



AJ Lucas Group Limited
Annual Review & Sustainability Report
2010

A large, dark blue, stylized graphic that resembles a thick, curved line or a stylized letter 'Q' with a tail that curls to the right. It is centered on the page and overlaps the orange background.

How can we build a sustainable Australia?



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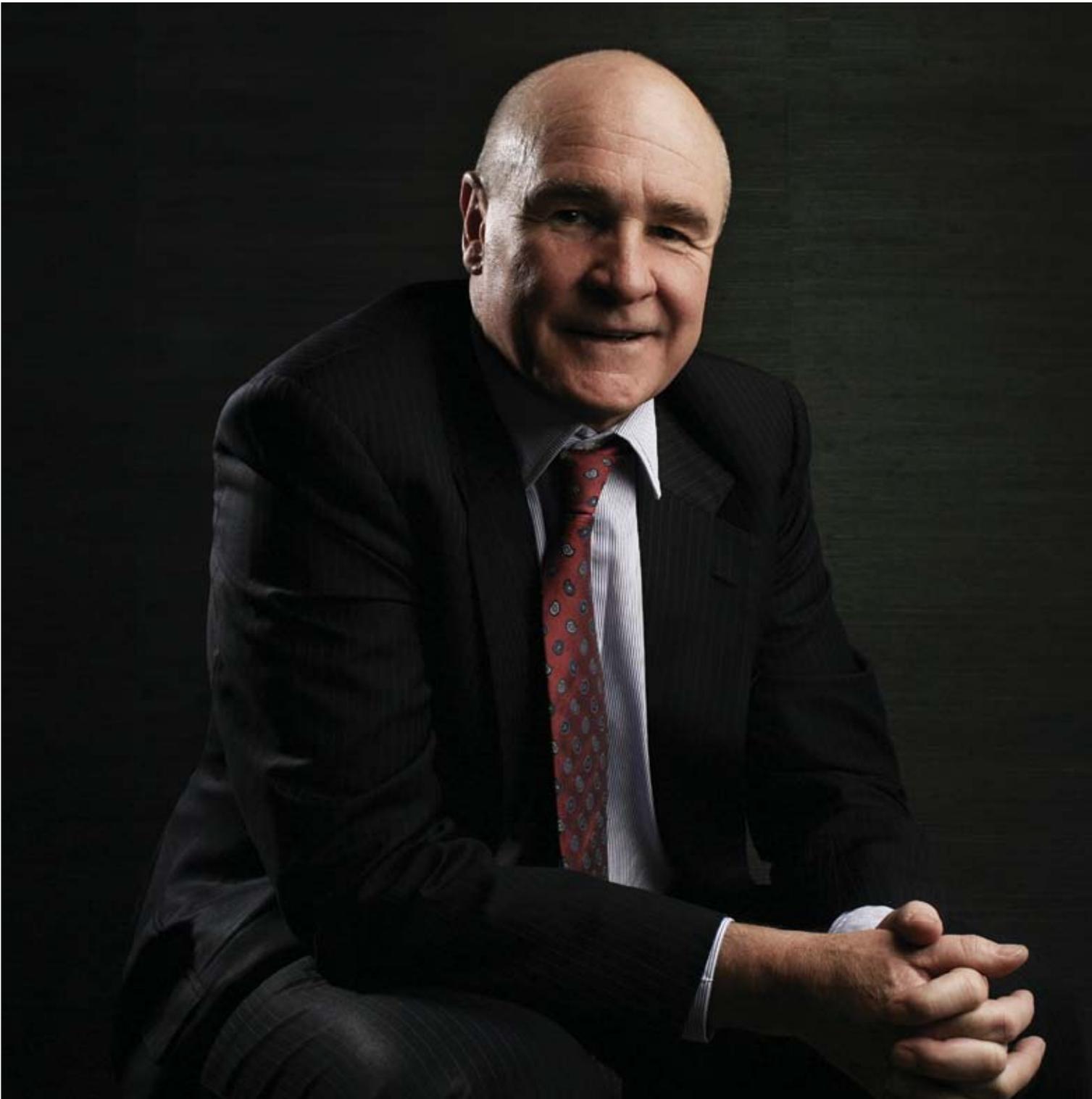
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LEFT A Lucas drilling rig at work. Coal seam gas (CSG) is an ideal 'transition' fuel and its abundance in NSW and Queensland makes it a valuable resource for local use and for export. Lucas is Australia's largest drilling service provider to the coal and CSG sectors and offers Australia's only integrated CSG service from exploration to pipelines.

Allan Campbell, chairman and CEO



The world must change from unsustainable to sustainable.

Lucas intends to be one of the leaders of this change, by designing better solutions and integrating our financial, environmental and social performance.

Dear fellow shareholders,

The past two years have undoubtedly been the most extraordinary and challenging in our company's history. The unprecedented economic and political events in Australia and around the world could not have occurred at a more vulnerable time for us. Together with our own internal growth challenges, they created a 'perfect storm'. The results for 2009/10 are a testament to these circumstances.

We have endured them and emerged a stronger, more resilient, more mature organisation. One that, hopefully, is better equipped to respond to the vagaries and vicissitudes of the marketplace – which can be very tough indeed.

The biggest issue has been depth of management. While we recognised this three years ago, the strong world market for engineering expertise and our distraction by growth and internal issues meant Lucas failed to secure stronger senior management and, in particular, good project management people. Senior management in some cases failed to deliver planned outcomes, compounding the problem.

On the other hand, during the past four years we have substantially escalated the nature, scale and engineering complexity of the projects we undertake. While not a 'Tier 1' size contractor, we certainly undertake that level of work – managed and self-performed by Lucas in a professional, problem-solving, harmonious manner. The projects we undertake are world-class engineering projects.

As the Company continues to grow, our challenge is to retain the core Lucas values – our heart and our soul. We believe the Australian market wants, in the services we provide, a 'big company' offering provided in a 'small company' manner. At Lucas, we do this because we take pride in our work, our clients and each other.

I would like to briefly examine four issues that touch upon the Company, our industry and the country:

1. How did we perform in 2010?
2. What are we trying to achieve at Lucas?
3. The principal strategic initiatives during the next three years: all about our people.
4. The obligations of a corporation regarding sustainability.

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How did we perform in 2010?

