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Lodgement of Market Briefing**

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Market Briefing

Cardno Limited MD and CFO on strategic outlook

Interview with Andrew Buckley (MD) and Jeff Forbes (CFO)

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The Cardno business is described as 'an integrated professional services provider' and the base of business has been expanded across a number of sectors. What is the rationale behind the business model of combining various businesses?

Andrew Buckley

Cardno's core business is the provision of professional services for infrastructure projects. We define infrastructure in two ways: as physical infrastructure, which includes roads, bridges, water and wastewater; and social infrastructure, which includes work in developing countries to build health, education and law and justice systems and public sector processes.

In the late 1990's we embarked on a diversification strategy to increase Cardno's geographic coverage across the globe and to diversify our core service offering, while retaining our focus on providing infrastructure services.

Our focused growth strategy is founded on generating organic growth and successfully cross-selling our services across the entrenched and acquired businesses, providing revenue and earnings certainty and enhancing Cardno's future growth opportunities.

A key point to note is that recent challenging market conditions have stress tested the Cardno business model and demonstrated that it is capable of delivering sustainable, strong results when our peers have struggled.

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Cardno, like a number of other engineering services companies, has pursued growth through acquisition. What makes Cardno different from other "roll up" plays?

Andrew Buckley

Our strategy is to acquire complementary businesses that provide professional services to infrastructure projects, but that don't have significant overlap with our existing businesses. We look for businesses that have the potential for revenue upside through cross-selling, rather than how we can strip costs out.

We look to fit together our different business units, as you would with a jigsaw, to achieve our picture of a pre-identified service offering. We don't just pursue growth for growth's sake. Our long-term vision is to build a world-leading global infrastructure services business; all the businesses we acquire are helping us achieve this aim.

Jeff Forbes

In addition, acquired businesses must fit a number of key criteria. They must be EPS accretive. We must also be able to acquire the business at a reasonable price. We generally pay between three and five times EBIT, although we might pay slightly more for a large business that fits our strategic criteria and provides scale. We're very disciplined in what we're prepared to pay, and we often reject businesses where the price is too high or the cultural fit isn't there.

Andrew Buckley

When we acquire a business it also must have the potential to grow revenue through cross-selling of services. Key people are generally expected to stay with the business for three to five years post-acquisition. Key staff normally receive Cardno shares as part of the consideration, which helps to align them with our growth plans.

Finally, we are focused on acquiring businesses that are performing well and will continue to show performance similar to or better than performance demonstrated pre-acquisition.

It's important to note that our strategy has also been demonstrated by other large, global businesses such as AECOM, Tetra Tech, Stantec and Arcadis. The reason the strategy works well is because our market is highly fragmented and characterised by a large number of privately-owned entities. The industry is currently being consolidated and rationalised and Cardno is a key player in this process.

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How do the recent acquisitions of ENTRIX and ERI complement the business model?

Andrew Buckley

These businesses met all our acquisition criteria. They complement our existing businesses and also each other, they are EPS accretive even after the current rights issue, they increase our scale in the US market and deliver great cross-selling opportunities with our existing US businesses.

Importantly, these businesses give us exposure to the environmental consulting space in the Americas, a fast growing sector. Growth in this market is being driven by emerging environmental regulations and laws around the world, as well as by a focus from governments on water sustainability and climate change.

ENTRIX and ERI also give Cardno exposure to the resources and oil and gas sectors and increasing our exposure to these markets is one of our strategic goals.

It's also worth noting ENTRIX has significant exposure to work taking place in the Gulf of Mexico to rectify the current oil spill. We anticipate this will be a significant project for the business for some time.

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How is the integration of ENTRIX and ERI progressing?

Andrew Buckley

Although the integration process is still in its early days initial indications suggest the process is progressing smoothly. We have already identified cross-selling opportunities, and staff from several of our North American businesses are now working on new projects like the oil spill.

Key management have become Cardno shareholders, which further entrenches the good cultural fit with our existing operations. These acquisitions have also been well received by ENTRIX and ERI staff, who are now part of a growing global environmental and infrastructure services company.

