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AJ Lucas reports EBITDA of \$5.3m, up 196%

- **Significant improvement in operational and financial performance**
- **Focus on overhead reduction, productivity initiatives and securing quality business contributed to an improved underlying EBITDA**
- **Better positioned should a market recovery occur**

AJ Lucas Group Limited (ASX:AJL) announced an improved underlying EBITDA of \$9.4 million, up \$9.2 million or 4510% on the previous year (FY2014: \$0.2 million), on consolidated revenue of \$145 million (FY2014: \$227.9 million).

Following impairment charges totalling \$5.9 million and higher finance costs of \$26.2 million, the company's reported loss after tax improved by 51% to \$45.2 million (FY2014: loss of \$91.7 million).

Results summary	FY2015 (\$'000)	FY2014 (\$'000)	2 nd half 2015 (\$'000)	1 st half 2015 (\$'000)
Total revenue	145,028	227,894	65,599	79,429
Underlying EBITDA	9,405	204	3,093	6,312
Reported EBITDA	5,274	(5,495)	(3,608)	8,882
EBIT	(20,936)	(77,816)	(19,474)	(1,462)
Reported NPAT	(45,216)	(91,693)	(31,984)	(13,232)
Total assets	231,268	255,987	231,268	238,129
Net assets	79,493	107,482	79,493	101,632
Statutory loss per share (cents)	(16.9)	(34.6)	(12.0)	(4.9)

Russell Eggers, AJ Lucas' Chief Executive Officer and Managing Director, said:

"Trading conditions remained challenging throughout the year, particularly for the Drilling division in the mining and materials sector. Despite no indication of material improvements in market conditions in the near term, we continue to win significant production related work in the underground coal sector, demonstrating our expert knowledge and ability to operate in highly technical projects concerning gas drainage."

"The Engineering & Construction division substantially completed two major projects in partnership with Spiecapag Australia during the year, including the construction of the 300km Eastern Goldfields Pipeline in WA."

"In the UK we were disappointed with the Lancashire County Council's decision to refuse Cuadrilla planning consent. We will now work with Cuadrilla to progress the appeal submission as we strongly believe in the long-term value to all stakeholders of this project."



Review of operations

AJ Lucas is a leading provider of pipelines, specialist infrastructure, construction and drilling services to the energy, water and wastewater, resources and public infrastructure sectors.

The company is structured into three principal operating segments:

- **Drilling:** Provision of drilling services to the coal industry for the degasification of coal mines.
- **Engineering & Construction:** Construction and civil engineering services including a number of overseas 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 and Australia.

Drilling

	FY2015 (\$'000)	FY2014 (\$'000)	2nd half 2015 (\$'000)	1st half 2015 (\$'000)
Revenue	83,545	94,189	37,665	45,880
Underlying EBITDA	9,398	10,769	4,016	5,383
EBITDA margin	11.2%	11.4%	10.7%	11.7%

The Drilling division continued to experience subdued market conditions and reductions in exploration expenditure by the major coal mining companies. Divisional revenue for the year declined 11.3% to \$83.5 million, reflecting an ongoing contraction in the exploration market. During the year the company continued its success in winning significant work in the underground coal production sector, demonstrating the market's continued confidence in the Group's drilling services, particularly around highly technical projects concerning gas drainage.

Underlying EBITDA decreased by 12.7% to \$9.4 million, partly due to measures previously taken to reduce costs and re-focus on the Group's core strength of directional drilling. However, this result is particularly pleasing when viewed in the context of depressed coal prices, and it 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

	FY2015 (\$'000)	FY2014 (\$'000)	2nd half 2015 (\$'000)	1st half 2015 (\$'000)
Revenue	61,483	133,705	27,934	33,549
Underlying EBITDA	8,578	1,707	2,711	5,867
EBITDA margin	14.0%	1.3%	9.7%	17.5%

The Engineering & Construction division reported revenue of \$61.5 million, a decrease of 54% which reflect the timing differences in the award and execution of work, substantial completion of two pipeline projects including the construction of the 300km Eastern Goldfields Pipeline in WA in partnership with Spiecapag Australia, and a focus towards smaller non-joint venture drilling and construction projects compared to last year.



Underlying EBITDA increased substantially from the comparative period to \$8.6 million, reflecting the positive impact of the divisional restructuring, greater focus on the division's core skill capability of pipeline construction and well managed joint venture projects from a renewed emphasis on project execution and cost control. A reduction of legacy projects requiring resolution also benefited the business helping deliver a reported EBITDA of \$7.3 million.

