



INTERIM FINANCIAL REPORT

for the half-year ended
31 December 2016

Cardno Limited
ABN 70 108 112 303
and its controlled entities

Financial Report

for the half-year ended 31 December 2016

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Directors' Report

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 2016 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 2016 are set out below:

| | |
|--------------------|--|
| M Alscher | Non-Executive Director, Chairman (appointed Director 6 November 2015 and Chairman 27 January 2016) |
| N Buch | Executive Director (appointed 6 November 2015) and acting Chief Executive Officer (appointed 29 August 2016) |
| S Sherman | Non-Executive Director (appointed 27 January 2016) |
| J Forbes | Non-Executive Director (appointed 27 January 2016) |
| G Jandegian | Non-Executive Director (appointed 11 March 2016) |
| R Prieto | Non-Executive Director (appointed 11 March 2016) |
| N Thomson | Non-Executive Director (appointed 6 November 2015, resigned 27 January 2016 and re-appointed 24 May 2016) |

FORMER DIRECTORS

| | |
|---------------------|---|
| R Wankmuller | Chief Executive Officer and Managing Director (resigned 29 August 2016) |
|---------------------|---|

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

COMPANY SECRETARIES

| | |
|-------------------------|--|
| Courtney Marsden | Legal Counsel & Joint Company Secretary (appointed 8 November 2016) |
| Peter Barker | Chief Financial Officer & Joint Company Secretary (appointed 31 December 2016) |
| Michael Pearson | General Counsel & Joint Company Secretary (resigned 31 December 2016) |

Directors' Report (continued)

REVIEW OF RESULTS

| PERFORMANCE (A \$m) | H1 2017 | H1 2016 |
|--------------------------------|---------|---------|
| Gross Revenue | 575.7 | 572.2 |
| Fee Revenue | 391.4 | 396.4 |
| Underlying EBITDA ¹ | 23.2 | 35.4 |
| Underlying NOPAT ² | 10.2 | 11.3 |
| Net Profit / (Loss) after Tax | 6.5 | (30.2) |
| Operating Cash Flow | (9.9) | 26.1 |
| EPS - basic (cents) | 1.37 | (15.04) |
| NOPAT EPS - basic (cents) | 2.13 | 5.65 |

¹ EBITDA = EBIT plus underlying adjustments, depreciation and amortisation and impairment losses

² NOPAT = NPAT plus underlying adjustments and tax effected impairment losses

EBITDA and EBIT are unaudited. However, they are based on amounts extracted from the reviewed financial statements as reported in the consolidated statement of financial performance on page 9. These metrics provide a measure of Cardno's performance before the impact of non-cash expense items, such as depreciation and amortisation and impairment losses, as well as interest costs associated with Cardno's external debt facility and hire purchase arrangements.

NOPAT is unaudited. However, it is based on amounts extracted from the reviewed financial statements. This metric provides a measure of Cardno's operating performance before the impact of non-cash adjustments such as impairment losses of goodwill and other assets.

SEGMENT OVERVIEW

Asia Pacific (APAC)

The APAC business provides services in civil, structural, water, environmental, coastal, bridge, geotechnical, subsurface utility, traffic and transport engineering as well as environmental science, surveying, landscape architecture, planning and asset management.

Asia Pacific business revenue for the half was \$142.1 million, an increase on the prior comparative period (PCP) of 7.6%.

EBITDA for the division is also up on prior year comparative with a number of restructure actions completed starting to show benefits.

The business is investing significantly in major projects expertise with a new dedicated business development team to assist long term growth in backlog and revenues.

Americas

The Americas business delivers expertise to private and public sector clients across the environmental, water, transportation, energy and resources, land, buildings and management services sectors.

The Americas' business revenue is down on PCP by 6.9% and EBITDA down on PCP by 71.2%, reflecting both challenges in the external market place and legacy issues. Both revenue and EBITDA have increased from H2 2016 as the historical issues have started to dissipate as well as some encouraging project wins.

International Development (ID)

The ID designs and implements large-scale sustainable solutions for both development assistance agencies and private clients. By its nature, the ID business generally has long term high value contracts, which have a high 'pass through' component, meaning that Cardno will project manage the contract and receive a management fee for doing so – a large portion of the project involves the management of contractors and specialist consultants. Hence the ID business generally operates on lower margins than our other divisions.

ID revenue is up on PCP by 22.6% on the back of some key project wins commencing in 2016.

Directors' Report (*continued*)

SEGMENT OVERVIEW CONTINUED

Other

The other division includes our portfolio and Group Head Office. Portfolio businesses includes Construction Sciences, Latin America and PPI, which while an integral part of the Group's suite of services, are not considered to be core engineering or science and environment businesses and hence have slightly different operating methodologies, or environments and markets.

Portfolio revenues and EBITDA are down on prior year with continuing challenging market conditions in the Oil & Gas sector, in Latin America and the tightening construction market in Australia. All three businesses have also made improvements in operating and business disciplines, the positive financial impact of which we expect will be felt in the future.

