

## ASX Statement & Media Release

21 November 2014

### **CARDNO FORECASTS OPERATING NET PROFIT AFTER TAX OF \$27 MILLION TO \$31 MILLION FOR THE HALF YEAR ENDING 31 DECEMBER 2014**

ASX200 professional infrastructure and environmental services consultancy Cardno Limited (ASX: CDD) today announced it expects to report operating Net Profit After Tax (NPAT) of between \$27 million and \$31 million for the half year ending 31 December 2014.

This forecast NPAT is lower than that recorded for the last six month period of \$35.0 million and for the corresponding period last year of an NPAT of \$43.1m (\$39.1m excluding \$4m in one-off beneficial items).

Cardno CEO, Mr Michael Renshaw noted the forecast half year result reflected:

- > difficult conditions in Australia related to the reduction in capital investment in mining and more recently, oil and gas. Cardno's construction materials testing and electrical engineering businesses in this sector are forecast to deliver \$12 million less in EBIT in the first half of this fiscal year compared to the corresponding period last year reflecting both reduced revenue and lower margins;
- > the gap between the reduction of resource projects and the commencement of work on new infrastructure awards in Australia, which is not expected to begin closing until the second half of this fiscal year;
- > slower than anticipated start on new project wins and higher costs associated with business integration in the Americas;
- > lower than expected contribution from Cardno PPI in the first of this fiscal year resulting from one-off impacts which are now largely resolved; and
- > solid contributions from operations in our Emerging Markets and Software Divisions which continue to deliver at or above expectations.

Mr Renshaw noted he was encouraged by the growth in backlog which is at a record level of \$939m (5.9% increase since 30 June 2014 normalised for foreign exchange movements).

"Our Australian operations have experienced a substantial slowdown in the demand for our historically higher margin operations of construction materials testing combined with minimal recovery in demand for engineering services from the mining sector. This has contributed to a decline in fee revenue of 12.6% over the past 12 months in Australia/NZ and an even greater impact on margins."

"On a positive note we are seeing a pick-up in the demand for infrastructure and urban development related engineering services in Australia. Backlog in Australia has strongly increased over the past six weeks, up 23.4% since reported in June 2014, this follows a 31.8% decline experienced in FY14. Work on recently secured infrastructure projects is weighted towards the second half of this fiscal year," Mr Renshaw said.

Conditions in Cardno's markets in the Americas are improving. Backlog has continued to grow and now stands at US\$496 million.

Mr Renshaw said. "Compared with the first half of calendar 2014, revenue in the Americas is expected to be stronger. While underlying organic revenue remains flat this is expected to grow over the balance of the fiscal year."

The Executive team continues to take action to better position the firm's performance in FY15. Specific actions taken include:

- > adjustment of staffing levels to meet the market demand has resulted in redundancy costs of more than \$1.0 million;
- > further consolidation of offices in both the US and Australia; and
- > progressed implementation of a regional shared services model and alignment of global systems to achieve economies of scale.

Looking forward, Mr Renshaw said, "We are confident that conversion of the increased backlog into fee revenue in the Americas will see a return to positive organic revenue growth and improved operational performance. In addition we believe the Australian market will see improvements in the 2015 calendar year as major infrastructure projects are awarded and urban development continues."

"On this basis it is our view that the second half of FY15 will be stronger than the first half. We continue to focus our efforts on improving the overall cost competitiveness of the business and driving improved efficiency in our client service delivery," Mr Renshaw said.

The current operating profit estimate is derived from unaudited management results and current internal forecasts for the remainder of the half year, assuming normal operating conditions.

Cardno will announce the half year results for 31 December 2014 on 17 February 2015.

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**About Cardno:** Cardno is an ASX200 professional infrastructure and environmental services company, with specialist expertise in the development and improvement of physical and social infrastructure for communities around the world. Cardno's team includes leading professionals who plan, design, manage and deliver sustainable projects and community programs. Cardno is an international company, listed on the Australian Securities Exchange [ASX: CDD]. [www.cardno.com](http://www.cardno.com).