There is no doubt the financial result was poor. However this was compensated for by the large one-off gain we made on selling our interest in ATP651 in the Queensland coal seam gas fields.

The poor operating results reflect a mixture of factors, both within and outside our control. The issues are different for our two operating divisions: Drilling Services and Building, Construction & Infrastructure (BC&I).

We believe the issues affecting both divisions, for the factors we can control, have now been effectively addressed.

The **BC&I** division operated in an extremely tough market. Strong competition; property construction almost dead; political uncertainty; lack of confidence in long term capital decision making; delays in projects commencing; capital-constrained clients leading to much tighter budgets; poor payment behaviour by some clients. All this contributed to a very difficult marketplace. On the other hand, we could have helped ourselves by better (and tougher) project management, more rigorous risk management and tighter internal controls. In short, we should have managed our business better.

The twin pillars for Lucas are competence and integrity.

On the positive side, the BC&I division undertook a great deal of work on the Federal Government's BER schools programme, won and began work on the HDD landfall for the Gorgon Project, continued to design, engineer and construct the second desalination plant in Perth and continued with work on the Mortlake, QGP and Moomba to Sydney gas pipelines as well as engineering a number of wastewater facilities. The quality of Lucas work remains high and, as I said earlier, the complexity and scale of projects have escalated substantially during the past three years.

The BC&I result was affected by delays on projects already won, anticipated projects being deferred, project

execution issues, provisions made on projects completed in previous financial years as well as costs incurred in engineering and tendering – particularly for the proposed projects in the Queensland coal seam gas fields.

The **Drilling Services** division operated in a better marketplace than in the previous 'GFC' financial year. But it was still a marketplace that lacked confidence, where a great deal of uncertainty prevailed (particularly following the Federal Government's announcement of the Resource Super Profits Tax and its replacement, the Mineral Resource Rent Tax). A marketplace where clients, in both the coal and oil and gas sectors, were very inward-focused and a marketplace where no long-term decision-making is taking place.

From Lucas' point of view, this was exacerbated by extreme wet weather in February and March (680 drilling days lost), rig utilisation and plant issues resulting from the Mitchell acquisition and residual middle management settling-in issues for the combined drilling business. These factors eroded the margin but the top line remained steady, as it should.

In the Drilling Services division, we focused on management issues. We invested a great deal of time and money in training – the Safety Leaders Forum being a prime example, in our plant (resulting in much less downtime), in management and in systems. We have done a lot of engineering work to develop the most appropriate drilling and completion techniques and equipment for the coal seam gas fields. This includes a joint venture with Xtreme Coil Drilling Corp. of Houston, Texas to design a bespoke hybrid (coil and pipe) rig specifically adaptable for remote, dusty, difficult terrain such as exists in Queensland.

Corporately, we invested heavily in:

- systems, most notably by contracting with Oracle and CSG for a comprehensive enterprise resource planning (ERP) system, scheduled to go live on 1 July 2011;
- management: an organisation and management restructure was undertaken in July 2010 including a comprehensive change of management in the BC&I division;
- our risk management systems have been completely revised; and
- an increased focus on the bottom line has been introduced throughout the Company.

We have continued to invest in and manage our oil and gas investments in the USA and Europe. The philosophy underlying these investments is that during

the next decade we believe there will be considerable demand for transportable liquid fuels, particularly LNG, condensate and oil. Our portfolio was put together on this premise. We have invested in 'unconventional' assets because that is where the best leverage exists – the returns are still high for a smaller investment and because Lucas can better manage the risk by applying our expertise in extraction technologies.

To date, we have almost \$150 million in these investments. We do not plan to invest further; rather we intend to realise some value so our residual interest owes us very little.

Drilling has commenced in Europe and is scheduled to commence in the USA soon. We expect the first results around the beginning of calendar 2011.

Reflecting on the 2010 financial year, I would say that, notwithstanding the poor operating result, we achieved a great deal in the future wealth creation process – a year in which we 'fixed' a lot of things and laid down further, and very substantial, foundations. These efforts should pay off in the next three years; particularly as the Australian economy continues to improve.

What are we trying to achieve at Lucas?

Lucas aims to be a medium-sized, niche-focused, specialist engineering and infrastructure services provider.

Our emphasis is on quality – to be the first choice for clients and employees. We can only do this if we have first-rate people – the most knowledgeable, the most experienced, the most competent; and those with the right value system – people who care: about their work, their clients, their workmates and themselves.

The twin pillars for Lucas are competence and integrity.

From this base and our positioning in the marketplace, we can create a maintainable earnings stream that produces high cash flow and good profits. The diversity of the income streams – both within and across each of the divisions, gives those earnings stability and strength.

It is easy to criticise the efforts of Lucas in trying to achieve these goals in our sectors in a tough marketplace like Australia. I would respond by saying we are trying to create a company which endures. This takes time, and we have tried to do it by spending as little money as possible in order to maximise long-term wealth creation for shareholders.

2010 highlights

While it's been a challenging year, we've continued to strengthen Lucas for the future.

We established Brisbane city and Perth offices and an operations base to support projects in Western Australia.

We've added experienced managers and invested in developing skills in all our people.

We initiated our ERP project, which will dramatically improve information throughout the business.

Key numbers

Revenue (\$m)

358.5

EBITDA (\$m)

52.3

PROFIT BEFORE TAX (\$m)

8.2

TOTAL ASSETS (\$m)

452.1

EBIT (\$m)

24.5

PROFIT (LOSS) AFTER TAX (\$m)

(7.1)

NET ASSETS (\$m)

193.2

Lucas operates in four key sectors of the economy: oil and gas, water and wastewater, resources and public infrastructure. We believe these are key to the immediate future of the Australian economy and the Company has been positioned as a key supplier within these sectors.

Our engineering techniques can provide the infrastructure for our country to continue to develop and help us create a more sustainable business. Our value system is one that provides opportunities for everybody and demonstrates leadership to the

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community. In short, we are creating a company that leaves society a better place for the fact that it exists.

This is what we are trying to achieve at Lucas.

We are also very interested in wealth creation. In fact, we would argue that sustainability and wealth creation are symbiotic. The pursuit of financial outcomes and social outcomes are not mutually incompatible goals.

