

24 December 2012

Macmahon confirms sale of Construction projects

Macmahon Holdings Ltd (ASX:MAH) has finalised an Asset Purchase Agreement to sell the majority of its Construction projects to Leighton Holdings Limited as it pursues its new strategy to become a dedicated full service mining contractor.

Macmahon Chief Executive Officer Ross Carroll said the Company would sell the majority of its Construction projects and associated plant to Leighton for approximately \$20 million^{1,2}, with net consideration of approximately \$14 million² after transferring employee liabilities associated with personnel moving to the Leighton Group. Macmahon will also retain approximately \$40 million worth of equipment, which will be used in its Mining Business or sold.

The effective date of the sale will be December 31, 2012, subject to shareholder approval at an Extraordinary General Meeting expected to be held in February 2013.

A summary of the Asset Purchase Agreement is attached to this announcement.

Mr Carroll said the agreement was an important milestone as Macmahon looks toward a new future dedicated to mining.

“This is a significant day for the Company as we refocus the business on our successful full service mining operations,” he said.

“I would like to take this opportunity to thank all of our Construction employees for their efforts over many years and wish them future success as we go through this transition.

“Since winning our first mining contract in 1967, Macmahon’s mining operations have continued to grow and I am pleased that we can now focus all our efforts on being a full service mining contractor of choice within the industry.

“This is an exciting step as we work to deliver consistent, sustainable results and build on the strength and reputation of our mining business.

¹ This represents the Purchase Price of \$29.6 million referred to in the Asset Purchase Agreement plus an amount for successful Project Tenders minus an amount for the Superway Project adjustments.

² Amounts are subject to adjustments at the effective date December 31, 2012 and at Completion. Details of the nature of these adjustments are provided in the Asset Purchase Agreement Summary attached.

The exit from Construction will see most projects transferred to Leighton, with the exception of the following projects, which are nearing completion:

- Hope Downs 4;
- Solomon Rail Spur;
- Gladstone LNG project; and
- Several minor projects.

Commercial terms could not be agreed with respect to the Hong Kong XRL and Trangie Nevertire Irrigation Scheme projects. Macmahon will continue to participate in these projects at this time. Macmahon will retain exposure to these retained projects, as well as to completed Construction projects, and other liabilities as described in the attached summary of the Asset Purchase Agreement.

Project Tenders previously outlined in the MOU will be transferred to Leighton upon successful contract award, subject to counterparty consent. This will include Macmahon's share of the Pacific Highway Upgrade from Frederickton to Eungai and the North Strathfield Rail Underpass, both of which were awarded in December. These form part of the purchase consideration outlined above.

Macmahon employees working on projects that form part of the agreement are expected to transfer to a Leighton subsidiary with their project, as are Macmahon's non-project employees in the Northern Territory.

It is expected that one-off restructuring and redundancy costs of about \$12 million will be incurred in relation to non-transferring employees as part of the wind-down of construction, following completion of the sale.

Mr Carroll said a joint integration committee will be established to manage transferring Construction projects during the transition period.

"We are now focused on ensuring the transition process is as smooth as possible for our employees and that transferring projects continue to deliver on client expectations throughout this period," he said.

*** ENDS ***

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About Macmahon

Macmahon is a leading Australian contract mining and construction company with major projects throughout Australia, in New Zealand, South East Asia and Africa.

An ASX listed company, Macmahon has played a major role in the delivery of many of Australia's largest multi-disciplinary mining and construction projects throughout its 49 year history.

Macmahon offers the full range of underground and surface mining services and comprehensive construction capabilities spanning transport, marine, water and resource infrastructure services.

With a commitment to providing end to end services, Macmahon's reputation for outstanding teamwork, integrity and commitment to the environment is underpinned by the company's core value - safety.

Visit www.macmahon.com.au for more information.

ASSET PURCHASE AGREEMENT SUMMARY

SALE AGREEMENT

The Asset Purchase Agreement (Agreement) largely accords with the Memorandum of Understanding dated 12 December 2012 (**MoU**) that was released in full to ASX (save for the redaction of commercially sensitive information) in Macmahon's announcement about the proposed sale on 12 December 2012 (**MoU Announcement**).

Accordingly, this summary of the Agreement should be read in conjunction with the MoU and the MoU Announcement. Unless this summary suggests otherwise, defined terms used in it have the same meaning as in the MoU.

The Agreement contemplates the transfer of the following assets (**Sale Assets**) to Leighton for the purchase price as adjusted in accordance with the Agreement (**Sale**):

- Macmahon's interest in the Project Contracts, which now include:
 - Northern Territory:** Inpex/Ichthys, Darwin Marine Supply Base, Shoal Bay Waste Disposal Facility 2020
 - Western Australia:** Great Northern Highway Realignment, Pilbara ISA
 - New South Wales:** Bega Bypass – Princess Highway Upgrade
- Macmahon's interest in the Joint Venture Contracts, which now comprise:
 - New South Wales:** South Road Superway JV
 - Rail:** Glenfield Alliance JV
- the Plant Assets;
- authorisations necessary for the purposes of the Project Contracts and held by Macmahon as at completion and not reasonably required by Macmahon post-completion;
- certain asset records associated with the Sale Assets; and
- the Transferring Employees (defined below).