REVIEW OF RESULTS

Cash Flow

The company recorded a net operating cash out flow for the half of \$9.9million (inflow \$26.1 million PCP, inflow \$28.3 million 2H FY16). Excluding income tax payments, the operating cash outflow for the half was \$6.3 million. This is primarily driven by the timing of debtor receipts and creditor payments over the end of each reporting period.

During the half the company sold its specialty software business for US\$49 million (\$56.4 million after transaction costs). All of the funds received from this sale, together with all of the funds from the capital raise in late June 2016 were used to pay down the company's debt facilities. Net debt (debt less cash on hand) end of December 2016 is \$7.3 million, down from \$49.6 million at June 2016 and down from \$311.3 million at end of June 2015.

Directors' Report (continued)

REVIEW OF RESULTS CONTINUED

| AUD '000 | Statutory ¹ | | Underlying Adjustments ² | | Underlying ¹ | |
|---|------------------------|-----------------|-------------------------------------|---------------|-------------------------|----------------|
| | Half-year ended | | Half-year ended | | Half-year ended | |
| | 31-Dec-16 | 31-Dec-15 | 31-Dec-16 | 31-Dec-15 | 31-Dec-16 | 31-Dec-15 |
| Asia Pacific | 142,066 | 131,972 | - | - | 142,066 | 131,972 |
| Americas | 207,733 | 223,150 | - | - | 207,733 | 223,150 |
| ID | 144,284 | 117,681 | - | - | 144,284 | 117,681 |
| Portfolio | 81,634 | 99,431 | - | - | 81,634 | 99,431 |
| Gross Revenue | 575,717 | 572,234 | - | - | 575,717 | 572,234 |
| Asia Pacific | 13,899 | 13,994 | 2,595 | 1,290 | 16,494 | 15,284 |
| Americas | (14,097) | 10,169 | 17,144 | 407 | 3,047 | 10,576 |
| ID | (830) | (748) | 1,500 | - | 670 | (748) |
| Portfolio | (10,852) | 2,019 | 13,817 | 4,367 | 2,965 | 6,386 |
| | (11,880) | 25,434 | 35,056 | 6,064 | 23,176 | 31,498 |
| Corporate | (3,426) | 2,136 | 3,481 | 1,733 | 55 | 3,869 |
| Continuing Operations EBITDA | (15,306) | 27,570 | 38,537 | 7,797 | 23,231 | 35,367 |
| Depreciation and amortisation expenses | (12,804) | (13,597) | 3,796 | - | (9,008) | (13,597) |
| EBIT | (28,110) | 13,973 | 42,333 | 7,797 | 14,223 | 21,770 |
| Finance costs | (5,586) | (5,725) | 1,179 | - | (4,407) | (5,725) |
| Profit/(loss) from continuing operations before income tax | (33,696) | 8,248 | 43,512 | 7,797 | 9,816 | 16,045 |
| Income tax (expense)/benefit | 12,630 | (3,407) | (12,215) | (1,291) | 415 | (4,698) |
| Profit/(Loss) Before Gain on sale of Discontinued Operations | (21,066) | 4,841 | 31,297 | 6,506 | 10,231 | 11,347 |
| Discontinued operations, net of tax | 27,612 | (35,033) | (27,612) | 35,033 | - | - |
| Profit/(loss) after income tax | 6,546 | (30,192) | 3,685 | 41,539 | 10,231 | 11,347 |
| Attributable to: | | | | | | |
| Ordinary Equity holders | 6,546 | (30,192) | 3,685 | 41,539 | 10,231 | 11,347 |

1. The use of the term 'Statutory' refers to IFRS financial information and 'Underlying' refers to non-IFRS financial information. Underlying earnings are categorised as non-IFRS financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230 – Disclosing non-IFRS information. Underlying adjustments have been considered in relation to their size and nature and have been adjusted from the Statutory information, for disclosure purposes, to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments include transactions or costs that on their own or in combination with a number of similar transactions contribute to more than five percent of profit/(loss) after tax. Underlying adjustments are assessed on a consistent basis year-on-year and include both favourable and unfavourable items.
The exclusion of these items provides a result which, in the Directors' view, more closely reflects the ongoing operations of the Group.
2. Details of adjustments from Statutory to Underlying financial information are set out on page 6.
3. EBITDA represents earnings before interest, income tax, and depreciation and amortisation.
4. EBIT represents earnings before interest and income tax.
5. EBITDA and EBIT are unaudited. However, they are based on amounts extracted from the reviewed financial statements as reported in the consolidated statement of financial performance on page 9. These metrics provide a measure of Cardno's performance before the impact of non-cash expense items, such as depreciation and amortisation, as well as interest costs associated with Cardno's external debt facility and hire-purchase arrangements.