Our investments use surplus money the Company generates from operations and leverage our deal-making and engineering skills. The intention is to produce substantial asset/wealth creation opportunities in areas where we have specialised knowledge. Our success with the Gloucester and ATP651 investments affirm the merit of this strategy.

Principal strategic initiatives during the next three years: all about people

Our people are the Company's most valuable asset. Yet they don't even appear on the balance sheet!

We have set up a detailed programme for the next three years, designed to complete the creation of the Company as I've described and allow management succession to the next generation of Lucas' leaders.

The strategic initiatives all relate to the development of our people and, therefore, the

business. They are ongoing and part of a managed process by the CEO and the executive management committee (EMC), with a staged introduction that commenced in June this year.

The Lucas strategic initiatives include the following: **The board.** The Lucas board hadn't changed since we listed in 1999. While this has provided stability and continuity during the Company's early development, we felt it was time to alter the board's composition to better suit the next stage of our growth.

We now have four non-executive directors, three of whom are independent, and only one executive director – myself. We intend to continue to refine the board during the next two years to ensure that Lucas has a first-rate, working board; a board that puts the Company first; that provides good, sagacious advice and one that is harmonious and effective.

Training. We are producing a detailed plan to train and upskill everyone in the Company. For our future leaders, we are developing a bespoke programme to develop their skills so they're ready to take over the company's management during the next three years.

The programmes will run in parallel with our traditional competency courses, Safety Leaders Forum and job-related development programmes. They will also fit into the broader organisational development exercise currently being formulated.

Systems and procedures development. The Lucas ERP exercise, named 'Project Cornerstone' in recognition of its critical importance to our future success, was formally initiated in June 2010 after 15 months of planning and analysis. This is integrated with a business process re-engineering exercise to identify, develop and adopt best practices, standardised across the group. The outcomes of these projects will be progressively rolled out over the next two to three years.

The purpose of these initiatives is to create Lucas as a fully integrated 21st century company with ready access to all company information, uniform and effective practices and solid mechanisms to communicate and act. By so doing, the Company will empower its managers. Providing well-trained, good people with high quality information and good leadership is, in my experience, when they start to fly. **Business development.** To achieve our goal of creating a high quality, maintainable revenue stream, we need to further develop our offering of specialist services.

Lucas safety recognised

Lucas was honoured to receive the Australian Pipeline Industry Association's safety award for its vehicle safety work on the Bonaparte Pipeline.

Lucas planning for the project, which involved thousands of truck movements on remote unsealed road, focused on avoiding accidents and being prepared to deal with any that occurred.

Community relations, special signs, escort vehicles and tight driving protocols were all deployed. Ambulances and rescue personnel were ready to roll.

Our readiness extended beyond the project. Lucas teams helped rescue 10 non-project people involved in vehicle accidents in the project area.

We aim to create a group of high quality engineering and project management competencies to provide high-value, niche-focused activities.

By concentrating on specific sectors and leveraging off a high quality, competent, specific engineering capability, we believe we can offer better, more cost-effective services than less-specialised competitors; particularly as the majority of these services are self-performed by Lucas.

We are examining in detail our services and expect to broaden Lucas' activities during the next three years, while remaining focused on our core sectors.

We are preparing for our next stage of growth. While we expect trading conditions to remain difficult over the next twelve months, we believe that Australia and the Company are well placed in the mining, oil and gas sectors to be the beneficiary of sustained Asian growth and the world economy's eventual recovery.

Obligations of a corporation regarding sustainability

In my opinion, a corporation has a very real and definite obligation to leave society as a better place for the fact that it existed. This is not a radical notion; merely an exercise in leadership.

Never, in my opinion, has this been more apparent than now, at the beginning of the 21st century, with social trends to relinquish self-discipline, to lower standards of behaviour, abrogate leadership and avoid responsibility.

Lucas has a definite view of what it wishes to achieve in this area during the next phase of its corporate incarnation.

We believe our focus on infrastructure is inherently sustainable. First, because infrastructure is essential to society. Second, because it enables us to innovate to contribute directly to the sustainability of our nation by designing and creating better infrastructure solutions. Thirdly, as a key component of the Australian economy, infrastructure services allows us to demonstrate in very real and tangible ways the other aspects of sustainability – people, values, environment, attitudes, behaviour.

We were honoured to be judged "Sustainable Infrastructure Company of the Year" in December 2009, recognising in particular the ability of our trenchless and microtrenching techniques to install infrastructure in a safe, unintrusive and environmentally benign way.

The purpose of these initiatives is to create Lucas as a fully integrated 21st century company.

We've been talking and thinking about sustainability here at Lucas for some years. We've held off producing a "sustainability report" for two reasons: we felt we didn't have enough understanding or information to produce a comprehensive report, and we saw many reports that 'ticked the boxes' without offering any real ideas.

The more we learned, the more we were convinced a sustainable vision of business is essential to our future as a company and to our community. We also recognised that many people's view of "sustainability" is narrow and clouded by various political agendas.

