

AJ Lucas Group Limited
2005 Annual General Meeting
25 November 2005
Chairman's Address

Introduction

Ladies and Gentlemen, good morning. Welcome to AJ Lucas' 2005 Annual General Meeting.

The 2005 financial period was a difficult year; we worked very hard, succeeded in many areas but have little to show for it. While the result is disappointing, we are not discouraged at all. On the contrary, much has been achieved and the foundations have been laid for the Group to build a much more stable and reliable earnings stream. We are already experiencing a strong recovery with revenue expected to more than double this financial year to in excess of \$150 million. All of the sectors in which we operate are experiencing strong growth and we are receiving a record number of enquiries. In short, our strategy of building a broadly based infrastructure services business is starting to mature. We expect that during the next 2 years, the results of this strategy and our hard work will materialise.

2005 Result

As we previously reported, the 2005 result reflects a mixture of bad luck, project slippage, market circumstances and some poor decision making. Clearly, the biggest impacts on the result were the failure of the Trans Territory Pipeline project to proceed and the provision relating to Nerdlihc.

The Trans Territory Pipeline project not proceeding was a major set back. However, one should not lose sight of the positive aspect of this contract - that it confirms the pre-eminence of the Lucas Spie Joint Venture in cross country pipelining in Australia. The project took some 18 months to secure and cost our consortium a great deal of money; not to mention time taken in putting together the requested fully funded, fully negotiated, fully documented and underwritten deal of \$750 million. Only for it to fall apart because the two principals could not agree. Acting in good faith, at no time did we have any reason to doubt the representation from the Sponsors (Woodside ENI and Alcan) that they had

entered into a 20 year gas supply agreement. Had we been made aware that the gas supply arrangements were not firm, it is certainly the case that our consortium would not have committed the resources that we did to this project. It is Lucas' belief that the Sponsors have a legal and moral responsibility to recompense us for our efforts, at least to a level where our costs are fully covered.

We also announced that we intended to make full provision for the Nerdlihc receivables if funds were not received by 30 September 2005. Nerdlihc has undertaken to pay the Company these receivables upon successful completion of its refinancing. While we have no reason to doubt that Nerdlihc will not pay us all monies owing, given that at the time we announced our final result no funds had been received, the Directors deemed it prudent to make full provision for such receivables. Once Nerdlihc satisfies its obligations, the provision will be written back. The Company is not apologetic about its involvement with Nerdlihc and believes that time will tell that our judgement has been correct. The fact is that if Nerdlihc is correct, this will result in a major infrastructure project in which Lucas has a ground floor position.

Gloucester Basin

We have commenced Phase II on the Gloucester Basin development and expect to have a much more considered view of the potential of this prospect by end first quarter 2006 calendar year. The proximity of highly gaseous, highly permeable coals so close to existing and potential markets makes this asset a very exciting opportunity for Lucas. Having said that, it is not Lucas' strategy to be a long term holder of exploration and development acreage.

Market Conditions

As noted earlier, we are experiencing strong demand for our services. Lucas has established itself as the market leader in pipelines, horizontal directional drilling and gas extraction drilling technologies, the latter being application of HDD techniques to the underground coal mine and coal seam gas industries. The way the market is shaping up in all of these sectors appears to confirm our macro economic analysis of market developments. We have the technology, knowledge and expertise to deliver what the market requires and will supplement these skills with additional plant as required and as the businesses develop. The facilities management side still requires a lot of work but we

hope this business, including specialist civil engineering, will continue to develop during the year.

It is notable that contracting conditions in the market place are finally changing. Whereas terms and conditions have to date been dictated by the owners (advised by consultants who have no "skin on the table"), the requirement for a satisfactory project outcome and the shortage of skilled resources are forcing owners to become more equitable. Contracting terms and conditions in the more difficult, high-end HDD projects will certainly have to change and clients will have to examine different contracting strategies when they embark upon such projects in the future. This is not only common sense, but good business.

Outlook

All of our businesses are experiencing strong demand. After the disappointment of the loss of the Trans Territory Pipeline, we have been awarded and commenced work on the Yate water pipeline project in New Caledonia. We have also been awarded a number of other smaller pipeline projects. Rapid development of projects within the coal seam gas sector, in which we hope to play a part in our own right through Gloucester Basin, are also expected to result in additional pipeline demand. And we shouldn't forget the mooted PNG pipeline for which a major engineering study is currently being conducted.

HDD is also experiencing a pick up in demand although projects in this sector are still prone to delays.

I have already touched on coal seam gas and undoubtedly our drilling capability in either degassing coal mines or capturing the gas for commercialisation is being increasingly recognised. Since we founded this business 4 years ago, it has experienced a 75% annual compound rate of growth and continues to perform strongly. Our biggest problem in this area is sourcing the sufficient rig capacity and adequately trained personnel to satisfy the demand.

And Lucas Stuart, our building and facilities management business, after an initial slow start, is now starting to blossom and achieve its potential.

Year to date, the Group is on track to meet budget. Cash flow is good and we are rebuilding our resources to meet the growth opportunities that we expect to emerge. The Directors regret passing on the final dividend for 2004/05 but prudence demanded that we do so. We will keep this under review and reinstate it as soon as we feel we can comfortably afford to do so.

In conclusion, even though 2005 was a frustrating and disappointing year, the Company is now performing and back on track. The market outlook is good, we have the correct business structure and are confident about our prospects for the future.

Thank you for your continuing support.

Allan S Campbell
Chairman