



MACMAHON

Macmahon Holdings Ltd

ACN 007 634 406

NOTICE OF GENERAL MEETING

TUESDAY, 26 FEBRUARY 2013 AT 2.00 PM (WST)

at

**CITY WEST RECEPTION CENTRE,
45 PLAISTOWE MEWS, CITY WEST CENTRE,
WEST PERTH WA 6005**

The Independent Expert's Report concludes that the Proposed Transaction the subject of the Resolution is not fair but reasonable to Non-Associated Shareholders for the reasons described in the Independent Expert's Report.

NOTICE IS HEREBY GIVEN that a general meeting of Shareholders of Macmahon Holdings Limited will be held at the City West Reception Centre, 45 Plaistowe Mews, City West Centre, West Perth WA 6005, Perth, Western Australia on Tuesday, 26 February 2013 at 2.00 pm (WST).

Attached to, and forming part of this Notice of Meeting is an Information Memorandum (including the Independent Expert's Report prepared by Ernst & Young) that provides Shareholders with background information and further details on the Resolution to understand the reasons for, and the effect of, the Resolution, if approved.

The Directors of Macmahon (other than Mr Vyril Vella) unanimously support the Proposed Transaction and recommend that Shareholders vote in favour of the Resolution to approve the Proposed Transaction.

The Directors of Macmahon (other than Mr Vyril Vella) intend to vote in favour of the Resolution to approve the Proposed Transaction in respect of the Macmahon shares over which they have voting control, subject to the Independent Expert continuing to conclude that the Proposed Transaction the subject of the Resolution is not fair but reasonable to Non-Associated Shareholders.

Business

This information is presented in accordance with the regulatory requirements of the Corporations Act and the ASX Listing Rules.

Terms which are defined in section 4 of the Information Memorandum and are used in this Notice of Meeting have the same meaning as in the Information Memorandum.

RESOLUTION 1 - SALE OF CONSTRUCTION PROJECTS TO LEIGHTON HOLDINGS LIMITED

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, the disposal of the majority of Macmahon Holdings Limited’s construction projects (including corresponding plant and equipment, and the transfer of certain personnel) to Leighton Holdings Limited, a substantial holder of Macmahon Holdings Limited for the purposes of ASX Listing Rule 10.1.3, or any one or more Leighton Holdings Limited nominees, on the terms and conditions of the Asset Purchase Agreement summarised in the Information Memorandum, be approved.”

Voting exclusion statement

In accordance with the ASX Listing Rules, Macmahon will disregard any votes cast on this resolution by Leighton or any of its Associates.

However, Macmahon need not disregard a vote for the purposes of the ASX Listing Rules if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the Chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form authorising the Chairman of the Meeting to vote as he decides.

Determination of Shareholders’ Right to Vote

For the purposes of the Meeting, Shares will be taken to be held by persons who are registered as members of the Company as at 4.00pm (WST) on Sunday, 24 February 2013. Accordingly, transactions registered after that time will be disregarded in determining shareholders entitled to attend and vote at the Meeting.

Appointment of Proxy

A Shareholder has the right to appoint a proxy who need not be a Shareholder of the Company. If a Shareholder is entitled to cast two or more votes, they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise.

Sections 250BB and 250BC of the Corporations Act apply to voting by proxy. These sections mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chairman of the meeting, who must vote the proxies as directed.

More detail on these sections is provided below.

Proxy vote if appointment specifies way to vote

Section 250BB provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (that is, as directed);
- if the proxy has two or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (that is, as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (that is, as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at the meeting;
- the appointed proxy is not the chair of the meeting;
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting; or
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

Lodgement of proxy documents

The completed proxy form enclosed with this Notice of Meeting (and, if it is executed by an attorney, the relevant power of attorney or a certified copy of it) must be received by the Company at the address specified below by 2.00pm (WST) on Sunday, 24 February 2013.

A proxy can be appointed electronically by visiting www.investorvote.com.au and following the instructions provided. A proxy can be appointed online if they are appointed under power of attorney or similar authority.

For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting instructions.

For the purposes of section 249X(1A) of the Corporations Act, Shareholders are advised that the proxy appointed may be an individual or body corporate. A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the Meeting. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has been previously given to the Company.

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes of receipt of proxy appointments:

Share Registry: Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth WA 6000

Facsimile Number: (within Australia) 1800 783 447 (outside Australia) +61 3 9473 2555

Postal Address : GPO Box 242
MELBOURNE VIC 3001

Bodies corporate

In accordance with section 250D of the Corporations Act, a body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at a meeting of a company's shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed, unless it has previously been given to the Company.

By order of the Board



CHRIS BROWN
Company Secretary
18 January 2013

Chairman's letter

Dear Shareholder

Background

Following the completion of a strategic and operational review, on 12 December 2012 Macmahon Holdings Limited ("**Macmahon**") announced its decision to exit the construction business and focus on a strategy of providing a full suite of services to the mining industry. Macmahon arrived at this decision for a number of key reasons including the following:

- In Macmahon's opinion, the Australian construction market faces a number of challenges in the medium term for stand-alone construction businesses such as Macmahon's, including:
 - low barriers to entry evidenced by an increasing number of international market entrants looking to establish operations in Australia;
 - increased competition for a reduced volume of work resulting from fewer opportunities increasing the risk for contractors; and
 - the potential shift towards more fixed price contracts versus alliance style contracts also resulting in increased risk for contractors.
- In light of these challenges, Macmahon formed the view that its stand-alone construction business model:
 - could not grow to provide sufficient scale to assume the inherent risks and overhead structure required of this business without potentially materially impacting earnings;
 - was a high overhead cost model relative to revenue with little opportunity for cost reduction;
 - had difficulty retaining and attracting the key management personnel required to deliver projects profitably; and
 - was not positioned to deliver Macmahon sustainable earnings and be competitive in the future.

Following the exit from its construction business, Macmahon will focus on providing a full suite of services to the mining industry, leveraging off its highly successful surface and underground contract mining business, in which future growth will be underpinned by:

- a broad service offering and end-to-end mining service model;
- diverse geographical and commodity exposure; and
- long-term relationships with blue-chip clients.

The Directors of Macmahon believe that, by exiting the construction business and adopting its mining services focused strategy, Macmahon shares may re-rate over the medium term due to decreased volatility and risk in earnings.

Whilst undertaking its strategic and operational review, and in considering the alternative options available to Macmahon in order to effect an exit from the construction business, the Macmahon Board and management took into account a wide range of relevant factors including:

- the recent volatile and poor operational and financial performance of the construction business, including recent material losses;
- the risks, uncertainties and costs involved in winding down the construction business;
- the ability to retain key staff in an uncertain environment to complete any retained construction projects;
- the relevant Australian track record and likely ability of a buyer to be able to convince clients (including government clients) of their merits in order for clients to agree to the novation of Project Contracts to that buyer;
- the financial ability of a buyer to complete a transaction;
- the ability of a buyer to complete a transaction expeditiously without destabilising the business and eroding value; and
- the nature and extent of a potential buyer's pre-existing operational or joint venture relationships with Macmahon.

With such factors in mind, particularly the pre-existence of operational joint venture relationships and a relevant Australian track record, the Directors of Macmahon (other than Mr Vyrl Vella) decided that, in their opinion, it would be in the best interests of Macmahon Shareholders if Macmahon, in the first instance, explored the possibility of an arm's-length transaction with Leighton Holdings Limited ("**Leighton**") to effect the exit from the construction business, subject to the following requirements:

- whilst exploring the possibility of an arm's-length transaction with Leighton, Macmahon continued to assess any interest in its construction business from other potential buyers having regard to the factors that Macmahon considered relevant, including those listed above, in determining whether such other interest would, in the opinion of the Directors of Macmahon (other than Mr Vyrl Vella), be likely to result in a superior outcome for Macmahon shareholders (excluding Leighton and its associates); and
- any such potential transaction with Leighton, should one eventuate, would ultimately be put to a Macmahon Shareholder vote for their consideration and approval (excluding Leighton and its Associates).

Mr Vyrl Vella considers it inappropriate to make a recommendation in respect of the Proposed Transaction having regard to the potential conflict of interest arising from his current role as a consultant to Leighton, which is a party to the Proposed Transaction, as well as his previous positions at Leighton.

As a result of undertaking this process with Leighton, the Directors of Macmahon (other than Mr Vyrl Vella) decided that, in their opinion, it would be in the best interests of Macmahon Shareholders to enter into the Memorandum of Understanding ("**MoU**") executed and announced on 12 December 2012, which granted Leighton exclusivity to conduct due diligence and to negotiate with Macmahon to finalise a transaction relating to the acquisition of the majority of Macmahon's construction business.

Sale of Construction Projects to Leighton Holdings Limited

Following completion of the process pursuant to the MoU noted above, the Directors of Macmahon (other than Mr Vyrl Vella) reaffirmed their decision to enter into a transaction with Leighton and on 23 December 2012, Macmahon and Leighton announced that they had entered into an Asset Purchase Agreement under which Leighton or one or more Leighton nominees will acquire the majority of Macmahon's construction projects (including the corresponding plant and equipment, and the transfer of certain personnel) ("**Sale Assets**") (the "**Proposed Transaction**").

The adjusted purchase price under the Proposed Transaction will be approximately A\$25.4¹ million. However after taking into account Macmahon's current estimates for completion and post-completion adjustments, the total purchase consideration is estimated to be approximately A\$23.9² million before taking into account the contingent, capped liability exposure to the Superway Project that Macmahon will retain after completion (see section 3.12). Taking into account the worst-case outcome in relation to this exposure, Macmahon expects the net cash it will receive from the Proposed Transaction to be approximately A\$4.3 million³.

The table below summarises the adjusted purchase price, completion payment and net cash currently estimated to be received by Macmahon as a result of the Proposed Transaction.⁴

Item	Section Reference	Amount A\$ million
Purchase Price	3.7	29.6
Plus: estimated margin adjustments	3.8(a)	1.9
Less: Employee entitlement adjustments	3.11	(6.1)
Adjusted purchase price		25.4
Less: current estimates of completion and post-completion working capital adjustments	3.8(b)	(7.8)
Plus: Project Fees	3.9	6.3
Total purchase consideration		23.9
Less: Tax adjusted worst-case loss on Superway contract required to be paid by Macmahon under the Asset Purchase Agreement (" Superway Cap ")*	3.12(a)	(17.5)
Less: Repayment to the Superway joint venture of the cash distributions Macmahon has received from the Superway joint venture	3.12(b)	(2.1)
Net cash estimated to be received		4.3

* See Footnote 3

¹ This represents the purchase price of approximately A\$29.6 million plus an estimated A\$1.9 million in margin adjustments minus A\$6.1 million for transferring employee entitlement adjustments and assumes no plant asset adjustment.

² This represents the adjusted purchase price less an amount for completion and post completion working capital adjustments plus A\$6.3 million for the Project Fees for Strathfield Dive Rail Underpass and F2E Pacific Highway Road Tenders (which Macmahon is currently expecting will be novated to Leighton in accordance with the Asset Purchase Agreement (three of the other four Project Tenders listed in the Asset Purchase Agreement have been unsuccessful and the fourth is insufficiently certain to include at the date of this Information Memorandum)).

³ It should be noted that, in the event the Proposed Transaction does not proceed, Macmahon's exposure to the Superway Project will not be capped and may exceed the worst-case outcome agreed with Leighton under the Asset Purchase Agreement.

⁴ Where relevant, the adjustments in the table are based on November 2012 project information.

Additionally, Macmahon will retain approximately A\$40 million worth of plant and equipment that was previously utilised by the construction business and approximately A\$5 million worth of rail plant and equipment that will not form part of the sale to Leighton. This plant and equipment will be used in Macmahon's mining business or sold.

Leighton is Macmahon's largest Shareholder and will hold a 19.5% shareholding in the Company following the completion of the previously announced entitlement offer on 22 January 2013. As Leighton is a substantial holder of Macmahon for the purposes of ASX Listing Rule 10.1, the Proposed Transaction requires the approval of Macmahon Shareholders (excluding Leighton and its Associates) at a general meeting. This Notice of Meeting and the Information Memorandum (including the Independent Expert's Report prepared by Ernst & Young) outlines the background to the Proposed Transaction and important information that you should consider before you vote on the Resolution.

The Directors of Macmahon (other than Mr Vyril Vella for the reason set out below) unanimously support the Proposed Transaction and recommend that Shareholders vote in favour of the Resolution to approve the Proposed Transaction. The Directors of Macmahon (other than Mr Vyril Vella for the reasons set out below) intend to vote in favour of the Resolution to approve the Proposed Transaction in respect of the Macmahon Shares over which they have voting control, subject to the Independent Expert continuing to conclude that the Proposed Transaction the subject of the Resolution is not fair but reasonable to Non-Associated Shareholders.

Furthermore, Ernst & Young, the Independent Expert engaged by the Macmahon Board, has concluded that the Proposed Transaction is not fair but reasonable. A full version of the Independent Expert's Report is included in the Annexure to the Information Memorandum and should be read in its entirety. Further, having regard to the nature of the Proposed Transaction and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that the Non-Associated Shareholders of Macmahon are likely to be better off if the Proposed Transaction proceeds.

Mr Vyril Vella considers it inappropriate to make a recommendation in respect of the Proposed Transaction having regard to the potential conflict of interest arising from his current role as a consultant to Leighton, which is a party to the Proposed Transaction, as well as his previous positions at Leighton.

Notwithstanding the conclusion of the Independent Expert that the Proposed Transaction is not fair but reasonable, the Directors of Macmahon (other than Mr Vyril Vella) recommend that Shareholders vote in favour of the resolution to approve the Proposed Transaction for the following reasons:

- The terms of the Proposed Transaction were negotiated at arm's length, and taking into account all material terms of the Proposed Transaction, the net consideration to be paid by Leighton under the Proposed Transaction is reasonable, particularly if one takes into consideration the associated transaction costs likely to be incurred by a buyer.
- The exit from a stand-alone construction business through the Proposed Transaction and completion of the retained construction projects is expected to reduce Macmahon's risk profile and stabilise earnings through the removal of a high risk and low margin portion of the business.
- Completion of the Proposed Transaction is anticipated to reduce risk and to reduce Macmahon's overhead cost base. Under the terms of the Proposed Transaction, Leighton will assume all liabilities relating to the Sale Assets arising on or after the Effective Date and make offers of employment to certain Macmahon employees for whom additional redundancy costs would have been incurred.
- The Proposed Transaction provides Macmahon, its Shareholders and the employees in the construction business with certainty due to:
 - the limited conditions attached to the Proposed Transaction;
 - the Company's prior experience with Leighton;
 - the contingent, capped residual liability in respect of any potential final loss on the Superway Project – if the Proposed Transaction was not to proceed, there is a risk that further deterioration in the performance of the project may expose Macmahon to its share of any further losses;
 - Leighton's proven track record and its pre-eminent position in the Australian construction industry increasing the likelihood of Macmahon obtaining relevant third party consent as contemplated by the Proposed Transaction (which is material given the high percentage of Macmahon's construction business that is run through joint ventures); and
 - Leighton's relative financial strength and ability to complete the Proposed Transaction, its relative appeal and known capabilities to transferring Macmahon employees, as well as its proven capacity to execute construction contracts in Australia for a broad range of companies and governments.
- While the consideration to be received by Macmahon under the Proposed Transaction falls outside the fair value range for the Sale Assets determined by the Independent Expert by approximately A\$1.4 million (based on a range of assumptions made by the Independent Expert including no negative adjustment being made to the fair value range to account for duties and other transaction costs payable by a purchaser), the difference is not considered material in the context of Macmahon's stated forward strategy and the certainty the Proposed Transaction provides for the Company.
- Macmahon will retain approximately A\$40 million worth of plant and equipment that was previously utilised by the construction business and approximately A\$5 million worth of rail plant and equipment but this will not form part of the sale to Leighton. This plant and equipment will be used in Macmahon's mining business or sold.
- Sale proceeds will provide additional capital and equipment to be applied to the mining growth strategy.
- In the event the Proposed Transaction is not approved, Macmahon's alternatives are not without material risk and there is no certainty that a sale to a third party would be successful.
- Having regard to the nature of the Proposed Transaction and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that the Non-Associated Shareholders of Macmahon are likely to be better off if the Proposed Transaction proceeds.