Directors' Report (continued)

REVIEW OF RESULTS CONTINUED

| | Note | Half-year ended | |
|---|------|------------------------|------------------------|
| | | 31-Dec-16 AU \$'000 | 31-Dec-15 AU \$'000 |
| Underlying Profit/(Loss) From Continuing and Discontinued Operations After Income Tax (Attributable to Ordinary Equity Holders) | | 10,231 | 11,347 |
| Underlying Adjustments to EBITDA: | | | |
| Redundancy costs associated with restructuring | 1 | 6,701 | 3,745 |
| Onerous lease provision and other costs associated with office rationalisation and consolidation | 2 | 10,831 | 479 |
| Business review costs | 3 | 11,509 | 4,736 |
| Debtor provision | 4 | 7,996 | - |
| Indirect tax – in dispute | 5 | 1,500 | - |
| Sale and lease back | 6 | - | (1,163) |
| Total Underlying Adjustments to EBITDA | | 38,537 | 7,797 |
| Underlying Adjustments to Depreciation: | | | |
| Accelerated depreciation on software assets | 7 | 3,796 | - |
| Total Underlying Adjustments to Depreciation | | 3,796 | - |
| Underlying Adjustments to Finance Costs: | | | |
| Provision for interest and penalties – tax related | 7 | 1,179 | - |
| Total Underlying Adjustments to Finance Costs | | 1,179 | - |
| Underlying Adjustments to Income Tax: | | | |
| Provision for taxes – in dispute | 7 | 2,554 | - |
| Kenya tax | | - | 1,048 |
| Tax effect of underlying adjustments | | (14,769) | (2,339) |
| Total Underlying Adjustments to Income Tax | | (12,215) | (1,291) |
| Results and Gain on sale of XP Solutions | 8 | (30,612) | (2,102) |
| Results and Loss on sale of Mining business | 8 | 2,124 | 778 |
| Result and Loss on sale of ATC | 8 | - | 35,742 |
| Result and Loss on sale of ECS | 8 | 876 | 615 |
| Total Discontinued Operations | | (27,612) | 35,033 |
| Statutory Profit / (Loss) After Income Tax (Attributable to Ordinary Equity Holders) | | 6,546 | (30,192) |

1. Termination and redundancy costs associated with the group restructure.
2. Onerous lease provisions and other costs associated with the group wide office rationalisation and consolidation project.
3. Costs associated with the closure of developmental drones business and balance sheet provisions related to the Petroleum and Gas business, multi-year projects and work in progress. Prior year includes legal fees and receivables relating to Caminosca business, target defence costs and one off project costs in Manila.
4. Specific debtor now viewed as uncollectable.
5. Indirect tax provision currently in dispute.
6. Proceeds recognised from the sale and lease back of equipment.
7. Accelerated amortisation on software assets following a review of group systems and income tax expense, penalties and interest provided for where previously considered to be exempt currently in dispute.
8. Result and subsequent gain or loss on disposal of discontinued operations including XP Solutions and Mining in the current year and ATC and ECS sold in the prior financial year.

Directors' Report (*continued*)

DIVIDENDS

There was no interim dividend declared for the half-year ended 31 December 2016 (2015: nil).

SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under Section 307C of the Corporations Act is set out on page 8 and forms part of the directors' report for the half-year ended 31 December 2016.

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars or, in certain cases, to the nearest dollar.

Signed in accordance with a resolution of Directors.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'M Alscher', with a long horizontal flourish extending to the right.

MICHAEL ALSCHER
Chairman

27 February 2017



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 2016 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

Simon Crane
Partner

Brisbane
27 February 2017

Consolidated Interim Statement of Financial Performance

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

| | Note | 31-Dec-16 \$'000 | Restated* 31-Dec-15 \$'000 |
|---|-----------|---------------------|----------------------------------|
| Revenue from continuing operations | 4A | 575,717 | 572,234 |
| Other Income | 4B | 2,178 | 3,330 |
| Employee expenses | | (273,475) | (294,388) |
| Consumables and materials used | 6 | (193,362) | (162,512) |
| Sub-consultant and contractor costs | | (101,615) | (85,181) |
| Depreciation and amortisation expenses | | (12,804) | (13,597) |
| Financing costs | 5 | (5,586) | (5,725) |
| Other expenses | 6 | (24,749) | (5,913) |
| Profit/(loss) before income tax | | (33,696) | 8,248 |
| Income tax (expense)/benefit | 7 | 12,630 | (3,407) |
| Profit/(loss) for the year from continuing operations | | (21,066) | 4,841 |
| Profit/(loss) for the year from discontinued operations, net of tax | 3 | 27,612 | (35,033) |
| Profit/(loss) for the period | | 6,546 | (30,192) |
| Profit/(loss) attributable to: | | | |
| Owners of the Company | | 6,546 | (30,192) |
| | | 6,546 | (30,192) |
| Earnings per share | | | |
| Basic earnings per share (cents per share) | 13 | 1.37 | (15.04) |
| Diluted earnings per share (cents per share) | 13 | 1.36 | (15.04) |
| Earnings per share – continuing operations | | | |
| Basic earnings per share (cents per share) | 13 | (4.39) | 2.41 |
| Diluted earnings per share (cents per share) | 13 | (4.39) | 2.35 |

Consolidated Interim Statement of Comprehensive Income

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|--|---------------------|---------------------|
| Profit / (loss) for the year | 6,546 | (30,192) |
| Other comprehensive income | | |
| Items that may be subsequently reclassified to profit or loss: | | |
| Exchange differences on translation of foreign operations | 6,024 | 15,659 |
| Reclassification of exchange differences on disposal of subsidiary | 1,793 | (5,204) |
| Other comprehensive income for the year, net of tax | 7,817 | 10,455 |
| Total comprehensive income for the year | 14,363 | (19,737) |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 14,363 | (19,737) |
| | 14,363 | (19,737) |