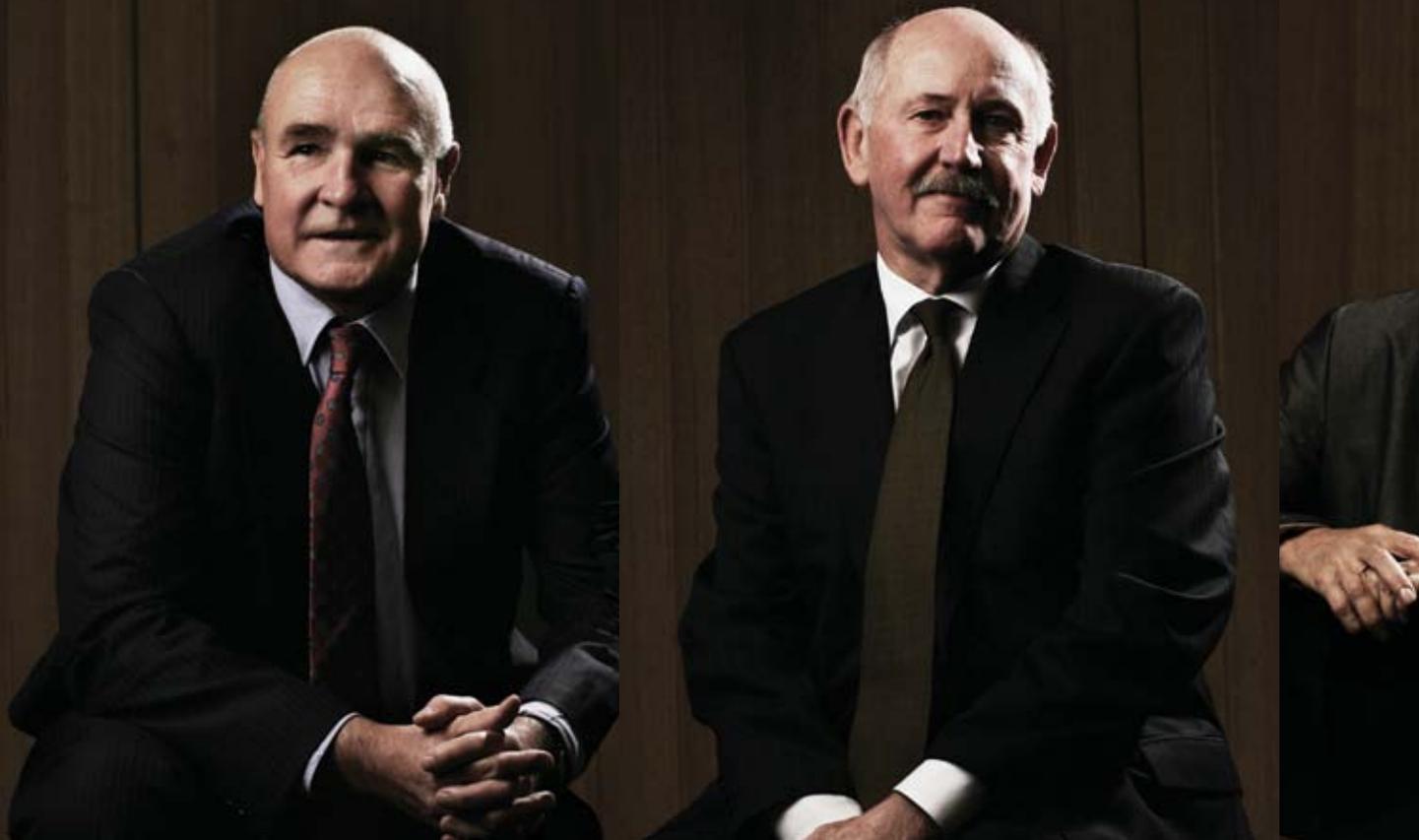
You will notice that we have merged the Annual Report with our Sustainability Report. To us this makes sense. Because creating a more sustainable company should, in our opinion, create a more profitable company.

We have not attempted to measure everything. We can't as yet. This year is a start and we intend to improve each year. We hope you like our new approach.

Finally, I wish to conclude by thanking all staff for their efforts over an extremely tough and challenging two years. I hope that we don't have to go through any like them again. Lucas is about its people and this is where we are focused. We have done a lot of the hard yards by positioning ourselves well in the marketplace and creating a good platform to proceed. Now we have to deliver! I am confident we have the team to do that. To all Lucas people, thank you for your hard work, determination and consideration for what we stand for.



Allan Campbell



Board of directors

Allan Campbell

BCom LLB

Executive chairman & CEO.

After qualifying as a lawyer, Mr Campbell worked for several leading investment banks, initially in Australia and then for ten years in London and New York. During this period, he was given responsibility for corporate advisory and recovery where he gained valuable hands-on experience in the turnaround of distressed companies.

Mr Campbell acquired Lucas in 1995, and listed it on the ASX in 1999. Subsequently, he has been responsible for the Company's strategic direction and has established its position as one of the leading providers of infrastructure, construction and mining services in Australia.

We've renewed our board with three new non-executive directors, farewelling Andy Lukas, Garry O'Meally and Ian Stuart-Robertson, and thanking them for their hard work since the company's listing.

Phil Arnall

BCom

Independent non-executive director.

Mr Arnall has had a distinguished thirty year career in the mining and steel industries including senior executive responsibility at Smorgon Steel Group, Tubemakers and ANI Limited.

He is currently chairman of Ludowici Limited (since 2003) and a non-executive director of Bradken Limited since 2002 and Macquarie Generation since 2009.

He was chairman of Capral Limited from 2002-2010.

He is a member of the Company's Audit and Risk Committee.



Genelle Coghlan

BCom LLB LLM

**Independent
non-executive director.**

Ms Coghlan has many years of business and finance experience domestically and internationally. After qualifying as a lawyer, she established a successful tourism business overseas. Following the sale of this venture, she became the managing director of a company making technical textiles with applications in the mining, water and construction industries.

She is currently president of Composites Australia Inc. She is also a member of the Company's Audit and Risk Committee.

Martin Green

FCA

**Independent
non-executive director.**

Mr Green is a Fellow of the Institute of Chartered Accountants and an official liquidator of the Supreme Court of NSW. He has been in public practice for 37 years, mainly specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels.

He is currently a principal at BRI Ferrier (NSW) Pty Ltd Chartered Accountants, a former honorary director/treasurer of the National Trust of Australia (NSW) and has served at various times in many public roles and capacities.

Mr Green also serves as Chairman of the Company's Audit and Risk Committee.

Mike McDermott

AdvDip Drilling Management

Non-executive director.

Mr McDermott has worked in the drilling industry since 1963. In 1970 he established McDermott Drilling in Sydney, growing it to the State's largest drilling company over the next 36 years.

Lucas acquired McDermott Drilling in 2006, retaining Mike to integrate McDermott's with the rest of the Lucas drilling business.

He is a director of both the Australian Drilling Industry Association (ADIA) and the Australian Drilling Industry Training Committee (ADITC) and is the director representing the drilling industry on the Resources and Infrastructure Industry Skills Council (RIISC).

He is a member of the Company's Audit and Risk Committee.





We have an obligation to make a difference.

Until recently, the notion of sustainability for business was absurd. Companies had only to mobilise capital, add labour and distribution systems and wealth was generated.

19th and 20th century riches came from freely available minerals, agriculture, manufacturing, or plundering, opportunistic empires. We had not heard of 'peak oil' and the word 'sustainability' was not in the business lexicon.