In arriving at their recommendation that Shareholders vote in favour of the Proposed Transaction, the Directors of Macmahon (other than Mr Vyril Vella) have considered all relevant circumstances including Macmahon's desire to move forward with its refocused strategy as quickly as possible in order to provide the most certainty possible to its Shareholders, employees, partners and clients (including government clients).

The Directors of Macmahon note the potential alternatives proposed to Macmahon by Sembawang Australia Pty Ltd, a wholly owned subsidiary of Sembawang Engineers and Constructors Pte Ltd ("**Sembawang**"), under which Sembawang would acquire either a portion or all of Macmahon's construction businesses (announced to ASX on 4 January 2013). Despite the initial proposal lapsing and Sembawang confirming in a press release dated 13 January 2013 that it would not be making any further offers for Macmahon's construction businesses, Macmahon received a further letter from Sembawang on 14 January 2013 re-tableting its offer to acquire a portion of Macmahon's construction business.

As indicated in Macmahon's announcement on Monday, 14 January 2013, the Board rejected the re-tableted Sembawang proposal on the basis that it was not in the interests of Shareholders. Notwithstanding this and despite statements by Sembawang that it would not be making any further offers for the construction business of Macmahon, the Company received a further letter from Sembawang dated 15 January 2013 stating that Sembawang "remains interested in acquiring Macmahon's construction businesses as going concerns". The independent directors of Macmahon once again unanimously rejected the proposal from Sembawang and advised Sembawang the independent directors consider the matter of the Sembawang proposals closed.

In light of all these circumstances, the Directors of Macmahon (other than Vyril Vella), consider the Proposed Transaction with Leighton to be in the best interests of Shareholders given:

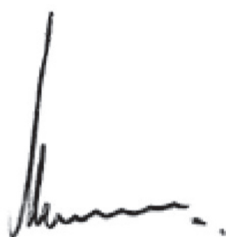
- its highly certain terms;
- its limited conditions;
- it caps Macmahon's liability in respect of any potential final loss on the Superway Project;
- Leighton's well known and highly regarded Australian construction track record;
- Leighton's financial strength and ability to complete the Proposed Transaction;
- the absence of any alternative binding proposals;
- it will remove approximately A\$8.7 million of pre-tax employee liabilities from Macmahon's balance sheet (A\$6.1 million post-tax);
- the avoidance of significant closure costs in the event Macmahon was forced to wind down its construction business;
- the consideration to be received by Macmahon being within approximately A\$1.4 million of the fair value range as determined by the Independent Expert (based on a range of assumptions made by the Independent Expert including no negative adjustment being made to the fair value range to account for duties and other transaction costs payable by a purchaser); and
- further, having regard to the nature of the Proposed Transaction and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that the Non-Associated Shareholders of Macmahon are likely to be better off if the Proposed Transaction proceeds.

I encourage you to read the Information Memorandum (including the Independent Expert's Report prepared by Ernst & Young) carefully and in its entirety as it contains important information that will need to be considered before you vote on the Proposed Transaction.

The general meeting is scheduled to be held on Tuesday, 26 February 2013 at 2.00 pm (WST) at City West Reception Centre, 45 Plaistowe Mews, City West Centre, West Perth WA 6005. Details of how you may cast your vote are set out in the Notice of Meeting.

Should you require any further information about the Proposed Transaction, please contact the Macmahon Shareholder Information Line on 1300 386 269 (within Australia) or +61 3 9415 4681 (outside Australia) at any time between 9.00 am and 5.00 pm (WST) Monday to Friday.

Yours sincerely



Ken Scott-Mackenzie
Chairman
Macmahon Holdings Limited

Information Memorandum

1. Introduction

This Information Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting of Macmahon Holdings Limited (ACN 007 634 406) to be held at City West Reception Centre, 45 Plaistowe Mews, City West Centre, West Perth WA 6005 on Tuesday, 26 February 2013 at 2.00 pm.

This Information Memorandum provides information that the Directors believe to be material to Shareholders in deciding whether or not to vote in favour of the resolution contained in the Notice of Meeting. The Information Memorandum does not take into account the individual investment objectives, financial situation or needs of Shareholders or any other person. Accordingly, they should not be relied on solely in determining how to vote on the Resolution.

The Notice of Meeting, Information Memorandum, Independent Expert's Report and Proxy Form are all important documents. They should be read carefully in their entirety before you make a decision on how to vote at the Meeting.

Capitalised terms not defined in section 3 of this Information Memorandum are defined in the Glossary in section 4 below.

If you have any questions regarding the matters set out in the documents, please contact the Company Secretary on +61 8 9232 1000 or visit Macmahon's website (www.macmahon.com.au). You should also contact your stockbroker, accountant, lawyer or other professional adviser.

2. Key dates

The key dates associated with the Meeting and this document are set out below:

Event	Date
Completed Proxy Form to be received no later than	2.00 pm (WST) on Sunday, 24 February 2013
Date and time for determining eligibility to attend and vote at the Meeting	4.00 pm (WST) on Sunday, 24 February 2013
Meeting of Shareholders	2.00 pm (WST) on Tuesday, 26 February 2013

3. Sale of construction projects to Leighton Holdings Limited

3.1 The requirement for Shareholder approval

On 23 December 2012, Macmahon entered into the Asset Purchase Agreement with Leighton to sell the majority of the construction projects of the Macmahon Group (including corresponding plant and equipment, and the transfer of certain personnel).

The Macmahon Group's construction business comprises of, among other things, its interests in the Project Contracts, the Plant Assets, the Transferring Employees and various other assets in connection with those projects (the "**Sale Assets**", the details of which are set out below).

The adjusted purchase price under the Proposed Transaction will be approximately A\$25.4⁵ million. However, after taking into account Macmahon's current estimates for completion and post-completion adjustments, the total purchase consideration is estimated to be approximately A\$23.9⁶ million before taking into account the contingent, capped liability exposure to the Superway Project that Macmahon will retain after completion (see section 3.12). Taking into account the worst-case outcome in relation to this exposure, Macmahon expects the net cash it will receive from the Proposed Transaction to be approximately A\$4.3 million⁷.

Rule 10.1 of the ASX Listing Rules requires a company to obtain shareholder approval if the company (or a subsidiary) wishes to dispose of a substantial asset to certain persons who have a prescribed relationship with the company. As Leighton is a "substantial holder" of Macmahon for the purposes of ASX Listing Rule 10.1.3 (having a relevant interest in at least 10% of the total votes attaching to Macmahon Shares) and the Sale Assets are "substantial assets" within the meaning of ASX Listing Rule 10.2, approval of the Proposed Transaction by Shareholders (excluding Leighton and its Associates) is required.

Accordingly, this Meeting has been called to seek approval from Shareholders (excluding Leighton and its Associates) of the Proposed Transaction pursuant to the Asset Purchase Agreement (the "**Sale**"), and to assist Shareholders to determine how to vote on the resolution required to approve the Sale.

⁵ This represents the purchase price of approximately A\$29.6 million plus an estimated A\$1.9 million in margin adjustments minus A\$6.1 million for transferring employee entitlement adjustments and assumes no plant asset adjustment.

⁶ This represents the adjusted purchase price less an amount for completion and post completion working capital adjustments plus A\$6.3 million for the Project Fees for Strathfield Dive Rail Underpass and F2E Pacific Highway Road Tenders (which Macmahon is currently expecting will be novated to Leighton in accordance with the Asset Purchase Agreement (three of the other four Project Tenders listed in the Asset Purchase Agreement have been unsuccessful and the fourth is insufficiently certain to include at the date of this Information Memorandum)).

⁷ It should be noted that, in the event the Proposed Transaction does not proceed, Macmahon's exposure to the Superway Project will not be capped and may exceed the worst-case outcome agreed with Leighton under the Asset Purchase Agreement.

3.2 Overview of the Proposed Transaction

Pursuant to the Asset Purchase Agreement, Leighton has agreed to purchase the Sale Assets. Although Leighton is referred to as the acquirer under the Proposed Transaction, Leighton may use one or more related bodies corporate as the acquisition vehicle(s), save that Leighton will continue to be bound by all its obligations under the Asset Purchase Agreement.

3.3 About the Leighton Group

The Leighton Group is a diversified provider of development, construction, contract mining and operation and maintenance services to the infrastructure, resources and property markets in 20 countries throughout Australia, Asia, the Middle East and Southern Africa. Leighton Holdings, the parent company of the Leighton Group, is an ASX50 company with a market capitalisation of A\$6.4 billion as at 7 January 2013. The Leighton Group operates through a number of diverse and independent operating companies including: Leighton Contractors; Thiess; John Holland; Leighton Asia, India, Offshore; and Leighton Properties. The Leighton Group also has a 45% investment in the Habtoor Leighton Group.

In accordance with the Asset Purchase Agreement, Leighton Holdings has confirmed that it intends to nominate John Holland entities to acquire all the Sale Assets with the exception of those related to the Pilbara ISA project, which Leighton has confirmed Leighton Contractors' entities shall acquire.

Leighton has been Macmahon's largest shareholder since it acquired an approximately 15% shareholding in Macmahon in 2007. Leighton currently holds an ownership interest of 24.2% which is expected to reduce to 19.5% following the completion of Macmahon's retail entitlement offer on 22 January 2013. Macmahon has participated in a number of joint ventures with Leighton in both Australia and Asia and is continuing to do so at this time.

3.4 The Sale Assets

The Asset Purchase Agreement contemplates the transfer of the following Sale Assets to Leighton for the Purchase Price as adjusted in accordance with the Asset Purchase Agreement:

- (a) Macmahon's interest in the Project Contracts:
 - (i) (in the Northern Territory) Ichthys Onshore LNG Facility Site Development Works (in joint venture with John Holland), Darwin Marine Supply Base and Shoal Bay Waste Disposal Facility 2020;
 - (ii) (in Western Australia) Great Northern Highway Realignment and Pilbara ISA; and
 - (iii) (in New South Wales) Bega Bypass – Princes Highway Upgrade;
- (b) Macmahon's interest in the following joint venture contracts:
 - (i) (in South Australia⁸) Urban Superway joint venture (in joint venture with John Holland); and
 - (ii) (in relation to the Rail business in New South Wales) Glenfield Alliance joint venture;
- (c) the Plant Assets;
- (d) authorisations necessary for the purposes of the Project Contracts and held by Macmahon as at completion and not reasonably required by Macmahon post-completion;
- (e) certain asset records associated with the Sale Assets; and
- (f) the Transferring Employees.

3.5 Retained Assets

Not all of Macmahon's current construction projects are being transferred to Leighton. Macmahon is retaining its interests in specific projects, most of which are nearing completion (Hope Downs 4, Solomon Rail Spur, the Gladstone LNG project and several minor projects), with two projects having longer to run, being the Trangie Irrigation Project in New South Wales (completion expected in December 2014) and the XRL 822 Rail Tunnel Project in Hong Kong, which is a joint venture with Leighton Asia (completion expected in March 2015).

Macmahon will also retain approximately A\$40 million worth of construction plant and equipment and approximately A\$5 million worth of rail plant and equipment, which will be used in its mining business or sold.

⁸ Managed by Macmahon's New South Wales office.

3.6 Liability Regime

Under the Asset Purchase Agreement:

- (a) Macmahon will retain all liabilities in relation to the Sale Assets arising before 11.59 pm on 31 December 2012 (the “**Effective Date**”). From completion, Leighton will assume all liabilities in relation to the Sale Assets arising on or after the Effective Date;
- (b) 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; and
- (c) Macmahon will retain a contingent, capped residual liability in respect of the Superway Project (see section 3.12 of this Information Memorandum) and exposure to the retained projects and any liabilities under already completed construction projects.

3.7 Purchase Price

The Purchase Price referred to in the Asset Purchase Agreement 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 which reflects an estimate of the anticipated margin remaining on these contracts plus the transfer of risks relating to the delivery of these contracts; and
- (b) A\$15,485,814 reflecting the agreed value of the Plant Assets.

The Purchase Price will be adjusted in accordance with the terms of the Asset Purchase Agreement, summarised in section 3.8 below.

3.8 Purchase Price adjustments⁹

(a) Effective Date adjustments

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 Asset Purchase Agreement until the Effective Date.

At the date of this Information Memorandum, Macmahon estimates that the following approximate Purchase Price adjustments may be applicable at the Effective Date:

- (i) Margin adjustment: A\$1.9 million in favour of Macmahon (that is, an increase in the Purchase Price);
- (ii) Plant Asset adjustment: no material adjustment; and
- (iii) Transferring Employee entitlements: A\$8.7 million of pre-tax employee liabilities (A\$6.1 million post tax) in favour of Leighton (that is, a decrease in the Purchase Price) (see section 3.11).

(b) Completion and post-completion adjustments

The Asset Purchase Agreement also includes completion adjustments to ensure that, while title and interests in the Sale Assets does not pass to Leighton until completion, subject to completion of the Proposed Transaction:

- (i) Macmahon receives the full benefit and bears the full burden of the Sale Assets until the Effective Date; and
- (ii) 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 (reflecting the net working capital position of Project Contracts), Project Fees from successful Project Tenders (see section 3.9), joint venture cash contributions and distributions and other outgoings and receipts, in the period from the Effective Date until completion of the Sale.

The Asset Purchase Agreement also provides for similar post-completion adjustments.

Excluding Project Fees, at the date of this Information Memorandum, Macmahon estimates the amount of the completion and post completion adjustments to be approximately A\$7.8 million in Leighton's favour (that is, a decrease in the total purchase consideration).

⁹ Any adjustments under the Asset Purchase Agreement are subject to agreement with Leighton, with a dispute resolution procedure applying in the event that agreement cannot be reached on the adjustments.

3.9 Project Fees

Pursuant to the Asset Purchase Agreement, Macmahon will receive a Project Fee in respect of each Project Tender if:

- (a) the contract in respect of the Project Tender is novated to Leighton (or one of its nominees); or
- (b) Leighton (or one of its nominees) executes a new contract in respect of that Project Tender.

At the date of this Information Memorandum, Macmahon expects that at least the Strathfield Dive Rail Underpass and F2E Pacific Highway Road Project Tenders may be novated to Leighton (or one of its nominees) or a new contract in respect of those Project Tenders will be entered into by Leighton (or one of its nominees). In which case, Macmahon would receive a total Project Fee in relation to these Project Tenders of A\$6,254,115.

At the date of this Information Memorandum, three of the other four Project Tenders listed in the Asset Purchase Agreement have been unsuccessful and the fourth is insufficiently certain to include.

3.10 Conditions precedent

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

- (a) Leighton obtaining either ACCC approval or, alternatively, not receiving an objection to the Sale from the ACCC before 19 February 2013;
- (b) Macmahon Shareholder approval, where neither Leighton nor any of its Associates votes on that resolution for the purposes of ASX Listing Rule 10.1 and, if required, ASX Listing Rule 11.1;
- (c) 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, modifies or makes any public statement that is inconsistent with that recommendation; and
- (d) The Independent Expert concluding in its Independent Expert's Report that the Sale is reasonable to Non-Associated Shareholders.

As at the date of this Notice of Meeting, the conditions in paragraphs 3.10(a) and 3.10(d) have been satisfied with satisfaction of the remaining conditions still outstanding. Macmahon is not aware of any reason why these conditions will not be satisfied. ASX has confirmed that it will not exercise its discretion to require that Macmahon also seek Shareholder approval for the purposes of ASX Listing Rule 11.1.

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.

3.11 Transferring Employees

Offers of employment will be made to each Employee on substantially similar terms to (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.

From completion, Leighton will assume liability for the accrued entitlements of Transferring Employees, in exchange for a proportionate adjustment to the Purchase Price (currently expected to be approximately A\$6.1 million post-tax, as referred to in section 3.8 above).

3.12 Superway Project Cap

Macmahon will retain a contingent, capped exposure to the Superway Project after completion of the Sale.

- (a) Macmahon will contribute cash to the Superway joint venture 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 on a pre-tax basis (or A\$17.5 million on a tax adjusted basis).
- (b) Macmahon will also repay to the Superway joint venture any cash distributions it has received from the Superway JV, which at the date of this Information Memorandum, is approximately A\$2.1 million.

3.13 Seller guarantee

Macmahon has guaranteed the performance by each of the Macmahon Seller Entities to the Asset Purchase Agreement of all of their obligations under the Asset Purchase Agreement, and agreed to indemnify Leighton for any non-performance by those parties under the Asset Purchase Agreement.

