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**AJ Lucas Group Limited**  
**Results for the six months to 31 December 2015**

- Transformation to profitable Australian business continues
- Focus on overhead reduction, productivity initiatives and securing quality business contributed to an improved underlying EBITDA
- UK exploration activities affected by approval delays

**AJ Lucas Group Limited (ASX:AJL)** announced revenue for the period of \$56.4 million (1H 2015: \$79.4 million). The company's underlying EBITDA improved over 33% to \$8.4 million (1H 2015: \$6.3 million) driven by ongoing productivity initiatives.

Net loss before tax was \$17.9 million (1H 2015: loss \$13.2 million), a small increase resulting from the costs incurred by Cuadrilla Resources to appeal the Lancashire County Council's planning decision.

Six month period ended	December 2015 (\$'000)	December 2014 (\$'000)	Change	June 2015 (\$'000)
<b>Total revenue</b>	<b>56,401</b>	<b>79,429</b>	<b>(29.0%)</b>	<b>145,028</b>
Underlying EBITDA	8,430	6,312	33.6%	9,405
Reported EBITDA	3,128	8,882	(64.8%)	5,274
<b>EBIT</b>	<b>(5,529)</b>	<b>(1,462)</b>	<b>(278.2%)</b>	<b>(20,936)</b>
Net loss before tax	(17,945)	(13,232)	(35.6%)	(45,216)
<b>Loss after tax</b>	<b>(17,945)</b>	<b>(13,232)</b>	<b>(35.6%)</b>	<b>(45,216)</b>
Basic and diluted loss per share (cents)	(6.7)	(4.9)		(16.9)

**Commenting on the half year results, Lucas chairman, Mr Phil Arnall said, "While revenue was again impacted by the subdued activity in the mining and construction sectors the increase in underlying EBITDA is a result of our focus on core capabilities, our cost down initiatives and our ability to secure and deliver high quality contracts of work."**

In conjunction with today's half year results, AJ Lucas also announced that, following the successful completion of the Australian business's turnaround, managing director and chief executive Russell Eggers will be leaving the company on 29 February 2016 to pursue other opportunities.

*"On behalf of the board I would like to thank Russell for his efforts at AJ Lucas. We are sorry to lose him as he has made a valuable contribution to the Group over the past 24 months in a tough market. His support of management has been integral to transforming our Australian operations from a breakeven EBITDA in 2014, to the strong result in 2015, and the \$8.4 million in the first half of 2016."*



In light of Mr Eggers' departure and the tough environment AJ Lucas now operates in, the Board has taken the decision to not replace the chief executive position. For the moment, AJ Lucas' Executive Leadership team of Austen Perrin (CFO), Brett Tredinnick (EGM Drilling), John Stuart-Robertson (EGM Pipelines) and Nicole Macdonald (GM HR), will report directly to the chairman. A further announcement will be made in due course regarding any permanent changes to Lucas' management structure.

### Review of operations

AJ Lucas Group is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater, resources and property sectors. It also engages in the exploration and commercialisation of hydrocarbons.

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:** Construction and civil engineering services including a number of projects in joint venture with a large international partner. The Group is also a market leader in the trenchless installation of conduits and pipes using horizontal directional drilling.
- **Oil & Gas:** Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.

### Drilling

Six month period ended	December 2015 (\$'000)	December 2014 (\$'000)	Change
Revenue	38,060	45,880	(17%)
Underlying EBITDA	6,034	5,383	12%
EBITDA margin	15.9%	11.7%	

As a result of the challenging market conditions and continued capital expenditure reductions by the major coal mining companies, Lucas' revenue experienced a 17% decline to \$38.1 million for the 6 months ended 30 June 2015. Nevertheless the Company's success in winning significant work in the period demonstrates the market confidence in the Group's drilling services, particularly around highly technical projects concerning gas drainage.

Underlying EBITDA margin improved to 15.9%, partly as a result of measures previously taken to reduce costs and re-focus on the Group's core strength of directional drilling. This is particularly pleasing when viewed in the context of depressed coal prices, and reflects the value the market places on the Group's experience.

The Group's proven delivery capability and multi-disciplined technical based service offering positions the Group well to grow when the market starts to recover.



### Engineering & Construction

Six month period ended	December 2015 (\$'000)	December 2014 (\$'000)	Change
Revenue	18,341	33,549	(45%)
Underlying EBITDA	5,401	5,867	(8%)
EBITDA margin	29.4%	17.5%	

The joint venture with Spiecapag Australia continues to deliver value with the completion of a major project at the beginning of the period. No major joint venture contracts were started during the period, however, the joint venture did win a contract prior to the end of the half year with construction expected during the calendar year 2016.

Tendering for small scale infrastructure works remained competitive, however, contracts continued to be awarded and executed efficiently. Engineering & Construction revenue decreased by 45% to \$18.3 million, reflecting timing differences in the award and execution of work.

The underlying EBITDA was down 8% on the corresponding period, however, the underlying EBITDA margin at 29% reflected an improvement in the execution of a major JV pipeline construction project.