Yet, the best business enterprises of quieter times had some of the qualities described today as 'sustainable'. They looked after people and took an active role in the community – putting back as well as taking out. There were company towns, from BHP's Broken Hill to John Cadbury's Bournville ("the town that chocolate built"). Built-to-last companies provided housing, markets, libraries, churches and entertainment. Banks acted as enabling enterprises to facilitate and factor global trade.

But, almost overnight it seems, Australia and the world are teetering on the brink of disaster. The “carrying capacity” of our country is being questioned in a great population debate. Increasing droughts, diminishing water supplies, energy constraints and crumbling infrastructure are running up against global warming to create a tipping point.

Climate scientists, including Australian of the Year, Professor Tim Flannery, say that, despite our best efforts, the world will pass the point of no return within 10 to 20 years.

And over the next 40 to 90 years, humanity is likely to exceed, by 100 percent, the capacity of the earth to supply our needs (“biocapacity”), resulting in widespread starvation. This is already underway.¹

As the world’s driest inhabited continent with the impact of rising temperatures on drought arguably clearer here than anywhere else, Australia is the “canary in the climate-change coal mine”² where temperatures are expected to rise at least 2°C above pre-industrial levels, causing heatwaves, stronger cyclones, coral bleaching and rising sea levels.³

Professor Flannery gives Australia 30 or 40 years to take major action to avoid catastrophe.

Jared Diamond, who studied the destruction of civilisations in his book *Collapse*, says “political leaders in almost any society, primitive or sophisticated, have little incentive to address problems that are unlikely to manifest themselves for 100 years or more.”

Without question we are between two states – our current, ultimately unsustainable, approach, and the opportunity to recast our society and our business structures for a sustainable future. This interregnum could be a time of doom, or an open door into a brave new world wherein lies renewed opportunity. We have a brief moment in time to pause, think, repair and start again.

Both at home and offshore, Australian companies are well-placed to assist in this transformation, through our construction skills, our technological innovation, and our natural resources. The greatest of those resources may turn out to be our creativity. And the driver of it all may well turn out to be “sustainability”.

For corporate Australia, sustainability can remain a “greenwash” or public relations buzz- »

Political leaders in almost any society, primitive or sophisticated, have little incentive to address problems that are unlikely to manifest themselves for 100 years or more.

Jared Diamond, in his book *Collapse*.

The world must change.

We can lead.

Or we can follow.

2040

A sustainable future
No-one knows what it will look like. But it presents opportunities.

2010

Unsustainable
Many of the resources our economies and lives depend on are threatened in one way or another.

Water is critical to sustaining the nation. Lucas has expanded its water capabilities to include treatment, transport and irrigation.

SSWA – WA desalination plant

Lucas is a member of the alliance that's delivering the Southern SeaWater desalination plant for Water Corporation. It will give Western Australia 50 gigalitres



per year of non-climate dependent water, with capacity for expansion to 100 GL. The plant combines high-rejection and high-production membranes to dramatically reduce the energy consumption per litre of desalinated water.

Water recycling schemes

Lucas is working with several water authorities around Australia developing projects to reuse over 25GL of treated wastewater currently going to ocean outfalls.

These projects will assist local economies by supporting new industries and will improve the local environment through reduced ocean discharges.

For Lucas, this shows our future direction: working with local communities and governments on projects that deliver environmental, community and financial results.

Water treatment and infrastructure

Lucas has worked on a number of projects over the year: Southwest Rocks water recycling plant; Dungog clear water tank and Anna Bay reservoir for Hunter Water; Flowerdale sewer pumping station and rising main for Wagga Wagga City Council and five fluoridation plants for Rous Water.

WORKING AROUND AUSTRALIA Lucas now has offices and operational bases in Sydney, Brisbane, Perth and regional centres.



Irrigation

With the acquisition of on-farm irrigation specialist Australian Water Engineering, we've added the skills and experience to carry out the full range of irrigation work, from major backbones to on-farm projects.

word, or become a byword for change, provided our policy-makers and business leaders take action quickly.

For the most successful, visionary companies, it means taking sustainability seriously as part of their DNA. It's not a matter of balancing one aspect off against another, but of integrating all aspects of business.

Change 'good to great' to 'built to last'

In *Built to Last*, Jim Collins and Jerry Porras talk of visionary companies living with ambiguity, accepting paradox and avoiding what they call "the tyranny of the OR" which pushes business to believe that things must be either A or B, but not both.⁴

Many great businesses started life with a charter to build great enterprises. For example, ICI's original mission statement described its ideal of becoming the world's leading chemical company "through the innovative and responsible application of chemistry and related science for the benefit of mankind".

By 1991 the mission statement read, "ICI intends to be the industry leader in creating value for customers and shareholders through a world-competitive cost base." Private equity players took over ICI in 2007.

Boeing went from "eating, breathing and sleeping the world of aeronautics" in the words of one chief executive, to being a "value-based environment where unit cost, return on investment and shareholder return are the measures by which you'll be judged," in the words

“The balance between profits and sustainability is a bit like the balance between profits and safety – you need to have both. Companies cannot have double standards about this.”

Leigh Clifford

of another CEO. Soon after this switch in focus, Airbus stole Boeing’s lead in civil aviation.

Successful leaders know that the higher purpose of a business is to meet a human need. If a business achieves its purpose in a way which can be reproduced indefinitely, it is said to be sustainable. Visionary companies pursue a cluster of objectives, of which making money is only one. Paradoxically, they often make more money than purely profit-driven companies.

Veteran oil and gas chief executive Don Voelte of Woodside agrees. He says that “some

day soon” the corporate “director of sustainability” will be the chief executive officer.

“Chief executives of the future will need to be smarter, broader and more sensitive to possible impacts on society versus drive to get oil and gas out of the ground.”

“Various roles were created within energy and resources companies to manage ‘sustainability’ as an issue: environmental, community relations and government liaison managers.”

“Over time we realised these were not different actions, but that greenhouse gases, the environment, community and so on were all part of same thing and were an integral part of a package,” Voelte says. “It is now about sustainability in a business sense. You not only need to be strong in oil and gas good community relations, but also be good business person, able to balance economics with social issues.”

Voelte says the sustainability journey is becoming more difficult as it proceeds. “If you don’t take account of sustainability, you will be out of business in a flash.”

