

ASX ANNOUNCEMENT

19 April 2018

Macmahon commences Phase 2 of the Batu Hijau contract

- **AMNT - MAH workforce transition program largely complete**
- **Minimal interruption to mining production since project commencement**
- **Commencement of Phase 2 – opportunity for gain share / pain share**
- **Revised procurement arrangement to maximise project efficiencies with comparable forecast financial returns for MAH**
- **No change to earnings guidance**

Macmahon Holdings Limited (ASX:MAH) wishes to advise it has commenced Phase 2 of the Batu Hijau contract (“Mining Contract”) in Indonesia. Macmahon has been operating under a cost-plus arrangement (Phase 1) since the start of the contract last year. The progression to Phase 2 marks the commencement of the gain share / pain share mechanism in the Mining Contract, whereby any cost savings or overruns will be shared between the parties.

Macmahon CEO, Michael Finnegan said he was very pleased with the operational progress made to date, saying the workforce transition had involved minimal delays to production.

“This transition has been a significant undertaking, but our previous experience in the region and our close working relationship with PT AMNT has meant that we have been able to ramp up largely in line with our schedule,” he said.

“Moving to Phase 2 is a significant step forward and I could not be happier with the quality and expertise of the personnel we have on the ground.”

As part of the preparation for transition to Phase 2 of the Mining Contract, an assessment of the procurement options available to the project was completed in order to maximise cost savings opportunities. This exercise identified the benefit of implementing a joint MAH and AMNT procurement team to leverage pre-existing site supplier arrangements where they could deliver the most cost effective outcome.

As a result, the parties have agreed to adjust part of Macmahon’s remuneration structure from a percentage based margin, to an agreed management fee of comparable value, reset annually.

Previous structure

Under the previous remuneration model, project costs relating to the provision of mining services (excluding fuel and explosives) were to be incurred by Macmahon and charged to AMNT at cost plus the higher of an agreed margin on cost or a return on capital employed

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metric. In addition, a gain share / pain share amount would be payable based on total project costs compared to an annually agreed target.

Adjusted structure

Under the new structure, Macmahon will continue to be paid at cost for the reimbursable costs it incurs. In addition, Macmahon will also now receive a fee for managing the project. This fee will be reset annually with a view to achieving a comparable overall financial return for Macmahon to previous forecasts. The gain share / pain share mechanism will still apply, but with the pain share amount capped at the management fee. In addition, from 2019 onwards, the gain share / pain share will be determined every 6 months, rather than annually. The timing of the resetting of the management fee is consistent with how the performance targets were set under the previous structure and continue to be set under the new structure (i.e. on an annual basis). Macmahon's current earnings guidance remains the same under the new structure.

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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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