

AJ Lucas Group Limited
2006 Annual General Meeting
24 November 2006
Chairman's Address

Introduction

Ladies and Gentlemen, good morning. Welcome to AJ Lucas' 2006 Annual General Meeting.

2006 Result

The evolution of Lucas continues. The 2006 financial year has been one of regrouping and moving forward for the Company. Revenue increased by 127% to \$171 million and the Company returned to profit. Importantly, cash flow from operations amounted to \$18.5 million, a \$24 million turnaround from the previous year.

The result reflects the alignment of the market and the Lucas strategy. Lucas was visionary in foreseeing the desperate need for Australia to improve its infrastructure, particularly in the areas of water and waste water and energy – involving the use of natural gas to produce electricity. We positioned ourselves for this expected demand some years ago. However, only recently have the Federal and State governments started to commit the resources to undertake the necessary expenditure. Lucas expects the increased demand for infrastructure assets to persist for some time and has the skills and capacity to deliver on this requirement.

While the 2006 financial result was a substantial improvement over the previous year, it was not without its disappointments. We could have done better. Our investment in the coal seam gas sector has taken longer to bear fruit than we originally anticipated. We do however, believe that this has now turned. Similarly, investment in additional plant and equipment has yet to produce the profit stream for which it was acquired. The problems at the Goro Nickel project, relating to insurrection by the local populace, also affected profit for the financial year. As a result of the public unrest, work was confined to secure areas until the safety of the men and the works could be assured. The delays to the project impacted on revenue and earnings. On the plus side, we managed the event very professionally with minimal damage to plant and no injuries to personnel. This is a compliment to our local project management who work in very difficult conditions. The

project is now back on track and proceeding satisfactorily and the Company will instead make its forecast margin this year.

Risk Management

The market is well informed as to the prospects of the Company and the strategy that we are employing in relation to delivering that strategy. In summary however, we are aiming to create a number of separate but related business activities, all of which have several common threads, to produce a maintainable and recurring income stream. This is within the context of a relatively small but dynamic, evolving economy as currently operates in Australia.

Lucas has five distinct activities operating in the energy, water and waste water and property sectors. All of these businesses are performing well notwithstanding the varying states of development of these businesses. Continual development will see all of these businesses significantly mature during the next two years.

Our accent therefore, and this commenced about 12 months ago, is more on risk management and project delivery. We are managing the business better and expect to see significant improvement in contract margins during the next two years.

Contracting conditions and the expectations of clients regarding risk have improved. There is greater recognition in the marketplace that the contracting strategy should match the risk involved in the project and that expecting contractors to accept a disproportionate share of the risk is perhaps short sighted. Not all clients share this view but we are not alone in believing that a more balanced approach across the board would be welcome and a sensible solution for all involved.

Attention to risk management and focus on creating a safe working environment is appreciated by client and employees alike and is a key component in the Company's recent successes.

McDermott Drilling

The integration of McDermott Drilling is largely complete and its acquisition has been an unqualified success. The acquisition makes us the largest organisation providing drilling services to the coal and coal seam gas sectors in Australia. We expect continued strong demand for our services to these industries for many years to come.

Lucas is the leader in the provision of services to the coal seam gas sector and is the only company in Australia to provide a fully integrated service. Although our investment has been significant, we believe that this will bear fruit in the near future not only for Lucas shareholders but also for Lucas clients, as the key requirement to all of this (which is in very short supply) is technical know-how. This is the area in which Lucas maintains a huge advantage over others.

The acquisition of McDermott's is a perfect complement for an existing blue chip client base and long term contracts – clients such as BHPB, Rio Tinto, Xstrata and AGL/Sydney Gas.

Coal Seam Gas

The equity interests held by the Company in coal seam gas assets, the principal one of which is the Gloucester Basin, are held within a wholly owned subsidiary, Lucas Coal Seam Gas Pty Limited. Henceforth, it is the Company's intention to separately capitalise and staff Lucas Coal Seam Gas to expedite and enhance the development of these assets. In this connection, additional management have already been recruited and senior management within Lucas reassigned.