LIABILITY REGIME

Under the Agreement:

- Macmahon will retain all liabilities (in relation to the Sale Assets) arising before 11.59pm (Sydney time) on 31 December 2012 (**Effective Date**). From completion, Leighton will assume all liabilities (in relation to the Sale Assets) arising on or after the Effective Date.

- Macmahon gives certain warranties about the Sale Assets and the compilation of information provided to Leighton in the course of its due diligence investigations. Minimum and maximum claim thresholds, and time limits for bringing claims, apply.

PURCHASE PRICE AND ADJUSTMENTS

The purchase price is A\$29,585,814 and is the aggregate of two components, essentially:

- (a) A\$14,100,000 for the novation of the Project Contracts (**Project Contract Consideration**); and
- (b) A\$15,485,814 for the acquisition of the Plant Assets (**Plant Asset Consideration**), which relates to assets primarily used for the purposes of Project Contracts and other assets as agreed between Macmahon and Leighton.

(Purchase Price).

The Purchase Price will be adjusted in accordance with the terms of the Agreement.

The purpose of the Purchase Price adjustments is to account for movements in the value of the Project Contracts (on the basis of margins remaining in respect of each), the Plant Assets, and the accrued entitlements balance in respect of Transferring Employees, in the period from the date of the Agreement until the Effective Date.

The Agreement also includes completion adjustments to ensure that, while title and interest in the Sale Assets does not pass to Leighton until completion:

- Macmahon receives the full benefit and bears the full burden of the Sale Assets until the Effective Date; and
- Leighton receives the full benefit and bears the full burden of the Sale Assets on and from the Effective Date.

These completion adjustments broadly relate to overclaim and underclaim positions on Project Contracts, Project Fees from successful Project Tenders, joint venture contributions and distributions, and other outgoings and receipts, in the period from the Effective Date until completion of the Sale.

The Agreement also provides for similar post-completion adjustments.

CONDITIONS PRECEDENT

Completion of the Sale is subject to the following conditions precedent:

- ACCC approval;
- Macmahon shareholder approval, which will be sought under a notice of meeting that includes an independent expert's report on whether the sale is fair and reasonable (**Independent Expert's Report**) to shareholders other than Leighton and its associates (**Non-Associated Shareholders**);

- Each Macmahon director (other than Mr Vyril Vella) recommending that Macmahon shareholders vote in favour of the Sale for the purposes of Macmahon shareholder approval (provided that such recommendation may be subject to the Independent Expert concluding in the Independent Expert's Report that the Sale is reasonable to Non-Associated Shareholders), and no Macmahon director changes, withdraws, modifies or makes any public statement that is inconsistent with that recommendation; and
- The Independent Expert concluding in its Independent Expert's Report that the Sale is reasonable to Non-Associated Shareholders.

Completion is scheduled to occur on the last business day of the month in which the last of the conditions precedent which has not been satisfied or waived is satisfied or waived.

DIRECTORS' RECOMMENDATIONS

Mr Vyril Vella, a nominee of Leighton on the Macmahon board of directors, has confirmed that he will abstain from giving a recommendation to shareholders about the Sale.

EMPLOYEES

Offers of employment will be made to each Employee on substantially similar terms (and terms no less favourable on an overall basis) than those currently in place. These offers must provide for continuity for all purposes of employment and benefits, and an Employee's continuity of service will not be broken by the Sale.

In the Agreement, **Employees** are defined to mean:

- the employees of the Macmahon Group who are working on projects to which the Project Contracts relate at the time an offer of employment is made by Leighton;
- those employees located in the Macmahon Group's office in the Northern Territory as Leighton may require; and
- any other employees of the Macmahon Group as may be agreed between the parties.

From completion, Leighton will assume liability for the accrued entitlements of Transferring Employees, in exchange for a proportionate adjustment to the Purchase Price (as referred to above). **Transferring Employees** are essentially those Employees who accept the offers of employment.

SUPERWAY AND TRANGIE PROJECTS

Superway Project

As set out in the MoU, Macmahon will retain capped exposure to the South Road Superway project in South Australia (**Superway Project**) after completion of the Sale.

- Macmahon will contribute cash to the Superway JV up to a total loss position for the Superway Project of A\$50 million on a 100% ownership basis, so that the maximum total liability that Macmahon will bear in respect of losses under the Superway Project is capped at A\$25 million.
- Macmahon will also repay to the Superway JV any cash distributions it has received from the Superway JV.

Trangie Project

The Trangie Project is no longer a Project Contract under the Agreement, and will not be transferred to Leighton or otherwise dealt with under the Sale.

SELLER GUARANTEE

Macmahon Holdings Limited has guaranteed the performance by each of the other Macmahon seller entities to the Agreement of all of their obligations under the Agreement, and agreed to indemnify Leighton for any non-performance by those parties under the Agreement.

TERMINATION RIGHTS AND END DATE

In addition to customary termination rights, either party may take steps to terminate the Agreement if completion has not occurred by 31 March 2013, or it becomes apparent that completion will not occur by that date.