Oil & Gas

A decision by the Lancashire County Council ("LCC") on Cuadrilla's planning applications to drill, fracture and flow test two wells in the Bowland Basin, at Preston New Road and Roseacre Wood, was initially expected to be made at the end of January 2015. Following the Council's Planning Officer's recommendation to the LCC Development Control Committee that the Preston New Road application be refused on the grounds of night time noise and that the Roseacre Wood application be refused on the grounds of noise and traffic concerns, Cuadrilla submitted additional information detailing further mitigation measures to address these concerns.

Importantly, the Council's Planning Officer concluded that Cuadrilla's applications were satisfactory in all other respects, including *"impacts on air quality, archaeology & cultural heritage, greenhouse gas emissions, community and socio-economics, ecology, hydrogeology & ground gas, induced seismicity (including subsidence), land use, landscape & visual amenity, traffic (with respect to the Preston New Road site), resources & waste, water resources or public health (except for noise)"* would be low or could be mitigated and controlled by condition to make them acceptable."

In February 2015 separately, following an extensive review, the Environmental Agency granted Cuadrilla the environmental permits for its proposed shale gas exploration site both at Preston New Road and Roseacre Wood.

On 12th February 2015, the Infrastructure Act became law. This Act simplifies procedures for the onshore oil, gas and deep geothermal industries to access underground reserves and so makes it easier for companies to drill for shale gas. The Act also makes it a principal objective of the government to maximise the economic recovery of UK petroleum.

While the Act sets out certain conditions prior to approval to drill for shale gas, these are considered to be standard industry practice and met by Cuadrilla's planning and work practices. Separately Cuadrilla submitted multiple bids in the UK's 14th onshore licensing round. The UK Government is expected to announce the awards in the second half of calendar 2015.

In June 2015, the LCC's Planning Officers recommended that the LCC grant planning consent for the application at Preston New Road. Despite the recommendation from the Council's Planning Officer, the LCC denied planning consent for the application to explore for shale gas at Preston New Road, and also denied planning consent for the application at Roseacre Wood, based upon a negative recommendation by the Council's Planning Officers.

In July 2015, Cuadrilla announced it will appeal LCC's decisions to refuse planning consent for two applications for temporary shale gas exploration sites. Cuadrilla also announced it will be appealing the refusal of a separate planning application to install seismic and ground water monitoring stations around the proposed Preston New Road exploration site. A similar planning application was granted for monitoring works around the proposed Roseacre Wood exploration site. However, Cuadrilla will also appeal against certain conditions imposed on this planning consent.



Balance sheet and cash flow

During the year no new capital raising was undertaken. Gross interest bearing loans and borrowings have increased by \$15.7 million to \$78.9 million predominantly as a result of unfavourable currency translations between the Australian dollar and US dollar of \$10.5 million and \$3.1 million in interest charges capitalised in to principal. The Group does not have any principal repayment obligations until the expiry of the facility between January 2017 and February 2017. Additionally, interest payments due on the USD facility at the end of April and May 2015 totalling \$1.9 million have been deferred for six months while the company undertakes a review of its capital structure.

The Group's liquidity is materially unchanged with the current ratio having improved slightly to 1.07:1 as a result of the continued focus on working capital management. Cash reserves at 30 June 2015 were \$16.0 million despite financing and tax payments of \$12.4 million, reflecting the significant improvement in cash flows from operations of \$1.2 million. Offsetting the exchange rate loss on borrowings reported in the results was a favourable currency translation on the UK investments of \$15.5 million recognised in equity.

Outlook

The drilling market has stabilised but shows limited signs of picking up, in line with the subdued coal sector. Lucas' drilling business has been successful during the year in winning tenders for large customers; however, with global demand for coal remaining constant on cyclically low process, exports are expected to remain flat and no sign of a recovery for exploration drilling services.

The Engineering and Construction division continues to tender in conjunction with Spiecapag Australia for major pipeline projects. The company's expertise in pipeline and directional drilling work continues to be recognised in the market and the division continues in its own right to tender for small-scale infrastructure works, which is better suited to its capability and size.

The company also expects to progress the appraisal of its oil and gas investments despite recent setbacks on planning approvals in the UK. The UK joint venture has announced it will appeal the Lancashire County Council decision to refuse it planning consent.

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About AJ Lucas Group Limited

AJ Lucas is a leading provider of pipelines, 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 in each of the Bowland, Elswick and Bolney Licences in the UK. 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.