* See Note 3 Discontinued Operations

Consolidated Interim Statement of Financial Position

Cardno Limited and its Controlled Entities as at 31 December 2016

| | Note | 31-Dec-16 \$'000 | 30-Jun-16 \$'000 |
|---|------|---------------------|---------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 79,226 | 105,613 |
| Trade and other receivables | | 190,512 | 191,053 |
| Work in progress | | 99,878 | 115,305 |
| Other current assets | | 18,179 | 11,276 |
| Current tax receivable | | 8,772 | 4,819 |
| Assets held for sale | | 13,079 | 10,233 |
| TOTAL CURRENT ASSETS | | 409,646 | 438,299 |
| NON-CURRENT ASSETS | | | |
| Other financial assets, including derivatives | | 2,433 | 3,770 |
| Property, plant and equipment | | 38,980 | 47,310 |
| Deferred tax assets | | 136,885 | 118,580 |
| Intangible assets | | 298,891 | 322,604 |
| TOTAL NON-CURRENT ASSETS | | 477,189 | 492,264 |
| TOTAL ASSETS | | 886,835 | 930,563 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 119,957 | 125,115 |
| Loans and borrowings | 8 | 1,833 | 2,795 |
| Employee benefits | | 30,298 | 33,216 |
| Provisions | 9 | 3,250 | 3,139 |
| Other current liabilities | | 46,363 | 40,691 |
| Liabilities held for sale | | 13,079 | 10,233 |
| TOTAL CURRENT LIABILITIES | | 214,780 | 215,189 |
| NON-CURRENT LIABILITIES | | | |
| Loans and borrowings | 8 | 84,663 | 152,425 |
| Deferred tax liabilities | | - | 531 |
| Employee benefits | | 4,408 | 4,545 |
| Other non-current liabilities | | 10,946 | 776 |
| TOTAL NON-CURRENT LIABILITIES | | 100,017 | 158,277 |
| TOTAL LIABILITIES | | 314,797 | 373,466 |
| NET ASSETS | | 572,038 | 557,097 |
| EQUITY | | | |
| Issued capital | 10 | 820,952 | 820,374 |
| Reserves | | 85,142 | 77,325 |
| Retained earnings / (losses) | | (334,056) | (340,602) |
| TOTAL EQUITY | | 572,038 | 557,097 |

Consolidated Interim Statement of Changes in Equity

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

| | Note | Share Capital Ordinary \$'000 | Retained Earnings /(losses) \$'000 | Foreign Translation Reserve \$'000 | Reserve for Own Shares \$'000 | Total \$'000 |
|--|------|--|---|---|--|-----------------|
| BALANCE AT 1 JULY 2015 (Restated*) | | 641,661 | (34,235) | 76,693 | (14,611) | 669,508 |
| Profit/(Loss) for the year | | - | (30,192) | - | - | (30,192) |
| Exchange differences on translation of foreign operations | | - | - | 15,659 | - | 15,659 |
| Reclassification of foreign currency differences on disposal of subsidiary | | - | - | (5,204) | - | (5,204) |
| Total comprehensive income for the year | | - | (30,192) | 10,455 | - | (19,737) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Shares issued | | 86,103 | - | - | - | 86,103 |
| Employee share based payments | | 1,414 | - | - | - | 1,414 |
| Dividends paid or provided | | - | (11,548) | - | - | (11,548) |
| | | 87,517 | (11,548) | - | - | 75,969 |
| BALANCE AT 31 DECEMBER 2015 | | 729,178 | (75,975) | 87,148 | (14,611) | 725,740 |
| BALANCE AT 1 JULY 2016 | | 820,374 | (340,602) | 91,936 | (14,611) | 557,097 |
| Profit/(Loss) for the year | | - | 6,546 | - | - | 6,546 |
| Exchange differences on translation of foreign operations | | - | - | 6,024 | - | 6,024 |
| Reclassification of foreign currency differences on disposal of subsidiary | | - | - | 1,793 | - | 1,793 |
| Total comprehensive income for the year | | - | 6,546 | 7,817 | - | 14,363 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Shares issued | 10 | 23 | - | - | - | 23 |
| Employee share based payments | 10 | 555 | - | - | - | 555 |
| Dividends paid or provided | | - | - | - | - | - |
| | | 578 | - | - | - | 578 |
| BALANCE AT 31 DECEMBER 2016 | | 820,952 | (334,056) | 99,753 | (14,611) | 572,038 |

