

Directors' Report

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

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

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

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

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

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

Executive Director 2009 Transition Long Term Incentive Plan (TLTI)

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

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

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