3.14 Financial Impact on Macmahon

The adjusted purchase price under the Proposed Transaction will be approximately A\$25.4 million¹⁰. However after taking into account Macmahon's current estimates for completion and post-completion adjustments, the total purchase consideration is estimated to be approximately A\$23.9¹¹ million before taking into account the contingent, capped liability exposure to the Superway Project that Macmahon will retain after completion (see section 3.12). Taking into account the worst-case outcome in relation to this exposure, Macmahon expects the net cash it will receive from the Proposed Transaction to be approximately A\$4.3 million¹².

The table below summarises the adjusted purchase price, total purchase consideration and net cash currently estimated to be received by Macmahon as a result of the Proposed Transaction¹³.

Item	Section Reference	Amount A\$ million
Purchase Price	3.7	29.6
Plus: estimated margin adjustments	3.8(a)	1.9
Less: Employee entitlement adjustments	3.11	(6.1)
Adjusted purchase price		25.4
Less: current estimates of completion and post-completion working capital adjustments	3.8(b)	(7.8)
Plus: Project Fees	3.9	6.3
Total purchase consideration		23.9
Less: Tax adjusted worst-case loss on Superway contract required to be paid by Macmahon under the Asset Purchase Agreement ("Superway Cap")*	3.12(a)	(17.5)
Less: Repayment to the Superway joint venture of the cash distributions Macmahon has received from the Superway joint venture	3.12(b)	(2.1)
Net cash estimated to be received		4.3

* See Footnote 13

Taking into consideration the probable losses associated with the contingent Superway Project liability, the accounting impacts of this transaction can be summarised as follows:

- (a) Prior to incurring any one-off restructuring costs, Macmahon estimates the Proposed Transaction to result in an increase in its cash balance by approximately A\$4.3 million. From an earnings perspective, Macmahon estimates the Proposed Transaction to have an approximately A\$4.7 million positive impact on its consolidated statement of comprehensive income for the financial year ending 30 June 2013.
- (b) In order to implement the Proposed Transaction and exit from the construction business, Macmahon will incur a range of one-off pre-tax restructuring cash costs of approximately A\$11.5 million in the financial year ending 30 June 2013. These costs relate primarily to employee leave liabilities and redundancies and are necessary as part of the exit from construction. Macmahon will recognise a post-tax loss of A\$11.5 million in its consolidated statement of comprehensive income for the same financial period, which includes a goodwill write-down (tax effected) of approximately A\$3 million relating to the Macmahon rail business.

These expected accounting impacts are subject to final adjustments at the Effective Date, which will be subject to audit¹⁴.

¹⁰ This represents the purchase price of approximately A\$29.6 million plus an estimated A\$1.9 million in margin adjustments minus A\$6.1 million for transferring employee entitlement adjustments and assumes no plant asset adjustment.

¹¹ This represents the adjusted purchase price less an amount for completion and post completion working capital adjustments plus A\$6.3 million for the Project Fees for Strathfield Dive Rail Underpass and F2E Pacific Highway Road Tenders (which Macmahon is currently expecting will be novated to Leighton in accordance with the Asset Purchase Agreement (three of the other four Project Tenders listed in the Asset Purchase Agreement have been unsuccessful and the fourth is insufficiently certain to include at the date of this Information Memorandum)).

¹² It should be noted that, in the event the Proposed Transaction does not proceed, Macmahon's exposure to the Superway Project will not be capped and may exceed the worst-case outcome agreed with Leighton under the Asset Purchase Agreement.

¹³ Where relevant, the adjustments in the table are based on November 2012 project information.

¹⁴ Earnings guidance provided to the market to date assumes no sale of Macmahon's construction projects, and does not include the impact of the Proposed Transaction.

3.15 Exclusivity

Under the Asset Purchase Agreement signed with Leighton, Macmahon has agreed to certain exclusivity arrangements until the completion of the Sale in order for Macmahon Shareholders to consider the Leighton proposal.

In Macmahon's view, these exclusivity arrangements are consistent with arm's length, commercial arrangements for a sale transaction of this nature and do not improperly fetter the Macmahon Directors' ability to respond to an unsolicited superior offer.

3.16 Other considerations

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

If the Asset Purchase Agreement is terminated in these circumstances, Macmahon will pursue a sale of the construction business to a third party. Approximately 38% of Macmahon's construction order book relates to joint venture projects with Leighton Group companies¹⁵. The joint venture agreements for these projects require consent by all members of the joint venture for a party to transfer its interest in the joint venture to a third party. This may impact Macmahon's ability to sell its interest in these joint venture projects, sell its whole construction business in one package, or to sell the same Project Contracts included in the Asset Purchase Agreement to a party other than Leighton. It is important to note that no certainty exists as to the whether a sale to a third party will be successful. In the event a sale to a third party is successful, no certainty exists as to the timing or terms upon which that sale may occur.

In parallel with the pursuit of a sale to a third party, as announced to ASX on 12 December 2012, Macmahon will continue to downsize and reduce risks associated with the construction business through the following initiatives:

- Macmahon has already stopped tendering on large scale stand-alone construction projects.
- Macmahon will be closing its East Coast construction offices such that any existing projects will be overseen via Macmahon's Western Australian headquarters.
- The residual Western Australian construction business will be integrated into Macmahon's surface mining operations.
- Macmahon may also pursue the separate sale of its joint venture projects.
- Further overhead and administrative cost savings will be implemented consistent with the downsizing of the construction business.

If the Proposed Transaction is not approved, Macmahon will continue to be exposed to the risks of the construction business while a sale and the downsizing and risk reduction initiatives are pursued.

3.17 Independent Expert's Report

ASX Listing Rule 10.10.2 requires that the notice of meeting given to Shareholders pursuant to ASX Listing Rule 10.1 include a report on the Proposed Transaction from an independent expert. The report must state whether the transaction is fair and reasonable to all Macmahon Shareholders (excluding those Shareholders not entitled to vote at the Meeting, being Leighton and its Associates).

Macmahon has commissioned Ernst & Young to prepare the Independent Expert's Report in relation to the Proposed Transaction. A copy of the Independent Expert's Report accompanies this Information Memorandum and is included as the Annexure to this Information Memorandum.

The Independent Expert's Report concludes that the Proposed Transaction is not fair but reasonable to Non-Associated Shareholders for the reasons outlined in their Independent Expert's Report. Further, having regard to the nature of the Proposed Transaction and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that the Non-Associated Shareholders of Macmahon are likely to be better off if the Proposed Transaction proceeds.

Shareholders are urged to read the Independent Expert's Report carefully and in its entirety. In particular, Shareholders are referred to sections 8.4.2 and 8.4.3 of the Independent Expert's Report which summarise the advantages and disadvantages of the Proposed Transaction.

In accordance with ASX Listing Rule 10.10A.3:

- a copy of the Independent Expert's Report is also available on the Macmahon website at www.macmahon.com.au; and
- if a Shareholder so requests, Macmahon will send a hard copy of the Independent Expert's Report to that Shareholder free of charge.

¹⁵ Calculated on the basis that the F2E Pacific Highway Road project (a joint venture with Thiess, a Leighton Group entity) and the Strathfield Dive Rail Underpass project are novated to Leighton as part of the Proposed Transaction. As at 31 December 2012, approximately 38% of Macmahon's construction order book relates to joint venture projects with Leighton Group companies.

3.18 Recommendation of the Directors of Macmahon

The Directors of Macmahon (other than Mr Vyril Vella for the reason set out below), unanimously support the Proposed Transaction and recommend that Shareholders vote in favour of the Resolution to approve the Proposed Transaction. The Directors of Macmahon (other than Mr Vyril Vella for the reason set out below) intend to vote in favour of the Resolution to approve the Proposed Transaction in respect of the Macmahon Shares over which they have voting control, subject to the Independent Expert continuing to conclude that the Proposed Transaction the subject of the Resolution is not fair but reasonable to Non-Associated Shareholders.

Mr Vyril Vella considers it inappropriate to make a recommendation in respect of the Proposed Transaction having regard to the potential conflict of interest arising from his current role as a consultant to Leighton, which is a party to the Proposed Transaction, as well as his previous positions at Leighton.

Notwithstanding the conclusion of the Independent Expert that the Proposed Transaction is not fair but reasonable, the Directors of Macmahon (other than Mr Vyril Vella) recommend that Shareholders vote in favour of the Proposed Transaction for the following reasons:

(a) The exit from construction is core to Macmahon's new mining focused strategy and the Proposed Transaction provides certainty to Macmahon, its shareholders and the employees in the construction business

As announced to the ASX on 12 December 2012, Macmahon has made a strategic decision to focus on providing a full suite of services to the mining industry leveraging off its current strong platform as a leading international provider of surface and underground contract mining services.

Macmahon's mining business has had a strong and profitable history and its future growth is underpinned by a significant mining order book of A\$1.9 billion¹⁶ with a diversified, blue chip client base. This order book excludes Macmahon's A\$1.8 billion preferred contractor status at Fortescue Metals Group Limited's, Christmas Creek operations which is anticipated to be finalised in January 2013. Core to this strategy is the exit from construction via the Proposed Transaction and completion of the retained construction contracts so that Macmahon can focus 100% of its capital and resources on the mining business.

While the consideration to be received by Macmahon under the Proposed Transaction falls outside the fair value range for the Sale Assets determined by the Independent Expert by approximately A\$1.4 million (based on a range of assumptions made by the Independent Expert including no negative adjustment being made to the fair value range to account for duties and other transaction costs payable by a purchaser), the difference is not considered material in the context of Macmahon's new mining focused forward strategy and the certainty the Proposed Transaction provides for the Company. As such, the Leighton offer is considered reasonable.

The Proposed Transaction provides Macmahon, its shareholders and the employees in the construction business with certainty due to:

- the limited conditions attached to the Proposed Transaction;
- the Company's prior experience with Leighton;
- the contingent, capped residual liability in respect of any potential final loss on the Superway Project (as discussed at 3.18(f) below);
- Leighton's proven track record and its pre-eminent position in the Australian construction industry increasing the likelihood of Macmahon obtaining relevant third party consent as contemplated by the Proposed Transaction (which is material given the high percentage of Macmahon's construction business that is run through joint ventures); and
- Leighton's relative financial strength and ability to complete the Proposed Transaction, its relative appeal and known capabilities to transferring Macmahon employees, as well as its proven capacity to execute construction contracts in Australian for a broad range of companies and governments.

(b) The exit from construction through the Proposed Transaction is expected to reduce Macmahon's risk profile and stabilise earnings through the removal of a high risk and low margin portion of the business

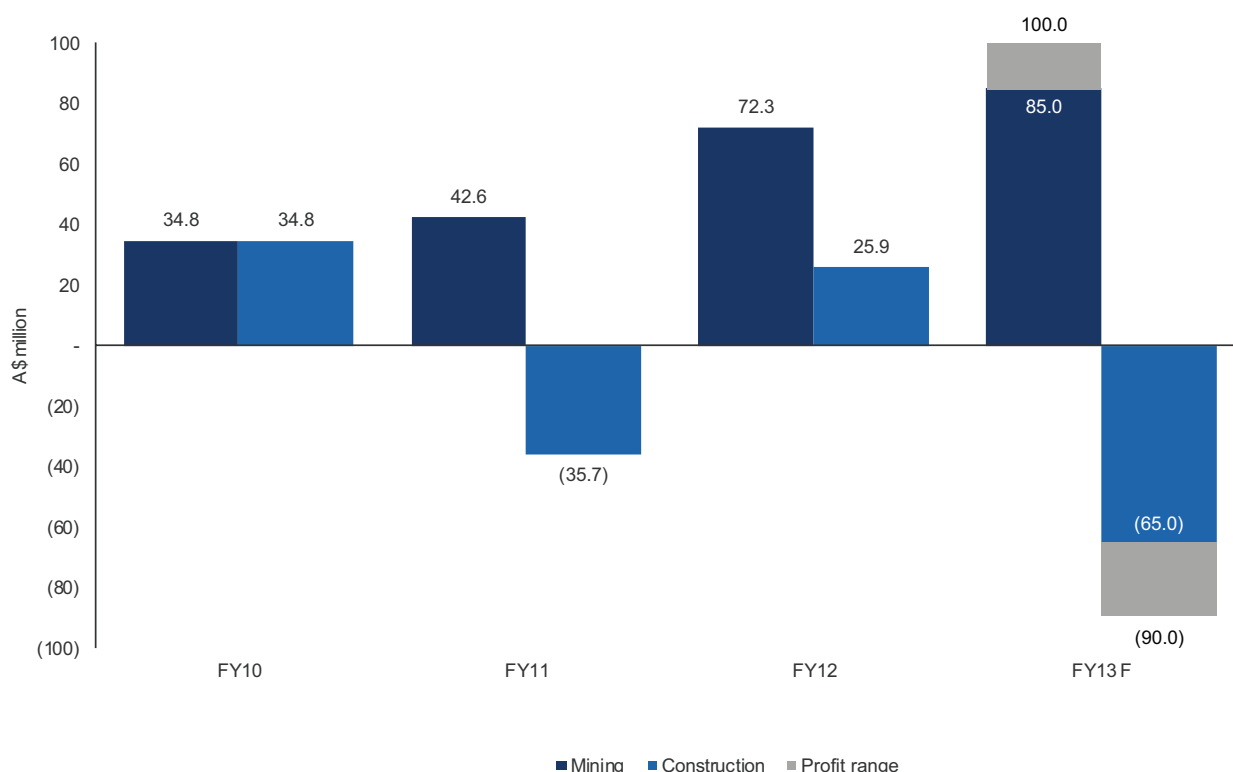
Macmahon's mining business has a strong history of consistent profitability and growth as outlined in the chart below. Macmahon's mining business is expected to achieve FY13 Profit Before Tax ("PBT") in the range of A\$85 million to A\$100 million which has grown from A\$34.8 million in FY10. In contrast, the PBT contribution from Macmahon's construction business has been volatile and suffered a number of material losses in recent years including an expected FY13 PBT loss in the range of A\$65 million to A\$90 million¹⁷. The FY13 forecast result includes the previously announced losses across 3 key projects that will be recognised in the FY13 H1 result.

These construction losses have adversely impacted Macmahon's overall financial performance, the consistency of earnings and ultimately Macmahon's share price, which has overshadowed the relative success of the mining business. The extent of these losses and the nature of the construction business highlight the risks Macmahon has historically been exposed to and justify Macmahon's decision to exit this business. The successful completion of the Proposed Transaction coupled with the completion of Macmahon's retained construction contracts will remove Macmahon's exposure to these risks over time, which is expected to improve Macmahon's overall profitability and significantly reduce Macmahon's earnings volatility.

¹⁶ As at 31 October 2012.

¹⁷ Earnings guidance provided to the market to date assumes no sale of Macmahon's construction projects, and does not include the impact of the Proposed Transaction.

Macmahon – Profit Before Tax (PBT) Contribution¹⁸



(c) Macmahon will receive reasonable consideration and completion of the Proposed Transaction is anticipated to reduce risk and to reduce Macmahon's overhead cost base

The terms of the Proposed Transaction were negotiated at arm's length, and taking into account all material terms of the Proposed Transaction, the net consideration to be paid by Leighton under the Proposed Transaction is reasonable, particularly if one takes into consideration the associated transaction costs likely to be incurred by a buyer.

The adjusted purchase price under the Proposed Transaction will be approximately A\$25.4 million¹⁹. However after taking into account Macmahon's current estimates for completion and post-completion adjustments, the total purchase consideration is estimated to be approximately A\$23.9²⁰ million before taking into account the contingent, capped liability exposure to the Superway Project that Macmahon will retain after completion (see section 3.12). Taking into account the worst-case outcome in relation to this exposure, Macmahon expects the net cash it will receive from the Proposed Transaction to be approximately A\$4.3 million²¹.

The Purchase Price payable by Leighton reflects two components being:

- (i) A\$14,100,000 for the novation of the Project Contracts which reflects an estimate of the anticipated margin remaining on these contracts plus the transfer of risks relating to the delivery of these contracts; and
- (ii) A\$15,485,814 reflecting the agreed value of the Plant Assets.

The Purchase Price will be adjusted in accordance with the Asset Purchase Agreement (as summarised in section 3.8 of this Information Memorandum).

In addition, Leighton will assume all liabilities relating to the Sale Assets arising on and after the Effective Date and will be making offers of employment to certain Macmahon employees for whom additional redundancy costs would have been incurred. Completion of the Proposed Transaction is therefore anticipated to reduce risk and to reduce the Company's overhead cost base. Given the earnings volatility and the significant losses incurred and anticipated in FY13, Macmahon considers the Purchase Price to be fair and reasonable.

