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ASX ANNOUNCEMENT/MEDIA RELEASE

AJ Lucas Transformation continues

- **Restructuring positions Company for return to profit**
- **Substantially improved operational and financial performance in second half of FY2014**
- **UK shale gas investment on target to begin drilling in 2015**

AJ Lucas Group Limited (ASX:AJL) (AJ Lucas or the Company) today announced FY2014 revenue of \$227.9 million (FY2013: \$294.8 million). Following impairment of assets and other significant non-recurring items totalling \$53.7 million, the Company reported a statutory loss of \$91.7 million (FY2013: \$127.0 million).

Results summary	FY2014 (\$'000)	FY2013 (\$'000)	2 nd half 2014 (\$'000)	1 st half 2014 (\$'000)
Total revenue	227,894	294,791	108,022	119,872
Underlying EBITDA	204	3,332	2,728	(2,524)
Reported EBITDA	(5,495)	(19,306)	(2,183)	(3,312)
NPAT	(91,693)	(126,996)	(13,038)	(78,655)
Loss per share (cents)	(34.6)	(97.6)	(4.7)	(29.9)

Russell Eggers, AJ Lucas' chief executive officer and managing director, said:

"While trading conditions were challenging in FY 2014, there were encouraging signs of stabilisation towards the end of the period. The focus during the year was to reduce costs, improve productivity and position AJ Lucas for a return to profit. This resulted in a significant improvement in the Company's financial performance in the second half with underlying EBITDA of \$2.7 million compared to an underlying EBITDA loss of \$2.5 million in the first half."

"Towards the end of FY2014, we announced the restructuring of the Company's board of directors including my appointment as chief executive officer and managing director. As a result, AJ Lucas' Board is well equipped to assist management to improve the operational and financial performance of the Company and hence unlock value for shareholders."

Review of operations

AJ Lucas is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater and resources sectors.



The Company is structured into three principal operating segments:

- **Drilling:** Provision of drilling services to the coal and coal seam gas industries for the degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.
- **Engineering & Construction:** Pipelines and associated construction and civil services including overseas projects in joint venture with a large international partner. The Group is also a market leader in the installation of pipes including using horizontal directional drilling.
- **Oil & Gas:** Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.

Drilling

	FY2014 (\$'000)	FY2013 (\$'000)	2 nd half 2014 (\$'000)	1 st half 2014 (\$'000)
Revenue	94,189	163,359	44,763	49,426
Underlying EBITDA	10,769	23,491	5,614	5,155
EBITDA margin	11.4%	14.4%	12.5%	10.4%

The Drilling division's revenue declined 42.3% to \$94.2 million, due to the division's exposure to the coal industry. Encouragingly however, revenue stabilised in the second half of the year. The measures taken to reduce costs, together with a focus on the Company's core strength of directional (surface to in-seam) drilling resulted in an improvement in the underlying EBITDA margin in the second half to 12.5%.

Engineering & Construction

	FY2014 (\$'000)	FY2013 (\$'000)	2 nd half 2014 (\$'000)	1 st half 2014 (\$'000)
Revenue	133,705	131,432	63,259	70,446
Underlying EBITDA	1,707	(14,585)	3,396	(1,689)
EBITDA margin	1.3%	(11.1%)	5.4%	(2.4%)

Engineering & Construction revenue increased by 1.7% to \$133.7 million supported by demand for more specialised smaller scale works which are better suited to the Company's capability. A renewed emphasis on project execution, and a reduction in the number of legacy projects requiring resolution, resulted in a significant improvement in EBITDA margin in the second half to 5.4%, resulting in a positive underlying EBITDA result for the year of \$1.7million.



Oil & Gas

Following Centrica PLC's farm-in to the Lancashire Bowland licence in June last year, a plan has been developed for the appraisal of this asset. Cuadrilla recently submitted planning applications to the Lancashire County Council for drilling and testing at two well sites which will involve the drilling, hydraulic fracturing and testing of up to four wells at two different sites (Preston New Road and Roseacre Wood).

Cuadrilla expects to commence operational work at the first of these sites in the first quarter of calendar year 2015.

Balance sheet and cash flow

The Company's balance sheet was substantially strengthened during the year following the completion, in July 2013, of a capital raising which raised \$148.8 million in equity and the rescheduling of the Company's residual borrowings. As a result, the Company's working capital improved significantly and the Company had net current assets at 30 June 2014 of \$20 million.

Gross interest-bearing loans and borrowings were reduced by \$31.7 million to \$63.2 million with the debt-to-equity ratio improving to 59%.

Cash outflow from operations amounted to \$8.7 million in large part due to management's focus on reducing creditor arrears from its previously high level. This has resulted in a significant improvement in supplier relations. While this outflow was primarily funded out of the capital raising completed in July 2013, the substantial improvement in cash flow from operations in the second half has also assisted.

The Company had cash and cash equivalents of \$29.3 million available at 30 June 2014.

Outlook

The market is showing signs of stabilising. The Company is tendering for a significant amount of work and has recently secured a number of new drilling projects and clients.

The Drilling division is experiencing a recovery in demand as, in our view, Australian coal exporters need to replenish their reserves after an extended period of exploration restraint. In addition, the Company's considerable knowledge of surface to in-seam drilling in coal operations, coupled with the associated gas drainage expertise, is being increasingly sought out by large domestic and international companies.

The Engineering & Construction division is also tendering for a significant amount of new work and has been shortlisted for a number of projects which are well suited to the Company's capability.

In Oil & Gas, the Company expects to continue its progress towards commercialisation and realising the value in AJ Lucas' investments for shareholders. Following the expected approval of the planning applications for the Bowland well sites, Cuadrilla expects to commence mobilisation for drilling and testing in the first quarter of the 2015 calendar year.



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About AJ Lucas Group Limited

AJ Lucas is a leading provider of specialist infrastructure, construction and drilling services to the energy, water and waste water, resources and public infrastructure sectors. In particular, it is the largest supplier of drilling and gas management services to Australia's coal industry.

AJ Lucas is also a proven developer of unconventional hydrocarbon properties. Current investments include a 45% shareholding in Cuadrilla Resources Holdings Limited, an exploration and production company focused on unconventional hydrocarbons, and direct interests of 18.75% of the Bowland Licence and 25% of the Weald Licence in respectively North West and South East England. Past projects successfully developed and sold include AJ Lucas' investments in the Gloucester Basin in NSW, Sydney Gas Limited, ATP651 in Queensland's Surat Basin and a 6.25% interest in the Bowland prospect.