The outlook for the Engineering and Construction division continues to improve with the announcement in December 2015 of a new contract with APA Group for the construction of further pipeline looping in Victoria and NSW as part of Northern Interconnect Expansion Project. The project, which is part of APA Group's planned upgrade and expansion of its east coast gas grid in response to the transitioning gas market in eastern Australia, will increase the flow of gas from Victoria and New South Wales. The project will be undertaken by Spiecapag Lucas, which will provide trench excavation, pipe welding, pipe placement and lay-in, surface protection and remediation of the right of way. Construction commenced earlier this month.

### Oil & Gas

In June 2015, the Lancashire County Council ("LCC") development control committee refused Cuadrilla's planning applications for each of two sites, at which Cuadrilla had applied to undertake shale gas exploration and monitoring works including the drilling, hydraulic fracturing and extended well-testing of 4 horizontal wells at each of the two sites. At Preston New Road planning permission was rejected on grounds of noise and visual impact; and, at Roseacre Wood planning permission was rejected on grounds of traffic impact. The refusal of the applications was despite the LCC planning officer's recommendation that the Preston New Road application be approved.

The LCC also refused Cuadrilla's planning applications in respect of the monitoring and site restoration at the Grange Hill exploration site near Singleton in Lancashire also despite the LCC planning officer's recommendation that the application be approved.



The Environmental Agency granted Cuadrilla environmental permits for the proposed shale gas exploration sites at both Preston New Road and Roseacre Wood.

In August 2015, AJ Lucas, Cuadrilla and Centrica reached an agreement on revised terms of the carry and contingent payment arrangement in relation to the Bowland tenement. Further, it was agreed that Cuadrilla would transfer 5% of its interest in the Bowland tenements to AJ Lucas in exchange for a proportionate transfer in the Carry and Contingent Carry entitlement.

In September 2015, Cuadrilla lodged four appeals against the decisions to refuse planning permission for both exploration sites; the monitoring site at Preston New Road; and against one of the conditions imposed on the planning permission for the monitoring array at Roseacre Wood. In addition, Cuadrilla lodged an appeal against the decisions to refuse planning permission at Grange Hill.

Public hearings commenced in Blackpool on 9 February 2016 and are expected to last until mid March 2016. It is expected that the inspector will prepare a report and a set of recommendations which will be forwarded to the Secretary of State for consideration. The Secretary of State for Communities and Local Government has announced that he will determine the outcome on the applications at Preston New Road and Roseacre Wood.

On 23 February 2016, the Planning Inspectorate approved Cuadrilla's appeal in respect of the monitoring and site restoration at the Grange Hill exploration site near Singleton in Lancashire. The permission allows for seismic and pressure testing, followed by well plugging and site restoration

In the period, as part of the UK Government's 14th Round for onshore oil and gas licences, Cuadrilla was offered eighteen new exploration blocks under 8 licences. These licences are located in the South Cleveland Basin and the Gainsborough Trough. Four of the licences were offered to Cuadrilla on a sole basis and four were jointly offered with partner, GDF SUEZ E&P UK Ltd (Engie).

#### **Balance sheet and cash flow**

Gross interest bearing loans and borrowings have increased by \$10.1 million to \$88.9 million predominantly as a result of \$6.9 million in interest charges and \$3.6 million in unfavourable currency translations on US Dollar denominated debt, offset by \$0.4 million in repayments. In addition \$1.4 million in interest charges was incurred on the income tax liability which is subject to a payment arrangement as described in note 8 to the financial statements.

Kerogen has continued to support the company through agreeing to defer all interest payments due on the facility since April 2015 until March 2016, with deferred interest and commitments fees totalling \$8.1 million at balance date. In addition to quarterly interest obligations under the Kerogen facility, principal repayment is due at the expiry of the facility between January 2017 and February 2017.



The Group liquidity has reduced resulting in a current ratio of 0.92:1 (Jun 15 1.07:1) as a result of additional funding in Cuadrilla and the Exploration Assets during the period. Despite the additional funding for the UK investments, together with financing and tax payments of \$5.1 million, cash reserves increased to \$17.1 million (Jun-15 \$15.9 million ) partly due to the deferral of interest and commitments of \$8.1 million. \$8.0 million of cash reserves reflects the company's proportion of funds held in joint venture accounts

Offsetting the exchange rate loss on borrowings of \$3.6 million reported in the results was a favourable currency translation on the UK investments of \$6.4m recognised in equity.

### **Outlook**

The mining and construction sectors are expected to remain challenging in the foreseeable future. The Drilling division will see the completion of a major four year drilling contract in the first half of the calendar year 2016 and will be looking to developing opportunities to utilise existing operating equipment.

The pipeline construction joint venture with Spiecapag Australia was awarded a large project in December 2015 with the project starting and completing in calendar year 2016.

The group remains focused on streamlining further its operational capability and support costs with further efficiencies expected in the coming year.

AJ Lucas continues to address the recapitalisation of its balance sheet. Equity funding is being explored to raise short term cash to support working capital requirements of the business whilst a larger funding strategy is being developed to meet the needs of the Group longer term including meeting its commitments for the Cuadrilla shale gas projects.

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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 wastewater, 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.