¹⁸ Earnings guidance provided to the market to date assumes no sale of Macmahon's construction projects, and does not include the impact of the Proposed Transaction.

¹⁹ This represents the purchase price of approximately A\$29.6 million plus an estimated A\$1.9 million in margin adjustments minus A\$6.1 million for transferring employee entitlement adjustments and assumes no plant asset adjustment.

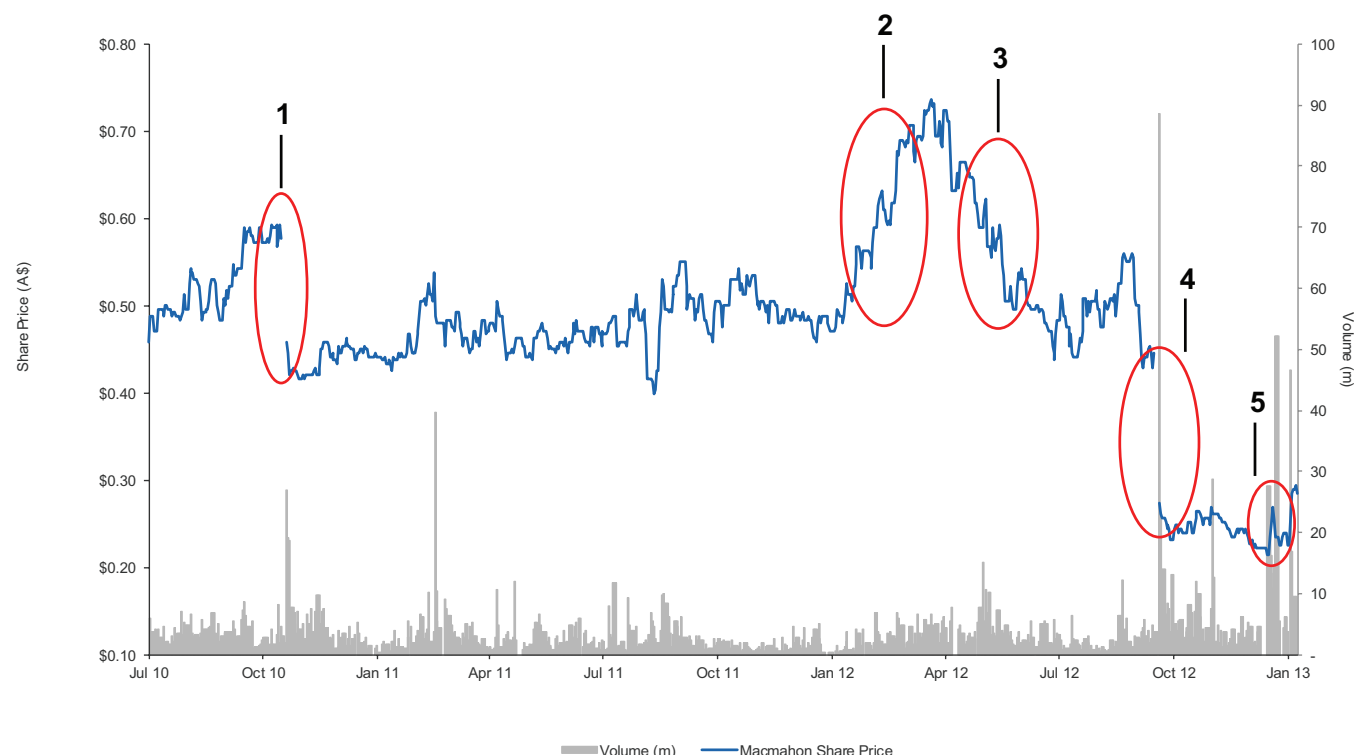
²⁰ This represents the adjusted purchase price less an amount for completion and post completion working capital adjustments plus A\$6.3 million for the Project Fees for Strathfield Dive Rail Underpass and F2E Pacific Highway Road Tenders (which Macmahon is currently expecting will be novated to Leighton in accordance with the Asset Purchase Agreement (three of the other four Project Tenders listed in the Asset Purchase Agreement have been unsuccessful and the fourth is insufficiently certain to include at the date of this Information Memorandum)).

²¹ It should be noted that, in the event the Proposed Transaction does not proceed, Macmahon's exposure to the Superway Project will not be capped and may exceed the worst-case outcome agreed with Leighton under the Asset Purchase Agreement.

(d) The Macmahon Directors believe the Macmahon shares may re-rate over the medium term through improved earnings certainty and predictability

Macmahon's share price performance has been volatile in recent years as a result of the performance of the construction business as illustrated in the following chart:

Macmahon Historical Share Price Performance



The annotated chart above illustrates Macmahon's daily share price performance between 1 January 2010 and 4 January 2013. A number of key events are detailed below:

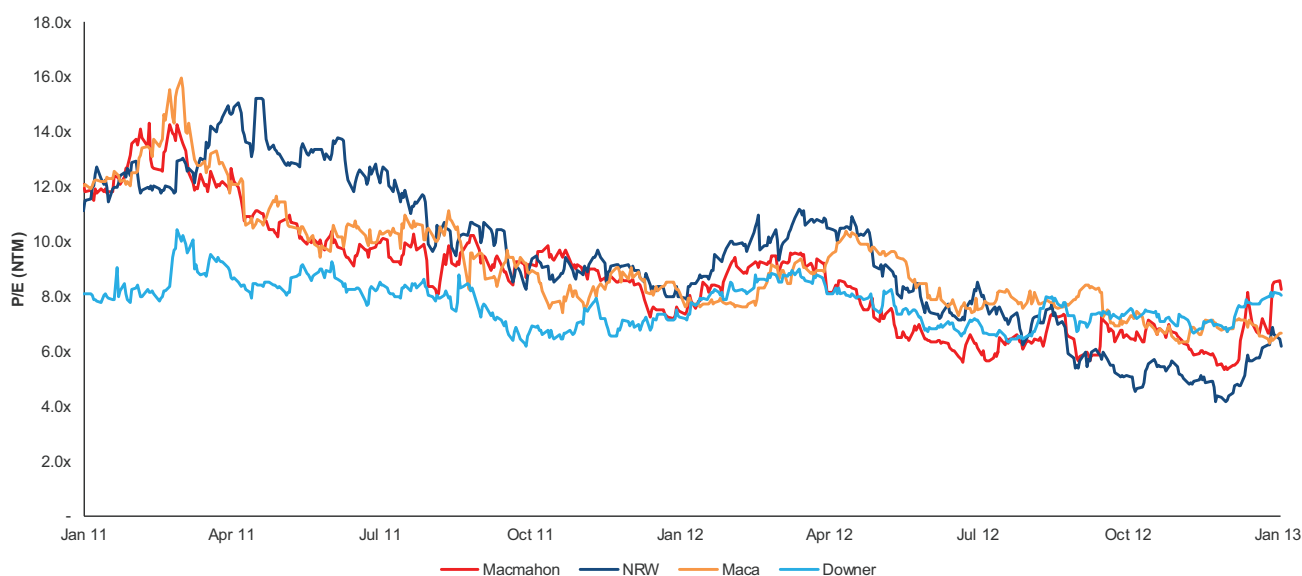
1. 19 October 2010 – Macmahon announces a number of issues with a Western Australian rail contract negatively impacting on profitability and a lower volume of work won in construction. Macmahon share price falls approximately 20% post announcement.
2. Macmahon announces a number of contract wins during this period including the Darwin Marine Supply Base Contract (20 February 2012) and Ichthys Onshore LNG Facilities Site Development Works Contract (15 March 2012).
3. Continued broad deterioration in equity markets marked by negative newsflow out of Europe including record unemployment rates and banking bail-outs – particularly in Spain. This negative newsflow weighed upon Macmahon during this period despite announcing a contract win in mid-June with regards to the Great Northern Highway (21 June 2012).
4. 19 September 2012 – Earnings guidance downgrade due to issues with the Hope Downs 4 Contract and increased uncertainty about the outlook for new construction work given market volatility.
5. 12 December 2012 – Announcement of the fully underwritten non-renounceable accelerated entitlement to raise approximately A\$81 million. With the exception of the first two trading days following the offer, Macmahon shares have traded at a premium to the theoretical ex-rights price (TERP), closing as at 8 January 2013 at A\$0.285, a premium of 28% over TERP and 78% over the entitlement offer issue price. Both the institutional and retail tranches of the entitlement offer are fully underwritten. This, together with the post-announcement trading performance of Macmahon shares highlights the confidence investors have in Macmahon's new strategy.

Further, Macmahon's consensus one year forward Price Earnings (P/E) multiple²² has fluctuated over the last two years as illustrated in the chart below from a range of 12.0 - 13.0x in December 2010, down to as low as 5.5 - 7.0x prior to the announcement of Macmahon's refocused strategy, the Proposed Transaction and Macmahon's recent equity raising.

Subsequent to this announcement, Macmahon's consensus one year forward Price Earnings (P/E) multiple has increased materially to 8.5x as at 4 January 2013. This P/E is partly a function of Macmahon's revised FY13 NPAT guidance of A\$0 to A\$25 million (as announced to ASX on 12 December 2012), however the support demonstrated for Macmahon's recent entitlement offer and the subsequent market trading has indicated the market's positive affirmation of Macmahon's strategy. Over the medium term, as Macmahon is able to demonstrate improved profitability and consistency of earnings it is expected that Macmahon will trend towards a higher P/E multiple, creating value for Macmahon shareholders.

²² Earnings based on one year forward consensus analyst forecasts at the time sourced from Factset.

Macmahon – 12 Month Price Earnings Multiple v Select Peers (2011-Present) 23



(e) Sale proceeds provide additional capital and equipment to be applied to the mining growth strategy

As outlined in section 3.14 above, Macmahon expects the net cash it will receive from the Proposed Transaction to be approximately A\$4.3 million.

In addition, Macmahon will retain approximately A\$40 million worth of plant and equipment that was previously used by the construction business and approximately A\$5 million worth of rail and equipment that will not form part of the sale to Leighton. This plant and equipment will be used in Macmahon's mining business or sold.

The proceeds from the Proposed Transaction coupled with proceeds from the sale of retained assets will help fund Macmahon's future capital expenditure requirements in its mining business. This will provide greater flexibility to pursue growth opportunities in Macmahon's mining business.

(f) The Proposed Transaction provides certainty by limiting the potential final loss on the Superway Project

Under the terms of the Asset Purchase Agreement, Macmahon will retain a number of projects (including several nearing completion – Hope Downs 4, Solomon Rail Spur, Gladstone LNG Project and several minor projects, as well as the Trangie Irrigation Project in New South Wales and XRL 822 Rail Tunnel Project in Hong Kong, which is a joint venture with Leighton Asia, both with longer to run before completion), as well as residual exposure to its share in the Superway Project.

However the Asset Purchase Agreement provides for this residual liability in relation to the Superway Project to be capped at a maximum amount of A\$25 million on a pre-tax basis (or A\$17.5 million on a tax adjusted basis). If the Proposed Transaction was not to proceed, there is a risk that further deterioration in the performance of the contract may cause Macmahon's share of the final Superway Project loss to exceed the capped maximum amount. If this was to occur Macmahon would be liable for its share of any further losses (above the A\$25 million cap).

Whilst the final loss is yet to be determined, the Proposed Transaction provides certainty by capping the size of Macmahon's potential exposure to losses at the Superway Project.

(g) The Independent Expert's Report concludes that the Proposed Transaction is not fair but reasonable to all Shareholders

Shareholders are urged to read the Independent Expert's Report carefully and in its entirety. In particular, Shareholders are referred to sections 8.4.2 and 8.4.3 of the Independent Expert's Report which summarise the advantages and disadvantages of the Proposed Transaction.

Notwithstanding the conclusion of the Independent Expert that the Proposed Transaction is not fair but reasonable, the Directors of Macmahon (other than Mr Vyril Vella) recommend that Shareholders vote in favour of the resolution to approve the Proposed Transaction for the reasons discussed above.

In particular, the Directors of Macmahon (other than Mr Vyril Vella) note that while the consideration to be received by Macmahon under the Proposed Transaction falls outside the fair value range for the Sale Assets determined by the Independent Expert by approximately A\$1.4 million (based on a range of assumptions made by the Independent Expert including no negative adjustment being made to the fair value range to account for duties and other transaction costs payable by a purchaser), the difference is not considered material in the context of Macmahon's stated forward strategy and the certainty the Proposed Transaction provides for the Company.

23 Earnings based on 1 year forward consensus analyst forecasts at the time sourced from Factset.

(h) Consideration of Sembawang proposals

On 4 January 2013, Macmahon announced to ASX that it had received an unsolicited, non-binding, incomplete and conditional proposal from Sembawang Australia Pty Ltd, a wholly owned subsidiary of Sembawang Engineers and Constructors Pte Ltd ("**Sembawang**"), under which Sembawang would acquire either a portion or all of Macmahon's construction business. On 10 January 2013, Macmahon announced to ASX that it had received a revised, two part proposal from Sembawang to acquire either a portion or all of its construction business (the "**Sembawang Proposals**"). Whilst the Sembawang Proposals were limited in detail, Macmahon notes that the Sembawang Proposals were conditional upon satisfactory due diligence being completed and Sembawang board approval being received, both by 31 January 2013.

After receiving further correspondence from Sembawang on 11 January 2013, Macmahon requested clarification from Sembawang about its previous proposals as they remained non-binding and highly conditional. Sembawang was informed that any future engagement was premised on Sembawang providing the clarification sought and maintaining Macmahon's confidence.

The purpose of the clarification sought was to obtain sufficient information from Sembawang about its proposals in order to enable the independent directors to make a proper assessment of the merits of the Sembawang Proposals in the interests of both Macmahon and its Shareholders.

Of significant importance, the conditionality of Sembawang's correspondence required the early termination of the Asset Purchase Agreement with Leighton ahead of any Shareholder vote. This was a condition the Company was incapable of meeting without breaching its contractual obligations to Leighton, which would not be in the interests of Shareholders.

Following Macmahon's request for clarification, Sembawang issued a press release on 13 January 2013, advising that its offer had lapsed. Despite this, on 14 January 2013, Macmahon announced to ASX that the Company had received a further letter from Sembawang in relation to the purchase of only those construction assets that are to be acquired by Leighton under the Asset Purchase Agreement (the "**Revised Sembawang Proposal**").

The Directors of Macmahon (other than Mr Vyril Vella) considered the Revised Sembawang Proposal and were of the view that the Revised Sembawang Proposal offered no certainty of financial upside to warrant potentially jeopardising the existing Leighton transaction. Macmahon considered that there was significant uncertainty and risk associated with completion of the Revised Sembawang Proposal, particularly given the requirement for joint venture and client consent to the novation of contracts.

Macmahon notes that Sembawang has not, and does not propose to provide the clarification previously sought by the independent directors of Macmahon and that the conditions in the Revised Sembawang Proposal are consistent with the previous Sembawang Proposals. Sembawang has not made any offer that is in a form that can be properly considered by Macmahon and its directors, or meaningfully compared with the Proposed Transaction. Further, Sembawang has continued a course of conduct with is inconsistent with maintaining commercial confidence.

Accordingly, the independent directors of Macmahon rejected the Revised Sembawang Proposal and consider the matter of the Sembawang proposals closed. Macmahon advised Sembawang to this effect.

Notwithstanding this and despite statements by Sembawang that it would not be making any further offers for the construction business of Macmahon, the Company received a further letter from Sembawang dated 15 January 2013 stating that Sembawang "remains interested in acquiring Macmahon's construction businesses as going concerns". This letter confirmed the terms of the previous proposal and provided some aspects of the clarifications that Macmahon previously sought in respect of the previous proposals.

The independent directors of Macmahon once again unanimously rejected the proposal from Sembawang. In reaching this decision, the independent directors considered all aspects of the most recent approach, including the information provided by Sembawang, the conditional nature of its proposal and other uncertainties relating to Sembawang's ability to complete a transaction with Macmahon. Macmahon once again advised Sembawang the independent directors consider the matter of the Sembawang proposals closed.

(i) Alternatives are not without material risk

In the event the Proposed Transaction is not approved and the Asset Purchase Agreement is terminated, Macmahon will pursue a sale to a third party in parallel with initiatives to de-risk and downsize the construction business as discussed in the "Other considerations" section above.