Population, water and other red herrings

Business leaders favour more people, either to meet temporary skills shortages or to expand the market for their increasing production of goods and services. But what’s good for business might not be good for the economy. An increasing gross domestic product (GDP) only helps us if we are achieving a higher national income per person, or greater individual prosperity. »

Lowy Institute international economist Mark Thirlwell says the question to ask is: “If our GDP per capita is going up but only 10 per cent of the population is benefitting, are we a successful society?”

“When growth advocates talk about sustainable population or sustainable growth, they fail to see that population, or growth, are a means to an end, not an end in themselves. We need to take into account the environmental effects and the sustainability effects. We need

to look past crude GDP statistics and look at such metrics as the decline in non-renewable resources, or pollution measurements. Who are the winners and who are the losers?”

Another pressure contributing to an unsustainable Australia is demographics. We are in for a shock when the ratio of retirees to workers catches up with the economy. We have too little tax to fund the retirement of the Baby Boomers when congestion and under-resourcing of infrastructure is causing our cities to break down.

KPMG’s demographic expert Bernard Salt says the issue is not shortages of water and energy, but how technology and ingenuity can be brought to bear on climate change and environmental issues.⁵

“The problem is the debate has been entirely framed as it’s either prosperity and growth or the environment. But it is both. I think we have ingenuity in Australia to go forward while managing a modest rate of growth.”

“While companies are not responsible for all the world’s problems, each company can identify the societal problems it is best equipped to resolve and from which it can gain the greatest competitive benefit.”

Michael Porter

Licence to operate

The fundamental change in the way business is conducted in the 21st century, the Century of Sustainability, is that leaders now know that massive change is under way and if the landscape changes dramatically they need to be able to move with that change.

Companies are engaging their communities and taking care, in the words of former Rio Tinto CEO Leigh Clifford, “that we don’t create a land of prosperity in a sea of poverty. The community has to get something out of it as well. The balance between profits and sustainability is a bit like the balance between

profits and safety – you need to have both. Companies cannot have double standards about this.”⁶

Some Australian energy and water companies are adopting huge water recycling and coal seam gas projects in order to future-proof their enterprises.

Management expert Michael Porter says that while companies are not responsible for all the world’s problems, nor do they have the resources to solve them all, each company can identify the particular set of societal problems that it is best equipped to resolve and from which it can gain the greatest competitive benefit.⁷

Creating shared value will lead to self-sustaining solutions that do not depend on private or government subsidies.

Brad Mills, CEO of minerals and metals producer Lonmin (formerly Lonrho), says companies need to earn the right to operate in society: “If you become divorced from your communities, it is potentially quite dangerous and threatening because corporations have no sense of loyalty any more and communities have become increasingly hostile to business.”⁸

Professor Andrew Kakabadse of the UK’s Cranfield University School of Management emphasises that organisations set up to achieve commercial objectives from their very beginning had the aim of benefitting the community. “It wasn’t shareholder value and head-long pursuit of profits that drove organisations and businesses when they were set up several hundred years ago – it was ‘the common weal’, or the common good,” he says.⁹

Ray Anderson, CEO of Interface, has proven there is plenty of up-side in sustainability:

“The status quo is a very powerful opiate and when you have a system that seems to be work- »

Infrastructure *sustains our economy and community. Lucas works on a diverse range across the country.*

A new operations centre for Sydney Ports



The centre includes a variety of elements to reduce energy use: rooftop solar panels, rainwater harvesting, automatic louvres and multi service chilled beams.

Social housing in Sydney and Orange

Lucas has worked on social housing projects for City West Housing in Sydney’s Pyrmont and Zetland, and in Orange, NSW.

Enabling medical research



Lucas completed a “PC2” laboratory for the Woolcock Research Institute, whose building we refurbished two years ago.

Keeping us entertained

We completed refurbishment works for longtime client the Sydney Opera House as well as a variety of projects for Star City.

Building the Education Revolution

We’re building over 50 projects across the north east of NSW under this federal programme. The projects use thousands of local workers and sub-contractors, including 30 indigenous apprentices we’ve employed.

WE’RE COMPLETING BUILDINGS FOR THESE SCHOOLS



There are noble fortunes to be made in the transition to sustainability.

It's not just the right thing to do, it's the smart thing to do.

Ray Anderson

ing and producing profits by the conventional way of accounting for profits, it's very hard to make yourself change. But we all know that change is an inevitable part of business. Once you have ridden a wave just so far, you have to get another wave. We all know that. For us, becoming restorative has been that new wave and we have been riding it for 13 years now. It's been incredibly good for business.”¹⁰

This interregnum presents a period of opportunity. Once the world sets a price on carbon, a tsunami of money will certainly flow into new ways of creating low-polluting energy and rebuilding infrastructure. “Green tech” is already starting to look like a new tech boom, with an estimated \$350 trillion to be spent globally in the next 30 years on the construction, operation and maintenance of infrastructure, including energy production and distribution, residential and commercial buildings, water and waste systems, roads and transportation and supporting information and communications technologies. 

This essay was written following interviews with demographer Bernard Salt of KPMG, international economist Mark Thirlwell of the Lowy Institute, Professor Andrew Kakabadse of the School of Management at Cranfield University in the United Kingdom, Woodside chief executive officer Don Voelte and also refers to the following books and reports:

- 1 *Now or Never* (Atlantic Monthly Press), *The Weather-Makers and Here on Earth* (Text Publishing), by Tim Flannery and *Fast Forward*, by William Antholis and Strobe Talbott (Brookings Institution).
- 2 National Water Commission chairman Ken Matthews, quoted in *A 'sunburnt' country battles drought* (Craig Simons, Cox News Service, November 6, 2007).
- 3 Inter-governmental Panel on Climate Change report, Chris Patten in *What Next? Surviving the 21st Century* (Allen Lane).
- 4 *Built to Last*, by Jim Collins and Jerry Porras (HarperBusiness Essentials).
- 5 *The Big Shift* and *The Big Picture*, by Bernard Salt (Hardie Grant Books).
- 6 *The Secrets of CEOs*, by Steve Tappin and Andrew Cave (Nicholas Brealey Publishing).
- 7 *ibid.*
- 8 *ibid.*
- 9 *Leading the Board*, by Andrew and Nada Kakabadse (Palgrave Macmillan).
- 10 Interviewed for *Green Living Online* June 2008.