* See Note 3 Discontinued Operations

Consolidated Interim Statement of Cash Flows

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

| | Note | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|--|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | | 613,949 | 739,031 |
| Interest received | | 511 | 238 |
| Finance costs paid | | (4,095) | (5,012) |
| Cash paid to suppliers and employees | | (616,621) | (709,567) |
| Income tax refund received / (paid) | | (3,657) | 1,406 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | (9,913) | 26,096 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of subsidiaries, deferred consideration paid | | (1,429) | (4,341) |
| Disposal of discontinued operations, net of cash | 3 | 57,290 | 80,405 |
| Payments for intangible assets | | - | (696) |
| Proceeds from sale of property, plant and equipment | | 485 | 7,799 |
| Payments for property, plant and equipment | | (4,877) | (12,106) |
| NET CASH USED IN INVESTING ACTIVITIES | | 51,469 | 71,061 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | - | 84,466 |
| Share issue transaction costs | | - | (2,219) |
| Proceeds from borrowings | | 28,494 | 59,837 |
| Repayment of borrowings | | (93,719) | (136,285) |
| Finance lease payments | | (1,498) | - |
| Dividends paid | | - | (7,694) |
| NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES | | (66,723) | (1,895) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD | | (25,167) | 95,262 |
| CASH AND CASH EQUIVALENTS AT 1 JULY | | 105,613 | 84,750 |
| Reclassification of cash included in disposal group held for sale | | (770) | - |
| Effects of exchange rate changes on cash and cash equivalents at the end of year | | (450) | 2,047 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2016 | | 79,226 | 182,059 |

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

1. SEGMENT INFORMATION

On 1 July 2016, the Group changed its operating structure and as a result reportable segments have changed since the 2016 Annual report. Comparative information has been restated to reflect the new structure.

Cardno has four reportable segments managed separately by location and services provided. Internal management reports on the performance of these reportable segments are reviewed monthly by the Group's Chief Executive Officer. The following summary describes the operations in each of Cardno's reportable segments.

- > **Asia Pacific Engineering and Environmental** – provides services in civil, structural, water, environmental, coastal, bridge, geotechnical, subsurface utility, traffic and transport engineering as well as environmental science, surveying, landscape architecture, planning and asset management.
- > **Americas Engineering and Environmental** – delivers expertise to private and public sector clients across the environmental, water, transportation, energy and resources, land, buildings and management services sectors.
- > **International Development (ID)** – the ID business designs and implements large-scale sustainable solutions for both development assistance agencies and private clients.
- > **Other** – includes Portfolio Companies including Construction Sciences (materials testing), LATAM (engineering, consulting operations in Latin America) and PPI (quality testing and services to the Oil and Gas sector) and Group Head Office.

Segment results that are reported to the chief operating decision makers include items directly attributed to the segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise head office expenses, financing costs, and income tax expense.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

| 31-Dec-2016 | Asia Pacific Engineering & Environmental \$'000 | Americas Engineering & Environmental \$'000 | ID \$'000 | Other \$'000 | Total \$'000 |
|--|--|--|----------------|-----------------|-----------------|
| SEGMENT REVENUE – Continuing Operations | | | | | |
| Fees from services and sale of goods | 117,897 | 154,359 | 53,292 | 65,807 | 391,355 |
| Fees from recoverable expenses | 23,031 | 52,587 | 90,986 | 15,268 | 181,872 |
| Inter-segment revenue | - | - | - | 6,695 | 6,695 |
| Segment Revenue | 140,928 | 206,946 | 144,278 | 87,770 | 579,922 |
| Other revenue | 1,138 | 787 | 6 | 559 | 2,490 |
| Total Segment Revenue | 142,066 | 207,733 | 144,284 | 88,329 | 582,412 |
| Inter-segment elimination | | | | | (6,695) |
| Total Revenue from continuing operations | | | | | 575,717 |
| Segment Result | 16,494 | 3,047 | 670 | 3,020 | 23,231 |
| Redundancy costs | - | - | - | (6,701) | (6,701) |
| Office consolidation | (2,495) | (8,336) | - | - | (10,831) |
| Business review costs | (100) | (8,808) | - | (2,601) | (11,509) |
| Angola debt | - | - | - | (7,996) | (7,996) |
| Indirect tax in dispute | - | - | (1,500) | - | (1,500) |
| Depreciation and amortisation expense | (1,377) | (2,006) | (191) | (9,230) | (12,804) |
| Profit/(loss) from continuing operations before interest and income tax | 12,522 | (16,103) | (1,021) | (23,508) | (28,110) |
| Finance costs and interest income | | | | | (5,586) |
| Loss from continuing operations before income tax | | | | | (33,696) |
| Income tax benefit | | | | | 12,630 |
| Loss from continuing operations after income tax | | | | | (21,066) |
| Net profit/(loss) from discontinued operations after income tax | | | | | 27,612 |
| Profit/(loss) from continuing and discontinuing operations after income tax | | | | | 6,546 |