As set out in section 3.16 above, approximately 38% of Macmahon's construction order book relates to joint venture projects with Leighton Group companies²⁴. The joint venture agreements for these projects require consent by all members of the joint venture for a party to transfer its interest in the joint venture to a third party. This may impact Macmahon's ability to sell its interests in these joint venture projects, the whole construction business in one package, or to sell the same Project Contracts included in the Asset Purchase Agreement to a party other than Leighton.

It is important to note no certainty exists as to the whether a sale to a third party, will be successful. In the event a sale to a third party is successful, no certainty exists as to the timing or terms upon which that sale may occur.

In addition, in the event the Proposed Transaction is not approved, Macmahon may be exposed to additional ongoing risks given the uncertainty of the future of the construction business including:

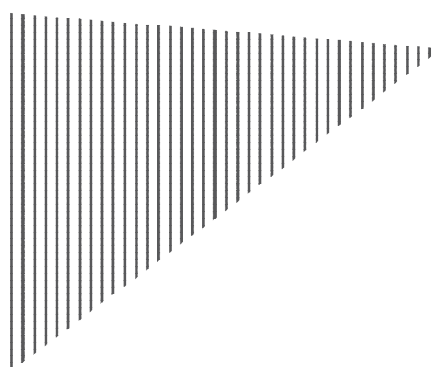
- the ability to retain and incentivise key staff as they may be attracted to move to alternative construction businesses given the Macmahon business will be in 'wind-down' mode. Staff departures will significantly amplify the risk of not completing construction projects on time and on budget which may further negatively impact Macmahon's future earnings. The appeal to Macmahon's employees of working for an alternative buyer that may be relatively unknown in Australia may be lower than working for the Leighton Group as will be the case under the Proposed Transaction, given employee familiarity with Leighton's workplace culture and practices (particularly in relation to projects which are in joint venture with Leighton);
- the imposition of material overhead costs to manage 'legacy' contracts. Significant overheads will need to be retained within the Macmahon business in order to manage the run-off of contracts. In this scenario, overhead costs would be expected to become disproportionately large relative to the work remaining as projects run-off;
- ongoing potential exposure to further losses (and profits) particularly in relation to the Superway Project as outlined in section 3.18(f) above; and
- the opportunity costs of not being able to redeploy sales consideration in the mining business.

²⁴ Calculated on the basis that the F2E Pacific Highway Road project (a joint venture with Thiess, a Leighton Group entity) and the Strathfield Dive Rail Underpass project are novated to Leighton as part of the Proposed Transaction. As at 31 December 2012, approximately 38% of Macmahon's construction order book relates to joint venture projects with Leighton Group companies.

4. GLOSSARY

The following terms and abbreviations used in this Information Memorandum (and the Notice of Meeting to which it relates), have the following meanings:

"Asset Purchase Agreement"	The Asset Purchase Agreement dated 23 December 2012 between Macmahon, the Macmahon Seller Entities and Leighton regarding the Proposed Transaction.
"Associate"	Has the meaning given by Division 2 of Part 1.2 of the Corporations Act (applying section 13 of the Corporations Act as if it was not confined to associate references occurring in Chapter 7).
"ASX"	ASX Limited (ACN 008 624 691).
"ASX Listing Rules"	The Official Listing Rules of ASX, as amended from time to time.
"Corporations Act"	<i>Corporations Act 2001</i> (Cth), as amended from time to time.
"Directors" or "Board"	The directors of Macmahon in office at the date of the Notice of Meeting.
"Effective Date"	31 December 2012.
"Employee"	An employee of the Macmahon Group who is: working on projects to which the Project Contracts relate at the time an offer of employment is made by Leighton in accordance with the Asset Purchase Agreement; located in the Macmahon Group's office in the Northern Territory as Leighton may require; or agreed to be an Employee for the purposes of the Asset Purchase Agreement by the parties to that agreement.
"Independent Expert"	Ernst & Young Transaction Advisory Services Limited.
"Independent Expert's Report"	The report prepared by the Independent Expert and contained in the Annexure to this Information Memorandum.
"Information Memorandum"	This information memorandum including the Independent Expert's Report.
"Leighton"	Leighton Holdings Limited (ACN 004 482 982).
"Leighton Group"	Leighton and its related bodies corporate.
"Macmahon" or "Company"	Macmahon Holdings Limited (ACN 007 634 406).
"Macmahon Group"	Macmahon and its related bodies corporate.
"Macmahon Seller Entities"	Macmahon Contractors Pty Ltd ACN 007 611 485, Macmahon Rail Pty Ltd ACN 057 458 705, Macmahon Mining Services Pty Ltd ACN 120 810 568, Doorn-Dijl Yoordaning Mining and Construction Pty Ltd ACN 131 646 494 and Macmahon Civil Construction Pty Ltd ACN 130 958 573.
"Meeting"	The general meeting of the Company the subject of the Notice of Meeting.
"Non-Associated Shareholders"	Macmahon Shareholders other than Leighton and its Associates.
"Notice of Meeting"	This notice of meeting incorporating the Information Memorandum to be sent to Shareholders for the purpose of convening the Meeting.
"Plant Assets"	The fixed and mobile plant equipment owned by the Macmahon Group that is located at and used solely for the purposes of the projects to which the Project Contracts relate, and other assets as agreed between Macmahon and Leighton identified in Schedules 3 and 4 of the Asset Purchase Agreement.
"Project Contracts"	The contracts (including sub-contracts and supply agreements) which the Macmahon Group has entered into in connection with the design, development and construction of a project identified in Schedule 6 of the Asset Purchase Agreement.
"Project Fee"	The project fee in respect of a Project Tender, as specified in Schedule 7 of the Asset Purchase Agreement.
"Project Tender"	A tender submitted by the Macmahon Group as listed in Schedule 7 of the Asset Purchase Agreement.
"Proposed Transaction"	The sale of the majority of the Macmahon Group's construction projects (including corresponding plant, equipment and people) to Leighton or any Leighton nominee.
"Proxy Form"	The proxy form attached to or accompanying the Notice of Meeting.
"Purchase Price"	The purchase price of A\$29,585,514 for the Project Contracts and Plant Assets as adjusted in accordance with the Asset Purchase Agreement.
"Sale Assets"	As defined in sections 3.1 and 3.4 of this Information Memorandum.
"Share"	A fully paid ordinary share in the capital of the Company.
"Shareholders"	Person registered as the holder of Shares in the register of members of the Company.
"Superway Project"	The South Road Superway project in South Australia.
"Transferring Employee"	An Employee who accepts an offer of employment from Leighton.



**Independent Expert's Report and
Financial Services Guide**

**Macmahon Holdings Limited
Sale of the Construction Assets**

OPINION - NOT FAIR BUT REASONABLE

14 January 2013

 ERNST & YOUNG



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PART 1 - INDEPENDENT EXPERT'S REPORT

The Independent Directors
Macmahon Holdings Limited
Level 3, 27-31 Troode St
West Perth WA 6005

14 January 2013

Dear Sirs

Sale of the Construction Assets to Leighton Holdings Limited

On 12 December 2012, Macmahon Holdings Limited ("Macmahon" or the "Company") announced that it had entered into a Memorandum of Understanding (the "MOU") with Leighton Holdings Limited ("Leighton") under which Macmahon conditionally agreed to transfer or sell the majority of its current contracts, tenders and assets pertaining to its construction business, including the equipment and people associated with those contracts (the "Construction Assets") for a cash consideration subject to several adjustments pending finalisation of the transaction (the "Cash Consideration") (the "Proposed Transaction").

While Macmahon is to retain a small number of construction contracts, the majority of which are nearing completion, the sale of the Construction Assets to Leighton reflects the Company's strategic decision to exit its construction business (the "Construction Business") to focus solely on its full service contract mining business (the "Mining Business"). Once the construction contracts being retained by the Company are completed, the remaining parts of the Construction Business will be wound-up.

In accordance with the terms of the MOU, the following Construction Assets will be transferred to or acquired by Leighton:

- ▶ Specified, existing and ongoing contracts currently being undertaken by the Construction Business;
- ▶ Specified plant and equipment that is used in the Construction Business; and
- ▶ The Construction Business' outstanding tendered contracts.

In addition, Leighton will make offers of employment to specified operational employees employed in the Construction Business along with the employees in Macmahon's office in the Northern Territory on terms and conditions substantially similar and no less favourable to those employees' current arrangements.

At the same time as announcing the change of strategy and the MOU, Macmahon announced its intention to undertake a fully underwritten 2 for 3 pro rata entitlement offer at \$0.16 per share to raise approximately \$80 million (the "Entitlement Offer"). The Entitlement Offer is comprised of two components, an offer to institutional shareholders totalling approximately \$42 million (the "Institutional Component") and an offer to retail shareholders totalling approximately \$38 million (the "Retail Component"). With respect to retail shareholders, only those with an address in Australia and New Zealand are eligible to participate. The funds raised under the Entitlement Offer are to be used to support the growth of the Mining Business, reduce debt, finance the ramp-up of the Christmas Creek mine expansion contract and to provide ongoing working capital flexibility.

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Leighton, via a wholly owned subsidiary, is Macmahon's largest shareholder and at the date of the announcement of the MOU owned 19.0% of the issued shares in the Company. Leighton has taken up its full entitlement under the Institutional Component of the Entitlement Offer and has sub-underwritten the Retail Component on a subordinated basis to other sub-underwriters and to retail shareholders who wish to take up additional shares. The underwriters to the Entitlement Offer have, however, secured alternative institutional sub-underwriting for the entire Retail Component. As such, no sub-underwriting will be required by Leighton. Post completion of the Entitlement Offer, Leighton is expected to have a shareholding of Macmahon of approximately 19.5%.

On 24 December 2012, Macmahon and Leighton announced that they entered into the Asset Purchase Agreement for the sale and purchase of the Construction Assets.

Under Australian Securities Exchange ("ASX") Listing Rule 10.1, a listed entity is prohibited from disposing of a substantial asset to an entity that is in a position of influence without the prior approval of its shareholders. An asset is considered "substantial" for the purpose of ASX Listing Rule 10.1 if its value, or the value of the consideration being paid, is 5% or more of the listed entity's equity interests as set out in the latest accounts lodged with the ASX. Reference to an entity that is in a position of "influence" includes a shareholder with at least a 10% relevant interest in the issued voting shares of the listed company.

With Leighton owning greater than 10% of the issued shares in Macmahon and the Construction Assets being considered "substantial", ASX Listing Rule 10.1 is deemed to apply and therefore the Proposed Transaction requires approval from Macmahon shareholders not associated with Leighton (the "Non-Associated Shareholders").

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution being put to shareholders for the purposes of ASX Listing Rule 10.1 must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the transaction is fair and reasonable to the shareholders not associated with the transaction.

Consistent with this requirement, Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") has been appointed by the independent Directors of Macmahon (the "Independent Directors") to prepare an independent expert's report ("report"), the purpose of which is to provide an opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders. The 'Independent Directors' are the Directors of Macmahon excluding Mr Vyril Vella, who is Leighton's nominee.

The Non-Associated Shareholders are to vote on the Proposed Transaction at an extraordinary general meeting of the Company to be held on or around 26 February 2013 (the "Meeting"). Our report is being included in the Notice of Meeting and Information Memorandum being sent to the Non-Associated Shareholders in respect to the Meeting.

The ASX Listing Rules do not define the term "fair and reasonable" and provide no guidance as to what an independent expert should consider when assessing whether or not a particular transaction is fair and reasonable for the purposes of ASX Listing Rule 10.1. In this regard, the Australian Securities and Investments Commission ("ASIC") has issued Regulatory Guide 111: Content of expert reports ("RG 111") which provides some direction as to what matters an independent expert should consider and how the term "fair and reasonable" should be interpreted in a range of circumstances.

In the circumstances of a related party transaction (which by definition includes ASX Listing Rule 10.1 transactions), RG 111 provides that the determination of "fair and reasonable" should be undertaken by separately assessing whether the transaction is "fair" and whether it is "reasonable". A related party transaction involving the sale of an asset is "fair" if the value of the asset being sold is equal to or less than the consideration being paid by the related party. A related party transaction is "reasonable" if it is "fair" or despite being "not fair", there are sufficient reasons for shareholders to vote for the proposal.



Accordingly, in assessing whether or not the Proposed Transaction is "fair and reasonable" to the Non-Associated Shareholders, a major part of our assessment has been the comparison of the value of the Construction Assets being sold or transferred, with the value of the Cash Consideration being offered by Leighton. Under this analysis, the Proposed Transaction would be considered 'fair' if the Cash Consideration is equal to or greater than the value of the Construction Assets. If "fair" we would also consider the Proposed Transaction to be "reasonable". If "not fair" we may consider the Proposed Transaction to still be "reasonable" if the advantages of voting in favour of the Proposed Transaction outweigh the disadvantages.

Summary of Opinion

In relation to the Proposed Transaction, we consider that if the Cash Consideration offered by Leighton is within the range of our fair values assessed for the Construction Assets, the Proposed Transaction is fair. RG 111.10 provides that, "an offer is fair if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer". RG 111.62 provides that "An expert should usually give a range of values."

In Section 8.2 we set out our fairness assessment which is summarised in the table below.

Comparison of values		
<i>\$m</i>	Low	High
Total fair value of the Construction Assets	31.3	35.0
Estimate of Adjusted Cash Consideration	29.9	29.9
Premium / (discount) of Cash Consideration over Construction Assets (\$m)	(1.4)	(5.2)
Premium / (discount) of Cash Consideration over Construction Assets (%)	(4.6%)	(14.7%)

Source: EY analysis

Our fairness assessment indicates that the Cash Consideration being offered by Leighton under the Proposed Transaction is at a discount of 4.6% at the low end of our valuation range and a discount of 14.7% at the high end. In our opinion, the consideration offered by Leighton is less than our range of fair values assessed for the Construction Assets and therefore the Proposed Transaction is not fair to the Non-Associated Shareholders of Macmahon.

RG 111 provides that "An offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer."

In assessing whether or not the Proposed Transaction is reasonable, we have had regard to the commercial and qualitative factors set out in Section 8.4 and other factors in Section 8.5. While individual shareholders may interpret these factors differently depending on their own individual circumstances, in Ernst & Young Transaction Advisory Services' opinion the potential advantages outweigh the potential disadvantages to the Non-Associated Shareholders as a whole. In particular we note that the extent to which we have assessed the Proposed Transaction to be not fair is comparatively small relative to the market capitalisation of Macmahon and also relative to the potential costs that could be incurred on Macmahon's exit from the Construction Business in the event that a sale of the Construction Assets is not affected.

Based on the results of the analysis undertaken, in our opinion, the Proposed Transaction is not fair but reasonable to the Non-Associated Shareholders of Macmahon.



Having regard to the nature of the Proposed Transaction and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that the Non-Associated Shareholders of Macmahon are likely to be better off if the Proposed Transaction proceeds.

Other Matters

This independent expert's report has been prepared specifically for the Non-Associated Shareholders. Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any employee thereof undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision as to whether to approve or not approve the Proposed Transaction is a matter for individual Macmahon shareholders. The Non-Associated Shareholders should have regard to the Notice of Meeting and Information Memorandum prepared by the Independent Directors and management of the Company in relation to the Proposed Transaction. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read "Ken Pendergast".

Ken Pendergast
Director and Representative

A handwritten signature in black ink, appearing to read "Brenda Moore".