Energy Moving to lower-carbon gas and reducing the atmospheric impact of coal mining are key areas for Lucas.

Gorgon Project

Australia's largest energy project, developing gas fields off Western Australia and piping the gas to Barrow Island for processing and LNG conversion.

As a unique landscape and Class A nature reserve, protecting the island's ecology is a key challenge. Lucas' role is the critical shore crossing, which traverses North Whites Beach.

Lucas' expertise in horizontal directional drilling (HDD) is the key to minimising the risk of this. By taking the pipes deep underground, the landscape and its occupants won't be disturbed.

Coal seam gas drilling

Lucas continues to have the country's largest fleet of CSG drilling rigs, covering exploration, production and workover for this growing energy resource, developing the most practical and abundant interim replacement for coal.

Lucas Xtreme

Lucas has partnered with North American firm Xtreme Coil Drilling to introduce a faster, more efficient way to drill for coal seam gas. By using continuous coil drill pipe instead of traditional jointed pipe, drilling can proceed without the delays of pipe jointing. Less waste, less energy, less risk.



Queensland Gas Pipeline expansion

Lucas completed this project for Jemena to increase the pipeline's capacity by 73%.

Moomba-Sydney Pipeline expansion

The Moomba to Sydney gas pipeline is one of the country's most important, carrying gas 2,029km since 1976. To keep the pipeline meeting future energy needs, Lucas has been working with APA group to increase the pipeline's capacity.

Marais-Lucas

Our joint venture with Groupe Marais, French leaders in automated pipeline installation, has expanded this year, with the addition of machines designed for close-quarters urban work and large-scale cross country pipelines and electrical cables.



Our commitment to sustainability*

Oil, the atmosphere, our climate, phosphate, water, the world's fisheries – many of the resources our economies and lives depend on are threatened in one way or another. Worldwide, we're re-thinking our priorities and redefining economic and social 'success'.

The world is changing – must change – from unsustainable to sustainable.

This change will take the next 30 to 50 years. Lucas intends to be among its leaders.

We believe our business is inherently sustainable, because our innovations contribute directly to the nation's sustainability by designing and creating better infrastructure solutions.

We've had some success already, including recognition as the Sustainable Infrastructure Company of the Year in 2009.

These pages highlight key elements of Lucas' sustainability and set some benchmarks to measure our future progress.

* **G3** All information is coded with its category under the Global Reporting Initiative's G3 guidelines. For more details, visit www.lucas.com.au

Economic

The economic side of sustainability is often overlooked. Working in energy, water and infrastructure, Lucas' activities are central to sustaining our economy.

680

DRILLING DAYS LOST

As much of our work is weather-dependent, climate change can directly affect our productivity. Unusual rainfall patterns in Queensland earlier in 2010 lost us some 680 drilling days.

EC2

Climate change = opportunity

The need to reduce carbon emissions will accelerate the development of coal seam gas, as a lower CO₂ energy resource. Efforts to improve water usage will lead to opportunities for our water treatment, pipeline and irrigation work. Lucas is well-placed to build its business under climate change.

-50%

CO₂ PRODUCED BY GAS-FIRED ELECTRICITY GENERATION COMPARED TO COAL-FIRED

EC5,6,7

We have an active policy of hiring locally and using local suppliers wherever they can meet our quality and delivery requirements. In practice, we engage local suppliers on virtually all projects, leaving every community we touch better off.

Think global

EN3 Total primary energy consumed by Lucas

6,073,513
LITRES OF DIESEL

222,985
LITRES OF PETROL

217
MWH OF ELECTRICITY

Environmental

Our work often puts us in fragile environments, with tight protocols governing our work.

EN5

More efficient lighting and air conditioning, solar-boosted hot water, solar-rated glass and sunshades all reduce the building's energy consumption and environmental impact.



greenhouse stars for our new head office

EC8

Smart infrastructure – the kind Lucas builds – is built economically, with minimal social and environmental impact.

Infrastructure sustains our business, our society, our economy

EC9

Our work directly supports Australia's energy and water infrastructure, so has diverse indirect economic impacts. Some key examples are our work on desalination and water recycling plants which will help relieve pressure on water supplies.

50

GIGALITRES OF WATER PER YEAR
The initial capacity of the SSWA Desalination Plant

EC9

Lucas now has offices and projects around Australia. Our gas, CSG and coal de-gassing work contributes directly to delivering lower-emission energy to Australia.



ly. Act locally.

G3 All information is coded with its category under the Global Reporting Initiative's G3 guidelines. For more details, visit www.lucas.com.au

EN6

Three Hundred Years

WORTH OF NATURAL AND COAL SEAM GAS RESOURCES IN AUSTRALIA IF HARVESTED AT THE CURRENT RATE, ACCORDING TO THE AUSTRALIAN PIPELINE INDUSTRY ASSOCIATION.

EN11-14

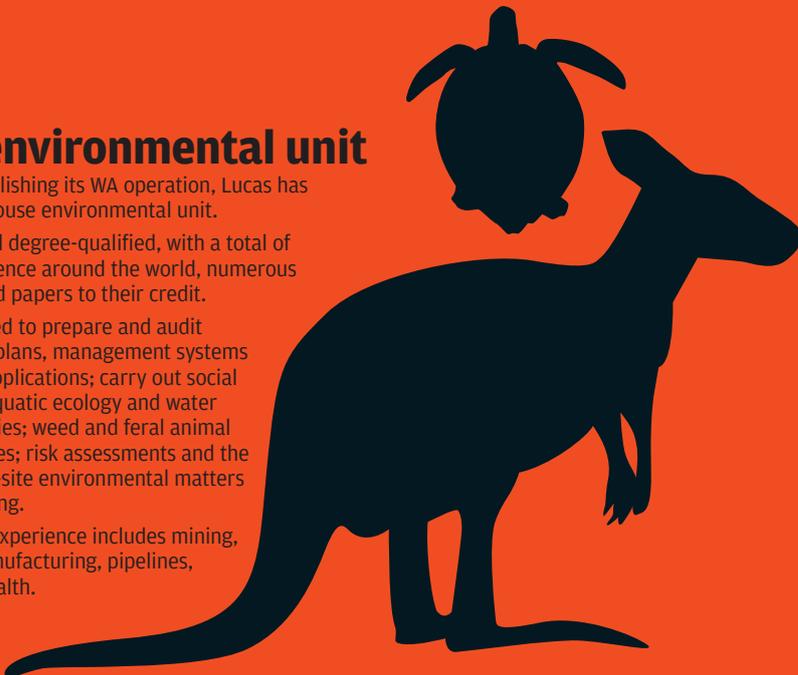
Lucas environmental unit

As part of establishing its WA operation, Lucas has created an in-house environmental unit.

