant materials and cultural resources consulting.

The effective date of the acquisition was 31 December 2010, and the acquired business did not contribute revenue or profit for the period.

If the acquisition had occurred on 1 July 2010, revenue and Profit before tax for the Group would have been \$448,043,814 and \$32,789,772 respectively.

### Details of acquisition

|   | <u>\$'000</u> |
|---|---------------|
| <b>Purchase consideration</b>                   |               |
| Cash  | 7,580         |
| Vendor liability                                | 4,918         |
| Total purchase consideration                    | <u>12,498</u> |
| Fair value of net identifiable assets acquired* | 4,660         |
| Goodwill*                                       | <u>7,838</u>  |

\* In accordance with the Accounting Standards, 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.

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

The Group incurred acquisition costs of \$262,234 relating to external legal fees and due diligence costs. These costs have been included in other expenses in the Group's consolidated interim statement of financial performance.

Subsequent to the acquisition of JFNew, the vendors subscribed for shares in Cardno Limited to the value of \$2,390,073. The fair value of the ordinary shares issued was \$5.43 which was based upon the 10 day VWAP of Cardno Limited shares. The shares were issued on 10 January 2011.

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

|   | <b>Acquirees'<br/>carrying<br/>amount<br/>\$'000</b> | <b>Fair Value<br/>\$'000</b> |
|---|--|------------------------------|
| Cash and cash equivalents                                     | 607  | 607                          |
| Trade and other receivables                                   | 1,997  | 1,997                        |
| Inventories   | 290  | 290                          |
| Property, plant and equipment                                 | 2,467  | 2,467                        |
| Trade and other payables                                      | (568)  | (568)                        |
| Employee benefits   | (133)  | (133)                        |
| <b>Net identifiable assets acquired</b>                       | <b><u>4,660</u></b>                                  | <b><u>4,660</u></b>          |
| Outflow of cash to acquire subsidiaries, net of cash acquired |  |                              |
| Cash consideration  |  | 7,580                        |
| Less: balances acquired                                       |  |                              |
| Cash and cash equivalents                                     |  | <u>607</u>                   |
| <b>Outflow of cash</b>  |  | <b><u>6,973</u></b>          |

## Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2010

### 12. OPERATING SEGMENTS

| Half-Year Ended<br>31 December 2010                                     | Professional<br>Services<br>Australia & NZ<br>\$'000 | Professional<br>Services North<br>America and<br>Software<br>\$'000 | International<br>Development<br>Assistance<br>\$'000 | Total<br>\$'000 |
|---|--|---|--|-----------------|
| <b>Segment revenue</b>  |  |   |  |                 |
| Fees from services and sale of goods                                    | 118,971  | 132,820   | 36,217   | 288,008         |
| Fees from recoverable expenses  | 7,066  | 111,412   | 28,427   | 146,905         |
| Inter-segment revenue   | -  | -   | (480)  | (480)           |
| <b>Revenue from external customers</b>                                  | <b>126,037</b>                                       | <b>244,232</b>  | <b>64,164</b>  | <b>434,433</b>  |
| <b>Other income</b>   | <b>512</b>   | <b>131</b>  | <b>155</b>   | <b>798</b>      |
| <b>Segment result</b>   |  |   |  |                 |
| Reportable segment result before tax, net financing and corporate costs | 16,324   | 32,787  | 1,627  | 50,738          |

| Half-Year Ended<br>31 December 2009                                     | Professional<br>Services<br>Australia & NZ<br>\$'000 | Professional<br>Services North<br>America and<br>Software<br>\$'000 | International<br>Development<br>Assistance<br>\$'000 | Total<br>\$'000 |
|---|--|---|--|-----------------|
| <b>Segment revenue</b>  |  |   |  |                 |
| Fees from services and sale of goods                                    | 100,530  | 31,026  | 39,679   | 171,235         |
| Fees from recoverable expenses  | 4,897  | 17,090  | 32,813   | 54,800          |
| Inter-segment revenue   | -  | -   | (291)  | (291)           |
| <b>Revenue from external customers</b>                                  | <b>105,427</b>                                       | <b>48,116</b>   | <b>72,201</b>  | <b>225,744</b>  |
| <b>Other income</b>   | <b>581</b>   | <b>99</b>   | <b>1,423</b>   | <b>2,103</b>    |
| <b>Segment result</b>   |  |   |  |                 |
| Reportable segment result before tax, net financing and corporate costs | 15,917   | 2,223   | 2,140  | 20,280          |

#### Reconciliation of reportable segment result:

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 31-Dec-10<br>\$'000 | 31-Dec-09<br>\$'000 |
| <b>Reportable segment result before net financing and corporate costs</b> | <b>50,738</b>       | <b>20,280</b>       |
| Interest received   | 1,145               | 774                 |
| Finance costs   | (2,396)             | (1,572)             |
| Corporate costs   | (2,064)             | (299)               |
| <b>Profit before income tax</b>   | <b>47,423</b>       | <b>19,183</b>       |
| Income tax expense  | (15,706)            | (3,132)             |
| <b>Profit for the half-year</b>   | <b>31,717</b>       | <b>16,051</b>       |

### 13. SUBSEQUENT EVENTS

Subsequent to the acquisition of JFNew, the vendors subscribed for shares in Cardno Limited to the value of \$2,390,073. The fair value of the ordinary shares issued was \$5.43 which was based upon the 10 day VWAP of Cardno Limited shares. The shares were issued on 10 January 2011.

An interim dividend of 17.0 cents per share franked to 70% was declared on 15 February 2011.

## Directors' Declaration

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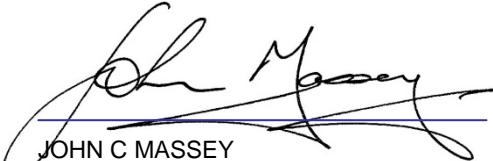
### Cardno Limited and its Controlled Entities For the half-year ended 31 December 2010

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 6 to 16, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the financial position of the Group as at 31 December 2010 and of its performance for the period ended on that date;
2. In the directors' opinion there are reasonable grounds to believe that Cardno Limited will be able to pay its debts as and when they come due and payable.

Dated at Brisbane on the 15th day of February 2011.

Signed in accordance with a resolution of the directors.



JOHN C MASSEY  
Chairman



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

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

We have reviewed the accompanying half-year financial report of Cardno Limited, which comprises the consolidated statement of financial position as at 31 December 2010, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Cardno Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

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



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cardno Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Kpmg

KPMG

A handwritten signature in blue ink, appearing to read 'Robert S. Jones', with a large, stylized flourish at the end.

Robert S Jones  
*Partner*

Brisbane  
15 February 2011