

AJ Lucas Announces 2005 Financial Results

AJ Lucas today announced its unaudited financial results for 2005. The Group reported a loss of \$7.6 million after tax benefit, or substantially the same as previously foreshadowed to the market. Gas management again reported a strong result reflecting increasing market acceptance of the Group's drilling technology and the strength of the coal seam gas industry. However, the pipeline division experienced a disappointing performance largely because of reduced revenue after the completion of the SEA Gas contract in the prior year. Directional drilling also disappointed due to reduced revenue and project execution difficulties.

The Group however expects to make a strong recovery in the current year with turnover budgeted to more than double to \$154 million. This is forecast to produce an EBITDA in excess of \$13 million and earnings before interest and tax in the range of \$8 million to \$10 million. Contracts totalling \$120 million are currently underway and therefore no repeat of the project delays experienced last year is expected.

The loss arose because of the following principal factors:

1. Reduction in revenue due to project delays

Group operating revenue declined by 36.4% to \$74.3 million from \$116.8 million in the prior year. Revenue should have been higher following the award of the Trans Territory Pipeline ("TTP") contract in March 2005. However, Alcan announced at the end of June 2005 that the project would not be proceeding in its current form. The deferral of this pipeline meant that the Group was not able to recognise any income from this contract as well as incurring significant management opportunity costs in winning the contract and servicing the client. Delays in the commencement of other HDD projects also reduced the contract margins normally expected from this work.

2. Non-recovery of overhead due to reduced revenue

The Group maintained a higher overhead structure in anticipation of the award of the TTP contract and its other growing businesses, gas management and facilities management. Under-recovery of plant and equipment overheads amounted to \$3 million in the directional drilling division alone.

3. Execution difficulties on certain projects

The Group experienced some difficulties in completing some directional drilling contracts during the year due to unanticipated ground conditions. The Group expects to recover some of these costs through insurance claims but has not recognised any of this income in the result.

4. Restructuring costs

The Group incurred significant costs for the restructuring of the Stuart business acquired in 2003/04. This business is now fully integrated with the Lucas business and generating significantly higher margins than prior to its acquisition.

Nerdlihc Inc. receivables

Included in receivables is an amount owed by Nerdlihc Inc of \$13.6 million. Nerdlihc acknowledges this liability and has assured the Company that it will be paid out of the proceeds received from a refinancing along with other Australian creditors. Nerdlihc has advised that its capital raising has been finalised and that Lucas will be paid imminently. The results therefore include no provision for the collection of amounts owing.

The Directors of AJ Lucas however, have resolved to make full provision for such receivables if funds are not received by 30 September 2005 and, if and once Nerdlihc satisfies its obligations, the provision will be written back. If funds are not received by 30 September 2005, the 2004/05 accounts will be amended to include the provision.

Outlook

After such a disappointing year, the 2005/06 outlook for the Group is extremely positive. Many of the projects previously delayed have now started, the Group has a record order book, a record number of tenders is being made with a superior win rate to that previously achieved, new cost control measures have been implemented and management restructured.

In addition, the outlook for the sectors in which the Group operates is very promising. Despite the setback on the TTP project, a number of other gas pipeline projects are emerging as existing gas supply sources are depleted and new sources of gas, most notably coal seam gas, become a commercial reality. Water pipeline activity is also encouraging in response to the drought conditions currently pervading New South Wales. Last week, the Company announced the award of the A\$38 million Yaté Raw Water Pipeline Project in New Caledonia.

Gas management offers huge growth potential. The Group has acquired since year-end two new rigs with the capacity to do larger jobs. The AJ Lucas Group leads the market in its drilling technology and expects further significant growth in turnover as the market recognises the merits of the technology in reducing costs.

AJ Lucas is also well advanced in assessing its investment in the Gloucester Basin coal seam gas project. Independent evaluation of this project has assessed its current value at substantially in excess of the Group's carrying value. An announcement will be made in due course regarding the manner in which the asset will be developed.

Mr Campbell, Executive Chairman of AJ Lucas said "Of course, I am disappointed with the result. We thought the Trans Territory Pipeline would allow us to deliver a much stronger result. Nevertheless, the outlook has never looked brighter and we face the future with considerable optimism".

For further information, please contact Allan Campbell on 02 9809 6866

About AJ Lucas Group Limited

AJ Lucas is Australia's leading specialist infrastructure services provider. It is the country's largest builder of long distance gas pipelines and a world leader in horizontal directional drilling, an advanced technology for the installation of underground conduits without excavation. Other divisions provide gas management services to the coal industry, construction, civil and property services.