Although we at Lucas, like many in the stock market, believe that the future for coal seam gas is very exciting, it is however irresponsible, as well as premature, to get carried away with speculation on possible asset values until in fact they can be realised in a meaningful economic way. After all, the asset is a mere geological phenomenon until such time as it can be produced economically and productively for all those involved.

The Company is therefore disappointed with some of the unfounded speculation currently existing with respect to the Gloucester Basin. It is true that we have retained independent consultants to work with us in our plans for the further exploration and development of the Gloucester Basin as well as assessing the potential of the in-situ reserves at the Stratford prospect however, it should not be expected that anything other than confirmation of existing public information will be confirmed until phase two of the development is complete, which is scheduled towards the middle of 2007.

We intend to accelerate and increase our involvement in this sector and believe that recent events of both a corporate and market nature (e.g. recent takeovers, the scrapping of the

PNG pipeline, proposed additional pipelines sourced from coal seam gas etc) only serve to validate our existing strategy.

2007 Outlook

We expect a further substantial increase in profitability in the current year with all divisions projecting an increase in turnover. Budgeted revenue is \$220 million or nearly 30% greater than last year. We expect this target will be met following the recent nomination of Lucas as part of the preferred consortium to deliver the water pipelines between Luggage Point and Bundamba in South East Queensland. Ignoring any revenue from this possible contract, the order backlog now amounts to \$184 million, a record amount for the Company. The Company is also tendering for a number of other highly prospective contracts and thus hopes to add to this.

Notwithstanding the fact that we believe 2007 will be a record year in all respects, we expect profitability for the first half of the financial year to be correspondingly lower relative to turnover than in the previous financial year. This is principally due to timing issues, business mix and the establishment costs associated with a significantly higher turnover.

Although the outlook for the Company is bright (as previously reported to the market) there are a number of challenges facing the Company.

- The principal issue across the industry is shortage of qualified staff at all levels, and Lucas is no exception. While Lucas has a very good track record in this regard, people cannot be manufactured and retaining good, highly qualified people increases wage pressure.
- Increases in interest rates will undoubtedly have an impact on real estate, infrastructure projects and investment decisions generally. Although we have positioned the business to take account of this, at some stage or other, the industry will feel this impact.
- Not all clients agree with us on the common sense of employing equitable contracting terms which reflect a bargain that inures to the benefit of a project. Lucas is not prepared to enter into one-sided contracting conditions.
- Given the Company's ambitious programme for the next 1-2 years, cash flow, particularly in the short term, will remain an issue. Although Lucas has a very good track record at managing cash flow, we continue to watch this closely.

On the subject of cash and, in particular, the capital requirements for the business during the short to medium term, it is clear that the Company will require additional capital – particularly in relation to the execution of the strategy for Lucas Coal Seam Gas. Additional capital is not required immediately however, we are reviewing our capital requirements and shall advise as appropriate. Suffice to say, much is dependent upon the timing and commencement of new projects and the receipt of non-operating items.

Dividend

The subject of reintroduction of dividends has been discussed by the Board and, philosophically, it is considered that the Company should pay dividends when its requirement for capital has been satisfied and the Company is in a position to generate recurring profitability. The matter will be reviewed when the interim results for the half year ending December 2006 are available, expected by the end of February 2007.

Summary

In summary, we remain cautiously optimistic. We believe that we are well positioned for the future and are well placed to take advantage of the growth opportunities that present themselves in the market place. Having said this, we are fully aware of the obstacles with which we are faced. The building blocks are in place for sustained growth but, in this type of business, we must remain diligent in managing the risks.

Above all, optimism flows from having good people. Lucas is very fortunate in having first rate people (and we need more of them). Our customers agree that Lucas personnel at all levels are outstanding and their commitment well beyond those of their peers; often in very demanding circumstances. The growth and success of Lucas is a tribute to them. The senior management remain committed to providing a safe and enjoyable working environment for these people to continue to demonstrate their capabilities and advance their careers. In closing, I would like to pay tribute to all of the Lucas employees for their contribution during this year of regrouping and moving forward for Lucas.

I would also like to thank the Board and shareholders for their ongoing support and close interest in the Company.

Allan S Campbell
Chairman