

ASX ANNOUNCEMENT

6 August 2019

Telfer Contract Update: Macmahon to pursue variation claim against Newcrest through dispute resolution process

Macmahon Holdings Limited (ASX: MAH) (**Macmahon** or the **Company**) refers to its ASX announcement on 12 June 2019 and provides the following update on the facilitated negotiation process with Newcrest Mining Limited (**Newcrest**) regarding the Telfer Project (**Telfer Contract**).

The facilitated negotiation has concluded without producing an outcome acceptable to Macmahon. Accordingly, Macmahon has advised Newcrest that it will pursue a significant variation claim through the formal dispute resolution process contained in the Telfer Contract. This process requires the parties to mediate before commencing litigation, however given the negotiations that have occurred, Macmahon will now seek Newcrest's agreement to proceed to litigation immediately.

The variation claim arises from changes in the mine plan and contract programme implemented by Newcrest, including changes to the volume, manner and sequence of mining required. As a result, Macmahon is pursuing an increase in the contract rates to recover the additional cost of operating under the changed conditions.

Macmahon CEO Michael Finnegan said the decision to commence the formal dispute resolution process was not taken lightly.

"We are disappointed we have got to this point, particularly after such extensive discussions to seek to agree an outcome. However, we have exhausted all options available to us to agree fair and reasonable rates with Newcrest for our work, so we are left with little choice," Mr Finnegan said.

The Telfer Contract is currently expected to run until January 2023. At this stage, Macmahon has elected to continue to perform the contract, but has reserved all of its rights in this matter.

Given the Telfer dispute process is expected to be ongoing when Macmahon releases its full year results later this month, as flagged in the Company's 12 June 2019 announcement, Macmahon is now likely to identify the Telfer Contract as onerous and recognise a provision for the amount by which the anticipated future unavoidable costs of continuing the contract exceeds the economic benefit from the contract¹.

While the value of any such provision remains uncertain and subject to audit, the Company's estimate is that the provision could be in the order of \$25 million - \$35 million. Any such provision would be non-cash in nature at the time it is recognised, and any future recovery from Newcrest, which Macmahon would continue to pursue, would represent an opportunity for upside in future financial years.

¹ As per AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.



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Excluding any one-off provision for the Telfer Contract, the Company reiterates its previously published FY19 guidance of underlying EBIT of \$70 million - \$80 million.

Mr Finnegan said the development on the Telfer Contract did not impact on the Company's expectation of underlying EBIT growth in FY20.

"While it is unfortunate we could not agree an acceptable resolution with Newcrest, we remain confident in our position and optimistic the dispute process will ultimately result in an improved outcome for Macmahon.

"Importantly, this development does not affect our business strategy, and our positive outlook has not changed. The Company is in a solid financial position, with strong earnings this year and further growth expected in FY20 based on the Company's secured order book. We look forward to updating shareholders further with our FY19 full year results on 26 August."

***** ENDS *****

For further information, please contact:

Investors/Analysts

Chris Chong
Manager – Corporate Development and Investor Relations
cchong@macmahon.com.au
+61 8 9232 1877 / +61 408 774 365

Media

John Gardner (+61 413 355 997) / Paul Ryan (+61 409 296 511)
Citadel-MAGNUS

About Macmahon

Macmahon is an ASX listed company offering the complete package of mining services to miners throughout Australia and South East Asia.

Macmahon's extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.

Macmahon is focused on developing strong relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.

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