

25 February 2010

Dear Shareholder

Ludowici delivers strong 2009 Net Operating Profits from continuing operations of \$5.4 million which is an increase of 286% over the previous year.

I am pleased to attach the Directors' Report and Financial Statements released today to Australian Securities Exchange and I would like to provide you with a brief commentary on your Company's results for the year ended December 2009. A more detailed review of the period will appear in the Annual Report to be released in late March.

In 2009 Ludowici made significant progress on the company's twin goals of improving operational performance and delivering our strategy of focussing and growing the company in the global mineral processing industry. The most significant initiative in this regard relates to the acquisition of Johnsons Screens Mining business. Despite the turmoil created by the global financial crisis, your company recorded an increase in revenue and a strong improvement in operating profit in 2009 as well as a significant strengthening of the company's balance sheet. These results highlight the benefits of the program led by Managing Director Patrick Largier over for the past few years. We expect that further improvement to Ludowici's performance will be delivered in the future.

Financial Performance

	Year ended 31 Dec 2009 \$m	Year ended 31 Dec 2008 \$m	Change %
Revenue from continuing operations	163.2	150.4	8.5%
Operating profit before interest and tax from continuing operations excluding one off costs. *See note below.	11.4	5.6	104%
Expensed transaction costs for acquisition of Johnsons Screens Mining	-1.6		
Operating profit from Continuing Operations (before interest & tax)	9.8	5.6	74%
Operating profit from Continuing Operations (after interest & tax)	5.4	1.4	286%
Profit (loss) after tax for discontinued operations	(3.5)	3.2	
Profit after tax	1.9	4.6	-59%

* Profit/loss on selling businesses and one-off transaction costs for buying Johnsons Screens Mining

Revenue from continuing operations grew by 8.5% in 2009 which was very similar to the revenue growth in 2008 albeit in a much tougher market place.

Operating profit (before interest and tax) from continuing operations grew strongly, by 74% in 2009, due to savings realised by the Pinkenba consolidation and margin improvements. In December 2009 the transaction costs of A\$1.6m associated with the acquisition of Johnsons Screens Mining business were expensed (as is required under accounting standards). The underlying operating profit (before interest and

tax) from continuing operations excluding these one off transaction costs was A\$11.4m an increase of 104% over 2008 and a record operating profit for Ludowici.

Our mineral processing businesses in Australia, China and South America performed well during the year. The consolidation of Ludowici's Brisbane manufacturing operations into the new Pinkenba facility generated pleasing improvements to productivity in 2009 resulting in cost reductions and a recovery in gross margin. The North American business delivered an excellent result considering that the USA market for coal processing capital equipment was decimated in 2009. In part, the new business that Ludowici has developed in the copper processing industry in Arizona helped strengthen the Ludowici's North American operations in 2009.

The African mineral processing business and Australian Seals were affected by, in the case of the former, project delays and the latter due to an overhang of the GFC in Australian manufacturing.

In 2009 the company sold the New Zealand Packaging business which was a strategic divestment flagged a few years ago. While this transaction represented the divestment of the last significant "non core" Ludowici business, it triggered a large asset write-down. In total the 2009 loss from the discontinued New Zealand business was A\$3.5m. This loss was made from a significant write-off on the book value of assets on the sale of the business, partially offset by the profit generated by the business in the first half of 2009.

The biggest strategic development for Ludowici in 2009 occurred at the end of the year with the acquisition of Johnsons Screens Mining businesses in Australia, South America, North America and India. These businesses sell a range of consumable products to the global mineral processing industry. This acquisition was completed on 31 December 2009 and is expected to increase Ludowici's sales by about 30% in 2010 with an at least proportional increase in profitability. The strategic significance of this acquisition is that it positions Ludowici as a significant player in the mineral processing consumables markets in North and South America as well as India. Previously Ludowici has been a predominantly capital equipment focussed business in these markets. In addition this acquisition has added new product lines and customers to Ludowici's existing Australian mineral processing consumables business. One of the strategic goals of your company has been to increase the percentage of sales into the mineral processing consumables market to around 50% of total sales. This greater portion of sales into the more predictable mining consumables market helps to reduce business volatility that is sometimes associated with large orders for capital equipment. The acquisition of the Johnsons Screens Mining businesses should result in Ludowici achieving this strategic goal.

Cash Position & Balance Sheet

Net cash inflow from operating activities improved by 8% in 2009 to \$5.2m compared to \$4.8m for 2008.

The company's capital investment in new property, plant and equipment dropped sharply in 2009 to A\$2.8m (2008: A\$18.9m) as a result of the completion of construction of Ludowici's new site at Pinkenba in 2008.

The payment for Johnsons Screens Mining is divided into two tranches with the first tranche paid on 31 December 2009. The December payment consisted of a net cash payment of \$5.5m and share issue of \$2.6m. The second tranche payment will occur in March 2010 and consist of part cash (\$11.4m) and part shares (\$4.7m).

The cash component of the purchase price for the acquisition of the Johnsons Screens Mining business will be raised by a combination of additional debt and new equity. In December 2009 the company completed a placement of 1.65 million shares at \$2.65 per share to Sophisticated Investors. The funds raised by this placement were used for partial payment of the first tranche payment in December for buying the Johnsons Screens Mining business (with the balance being funded by debt).

A Share Purchase Plan and a further placement of 1.35m shares at \$2.65 per share will be completed over the next week to raise additional equity to fund this acquisition. The balance of the purchase price and the funding of working capital for the acquired businesses will be provided by debt.

Overall net cash flow from investing activities amounted to \$5.7m with the funds received for the sale of the New Zealand Packaging business partially offsetting the capital investment in plant and equipment and the first tranche payment for the Johnson Screens Mining acquisition.

As indicated a year ago, one of the priorities of the company was to reduce debt during 2009. This was successfully achieved with a decrease of net debt for the company (debt less cash) of \$4.4m or 11% to \$35.6m (net debt at the end of 2008 was \$40.0m).

Future outlook

The global mining industry appears to be strengthening which provides a positive backdrop for 2010. Specifically, Ludowici has a strong order book for capital equipment for the first half of 2010. The size of the order book for the second half of the year will become more apparent over the next few months.

The acquired Johnson Screens Mining businesses delivered budgeted sales in January and are expected to continue to make a significant ongoing contribution over the whole year. Overall revenue for the company (including the contribution of the acquired businesses) is expected to grow by more than 30% in 2010 (over Ludowici's sales revenue of \$163m in 2009). It is expected that operating earnings should increase at least in proportion to revenue growth.

Dividends

Your directors have declared final dividend for 2009 of 6.0 cents per share. This dividend is unfranked and will be paid on 7 May 2010. This brings the ordinary dividends for the year to 12.0 cents per share.

The dividend reinvestment plan (DRP) will continue for the final 2009 dividend at a discount of 3% for those shareholders who wish to take their dividend either wholly or partly in shares.



Phil Arnall
Chairman