

## **Chairman's Address by John Marlay**

### **Annual General Meeting – 23 September 2015**

Before reviewing Cardno's performance in FY15 I will address the issue of the unsolicited proportional off-market takeover bid for Cardno by Crescent Capital announced on 14 September 2015.

The Board strongly recommends this bid be rejected by shareholders as it is clearly opportunistic, seeking to take advantage of the decline in the share price over the past year due in no small measure to the adverse economic conditions and operating environment experienced in our key markets.

There is no question that the financial results for Cardno in FY15 were far from satisfactory. We have however initiated actions to turn performance around, improve our competitiveness and tighten working capital management across the business.

It is important to also emphasise that, despite the decline in Cardno's earnings for FY15, this is a good business in terms of its clients, our professional services capability and the expertise of our people.

Richard Wankmuller, our recently appointed CEO and Managing Director, has significant international experience in professional engineering services and is a very competent executive and business leader. Directors are confident that Richard will develop a value enhancing strategic plan for Cardno and has the necessary leadership skills to bring about an improvement in earnings and return to profit growth for the company. He is ably supported by a strong executive leadership team.

The Board is very focused on the task of turning around the company's unsatisfactory performance over the past 12 months, this is our priority. We do not believe that a wholesale change of the Board will result in better governance or improved business performance and options for future growth. The Directors do understand this company's strengths and risks and we seek your support.

A draft Bidder's Statement from Crescent has been received and following receipt of the final Bidder's Statement, Cardno will make available a Target's Statement to permit shareholders other than Crescent to make an informed decision in relation to the Offer.

In our view the unsolicited Offer is opportunistic and raises many issues that need to be carefully considered. We believe there are a number of potentially adverse implications for Cardno shareholders.

Shareholders will be kept fully apprised of all developments in the Offer process and there will be ample time for you to make an informed decision about the Offer.

Turning now to the business of this meeting. The Directors' Report on performance in 2015.

## **FY15 Performance**

Richard will report in detail on Cardno's operating performance in FY15, so I will confine myself to an overview and some general observations.

In common with many companies in the engineering and construction sector, Cardno's financial performance last year was affected by adverse economic conditions in our key markets.

Our US business encountered headwinds during the year, primarily a reduction in demand for oil and gas services causing a slower than expected conversion of our backlog of work into project starts and harsh winter weather in a number of locations which impacted our field services operations.

In Australia, a continuing general slowdown in the resources sector, a wind-down of major project work, and delays in infrastructure investment resulted in lower demand for services and intensified competition for consulting work. This environment impacted both revenue and our operating margins.

These economic headwinds were primarily responsible for a decline in profitability across several of our markets in Australia and North America, although revenue from global operations increased by nine per cent to A\$1.43 billion.

The company achieved a net operating profit after tax of A\$50.3 million, considerably lower than our FY14 result. As a result of a non-cash impairment charge relating to the carrying value of our businesses in the US and Ecuador, Cardno reported a statutory net loss after tax of A\$145.2 million and negative earnings per share of 88.3 cents.

Despite the decline in year-on-year earnings, the Board is confident that Cardno has the right business model, an appropriate global footprint and a first-rate leader in Richard Wankmuller to rebuild long-term shareholder value and manage the next phase of the Company's growth.

## **Dividends and DRP**

Directors declared a final dividend of 7 cents per share bringing the full-year, fully franked dividend to 20 cents per share for FY15. The full year dividend represents a 66 per cent payout ratio of net operating profit after tax.

The final dividend will be paid on October 2<sup>nd</sup>.

The Board notes Crescent Capital's criticism in the draft Bidder's Statement of Cardno's dividend policy, asserting that future dividends should be suspended in order to conserve capital for repayment of debt or reinvestment in the business.

The Board keeps its dividend policy under review. We continue to believe that shareholder expectations are best met by monitoring our payout ratio. We have received a diversity of feedback from shareholders regarding dividend preferences and will consider their comments for the future.

## **Leadership**

After an extensive search, the Board was pleased to announce the appointment of Richard Wankmuller, who commenced as CEO and Managing Director in late June 2015.

The Board is delighted to have secured a leader of Richard's abilities and experience.

On behalf of the Board, I extend a sincere thanks to Graham Yerbury for the leadership and endeavour he demonstrated during his six months as Acting CEO. The team achieved much in difficult circumstances under his guidance. Graham resigned from Cardno in July to pursue an opportunity in the oil and gas sector and will leave us at the end of October. We wish him success.

## **Board**

Cardno's corporate governance practices are designed to deliver responsible stewardship, business integrity, accountability and effective risk management.

Our Directors bring a range of complementary skills to the Board. All are committed to ensuring Cardno is an ethical, sustainable and responsible corporate citizen that delivers attractive returns for our shareholders.

The Board has been undergoing a process of renewal for some time.

After 10 years of diligent service, our longest serving non-executive director, Ian Johnston, will retire from the Board at the conclusion of this meeting. We will miss Ian's collegiate style and significant business and finance capabilities. He has been a hard-working and committed director. The appointment of another non-executive Director to succeed Ian will be announced in coming months.

We also acknowledge the recent retirement from the Board of Executive Director, Dr Trevor Johnson. Trevor will continue in his role as General Manager, Global Technical Leadership, and as a key member of the Cardno Executive Leadership team. Trevor's expertise as an engineer combined with his business and operational insight has proven invaluable to the effective functioning of the Board over a long period of time. We thank him for his efforts and look forward to his continuing role as part of the Cardno executive.

Trevor's transition to his present role continues the process of evolution towards our preferred Board make-up of six Non-Executive Directors plus the Managing Director. We will continue to review the mix of skills and experience on the Board to ensure director competencies, experience and commitment to the role are in line with our ambitions for effective board performance and oversight.

## **Closing**

In closing I wish to salute Cardno's professional and dedicated staff for their commitment to working safely and delivering high quality client service during FY15. I also thank my colleagues on the Board for their diligence and continuing support.

Thanks are due also to our valued clients for continuing to select Cardno for the expertise and professional services we offer.

Lastly, I thank you, our shareholders, for your continuing investment, interest and loyalty – we will work hard to ensure we have a strong, diverse and dynamic Cardno in the future. We are committed to returning Cardno to a positive earnings trajectory and in doing so, a path to improving returns for shareholders.

Before I invite Richard to address the Meeting, let me provide you with some background on his career.

He has had more than 30 years' experience successfully growing global professional engineering services businesses very comparable to Cardno. He was most recently a director of GHD Group and President of GHD Americas. Prior to GHD, he was a member of Parson's Corporate global Executive Management Team and Group President of its Water and Infrastructure Group. He was also a director of MWH Global.

Richard is a proven leader - he focuses on performance and profitability and has a passion for superior client service delivery. He has hit the ground running and we have all been impressed by the impact he has made already in the business. He is providing the Board with a deep insight into what needs to be done and has engaged with management and staff around the globe with his energy and focus.

I now invite him to provide a presentation on Cardno's results for FY15 and to make observations about his first few months in his new role.

John Marlay  
Chairman, Cardno Limited  
23 September 2015