



AJ Lucas Group Limited
ABN 12 060 309 104
394 Lane Cove Road
Macquarie Park NSW 2113
Locked Bag 2113
North Ryde BC NSW 1670
T (02) 9490 4000
F (02) 9490 4200
www.lucas.com.au

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AJ LUCAS PROVIDES EARNINGS OUTLOOK

Market update

As foreshadowed in the 2009 Annual Report and November's AGM, the Group has experienced a disappointing first half year. The legacy of management mis-steps from the previous financial year, delays in project timing and general business uncertainty have all affected the Group's financial performance.

The result, an underlying EBITDA of minus \$18 million, includes non-recurring costs of \$10.1 million. This operational loss has been offset by the successful sale of ATP651, adjusted for other non-operating costs, to deliver an overall EBITDA of \$42 million.

In view of this, the Company does not intend to pay an interim dividend for the half year ended 31 December 2009.

Drilling division

Drilling revenues have remained strong, but the general market uncertainty through 2009 has led to much more irregular work. This, a longer-than-expected Christmas shutdown and work interruptions caused by unscheduled maintenance have all affected margins. Upgrading Mitchell Drilling's equipment and integrating their processes and culture with Lucas has been more involved and costly than expected. This is now nearly complete and beginning to pay off in productivity.

The Drilling division now has a full order book for calendar 2010 and, barring unforeseen events, will deliver a substantially improved operating result in the second half.

Construction & Infrastructure division

Construction and Infrastructure has benefited from the government stimulus expenditure with the award of some \$20 million of works on government schools, and \$20 million more expected.

Infrastructure works on the various CSG and LNG projects, the division's principal domain, have been slow to start, affecting the financial results.

Margins on building construction have been satisfactory, but execution difficulties on pipeline projects reduced the division's profit by \$6 million.

The outlook for the second half is much stronger as projects already awarded get underway and we see the benefits of other restructuring initiatives. These include:

- Opening CBD offices in Perth and Brisbane;
- Appointing new senior management in the Drilling and C&I divisions;
- Continued investment in systems and procedures and improved safety practices; and
- Continued restructuring of the business and reduction of overheads.

Construction activity on Perth's Southern SeaWater desalination project, which commenced in July 2009, continues to ramp up. The Gorgon Barrow Island landfall project, awarded in November, is currently in the early planning and engineering stage. When site work commences in May, this will generate substantial cash flows.



Board and senior management appointments

Following Garry O’Meally's retirement at the November 2009 AGM, Mike McDermott has agreed to serve as a non-executive director. As founder of McDermott Drilling, acquired by Lucas in 2006, Mike brings over 40 years of drilling leadership and management experience to the board.

We will be announcing the appointment of new independent non-executive directors in the next few weeks.

Several senior management appointments have also been made in the first half across the Group as well as specialist appointments in safety and risk management. We continue to search for further management capability to provide more depth to the management team, particularly in pipelines.

Energy and water investments

In December we agreed to sell our 15% investment in ATP651 to Toyota Tsusho Corporation for \$98.5 million, realising a profit of \$93.5 million. Almost all conditions precedent to the sale have now been met and we expect it to settle in the next two weeks.

The total amount invested by Lucas in Cuadrilla Resources, the Group’s European shale gas investment vehicle, now amounts to \$52.4 million. Lucas is at an advanced stage of negotiations with an industry investor to co-invest in Cuadrilla, with the transaction expected to close within two weeks. The valuation this transaction ascribes to Cuadrilla is substantially in excess of Lucas' book cost but, consistent with past practice, Lucas will not ascribe any uplift in value until the investment is realised. On a fully diluted basis, the new investor and Lucas will become equal shareholders, with the founding shareholders holding the balance. Cuadrilla will then be well capitalised with significant cash reserves and require no further funding from Lucas. The time horizon for this investment is a further 2–3 years.

The Company now has \$81.8 million invested in the Monument County prospect including \$25.2 million invested in the current financial year. Lucas is a minority participant in this highly prospective hydrocarbon area in East Texas, which requires complicated extraction techniques. As indicated at the AGM, we intend to realise this investment this financial year.

The Company has decided to cease any further investment in the Arawn Grizzly prospect in Canada and has provided in full for its investment.

With the introduction of a financial partner for Cuadrilla, the decision to realise the Monument County investment and the close-down of Arawn, these investments have no further need for Lucas funding.

Lucas has continued to investigate investment opportunities in various water projects, where Lucas would own the water resource. Funding for such projects would be available from third parties requiring relatively little expenditure by Lucas. However, pending any such investment, Lucas continues to carry the cost of its water management business, expensed through the profit and loss statement.



Working capital

As a result of the Company's poor operating performance in the first half, the timing of projects and the extent of the investments made in the energy assets, cash flow in the past two months has been tight. However, the sale proceeds of ATP651 will return the Company to its usual trading conditions. Part of the proceeds will be used to repay debt, with the balance used for working capital. Given the improved operating outlook, the Group believes it has sufficient working capital to meet its obligations and conduct its business operations.

Earnings update and outlook

Lucas proposes to release its results for the first half ended 31 December 2009 on 26 February 2010. First half normalised EBITDA is projected at approximately minus \$18 million but with a second half EBITDA forecast of \$30+ million.

The operating result for the first half has been adversely affected by a number of events including an unfavourable result on the Minerva dispute (\$5.6 million). Management has also decided to take a conservative approach to various contract disputes and provided a further \$4.5 million for their resolution.

Offsetting the disappointing operating result will be the capital profit of approximately \$93.5 million from the sale of the investment in ATP651.

The capital gain from this has been reduced by the provision for the Group's investment in Arawn of \$8 million and the additional \$25 million invested in the Monument County prospect. The provision for the Monument County investment is consistent with the accounting treatment of the initial investment made last financial year. However it does not in any way reflect the Company's view as to the realisable value of this investment. It is strictly an accounting treatment.

The short to medium term outlook is much better. Tendering is occurring at record levels as the various Queensland CSG projects move towards FID and the North West Shelf LNG projects also commercialise. Lucas has partnered with world-renowned companies to bid for these and is confident of winning significant work from these projects.

Global coal demand has also rebounded with projects underway to increase export capacity. Lucas is experiencing a corresponding increase in demand for its rigs in the coal fields.

So our future prospects are very encouraging. The Company's growing pains, experienced in full in calendar 2009, are behind us and we are confident of our turnaround plan, now in full operation.

For further information please contact:

Allan Campbell
Chairman and CEO
+61 2 9490 4000

Nicholas Swan
Company Secretary
+61 2 9490 4127

About AJ Lucas Group Limited

Lucas is a leading provider of both specialist infrastructure and mining services. It is the leading supplier of drilling services to Australia's coal and coal seam gas industries. It is also Australia's largest builder of long distance gas pipelines. Other divisions provide gas management services to the coal and coal seam gas industry, construction, civil and property services.