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Have the integration of Cardno's other acquisitions progressed smoothly?

Andrew Buckley

Yes they have. We take a transitional approach to acquisitions and integrations. Businesses are co-branded following acquisition, and ENTRIX and ERI will be co-branded in the coming months. The idea is to add Cardno's goodwill with the goodwill of the acquired businesses, and co-branding generally lasts for three years.

In the first year we also migrate acquired businesses' accounting systems to our own system, and integrate other processes within the first two years. Within three to five years it becomes difficult to distinguish our acquired businesses from core businesses. Our simple line management structure makes it a relatively easy process to integrate other businesses with the core business.

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Cardno is currently raising A\$49 million through an underwritten rights issue to help finance the acquisitions. Why are you raising capital via a rights issue and what will Cardno's debt position look like after completion of the issue?

Jeff Forbes

The reason we have chosen a renounceable rights issue is to deliver value to existing shareholders, which is even more important given 95 percent of staff are shareholders in the business. This structure was chosen to give all our shareholders the opportunity to participate in the company's capital raising unlike a placement.

The issue will be used to reduce debt by around A\$40 million and after the raising is complete net debt to equity will fall below 30 percent, which further strengthens the balance sheet, and puts us in a strong position to continue pursuing our growth strategy. After the raising, the acquisitions of ENTRIX and ERI will still be EPS accretive.

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You recently provided guidance of expected FY10 net profit after tax in the range of \$34 million to \$36 million. How has Cardno been able to grow its earnings at the same time as other engineering services companies have reported earnings downgrades?

Andrew Buckley

The success of our strategy to diversify into new disciplines, markets and geographies, while operating only in our core market of professional infrastructure services, is demonstrated in our earnings.

During recent difficult market conditions public sector work increased at the same time as private sector work diminished, which underpinned earnings growth. As market conditions have improved, private work has picked up at the same time as the effect of public sector stimulus initiatives has decreased. Acquisitions have also boosted earnings.

Jeff Forbes

Since 2004 until FY 2009 our organic revenue growth rate has been between seven and nine percent and until FY 2009 we achieved 25 percent annual growth in EPS. We believe this demonstrates that Cardno is consistently able to achieve stronger results than our peers.

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What kind of contracts do Cardno's businesses service? Are they mainly large one-off infrastructure contracts or recurring service contracts?

Andrew Buckley

Our business comprises a mix of large contracts and recurring contracts. Strong client relationships mean much of our work is repeat business and our business model is relationship driven, which is one of the reasons the company has performed well during challenging market conditions. Good examples include the two water alliance projects in Mackay and Logan in Queensland, which deliver sustainable long-term revenue to the business.

We complement these projects with signature projects such as our work on the construction of Brisbane's Gateway Bridge. We have been involved in the project from the outset over the past four years, having designed the bridge's main span, while during the construction phase we have been working on construction material testing.

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How is the Australian business faring?

Andrew Buckley

In terms of the Australian business, it has performed well through challenging times. We're seeing an increase in the number of private projects in which we are involved in NSW and Victoria and we're also involved with new projects in the improving Queensland and WA markets.

Internationally our main leverage is to Australia, Asia, the Americas, the Pacific and the emerging markets that have high growth potential.

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Cardno has forecast 'strengthened performance' for FY 2011. Will FY 2011 earnings growth only come as a result of the inclusion of recent acquisitions? How will the underlying organic growth momentum in Cardno's existing businesses be maintained?

Andrew Buckley

We are predicting further organic growth in FY 2011 although growth will also come from recent acquisitions. Over the next few years we expect to return to normal levels of between seven and nine percent organic annual revenue growth.

Most markets in which we operate have already returned to positive economic growth rates which are expected to continue into FY 2011, and we are expecting demand from the private and the public sectors to increase. We also anticipate better penetration of our major project markets and a better share of major project work. There is considerable potential for further cross-selling opportunities across existing businesses including new acquisitions. We are also focused on growth industries such as environmental consulting where we see significant potential.

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Thank you Andrew and Jeff.

For further information, please contact Cardno Limited on +61-7 3369 9822, or visit www.cardno.com.au

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