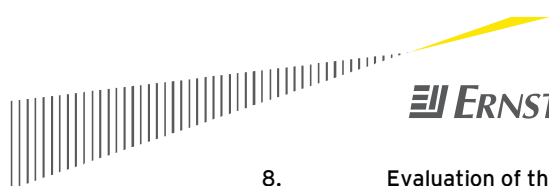
Brenda Moore
Representative



Contents

Part 1 - Independent Expert's Report

1.	Details of the Proposed Transaction.....	1
1.1	Background to the decision to exit the Construction Business	1
1.2	Overview of the Proposed Transaction	3
1.3	The amount to be paid by Leighton	5
1.4	Conditions precedent.....	10
2.	Scope of the report.....	11
2.1	Purpose of the report	11
2.2	Basis of assessment	11
2.3	Shareholders' decisions	12
2.4	Independence	13
2.5	Limitations and reliance of scope.....	13
3.	Overview of Macmahon.....	15
3.1	Background	15
3.1.1	Operational overview.....	15
3.1.2	Construction Business	18
3.1.3	Construction Projects	20
3.1.3.1	Construction Project Contracts Included in the Proposed Transaction	20
3.1.3.2	Construction Contracts to be Retained by Macmahon	22
3.1.4	Construction Tenders	23
3.1.5	Mining Business	24
3.2	Macmahon's share price performance.....	24
4.	Overview of Leighton.....	27
5.	The Construction Industry.....	28
5.1	Overview	28
5.2	Outlook	28
6.	Valuation methodology and approach	30
6.1	Definition of fair value	30
6.2	Valuation methodology and approach	30
6.3	Valuation methodology adopted	31
6.3.1	Project Contracts	31
6.3.2	Plant Assets.....	32
6.3.3	Tenders.....	32
6.3.4	Adjustments to the Total Cash Consideration.....	32
6.3.5	Valuation Methodology cross check	32
7.	Valuation of the Construction Assets.....	33
7.1	Valuation of the Project Contracts	33
7.1.1	Overview	33
7.1.1.1	Contract Valuation Reports (i.e. the CVRs)	34
7.1.2	Valuation approach	34
7.1.3	Fair value of Project Contracts' forecast cash flows.....	35
7.2	Valuation of the Plant Assets	36
7.3	Valuation of the Tenders.....	37
7.4	Valuation Summary	37



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8.	Evaluation of the Proposed Transaction.....	39
8.1	Approach	39
8.2	Fairness	39
8.2.1	Estimate of Adjusted Cash Consideration	39
8.2.2	Comparison of values	42
8.2.3	Fairness conclusion	43
8.3	Reasonableness	43
8.4	Commercial and qualitative factors	43
8.4.1	Macmahon's new strategy	43
8.4.2	Advantages	45
8.4.3	Disadvantages	46
8.5	Other factors	46
8.5.1	Market reaction post the announcement of the Proposed Transaction	46
8.5.2	Sembawang Proposal	48
8.5.3	Alternatives	49
8.5.4	Independent Directors' view	50
8.5.5	Tax implications	50
8.5.6	Other considerations	50
9.	Conclusion on the Proposed Transaction	51
	Appendix A Statement of qualifications and declarations	52
	Appendix B Summary of Valuation Methodologies	54
	Appendix C Determination of discount rates	55
	Appendix D Description of comparable companies	60
	Appendix E Sources of information	63
	Appendix F Glossary	64
	Appendix G Valuation of Plant Assets	67
	Part 2 - Financial Services Guide	



1. Details of the Proposed Transaction

1.1 Background to the decision to exit the Construction Business

Macmahon Holdings Limited ("Macmahon" or the "Company") is a long established Australian based company whose principal activities have historically comprised of its contract mining business (the "Mining Business") and its construction business (the "Construction Business"). While both businesses have been profitable over time, in more recent years the Construction Business has been impacted by cost overruns and time delays which have led to significant losses being incurred on particular contracts.

On 20 August 2012, Macmahon announced a record profit after tax for the year ended 30 June 2012 ("FY12") of \$56.1 million, with the Company's profit before tax basis, before unallocated revenue and costs, totalling \$98.2 million. Of this the profit before tax for the Mining Business totalled \$72.3 million and the profit before tax for the Construction Business totalled \$25.9 million. In the announcement Macmahon management ("Management") stated that profit for the year ending 30 June 2013 ("FY13") was expected to be 20% up on FY12. This implied a forecast profit after tax amount for FY13 of \$67.3 million.

On 19 September 2012, following a review of the Hope Downs 4 Rail Earthworks contract (the "Hope Downs 4 Rail Contract") and increased uncertainty in regard to the outlook for new construction work, Macmahon announced a downgrade to its previously announced earnings guidance for FY13. While the Mining Business was continuing to perform strongly, a number of operational issues were identified within the Hope Downs 4 Rail Contract that would have a significant negative impact on the performance of the Construction Business. In addition, the uncertainty created by the increased volatility within the resource sector around the commitment and timing of future construction projects caused Management to further consider the prospects of the Construction Business for FY13. As a consequence of these events, Macmahon restated the forecast profit after tax for FY13 to be in the range of between \$20 million and \$40 million. Based on the original FY13 forecast of \$67.3 million, the downgrade represented a reduction in earnings in a range of 40% to 70%.

At the same time the earnings downgrade was released it was also announced that the Company's long serving Chief Executive Officer ("CEO") and Managing Director, Nick Bowen, had resigned and Ross Carroll, the then Chief Operating Officer ("COO") of the Company's Mining Business, was appointed in his place.

Around the time of announcing the FY12 results on 20 August 2012, Macmahon's market capitalisation on the Australian Securities Exchange ("ASX") totalled approximately \$490 million. After the earnings downgrade and the management changes were announced on 19 September 2012, the Company's market capitalisation had reduced to approximately \$230 million, a fall of approximately 53%. Across the same period the ASX/S&P 200 Index, of which Macmahon was a part of, increased from 4364 points to 4418 points. Reflective of its fall in market capitalisation, on 21 December 2012, Macmahon was removed from the ASX/S&P 200 Index and is now in the ASX/S&P 300 Index.

In his address at the Company's annual general meeting ("AGM") held on 9 November 2012, Mr Carroll announced that Management, at the direction of the Board of Directors (the "Board"), was undertaking a review of all construction projects together with a strategic evaluation of the risks and opportunities of the Construction Business as a whole.



Following on from the strategic review, on 12 December 2012, Macmahon announced that its new operational strategy was to focus solely on the Mining Business by exiting the Construction Business to become a dedicated full service mining contractor. Macmahon also announced that as a result of its review of the construction projects, further substantial write-downs were to be made, requiring the FY13 earnings guidance to again be reset. The revised guidance announced in September 2012 for FY13 of \$20 million to \$40 million on a profit after tax basis was downgraded to 'nil' to \$25 million. The loss before tax for the Construction Business was forecast to be between \$65 million and \$90 million. The decision to exit the Construction Business followed the consideration by Management and the Board of a number of alternative business models and coming to the conclusion that the Construction Business:

- ▶ had insufficient scale to withstand the risk and variability of earnings of such a business;
- ▶ was a high overhead cost model with little opportunity for cost reduction;
- ▶ found it difficult to attract and retain the key management personnel required to deliver projects profitably; and
- ▶ was not positioned to deliver sustainable earnings and to be competitive in the future.

At the same time as announcing its new strategy and the exit from the Construction Business, Macmahon announced that it had entered into a Memorandum of Understanding ("MOU") with Leighton Holdings Limited ("Leighton") under which the Company conditionally agreed to transfer or sell the majority of its current contracts, tenders and assets pertaining to the Construction Business, including the equipment and people associated with those contracts (collectively, the "Construction Assets") (the "Proposed Transaction").

In making the exit from the Construction Business a priority, Management has stated that in the absence of the Proposed Transaction, a sale to other third parties would be pursued. In the absence of any sale, the exit from the Construction Business would be achieved by downsizing, de-risking and eventually winding-up through:

- ▶ no more tendering of large scale projects;
- ▶ closing the Eastern States offices;
- ▶ absorbing any residual Western Australian business into the Mining Business;
- ▶ pursuing the sale of large joint venture projects in the Northern Territory; and
- ▶ implementing cost reduction programs where possible.

It is expected that significant closure related costs would be incurred to wind up the Construction Business including corporate and regional office overhead, administration costs and employee redundancy costs.

Accordingly, regardless of whether or not the Proposed Transaction proceeds, Macmahon will be exiting the Construction Business. We note however, that in relation to the contracts being sold pursuant to the Proposed Transaction, Macmahon will retain the risk of work performed up until the effective date of the Proposed Transaction, being 31 December 2012. Macmahon also retains the risks associated with the construction contracts that are not part of the Proposed Transaction as well as capped exposure to further losses on the Superway Project and exposure to any liabilities on completed construction projects.



As a critical element in the implementation of the new strategy and in conjunction with the announcement of the MOU, Macmahon announced its intention to undertake a fully underwritten 2 for 3 pro rata entitlement offer at \$0.16 per share to raise approximately \$80 million (the "Entitlement Offer"). The Entitlement Offer is comprised of two components: an offer to institutional shareholders totalling approximately \$42 million (the "Institutional Component") and an offer to retail shareholders totalling approximately \$38 million (the "Retail Component"). With respect to retail shareholders, only those with an address in Australia and New Zealand are eligible to participate.

The funds raised under the Entitlement Offer are to be used to strengthen the balance sheet following the recent Construction Business write-downs, ensure financial flexibility to support the growth of the Mining Business, finance the ramp-up of new contract mining projects and to fund ongoing working capital requirements. Subject to completion of the Entitlement Offer, Macmahon has been granted a formal waiver by its banking syndicate to exclude the impact of certain Construction Business project losses from the calculation of covenant testing up until September 2013. Without this waiver the Company may have breached its banking syndicate covenant at 31 December 2012.

1.2 Overview of the Proposed Transaction

Under the MOU, Macmahon announced that, subject to various conditions including Leighton completing due diligence and finalisation of transaction documentation, it intends to sell and Leighton intends to acquire the Construction Assets for a cash consideration subject to several adjustments pending finalisation of the Proposed Transaction. The effective date of the Proposed Transaction will be 31 December 2012 (the "Effective Date"), with the completion date expected to be 28 February 2013 (the "Completion Date").

While Macmahon is to retain a small number of construction contracts, the majority of which are nearing completion (the "Retained Contracts"), the sale of the Construction Assets to Leighton reflects the Company's strategic decision to exit its Construction Business to focus solely on its Mining Business. Once the construction contracts being retained by the Company are completed, the remaining parts of the Construction Business will be wound-up.



On 24 December 2012, following completion of due diligence, Macmahon announced that it and Leighton had entered into the Asset Purchase Agreement (the "APA") for the sale and purchase of the Construction Assets. As detailed in the APA, the Proposed Transaction will involve the following:

- ▶ Subject to third party consents and approvals, the novation to Leighton of a number of, but not all of, Macmahon's current construction contracts (the "Project Contracts") including the respective licences, leases, approvals, permits and other related authorisations¹. The Project Contracts are summarised in the following table:

Area	Project Contracts	Macmahon Ownership	Joint Venture / Alliance Partner	Contract Type	Forecast final turnover (\$m)	Forecast percentage complete at Dec 2012
Northern Territory	Ichthys LNG Project	50%	John Holland	Construct only	176.6	50%
	Darwin Marine Supply Base	100%	NA	Design and construct	101.0	39%
	Shoal Bay Waste Disposal	100%	NA	Schedule of rates	67.2	30%
Western Australia	Great Northern Highway Realignment	100%	NA	Design and construct	222.9	7%
	Pilbara ISA	100%	NA	Direct cost + profit and	170.2	27%
Rail	Glenfield Alliance	60%	Bouygues Travaux Publics	Cost plus	149.7	96%
New South Wales	Superway Project	40%	John Holland	Lump sum and	NA	46%
	Bega Bypass - Princess Highway Upgrade	100%	NA	Lump sum and	30.2	53%

Source: Macmahon's contract valuation reports

The sale to Leighton of specified plant and equipment that is used in the conduct of the Project Contracts (the "Plant Assets");

- ▶ Leighton making offers of employment to employees who are working on the Project Contracts and employed in Macmahon's office in the Northern Territory, on or around the completion date of the Proposed Transaction ("Construction Employees");
- ▶ Leighton paying a fee for any construction tenders that Macmahon is successful in winning over the period of the Proposed Transaction that are subsequently novated to Leighton or to which Leighton has executed a new contract ("Tender Fee");
- ▶ If requested by Macmahon and agreed to by Leighton, Leighton managing or performing corrective works on behalf of Macmahon for the Retained Contracts for a monthly management fee of cost plus 10%; and
- ▶ Leighton assuming all liabilities associated with the Project Contracts, Plant Assets, Tenders and Construction Employees who accept an offer of employment from Leighton (i.e. the Construction Assets) from the Effective Date.

We note that Leighton will be responsible for any risks or liabilities from the Effective Date onward. Under the terms of the APA, Macmahon will be responsible for any liabilities related to the period prior to the Effective Date.

¹ The authorisations being transferred relate solely to those deemed necessary for the purposes of the Project Contracts and specifically exclude those related to Macmahon Rail or any other authorisations that are reasonably required by Macmahon post-completion of the Proposed Transaction.



Leighton, via a wholly owned subsidiary, is Macmahon's largest shareholder and at the date of the announcement of the MOU owned 19.0% of the issued shares in the Company. Leighton has taken up its full entitlement under the Institutional Component of the Entitlement Offer and has sub-underwritten the Retail Component on a subordinated basis to other sub-underwriters and to retail shareholders who wish to take up additional shares. The underwriters to the Entitlement Offer have, however, secured alternative institutional sub-underwriting for the entire Retail Component. As such, no sub-underwriting will be required by Leighton. Post completion of the Entitlement Offer, Leighton is expected to have a shareholding of Macmahon of approximately 19.5%.

1.3 The amount to be paid by Leighton

Under the APA the "Unadjusted Cash Consideration" to be paid for the Construction Assets by Leighton is \$29.6 million. The "Adjusted Cash Consideration" is the Unadjusted Cash Consideration net of the adjustments that will be determined as at the Effective Date. The Adjusted Cash Consideration may be further adjusted to account for items that change in value subsequent to the Effective Date ("Completion Adjustments") and in some cases, subsequent to the Completion Date ("Post Completion Adjustments"). As such, the "Total Cash Consideration" ultimately paid by Leighton is subject to change as the Proposed Transaction progresses and after the Completion Date.

The Unadjusted Cash Consideration is comprised of the following components:

- ▶ \$14.1 million for the Project Contracts (the "Project Contract Consideration"); and
- ▶ \$15.5 million for the Plant Assets (the "Plant Consideration").

Details of the various adjustments to the amount to be paid by Leighton are summarised below:

Adjustments to the Unadjusted Cash Consideration

The Unadjusted Cash Consideration of \$29.6 million to be paid by Leighton is subject to the following adjustments to be determined as at the Effective Date:

1. *Margin Adjustment*

An adjustment to the Project Contract Consideration will be made if the forecast margin remaining based on the percentage of costs to be completed at 31 December 2012 (the "Dec Forecast Margin") for each of the Project Contracts is different from the margin contained in Macmahon's September 2012 contract valuation reports ("CVR") forecast to be outstanding as at 31 December 2012 (the "Sep Forecast Margin"). An adjustment will only be made if the actual percentage of costs to be complete at 31 December 2012 is different from the forecast percentage complete. If the Dec Forecast Margin is lower than the Sep Forecast Margin, the Project Contract Consideration will be reduced and vice versa. The Project Contract Consideration to be paid by Leighton will be adjusted based on the following formula:



- Nominal Margin Adjustment = $((100\% - APC) / (100\% - FPC)) * FM - FM$

Where:

APC = Actual Percentage Complete, which means the percentage complete at 31 December 2012 calculated in accordance with and using the December 2012 CVR for that Project Contract

FPC = Forecast Percentage Complete, which means the percentage complete at 31 December 2012 calculated in accordance with and using the September 2012 CVR for that Project Contract

FM = the Sep Forecast Margin

- for each Project Contract, the Margin Adjustment will be calculated by
- apportioning the Nominal Margin Adjustment over Future Periods in accordance with the December 2012 CVR (to give the "Apportioned Amounts");
 - multiplying each Apportioned Amount by the Adjustment Factor set out in the following table corresponding to each Future Period (to give the Discounted Amounts). These factors consider the tax impacts as well as the time value of money; and

Period	Jan-Jun 2013	Jul-Dec 2013	Jan-Jun 2014	Jul-Dec 2014	Jan-Jun 2015	Jul-Dec 2015	2016	2017
Adjustment Factor	0.7000	0.6412	0.6048	0.5705	0.5381	0.5076	0.4386	0.3902

- aggregating the Discounted Amounts. If the aggregate sum of Margin Adjustment in respect of each Project Contract is a positive value, the Purchase Price will be increased and vice versa.

2. *Adjustment to Plant Consideration*

An adjustment to the Plant Consideration to reflect the difference between:

- The Plant Consideration amount; and
- The written down value of the Plant Assets as at the Effective Date.

It should be noted that the Plant Assets that will ultimately be sold to Leighton may change up to the Effective Date. The Plant Consideration will be increased or decreased depending on the net written down book value of all assets added to or removed from the Proposed Transaction.

3. *Accrued Employee Entitlements*

Accrued entitlements for the transferring Construction Employees is to be taken up at an amount equal to 70% of their monetary value as at the Effective Date based on applicable accounting standards. The adjustment has been made at 70% to reflect the after-tax impact.