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

1. SEGMENT INFORMATION CONTINUED

| 31-Dec-2015 | Asia Pacific Engineering & Environmental \$'000 | Americas Engineering & Environmental \$'000 | ID \$'000 | Other \$'000 | Total \$'000 |
|--|--|--|--------------|-----------------|-----------------|
| SEGMENT REVENUE – Continuing Operations | | | | | |
| Fees from services and sale of goods | 110,826 | 166,774 | 49,343 | 69,466 | 396,409 |
| Fees from recoverable expenses | 21,054 | 55,386 | 68,338 | 29,965 | 174,743 |
| Inter-segment revenue | - | - | - | 12,722 | 12,722 |
| Segment Revenue | 131,880 | 222,160 | 117,681 | 112,153 | 583,874 |
| Other revenue | 92 | 990 | - | - | 1,082 |
| Total Segment Revenue | 131,972 | 223,150 | 117,681 | 112,153 | 584,956 |
| Inter-segment elimination | | | | | (12,722) |
| Total Revenue from continuing operations | | | | | 572,234 |
| Segment Result | 15,284 | 10,576 | (748) | 10,255 | 35,367 |
| Redundancy costs | (909) | (616) | - | (2,219) | (3,744) |
| Office consolidation | - | (192) | - | (287) | (479) |
| Sale and lease back | 619 | 543 | - | - | 1,162 |
| Balance sheet review | (1,000) | (142) | - | (3,594) | (4,736) |
| Depreciation and amortisation expense | (1,807) | (2,544) | (217) | (9,029) | (13,597) |
| Profit/(loss) from continuing operations before interest and income tax | 12,187 | 7,625 | (965) | (4,874) | 13,973 |
| Finance costs and interest income | | | | | (5,725) |
| Profit from continuing operations before income tax | | | | | 8,248 |
| Income tax expense | | | | | (3,407) |
| Profit from continuing operations after income tax | | | | | 4,841 |
| Net profit/(loss) from discontinued operations after income tax | | | | | (35,033) |
| Profit/(loss) from continuing and discontinuing operations after income tax | | | | | (30,192) |

2. BUSINESS COMBINATIONS

On the 2 December 2016, the Group acquired the assets of an engineering company in Western Australia. This acquisition is not considered to be material to the group. There were no acquisitions made during the half-year ended 31 December 2015.

3. DISCONTINUED OPERATIONS

In September 2016 the group sold its software business, XP Solutions, for US\$49 million. The net proceeds of the sale were used to strengthen the company's capital structure and to further reduce net debt.

In December 2016 the Group sold its US mining business for US\$0.9 million.

XP Solutions and mining were not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of financial performance has been restated to show the discontinued operations separately from continuing operations.

The prior year discontinued operation for the ATC business has been restated by a \$23.4 million adjustment to the impairment loss on write down to fair value due to the change in accounting policies and methodology completed during the year ended 30 June 2016 for impairment testing resulted in a prior year adjustment to goodwill carrying values. Refer to Note 14.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

3. DISCONTINUED OPERATIONS CONTINUED

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|---|---------------------|---------------------|
| (a) Results of discontinued operation | | |
| Revenue | 8,799 | 116,943 |
| Expense | (9,699) | (122,243) |
| Results of operating activities | (900) | (5,300) |
| Income tax | (150) | 1,917 |
| Results from operating activities, net of tax | (1,050) | (3,383) |
| Gain/(loss) on disposal of subsidiary | 30,455 | - |
| Impairment loss on write down to fair value | - | (36,854) |
| Reclassification of foreign currency differences and reserves | (1,793) | 5,204 |
| Profit/(loss) for the period | 27,612 | (35,033) |
| Basic earnings (loss) per share | 5.76 | (17.46) |
| Diluted earnings (loss) per share | 5.72 | (17.46) |

The profit from discontinued operations of \$27.6 million (2015: loss of \$35.0 million) is attributable entirely to the owners of the company.

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|--|---------------------|---------------------|
| (b) Cash flows from (used in) discontinued operation | | |
| Net cash from (used in) operating activities | 1,866 | (14,589) |
| Net cash from (used in) investing activities | 547 | 13,204 |
| Net cash flow for the period | 2,413 | (1,385) |
| | | 31-Dec-16 \$'000 |
| (c) Effect of disposal on the financial position of the group | | |
| Property, plant and equipment | | 224 |
| Intangibles | | 25,629 |
| Trade and other receivables | | 3,244 |
| Bank | | 922 |
| Deferred tax liabilities | | (375) |
| Trade and other payables | | (1,759) |
| Net assets and liabilities | | 27,885 |
| Consideration received, satisfied in cash | | 56,368 |
| Bank overdraft disposed of | | 922 |
| Net cash inflow | | 57,290 |

4. (A) REVENUE FROM CONTINUING OPERATIONS

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|--------------------------------|---------------------|---------------------|
| Fees from consulting services | 391,355 | 396,409 |
| Fees from recoverable expenses | 181,872 | 174,743 |
| Other | 2,490 | 1,082 |
| Revenue | 575,717 | 572,234 |

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

4. (B) OTHER INCOME

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|-----------------------------------|---------------------|---------------------|
| Non-refundable R&D tax incentives | 1,995 | 2,102 |
| Net gain on sale of fixed assets | 183 | 1,228 |
| Other Income | 2,178 | 3,330 |

5. FINANCING COSTS

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|---------------------------------|---------------------|---------------------|
| Interest paid | 5,063 | 4,218 |
| Amortisation of borrowing costs | 1,034 | 1,792 |
| Interest received | (511) | (285) |
| Net Financing Costs | 5,586 | 5,725 |

6. EXPENSES

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|---|---------------------|---------------------|
| Bad and doubtful debts | 11,494 | 2,818 |
| Rental expense relating to operating leases | 25,855 | 18,279 |

Bad and doubtful debts has increased from the prior year as a result of a specific debtor being provided for in full. The year-on-year increase in rental expense is due to the Group undertaking an office rationalisation and consolidation project. Other non-recurring costs incurred in the current period and shown as increased year-on-year expenses for consumables and materials used and other expenses include the closure of developmental drones business, provisions related to the Petroleum and Gas business, multi-year projects and work in progress reviews and indirect tax provisions in dispute.