The team are all degree-qualified, with a total of 55 years experience around the world, numerous publications and papers to their credit.

They're equipped to prepare and audit environmental plans, management systems and approval applications; carry out social assessments, aquatic ecology and water catchment studies; weed and feral animal control strategies; risk assessments and the full range of on-site environmental matters as well as training.

Their industry experience includes mining, oil and gas, manufacturing, pipelines, aviation and health.



EN15

The green turtle, *Chelonia mydas* and the Barrow Island euro, *Macropus robustus*, are listed on the IUCN Red List.

85

EN10

GIGALITRES PER YEAR

is the capacity of Queensland's Western Corridor recycled water project, which Lucas helped build. We currently have projects in planning that will recycle 25 gigalitres of water per year. All will turn wastewater into a valuable resource. Our packaged treatment plants make local water treatment and recycling practical in a huge range of situations.

EN11

The cost to wrap a crane in plastic for shipment to Barrow Island to meet the stringent quarantine requirements

\$65,000

Social

Our approach to this starts with first principles: a company must be concerned about the society it shares with its customers and employees. Society provides the legal framework that allows it to exist. If all you do is take, you'll end up with nothing.

We need to work to integrate commercial and social outcomes to strengthen our community and, thus, our business.

EN26

The Marais-Lucas Cleanfast microtrencher is capable of cutting up to 600m of trench daily at 90-130 mm wide and up to 500 mm deep. It enables fast installation of broadband and other infrastructure with minimal environmental disturbance and minimal risk to the community.

90mm

Human Rights

As an Australian company, the human rights elements of the GRI measures are largely covered by our compliance with Australian laws. For discrimination, we have a simple policy:

We don't discriminate. Against anyone, for anything.

EN21,22

Lucas has developed its capabilities in water recycling. On our drilling sites, our mud treatment systems enable us to continuously reuse expensive drilling fluids. Our packaged treatment plants enable on-site recycling.

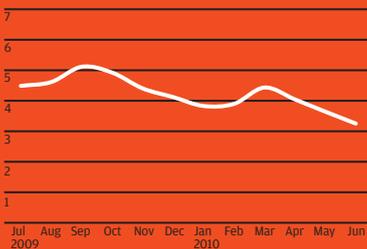
Our activities also produce construction waste and office waste. Disposal is by water authorities for wastewater, and by licensed waste contractors for all other waste. Office paper, lubricants and hydraulic fluid are recycled where possible.

We're currently developing systems to get more detailed analysis of wastes and evaluate more effective reclamation, recycling and disposal systems.



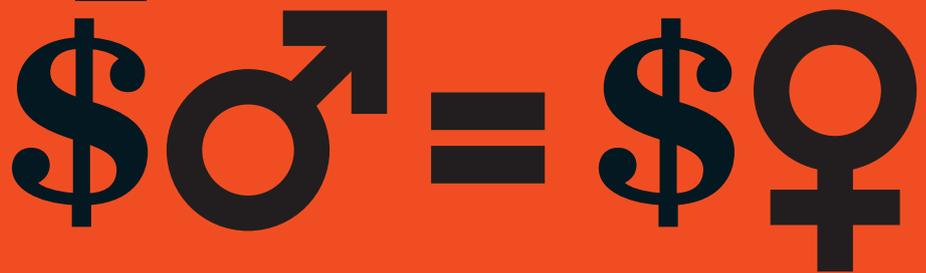
LA7

LOST-TIME INJURY FREQUENCY RATE (LTIFR)



Lucas has put a lot of work into safety this year. A Safety Leaders' Forum, new safety management and focused training and programmes across the company have helped lower the group's lost-time injury frequency rate, shown above. We ended the year with a rolling average LTIFR of 3.2, which compares well with the average LTIFR for Office of Federal Safety Commissioner scheme projects of 9.36 and non-scheme projects of 11.58 (for the six months to Dec 09, the most recent data available). We'll continue to work hard at this. Our goal is nil.

LA14



LA10

Lucas has put a big emphasis on training this year, particularly in our Drilling Services division. In all, over 2500 units of competency were completed in trade skills and management, with the following qualifications awarded:

91 **44** **58** **8**

CERTIFICATE II

CERTIFICATE III

CERTIFICATE IV

DIPLOMA



LEFT The teeth of Marais Lucas' Sidecut microtrencher, about to bite into an international airport's tarmac to install new lighting cables. Our Cleanfast and Sidecut machines were ideal for this project, which needed to be completed, ready for aircraft traffic, during the airport's night-time curfew. Speed, safety and flexibility make these ideal for installation of power, telecommunications, gas and water pipelines and conduits.

AJ LUCAS GROUP LIMITED ACCREDITATIONS



During 2010, Lucas was accredited by the Office of the Federal Safety Commissioner, qualifying Lucas as a head contractor for projects funded by the Australian government.



Lucas is certified by Bureau Veritas for:
 AS/ANZ ISO 9001:2008 Quality
 AS/NZS 4801:2001 OH&S Management
 OHSAS 18001:2007 OH&S
 AS/NZS ISO 14001:2004 Environment

2009 SUSTAINABLE INFRASTRUCTURE COMPANY OF THE YEAR



CREDITS

EDITING & MANAGEMENT
 Vox Populi Communications
 DESIGN & PRODUCTION
 de Luxe & Associates
 SITE PHOTOGRAPHY
 Richard Glover
 BOARD PHOTOGRAPHY
 Andrew Quilty

SPECIFICATIONS

PRINTED BY
 Green & Gold Printing
 using soy-based inks.
 PAPER Mohawk Via
 Bright White Smooth.
 Contains 30% recycled
 post-consumer waste
 plus pulp from well-
 managed forests.
 Produced with
 wind-generated
 electricity.

