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ASX Market Announcements Office
ASX Limited
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By electronic lodgement

Business, financing and Strategic Process update

New Elgas contract

McAleese Limited (ASX: MCS) (**McAleese Group** or the **Company**) announces that its Oil and Gas division has successfully tendered for a new LPG cartage contract with Elgas Limited (**Elgas**).

The Oil and Gas division is a long-standing supplier to Elgas, with the new contract extending this relationship for a further five years from 1 January 2016. Increased volumes are expected to deliver total revenues of approximately \$50 million per annum and improved EBITDA, with returns meeting the division's internal hurdle rates. As part of the arrangement, McAleese Group will sell approximately \$9 million of LPG tankers to Elgas with the proceeds to be applied to debt reduction. The sales will occur above book value and are expected to complete by the end of January 2016.

Consistent with the Company's commitment to safety, quality and low average fleet age, approximately \$4 million of capital expenditure over the next six months will reduce the Oil and Gas division's average prime mover age to 3.2 years.

The successful tender confirms McAleese Oil & Gas' position as an industry leader in the transportation of dangerous goods and recognises the strength of its safety and service performance to the industry.

Atlas Iron

McAleese Group notes Atlas Iron Limited's (ASX: AGO) (**Atlas**) announcement on 23 December 2015 regarding a proposed transaction with its bondholders. If implemented, the proposed transaction will result in a significant proportion of Atlas' debt being converted to equity.

McAleese Group regards the proposed transaction as positive for Atlas through decreased financial leverage and reduced cash interest costs. It also increases the alignment of interests between Atlas, its bondholders and the Collaborating Contractors who hold equity in Atlas.

While the proposed transaction will result in the Company's equity interest in Atlas being diluted, the implied conversion price is at a premium to recent trading in Atlas shares.

The proposed transaction has no effect on McAleese Group's contractual arrangements with Atlas.

McAleese Group advises that a new contract has been entered with Atlas for ore haulage from the Mount Webber mine. The contract is similar in structure to those in place for the Abydos and Wodgina mines.

Trading and financing update

As outlined at the Company's Annual General Meeting, trading conditions remain challenging.

The Oil and Gas division is performing satisfactorily, with improvements from the Elgas contract expected to flow from 1 January 2016.

McAleese Group's haulage contracts with Atlas are designed to maximise Atlas' cost competitiveness at low iron ore prices and provide the Company with an increased return when iron ore prices are higher. This is achieved through a base haulage rate and profit share linked to Atlas' received AUD iron ore prices. At current AUD iron ore prices there is no profit share from Atlas' operations, placing material downward pressure on earnings from the Bulk Haulage division in recent months. The Company continues to work co-operatively with Atlas and its other contractors on operating efficiencies that will further improve Atlas' cost position.

Capital expenditure in the resources industry remains low and market conditions for the Heavy Haulage & Lifting division have deteriorated over the course of the financial year. The Company remains confident that maintenance capital expenditure in the resources sector will improve over the medium term, however there is significant uncertainty about the timing of a recovery. McAleese Group continues to focus on aligning costs and assets to the market environment.

The Specialised Transport division continues to face weak East-West volumes and a highly competitive market on East coast lanes. A review of the revenue base is underway and will target improved yield to restore profitability.

As a result of these challenging conditions it is likely that McAleese Group will breach a financial undertaking in its Syndicated Facility Agreement when the Company reports to the banking syndicate at the end of January 2016. However, the Company has continued to have frequent and constructive discussions with the syndicate, with particular regard to the strategic process. The syndicate are aware of the progress that has been made and are supportive of the process.

McAleese Group expects to maintain its constructive dialogue with the syndicate and this may lead to a waiver of any breaches of financial undertakings before or after they are reported.

Strategic Process update

As previously advised, the Company has mandated Moelis & Company to assist with a strategic process. This process is focused on delivering an appropriate capital structure for the current environment and, in the longer term, the capacity to invest and grow.

The strategic process continues, with several parties expressing interest to participate in a recapitalisation of the Company. McAleese Group's banking syndicate are strongly supportive of the strategic process.

It is premature to comment in detail on potential structures, terms or outcomes and there can be no certainty that the process will yield an outcome. The Company expects to provide an update at, or prior to, the February release of its 1H 2016 financial results.

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