7. 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 from continuing operations for the half-year ended 31 December 2016 was 37.5 per cent (half-year to 31 December 2015: 41.3 per cent).

8. LOANS & BORROWINGS

| | 31-Dec-16 \$'000 | 30-Jun-16 \$'000 |
|---|---------------------|---------------------|
| CURRENT | | |
| Lease and hire purchase liabilities | 1,833 | 2,158 |
| Bank loans | - | 637 |
| | 1,833 | 2,795 |
| NON-CURRENT | | |
| Lease and hire purchase liabilities | - | 1,146 |
| Bank loans* | 84,663 | 151,279 |
| | 84,663 | 152,425 |
| TOTAL CURRENT & NON-CURRENT LOANS & BORROWINGS | 86,496 | 155,220 |

* As at 31 December 2016, Cardno has bank loans and long term notes totalling A\$86.5 million (June 2016: A\$155.2 million) with a weighted average interest rate of 3.19% (June 2016 2.48%). Funding available to Cardno from undrawn facilities is A\$33.2 million as at 31 December 2016 (June 2016: A\$134.3 million). Cardno completed the sale of XP Solutions (refer note 3) with a portion of the net proceeds (A\$56.4 million) used to repay borrowings on 1 October 2016.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

9. PROVISIONS

| | 31-Dec-16 \$'000 | 30-Jun-16 \$'000 |
|-----------------|---------------------|---------------------|
| Legal provision | 3,250 | 3,139 |
| | 3,250 | 3,139 |

The Group makes provision for legal claims not covered by the Group's professional indemnity policy and as at 31 December 2016 an estimate of the potential impact of these claims have been provided for.

10. ISSUED CAPITAL

| | Half-year ended 31-Dec-16 | | Year ended 30-Jun-16 | |
|---|------------------------------|----------------|-------------------------|----------------|
| | No. of shares | \$'000 | No. of shares | \$'000 |
| Balance at the beginning of the period | 479,040,905 | 820,374 | 165,633,532 | 641,661 |
| Shares issued during the period: | | | | |
| > Dividend reinvestment scheme | - | - | 1,471,163 | 3,854 |
| > Shares issued for cash (net of transaction costs) | 549,024 | 23 | 311,936,210 | 173,069 |
| > Employee share based payments | - | 555 | - | 1,790 |
| > Own shares issued | - | - | - | - |
| Balance at the end of the year | 479,589,929 | 820,952 | 479,040,905 | 820,374 |

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 process 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.

11. CONTINGENT LIABILITIES

Matters Relating to Cardno Caminosca S.A ("Caminosca")

In December 2015 a claim was filed and served on Caminosca in Ecuador alleging cost overruns relating to design and project management work performed by Caminosca during the period from 2008 to 2013. While the damages claimed would be material if awarded against Caminosca, the claim is at the preliminary stages and the Company believes spurious in nature. Caminosca has filed an initial response and will defend the claim.

In February 2015, the Group announced it was investigating a series of transactions involving Caminosca which are still ongoing. There remains the potential that a penalty or sanction could be imposed on Cardno.

Other Matters

Members of the Cardno Group are defendants in proceedings commenced in the prior financial year in relation to cost overruns on two infrastructure projects. While the damages claimed would be material if awarded against Cardno, the claims are in the preliminary stages and Cardno intends to defend the claims.

Other than the above, the Directors are not aware of any current material litigation involving Cardno. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Cardno had contingent liabilities at 31 December 2016 in respect of bank guarantee facilities/bond facilities with financial institutions denominated in Australian dollars, United States dollars, Great British pounds and United Arab Emirates Dirham. The guarantee facilities available to Cardno total \$81.9 million (June 2016: \$81.4 million). These facilities are secured by an unlimited interlocking guarantee and indemnity or a parent company guarantee.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

12. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

13. EARNINGS PER SHARE

| | 31-Dec-16 \$'000 | 31-Dec-15 \$'000 |
|---|---------------------|---------------------|
| (a) Basic earnings per share | | |
| Profit/(loss) attributable to ordinary shareholders | 6,546 | (30,192) |
| Profit attributable to ordinary shareholders - continuing operations | (21,066) | 4,841 |
| Weighted average number of ordinary shares | No. | No. |
| Issued ordinary shares at 1 July | 479,040,905 | 165,633,532 |
| Effect of shares issued | 346,124 | 9,925,604 |
| Effect of bonus shares issued during the year | - | 25,136,715 |
| Weighted average number of ordinary shares at 31 December | 479,387,029 | 200,695,851 |
| | Cents | Cents |
| Basic earnings/(loss) per share (cents per share) | 1.37 | (15.04) |
| Basic earnings/(loss) per share (cents per share) - continuing operations | (4.39) | 2.41 |
| (b) Diluted earnings per share | | |
| Profit/(loss) attributable to ordinary shareholders (diluted) | 6,546 | (30,192) |
| Profit attributable to ordinary shareholders (diluted) - continuing operations | (21,066) | 4,841 |
| Weighted average number of ordinary shares (diluted) | No. | No. |
| Issued ordinary shares at 1 July | 479,040,905 | 175,559,136 |
| Effect of shares issued | 3,580,721 | 4,549,577 |
| Effect of bonus shares issued during the year | - | 25,788,128 |
| Weighted average number of ordinary shares (diluted) at 31 December | 482,621,626 | 205,896,841 |
| | Cents | Cents |
| Diluted earnings/(loss) per share (cents per share) | 1.36 | (15.04) |
| Diluted earnings/(loss) per share (cents per share) - continuing operations | (4.39) | 2.35 |

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

14. RESTATEMENT OF COMPARATIVE INFORMATION

The Group completed a review during the year ended 30 June 2016 of its accounting policies and methodology for impairment testing. This review resulted in the Group revising its methodology in relation to the treatment of group overheads and corporate costs. Group overhead and corporate costs are now allocated to the individual CGUs for impairment testing purposes whereas previously these were included in an impairment assessment at an overall group level. This change in approach is required to be applied retrospectively and resulted in the restatement of the impairment loss on goodwill recognised in the year ended 30 June 2015.

The Group sold businesses during the half year. The consolidated statement of financial performance has been restated to show the discontinued operations from continuing operations.

The following tables summarise the financial effects of these changes on the Group's consolidated statement of financial performance presented in its financial statements for the half year ended 31 December 2015:

| | Half Year Ended 31 December 2015 | | | |
|--|----------------------------------|---------------------------------|-----------------------------------|--------------------|
| | Previously Reported \$'000 | Additional Impairment \$'000 | Discontinued Operations \$'000 | Restated \$'000 |
| Profit before income tax and impairment losses | 9,075 | - | (827) | 8,248 |
| Impairment losses | - | - | - | - |
| Profit before income tax | 9,075 | - | (827) | 8,248 |
| Income tax benefit / (expense) | (3,526) | - | 119 | (3,407) |
| Profit/(loss) from continuing operations | 5,549 | - | (708) | 4,841 |
| Profit/(loss) from discontinued operations | (59,117) | 23,376 | 708 | (35,033) |
| Profit/(loss) for the period | (53,568) | 23,376 | - | (30,192) |
| Basic EPS | (30.51) | | | (15.04) |
| Diluted EPS | (30.51) | | | (15.04) |

15. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Cardno Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the half-year ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "Group"). The consolidated interim financial report was authorised for issue by the directors on 27 February 2017.

(a) Statement of compliance

This financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act 2001.

This 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 2016 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 consolidated interim financial report are the same as those applied by the Group in its annual consolidated financial report as at and for the year ended 30 June 2016.

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

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2016

15. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Estimates

The preparation of this 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 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 2016.

Fair value of financial instruments

The Group's financial assets and liabilities are included in the balance sheet at amounts that approximate fair values.

Fair value hierarchy

In determining fair values for measurement or disclosure purposes, the Group uses the following fair value measurement hierarchy that reflects the significance of the inputs used in making the measurements:

- > Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- > Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- > Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of fair value hierarchy at the end of the reporting period during which the change has occurred.

Directors' Declaration

Cardno Limited and its Controlled Entities for the year ended 31 December 2016

In the opinion of the Directors of Cardno Limited (the Company):

- (a) the consolidated financial statements and notes set out on pages 9 to 20 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated the 27th day of February 2017.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'M Alscher', with a long horizontal flourish extending to the right.

MICHAEL ALSCHER
Chairman
27 February 2017



Independent Auditor's Review Report

To the shareholders of Cardno Limited

Conclusion

We have reviewed the accompanying Interim Financial Report of Cardno Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Cardno Limited 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 2016 and of 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*.

The Interim Financial Report comprises:

- Consolidated interim statement of financial position as at 31 December 2016;
- Consolidated interim statement of financial performance, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The Group comprises Cardno Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

The Interim Period is the six months ended on 31 December 2016.

Restatement of comparative balances

Without modifying our review conclusion expressed above, we draw attention to note 14 to the Interim Financial Report, which states that amounts reported in the previously issued 31 December 2015 interim financial report have been restated and disclosed as comparatives in this Interim Financial Report.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim 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 Interim 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 2016 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 an Interim 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*.



KPMG



Simon Crane
Partner

Brisbane
27 February 2017

BOARD OF DIRECTORS

Chairman

Michael Alscher

Directors

Neville Buch (CEO)

Steve Sherman

Jeffrey Forbes

Gary Jandegian

Robert Prieto

Nathanial Thomson

Chief Financial Officer

Peter Barker

Joint Company Secretaries

Peter Barker

Courtney Marsden

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