4. Overclaims and underclaims

With respect to Project Contracts that are not part of a joint venture ("JV"), an adjustment for the overclaim or underclaim position will be determined. A project will be in an overclaim position if the Project Revenue² is greater than the Project Valuation³ and in an "underclaim position" if the Project Valuation is greater than the Project Revenue. The Purchase Price will be reduced by the overclaim amount or increased by the underclaim amount on a contract by contract basis.

5. JV Adjustments

The following adjustment relates to Macmahon's JV interests for the Project Contracts other than the South Road Superway Project ("Superway Project"), a joint venture between Macmahon (40% interest), Leighton's subsidiary John Holland (40% interest) and Leed Engineering and Construction Pty Limited (20% interest) (the "Superway JV"):

- ▶ An increase to the Cash Consideration by an amount equal to Macmahon's interest in any profit from its JV interests which has been earned in the period up to 31 December 2012 and remains unpaid before the Completion Date.

Completion Adjustments

Completion Adjustments may be made for those items that change in value between the Effective Date and the Completion Date. These adjustments are as follows:

6. Tender Fee

An adjustment to reflect a fee for each successful tender that Macmahon has secured and which has been novated to Leighton or for which Leighton has executed a new contract prior to the Completion Date.

7. JV Adjustments

An adjustment for the net amount of the cash contributions made by Macmahon and the cash distributions received by Macmahon between the Effective Date and the Completion Date for its JV interests⁴.

8. Interim Adjustments

An adjustment for the net amount of the payments made by Macmahon for costs incurred and the monies received in connection with the performance of the Project Contracts. The net amount is with respect to the period from the Effective Date until the end of the month before the month in which completion occurs. The costs incurred and the monies received also consider any contract in respect of successful tenders that have not been novated or assigned to Leighton.

² "Project Revenue" means the amount of cumulative revenue billed to the client under a Project Contract as at the Effective Date, as included in the CVR for that Project Contract as at the Effective Date.

³ "Project Valuation" means the amount of cumulative cost incurred under a Project Contract as at the Effective Date plus the margin or minus the loss (as the case may be) that has been declared in respect of that Project Contract as at the Effective Date, as included in the CVR for that Project Contract as at the Effective Date.

⁴ only to the extent that the contributions or distributions relate to the period between the Effective Date and the Completion Date.



Post Completion Adjustments

Subsequent to the Completion Date, there will be a monthly "true-up" for the following items if applicable (i.e. the Post-Completion Adjustments). The adjustments are made solely for costs incurred or monies received subsequent to the Completion Date or the period applicable to the prior month's adjustment:

9. Cash Contributions and/or Cash Distributions

The net amount of the payments and cash contributions made by Macmahon for costs incurred, and the monies and cash distributions received, in connection with the performance of the Project Contracts (including JVs other than the Superway JV) and successful tenders that have not been novated or assigned to Leighton; and

10. Subsequent Tender Fees

The Tender Fee in respect of each successful Tender where the contract has been novated to Leighton or Leighton has executed a new contract in respect of that Tender.

Depending on the net amount of the items above, either Macmahon or Leighton will be responsible for making the "true-up" payment. The monthly true-up will continue until all of the following have occurred:

- ▶ The Project Contracts have been novated to Leighton;
- ▶ All project tenders have been confirmed as successful or unsuccessful;
- ▶ All successful tenders have been novated to Leighton or Leighton has executed a contract in respect to the Tender; and
- ▶ The final profit or loss for the Superway Contract has been determined or the Superway cap ("Superway Cap") has been reached (see discussion below).

Alternatively, the true-up will cease on agreement by both parties.

The adjustments to be made to the Unadjusted Cash Consideration to arrive at the Total Cash Consideration are summarised in the following table:



Total Cash Consideration	Effect*	Adjustment \$m
Project Contract Consideration		14.1
Plant Asset Consideration		15.5
Unadjusted Cash Consideration		29.6
Purchase Price Adjustments set at the Effective Date:		
1 Margin Adjustment	+ / --	TBD
2 Adjustment to the Plant Asset Consideration	+ / --	TBD
3 Accrued Transferring Employee Entitlements	--	TBD
4 Overclaim / underclaim position	+ / --	TBD
5 JV Adjustments	+ / --	TBD
Adjusted Cash Consideration		TBD
Completion Payment Adjustments:		
5 Tender Fee	+ Up to a max of \$10.6	
6 JV Adjustments	+ / --	TBD
7 Interim Adjustments	+ / --	TBD
Post Completion Payment Adjustments:		
8 Tender Fee	+	TBD
9 JV Adjustments	+ / --	TBD
10 Interim Adjustments	+ / --	TBD
Total Cash Consideration		TBD

*The + symbol represents that the cash consideration being paid to Macmahon will increase as a result of the adjustment, with the -- symbol representing a decrease in the amount to be paid to Macmahon.
TBD - to be determined

If the Superway Project incurs a trading loss (the "Superway Loss"), Macmahon will:

- ▶ Repay the net cash distributions Macmahon has received from the Superway JV;
- ▶ Contribute up to \$25 million to the Superway JV for its agreed share of the Superway Loss (i.e. Superway Cap); and
- ▶ Continue to have a representative in the Superway JV, but will have no control over management.

Macmahon will retain projects nearing completion including the Hope Downs 4 Rail Project. Macmahon will also retain the the Trangie Nevertire Irrigation Scheme⁵ (the "Trangie Project"), the Hong Kong Tunnel Project⁶, as well as residual exposure to its share in the Superway Project (up to the Superway Cap noted above). Macmahon will also retain approximately \$45 million worth of plant and equipment, which will be used in its Mining Business or will be sold. If the Proposed Transaction is completed, one-off costs of approximately \$11.5 million are estimated to be incurred by the Company for restructuring and redundancy costs. Macmahon will also retain any liabilities associated with its completed construction projects.

⁵ Through a joint venture with ADASA Sistemas SA ("Trangie JV"), for which Macmahon has a 50% ownership interest.

⁶ See further details in Section 3.1.2.1



1.4 Conditions precedent

The implementation of the Proposed Transaction is subject to a number of conditions (some of which may be waived unilaterally by Macmahon or Leighton and others which may be waived by agreement between Macmahon and Leighton) including, amongst other matters:

- ▶ Approval from the Non-Associated Shareholders for the purposes of Listing Rule 10.1 and 11.1 (if applicable);
- ▶ Each of the Independent Directors recommending to the Non-Associated Shareholders to vote in favour of the Proposed Transaction (provided that such recommendation may be subject to the independent expert concluding that the Proposed Transaction is reasonable), and none of the Independent Directors changes, withdraws, modifies or makes any public statement that is inconsistent with that recommendation;
- ▶ The Independent Expert concludes in the Independent Expert report that the Proposed Transaction is reasonable to Non-Associated Shareholders; and
- ▶ Leighton receiving approval in writing from the Australian Competition & Consumer Commission ("ACCC") that it has no objection to, and does not intend to take any action to prevent or oppose the Proposed Transaction, either unconditionally or on terms which are reasonably acceptable to Leighton, or by the date which is five business days before the Meeting, Leighton has not received an objection from the ACCC to the Proposed Transaction

Details of the conditions precedent to the Proposed Transaction are included in the Notice of Meeting and Information Memorandum.



2. Scope of the report

2.1 Purpose of the report

Under ASX Listing Rule 10.1, a listed entity is prohibited from disposing of a substantial asset to an entity that is in a position of influence without the prior approval of its shareholders. An asset is considered "substantial" for the purpose of ASX Listing Rule 10.1 if its value, or the value of the consideration being paid, is 5% or more of the listed entity's equity as set out in the latest accounts lodged with the ASX. Reference to an entity that is in a position of "influence" includes a shareholder with at least a 10% relevant interest in the issued voting shares of the listed company.

With Leighton owing greater than 10% of the issued shares in Macmahon and the Construction Assets being considered "substantial", ASX Listing Rule 10.1 is deemed to apply and therefore the Proposed Transaction requires approval from Macmahon shareholders not associated with Leighton (the "Non-Associated Shareholders").

Under ASX Listing Rule 10.10, a notice of meeting convened for ASX Listing Rule 10.1 purposes must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the proposed transaction is fair and reasonable to the shareholders not associated with the transaction. Accordingly, the purpose of this independent expert's report is to state, in our opinion, whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

Consistent with this requirement, Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") has been appointed by the independent Directors of Macmahon (the "Independent Directors") to prepare an independent expert's report, the purpose of which is to provide an opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders. The 'Independent Directors' are the Directors of Macmahon excluding Mr Vyril Vella, who is Leighton's nominee.

The Non-Associated Shareholders are to vote on the Proposed Transaction at an extraordinary general meeting of the Company to be held on or around 26 February 2013 (the "Meeting"). Our report is being included in the Notice of Meeting and Information Memorandum being sent to the Non-Associated Shareholders in respect to the Meeting.

2.2 Basis of assessment

The ASX Listing Rules do not define the term "fair and reasonable" and provide no guidance as to what an independent expert should consider when assessing whether or not a particular transaction is fair and reasonable for the purposes of ASX Listing Rule 10.1. In this regard, the Australian Securities and Investment Commission ("ASIC") has issued Regulatory Guide 111: Content of expert reports ("RG 111") which provides some direction as to what matters an independent expert should consider and how the term "fair and reasonable" should be interpreted in a range of circumstances.

In the circumstances of a related party transaction (which by definition includes ASX Listing Rule 10.1 transactions), RG 111 provides that the determination of "fair and reasonable" should be undertaken by separately assessing whether the transaction is "fair" and whether it is "reasonable". A related party transaction involving the sale of an asset is "fair" if the value of the asset being sold is equal to or less than the consideration being paid by the related party. A related party transaction is "reasonable" if it is "fair" or despite being "not fair", there are sufficient reasons for shareholders to vote for the proposal.



In considering the guidance in RG 111, in assessing whether or not the disposal of the Construction Assets under the Proposed Transaction is fair to the Non-Associated Shareholders, we compared the fair value of the Construction Assets with the Cash Consideration being paid by Leighton.

"Fair value" in this context is considered to be "the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length". Our assessment of the fair value of the Construction Assets has been determined on a basis consistent with this definition.

In assessing whether the Proposed Transaction is reasonable, in addition to considering whether or not it is 'fair, we have consider a range of other factors including:

- ▶ the overall terms and conditions of the Proposed Transaction;
- ▶ the rationale for the Proposed Transaction;
- ▶ the impact of the disposal of the Construction Assets and the proposed exit from the Construction Business on the underlying operations of Macmahon;
- ▶ whether or not the Non-Associated Shareholders are better off, or at least no worse off because of the Proposed Transaction;
- ▶ the alternatives to the Proposed Transaction; and
- ▶ other significant qualitative factors.

In determining the fair value of the Construction Assets we had access to the management of Macmahon. Our fair value assessment of the Construction Assets is summarised in Section 7.

All amounts in this report are expressed in Australian dollars unless otherwise stated.

A glossary detailing the abbreviations we have used in this report is contained in **Appendix F**.

2.3 Shareholders' decisions

This independent expert's report has been prepared specifically for the Non-Associated Shareholders at the request of the Independent Directors of Macmahon with respect to the Proposed Transaction. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision to approve or not approve the Proposed Transaction is a matter for individual shareholders. Non-Associated Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Non-Associated Shareholders should have regard to the Notice of Meeting and Information Memorandum prepared by the Directors and management of the Company. Non-Associated Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act ("Act"). The Financial Services Guide is included as Part 2 of this report.



2.4 Independence

Prior to accepting this engagement, we considered our independence with respect Macmahon with reference to ASIC Regulatory Guide 112 *independence of experts*. In our opinion, we are independent of Macmahon.

Ernst & Young have not provided any services to Macmahon or Leighton in relation to the Proposed Transaction.

2.5 Limitations and reliance of scope

In the preparation of this report, Ernst & Young Transaction Advisory Services was provided with information in respect of Macmahon and obtained additional information from public sources, as set out in Appendix E.

We have had discussions with the management of Macmahon in relation to the operations, financial position, operating results and outlook of the Construction Business.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. Such conditions can change over relatively short periods of time and these changes can be material.

This report is also based upon financial and other information provided by Macmahon in relation to the Proposed Transaction. Ernst & Young Transaction Advisory Services has considered and relied upon this information. Macmahon has represented to Ernst & Young Transaction Services that to its knowledge the information provided is correct and that there are no material facts which have been omitted.

Ernst & Young Transaction Advisory Services provided draft copies of this report to management of Macmahon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Amendments made to this report as a result of this review have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

The information provided to Ernst & Young Transaction Advisory Services has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Transaction is fair and reasonable for Non-Associated Shareholders. However, Ernst & Young Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Macmahon. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles in Australia.



In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ the information set out in the Notice of Meeting and Information Memorandum to be sent to Non-Associated Shareholders with respect to the Meeting is complete, accurate and fairly presented in all material respects;
- ▶ the publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analysis was accurate and not misleading; and
- ▶ the Proposed Transaction will be implemented in accordance with its terms.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A.

This report has been prepared in accordance with APES 225: *Valuation Services (revised)* ("APES 225") issued by the Accounting Professional & Ethical Standards Board Limited in May 2012. In accordance with APES 225, we have performed a Valuation Engagement, which is defined as "an engagement where the valuer is free to choose the valuation approaches, methods and procedures as appropriate to the circumstances. The estimate of value that results is a conclusion of value."



3. Overview of Macmahon

3.1 Background

Macmahon is an ASX/S&P 300 Index contract mining and construction company based in Perth, Western Australia. The Company was founded in 1963 and listed on the ASX in 1983. Throughout the Company's long history, the majority of Macmahon's operations have been based in Australia. More recently the Company has expanded its services into Asia, New Zealand and Africa.

Macmahon's projects include a mix of sole contractor and joint ventures. In 2007 Macmahon entered into a memorandum of understanding⁷ with Leighton, the purpose of which was to formalise a partnering arrangement for the two companies to work together on selected construction projects. Consistent with this, Macmahon and Leighton are currently working together as joint venture partners on several projects. Macmahon is also in joint venture with other third parties not related to Leighton.

Leighton is Macmahon's largest shareholder. Post completion of the Entitlement Offer, Leighton's shareholding interest in the Company is expected to be 19.5%.

The table below outlines the variety of work Macmahon performs for its clients in both the mining and construction sectors.

Macmahon - Principal Activities	
Mining	Construction
Surface Mining	Road
Underground Mining	Rail
Plant & Maintenance Services	Resources Infrastructure
Mining Services - crushing, raise drilling, shotcreting	Marine Infrastructure
Engineering - structural, mechanical, electrical	Water Infrastructure

Source: Macmahon's 2012 Annual Report

3.1.1 Operational overview

The Construction Business has experienced volatile operating results over the period from the fiscal year ended 30 June 2009 ("FY09") to FY12. The Mining Business, however, has experienced revenue growth in FY11 and FY12 after experiencing a reduction in revenue in FY10 compared to FY09, brought about by the lower activity caused by the global financial crisis ("GFC"). Macmahon's order book for both businesses increased from \$1.4 billion at the end FY09, to \$2.2 billion by the end of FY10, \$2.0 billion at the end of FY11 and \$4.1 billion at the end of FY12, of which the Construction Business represented 37% of the amount.

In FY11 the Construction Business experienced operational difficulties in the completion of the RGP5 Rail North contract for BHP Billiton Limited, resulting in a before tax write-down on that contract of \$48.9 million⁸. As a consequence of this loss management at the time undertook a review of the Construction Business to identify strategies for improving profitability and ensuring similar project losses did not reoccur. Following the review the business was divided into West and East operations in order to pursue a more targeted regional strategy for winning work and the management and delivery of contracts.

⁷ The memorandum of understanding entered into in 2007 has since expired and has no relation to the MOU entered into between Macmahon and Leighton in December 2012.

⁸ which is inclusive of a write-back of prior period recognised profits.



A summary of the trading performance for the Construction and Mining Businesses for FY09, FY10, FY11 and FY12 is shown in the following table. The amounts have been sourced from the segment note in Macmahon's audited financial statements. The profit before tax for each business is before taking into account any unallocated revenue and expense items. The combined trading results of the Construction and Mining Business together with the unallocated revenue and expense items equates to the Company's trading results as a whole.

