

MEDIA STATEMENT

8 October 2018, Petaling Jaya

Reference is made to the Ministry of Finance's ("MOF") Media Statement dated 7 October 2018 in relation to the MRT 2 Project ("Project").

Save and except for the aforesaid MOF Media Statement, MMC Gamuda has so far not received any communication nor notification from MRT Corp, the counter party to the award of the Project. Thus, there has been no official confirmation from MRT Corp that MMC Gamuda has been terminated as underground contractor.

Supportive of Government's drive to improve fiscal health

In spite of the agreed contract price, in view of the present austerity measures pursued by the new administration and in support, in particular of the new Government's review of its financial commitment on major infrastructure projects, MMC Gamuda has been engaged in discussions and negotiations with MOF over the past 2 months to review the scope of works and specifications of the Project with the aim of reaching a compromise on a cost reduction.

Following therefrom and at the request of MOF, MMC Gamuda has agreed to convert the Project Delivery Partner (PDP) model to a single Turnkey Contract for the elevated works with a price reduction of 23%. In respect of the underground works MMC Gamuda has so far offered a 24% reduction for the balance of the underground works. Through its Media Statement, MOF has informed that it has accepted the offer in respect of the elevated and system works only.

The offered reduction for underground works

The underground works awarded contract price is RM15.47bn. As progress achieved is now 40%, the balance of the uncompleted underground works is now valued at RM9.6bn. MMC Gamuda has offered a reduction of RM2.3bn which represents 24% of this value. The reduction is achieved through reducing the scope of works and lowering specifications for mechanical, electrical and architectural finishes of the stations. It was also achieved by reducing the number of entrances to stations and the number of active stations constructed. From a total number of 10 stations, 4 will currently be shelved.

Factors influencing the awarded underground works price

There are two (2) main factors that have a major influence on the price of the underground works, namely,

1. *Employer's Requirements*

In comparison with MRT Line 1, the Employer's Requirements has increased the scope of works significantly, e.g. larger floor space, a fivefold increase in the underground entrance and pedestrian walkways. As MRT Line 2 geology is complex, the average depth of the diaphragm walls in MRT Line 2 is 51 metres as compared with MRT Line 1 at 39 metres. During the initial tender process, MMC Gamuda had submitted an alternative proposal with savings by reducing the prescriptive requirements without compromising the safety, performance and functionality of the operational railway. However, MRT Corp elected not to accept the alternative offered by MMC Gamuda. The reductions currently on offer to MOF include some of these alternatives but only those applicable to the balance of the underground works.

2. *Safety Requirements*

Given the high risk of sinkhole incidents arising from tunnelling through the extreme karstic limestone in the City centre and threading the tunnels through high-end properties, with financial losses running into hundreds of millions if affected by ground collapses, the insurance industry around the world have introduced extremely stringent risk management requirements governed by International Tunnelling Insurance Group ["ITIG"] via the British Tunnelling Society Risk Management Code of Practice BS6164:2011 and ISO 31000 Risk Management.

Insurers have applied these measures on MRT Lines 1 & 2 tunnelling risks against which MRT Corp has in turn introduced strict pre-qualification requirements that cannot be relaxed for the insurance industry to insure MRT Corp on the Project.

MMC Gamuda's continued in-house developments and customisation of the tunnel boring machines is an integral part of managing this risk against sinkholes that proved successful in MRT Line 1. The Variable Density TBM ["VD-TBM"] was developed together with the German manufacturer and despite winning an international Innovation Award from British Tunnelling Society, it still needs on-going improvements in its development to mitigate sinkhole risks more effectively.

The extent of the geological challenges presented in MRT Line 2 are reflected by the fact that of the 12 TBMs required, we need 10 TBMs to be of this variable density type to effectively mitigate the karstic risk. This also increases the quantum of enabling works of grouting and ground improvement prior to the tunnelling.

The Award and the Tender Process

MRT Corp awarded the undergrounds works to MMC Gamuda in 2016 following an international competitive tender that, due to the challenging ground conditions, had stringent pre-qualification requirements with only 5 contractors pre-qualified by MRT Corp to tender, of which MMC Gamuda was the only local contractor.

The bids were evaluated by the Reference Design Consultant, Arup Singapore Pte Ltd, appointed by MRT Corp. MMC Gamuda's bid scored the highest technical score and offered the lowest price. MMC Gamuda's price was lower than the pre-tender estimate prepared by Arup Singapore Pte Ltd.

Current progress of underground works

The underground works has progressed well and MMC Gamuda had not received any complaints from MRT Corp regarding the execution of the underground works. To date, all 19 sites are active with 40% of the works completed. Two of the TBMs are already mining with the balance being assembled and ready to mine from next month onwards.

Consequences of termination

The termination of MMC Gamuda will result in immediate job losses to a work force of over 20,000 personnel involved in the underground works from a supply chain of over 600+ Malaysian companies. Of the 20,000, over 3,000 are made up of MMC Gamuda JV staff, and of this, more than 60% are Bumiputera.

This will cause unnecessary hardship to a significant number of Malaysian work force in an already slowing market. In addition, the termination will unjustifiably expose MMC Gamuda to a flood of lawsuits for compensation from terminated employees, sub-contractors, suppliers, manufacturers, etc whose contracts will similarly be terminated due to no fault of theirs.

In an international re-tender exercise intended by MOF, unless MOF significantly lowers the requirements, only foreign contractors will be eligible. The award will invariably be given to a foreign contractor who in turn will use experienced staff from their own countries.

Amicable resolution

MOF's belief that MMC Gamuda could offer more reduction for the underground works is premised upon the review by a local engineering consulting firm appointed by MOF. A significant part of the review findings were refuted by MMC Gamuda on technical grounds as being too simplistic and arising from a lack of relevant experience. Ironically, MRT Corp which has a huge staff of experienced technical experts also issued their own report of the aforesaid consulting firm's proposals on 27 August 2018, which carried similar views as MMC Gamuda.

Notwithstanding MMC Gamuda's disagreement, in order to bridge the gap MMC Gamuda had on 8 August 2018, 21 August 2018 and 24 September 2018 urged MOF to appoint an international engineering consulting firm with the relevant experience to carry out an objective review looking into all reasonable engineering and technical requirements.

Even though MOF has made known that the offered reduction of RM2.3bn is still not adequate, to date it has not been conveyed to MMC Gamuda an acceptable target figure that MOF has in mind. If the target figure is made known together with the components of the savings as individual items, both parties would be placed in a better position to re-examine these components from where savings could be derived and narrow the differences. The appointment of an international engineering consulting firm as proposed by MMC Gamuda would greatly facilitate this exercise.

MMC Gamuda remains open to further discussion with MOF and is amenable to cooperate with MOF in reaching an agreeable reduction. Our perception of the latest cost gap is that it is an amount which is not unbridgeable. MMC Gamuda believes that MOF's aim of achieving savings is best done by both parties reaching an acceptable compromise instead of terminating the contract and re-tendering the remainder of the underground works.

Issued by MMC Gamuda
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