Macmahon - Operating Results by Business				
\$m	FY09	FY10	FY11	FY12
Construction Business:				
Revenue	840.7	788.8	580.0	990.7
Profit / (loss) before tax	29.6	34.8	(35.7)	25.9
Profit margin before tax (%)	3.5%	4.4%	(6.2%)	2.6%
Mining Business:				
Revenue	644.9	465.6	674.4	880.1
Profit before tax	11.7	34.8	42.6	72.3
Profit margin before tax (%)	1.8%	7.5%	6.3%	8.2%
Construction Business as a % of:				
Revenue	57%	63%	46%	53%
Profit before tax	72%	50%	nmf	26%
Macmahon - Overall				
Profit / (loss) before tax	20.9	49.5	(3.8)	75.2
Profit / (loss) after tax	18.3	38.8	(2.7)	56.1

Source: Macmahon's audited financial statements

In relation to Macmahon's trading performance we note:

- ▶ Total revenue has averaged \$1.5 billion per annum from FY09 to FY12, with revenue in FY12 representing the highest ever level of revenue for the Company at \$1.9 billion;
- ▶ The Construction Business has averaged 55% of the Company's overall revenue from FY09 to FY12, with construction revenue in FY12 representing 53% of the total revenue;
- ▶ In FY11, Macmahon incurred cost overruns on the RGP5 Rail North contract which lead to a write-down of \$48.9 million before tax, which is inclusive of a write-back of prior period recognised profits. Losses due to the extreme weather experienced in Queensland totalled \$500,000 for the Construction Business and \$8.5 million for the Mining Business;
- ▶ Excluding FY11, the Construction Business' nominal profit before tax margin has averaged 3.5%;
- ▶ The profit before tax of \$25.9 million in FY12 for the Construction Business includes an adjustment for previously recognised losses in FY11; and
- ▶ The profit after tax reported by Macmahon for FY12 of \$56.1 million was a record profit for the Company.



In September 2012, four weeks after announcing the strong trading results for FY12 and a forecast profit growth of 20% for FY13, Macmahon announced a downgrade to its earnings guidance for FY13. While the Mining Business continued to perform strongly, problems identified with the Hope Downs 4 Rail Contract and the uncertainty around the commitment and timing of other projects significantly impacted the performance of the Construction Business. As a consequence of these events, Macmahon restated the forecast profit after tax for FY13 to be in the range of between \$20 million and \$40 million. Based on the original FY13 forecast of \$67.3 million, the down grade represented a reduction in earnings of 40% to 70%.

At the same time, the Company announced that Mr Bowen, Macmahon's long serving CEO and Managing Director, had resigned and had been replaced by Mr Carroll. Mr Carroll announced that Management, at the direction of the Board, was undertaking a review of all construction projects together with a strategic evaluation of the risks and opportunities of the Construction Business as a whole.

Following the strategic review of the Construction Business, on 12 December 2012, the Company announced that its new operational strategy going forward would be to focus solely on the development of the Mining Business by exiting the Construction Business. Management also announced that as a result of its review of the construction projects, further substantial write-downs were to be made, requiring the FY13 earnings guidance to be reset again. The decision to exit the Construction Business followed the consideration by Management and the Directors of a number of alternative business models and coming to the conclusion that the Construction Business:

- ▶ had insufficient scale to withstand the risk and variability of earnings of such a business;
- ▶ was a high overhead cost model with little opportunity for reduction;
- ▶ found it difficult to attract and retain the key management personnel required to deliver projects profitably; and
- ▶ was not positioned to deliver sustainable earnings and to be competitive in the future.

After the earnings downgrade announced in September 2012 reduced the FY13 forecast profit before tax to \$20 million to \$40 million, Macmahon further revised its forecast earnings for the year ending FY13. The following table summarises the revised guidance announced in December 2012 showing Macmahon's forecast profit before tax for the first half of FY13 ("1H13"), the second half of FY13 ("2H13") and the total for FY13. The revised forecast for the Construction Business has been prepared assuming that no sale occurs by 30 June 2013 with the proposed exit being managed on a run-off basis.

Macmahon - Revised Earnings FY13 Guidance December 2012			
\$m	1H13	2H13	FY13
Mining Business - Profit before tax	35	50 - 65	85 - 100
Construction Business - Profit/ (loss) before tax	(100) - (125)	35	(65) - (90)
Total Group - Profit after tax	(50) - (60)	60 - 75	0 - 25

Source: Macmahon's investor presentation dated 12 December 2012

The downgrade represents a further reduction in earnings of 60% to 100% to the profit forecast as announced in September 2012.



The announcement of the Proposed Transaction with Leighton for the sale of the Construction Assets precipitates Macmahon's exit from the Construction Business, albeit Management has stated that in the absence of the Proposed Transaction, a sale to other third parties would be pursued. In the absence of any sale, the exit from the Construction Business would be achieved by downsizing, de-risking and eventual wind-up through:

- ▶ no more tendering of large scale projects;
- ▶ closure of the Eastern States offices;
- ▶ absorbing any residual Western Australian business into the Mining Business;
- ▶ pursue the sale of joint ventures; and
- ▶ implement cost reduction programs where possible.

Accordingly, regardless of whether or not the Proposed Transaction proceeds, Macmahon will be exiting the Construction Business.

In conjunction with the announcement of the new strategy, the intention to exit the Construction Business and the MOU, Macmahon announced its intention to undertake a fully underwritten 2 for 3 pro rata Entitlement Offer at \$0.16 per share to raise approximately \$80 million. The Entitlement Offer is comprised of an Institutional Component to institutional shareholders totalling approximately \$42 million and a Retail Component offer to retail shareholders totalling approximately \$38 million.

The funds raised under the Entitlement Offer are to be used to strengthen the balance sheet following the recent Construction Business write-downs, ensure financial flexibility to support the growth of the Mining Business, finance the ramp-up of new contract mining projects and to fund ongoing working capital requirements. Subject to completion of the Entitlement Offer, Macmahon has been granted a formal waiver by its banking syndicate to exclude the impact of certain Construction Business project losses from the calculation of covenant testing up until September 2013. Without this waiver the Company may have breached its banking syndicate covenant at 31 December 2012.

Under the Proposed Transaction, Macmahon is to retain a small number of construction contracts, most of which are nearing completion. If the sale to Leighton of the Construction Assets proceeds, the Company estimates that one-off costs of approximately \$11.5 million will be incurred for restructuring, redundancy and closure costs associated with the residual Construction Business. Macmahon will also retain approximately \$45 million of plant and equipment, which will be used in the Mining Business or sold.

The Company's Mining Business has continued to experience growth, with an increase in domestic mining activity, new operations and scope increases. Macmahon was recently announced as the preferred contractor for Fortescue Metals Group Ltd's ("FMG") Christmas Creek Project, with an expected contract value of \$1.8 billion. Inclusive of this amount, the Mining Business currently has an order book of approximately \$3.7 billion.

3.1.2 Construction Business

The Construction Business employs more than 1,000 people and undertakes contracts in the resources, road, marine, water and rail infrastructure sectors. The business is predominantly located in Australia with one project in Hong Kong. The Construction Business' client base includes: State and Federal Governments, diversified miners, LNG developers and mid-tier miners. The business works under a variety of contract styles including construct only, design and construct, build-own-operate, alliances and joint ventures.



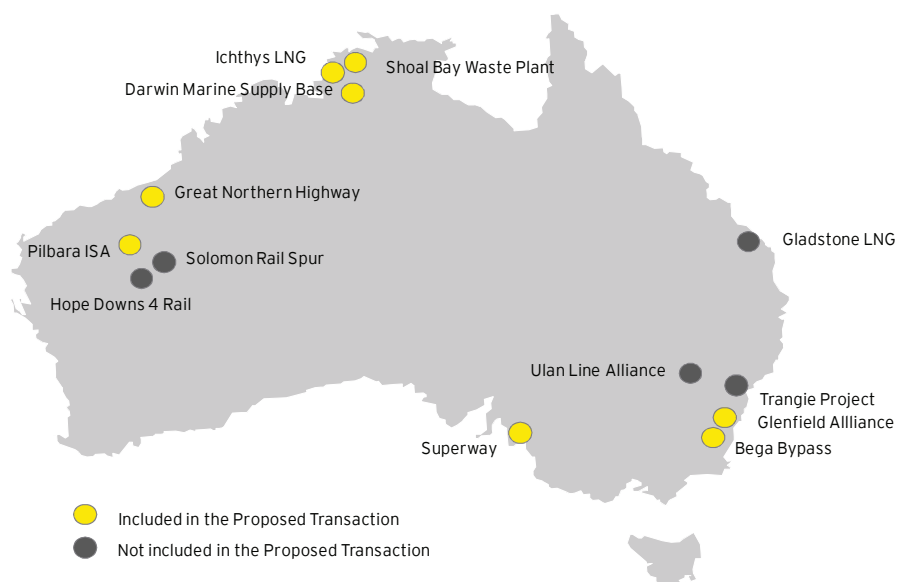
A brief description of each of Macmahon's main services within the Construction Business is included below:

Macmahon - The Construction Business

Service	Description
Road	Road services contracts include major highway and bridge projects in both urban and remote areas. Services include road formation, pavement and surfacing, bridges, tunnels and embankments earthworks, concrete works and maintenance.
Rail	Rail services include track laying, overhead traction, signalling, communications and maintenance services for urban rail and tram systems, heavy haul railways and regional rail systems.
Resources Infrastructure	Resource infrastructure services include earthworks, access and haul roads to quarry development and camps. Services have ranged from feasibility studies to the commissioning of large resource infrastructure projects.
Landside marine Infrastructure	Marine projects range from high value port facilities, wharves and jetties through to breakwaters and groynes have been delivered to cater for a range of challenging environments.
Water Infrastructure	Water infrastructure include services related to water infrastructure such as dams, ports and pipelines, water storage, treatment and distribution systems throughout Australia.

Source: Macmahon

Macmahon's larger construction projects are summarised in the map below.





3.1.3 Construction Projects

3.1.3.1 Construction Project Contracts Included in the Proposed Transaction

The following table summarises the Project Contracts that are to be sold to Leighton under the Proposed Transaction. Further information regarding the Project Contracts is detailed in the following sections.

Area	Project Contracts	Macmahon Ownership	Joint Venture / Alliance Partner	Contract Type	Forecast percentage complete at Dec 2012	Forecast final turnover (\$m)
Northern Territory	Ichthys LNG Project	50%	John Holland	Construct only	50%	176.6
	Darwin Marine Supply Base	100%	NA	Design and construct	39%	101.0
	Shoal Bay Waste Disposal	100%	NA	Schedule of rates	30%	67.2
Western Australia	Great Northern Highway Realignment	100%	NA	Design and construct (lump sum)	7%	222.9
	Pilbara ISA	100%	NA	Direct cost + profit and corporate overheads	27%	170.2
Rail	Glenfield Alliance	60%	Bouygues Travaux Publics and Parson Brinckerhoff	Cost plus	96%	149.7
New South Wales	Superway Project	40%	John Holland	Lump sum and schedule of rates	46%	NA
	Bega Bypass - Princess Highway Upgrade	100%	NA	Lump sum and schedule of rates	53%	30.2

Source: Macmahon management

Ichthys LNG Project (NT)

The Ichthys Onshore LNG Facility Site Development Works Project ("Ichthys LNG Project") was awarded to Macmahon in March 2012 in joint venture with John Holland. The Ichthys LNG Project is being operated by INPEX Corporation in joint venture with major participant Total S.A. The project involves the extraction of gas from the Browse Basin which is located approximately 200 km offshore of Western Australia and the transportation of gas along 889 km of subsea pipeline to processing facilities in Darwin, Northern Territory, where the gas is converted into LNG, LPG and condensate.

Macmahon and John Holland have been engaged to perform the site development civil works for the onshore facilities. These works include establishing access roads, performing earthworks, and undertaking drainage and ground improvement works.

Darwin Marine Supply Base (NT)

Macmahon was awarded the \$100 million Darwin Marine Supply Base contract in February 2012 as the construction partner in the ShoreASCO Consortium. The contract was awarded by the Northern Territory Government and relates to the design and construction of a special purpose wharf and dockside infrastructure to service the needs of offshore supply vessels in Darwin, Northern Territory.

Under the contract Macmahon will construct a new wharf dedicated to the offshore industry and will establish undercover warehouse and open hardstand storage areas with built-in fuel, water and drilling bulks provisioning capacity. Macmahon will also undertake waste management and dangerous goods transit services across the secure facility.

Shoal Bay Waste Disposal (NT)

Under this contract, Macmahon manages the Shoal Bay Landfill facility in Darwin up until 31 December 2019.



Great Northern Highway Realignment (WA)

The Great Northern Highway Realignment project was awarded to Macmahon in June 2012 for approximately \$220 million and is expected to be completed in 2014. This project involves the development of approximately eight kilometres of new road and a major interchange at the Broome exit on the Great Northern Highway in Port Hedland, Western Australia.

Macmahon will also be involved in the design of a new road bridge over the BHP Billiton Iron Ore rail line, a low level bridge at South Creek and the establishment of various other intersections including access to South Hedland, the Wedgefield industrial area and proposed development areas. In constructing this infrastructure, road embankments located across low-lying areas and associated drainage works will also need to be developed to maintain tidal flows.

Pilbara Integrated Services Arrangement (WA)

The Pilbara Integrated Services Arrangement ("ISA") was awarded to Macmahon in September 2011 for approximately \$170 million. The project is located in the Pilbara region of Western Australia and involves road improvements within a project area that includes 2,276 km of both sealed and unsealed roads and 104 bridges.

Macmahon has been engaged to perform operational asset management and maintenance delivery services for the Western Australian Main Roads department, including network operations, maintenance management and delivery as well as capital works over an initial five year period.

Glenfield Alliance (Rail) (NSW)

Macmahon was awarded the \$170 million Glenfield Transport Interchange contract (Glenfield Alliance") as part of the Glenfield Junction Alliance comprising of Macmahon (60%) and Bouygues Travaux Publics ("BTP") (40%).

Macmahon's scope of work on the project involves the delivery of civil and track work, traction power and overhead wiring and signalling elements. This includes the construction of the northern and southern flyovers at Glenfield Junction, new and modified rail systems and infrastructure, platform re-configurations and alterations at Glenfield Station, in addition to a new platform, footbridge and overhead concourse. Macmahon will also deliver road layout modifications along Railway Parade and upgraded transport interchange facilities.

Superway Project (NSW)

The Superway Project was awarded to Macmahon in November 2010 with a contract value of \$812 million. The project is located in South Australia and is operated by the Urban Superway Joint Venture, which consists of Macmahon (40%), John Holland (40%) and Leed (20%).

On completion of the Superway Project a 4.8 km highway will be developed, including a 2.8 km elevated roadway. The new highway will be a dual carriageway with three lanes in each direction and will connect the Port River Expressway to Regency Road, which is located north of Adelaide. The South Road Superway project represents the largest single road project that Macmahon has been involved in.

The contract is expected to be completed in late 2013 or early 2014 and is forecast to make a loss.

The Bega Bypass project (NSW)

Macmahon was awarded the Bega Bypass project located in New South Wales in April 2012. The Bega Bypass will connect the Princess Highway from the Bega River Bridge to the Finucane lane intersection, enabling traffic to bypass the Bega township. The bypass will consist of a 3.5 km two lane highway and will improve traffic conditions and reduce the impact of heavy traffic on the Bega township.



The contract is being performed for the New South Wales State Government Roads and Maritime department and involves Macmahon constructing two new bridges and two new intersections that connect the town and the bypass.

3.1.3.2 Construction Contracts to be Retained by Macmahon

The construction contracts to be retained by Macmahon (i.e. the Retained Projects) and not be included in the Proposed Transaction consist of projects which are nearing completion as well as the Hong Kong XRL and the Trangie Project for which commercial terms could not be agreed. A description of these projects is as follows:

The Hope Downs 4 Rail Contract (WA)

The Hope Downs 4 Rail contract was awarded to Macmahon in July 2011 for approximately \$90 million. Hamersley Iron Pty Limited, a wholly owned subsidiary of Rio Tinto Plc, engaged Macmahon to construct a new rail connection from its existing Hope Downs 1 mine rail line to a new mine site being established at Hope Downs 4 in the Pilbara Region of Western Australia.

Under the contract Macmahon is responsible for the development of approximately 53 km of rail formation with a live rail tie in at the west end and a load out loop at the eastern end. Other works will include earthworks, drill and blast, culverts, open drains, rock works, roadworks, shire road deviations and new rail crossings. Macmahon will also construct two bridges, each spanning Weeli Wolli and Coondiner Creek.

The contract is expected to be completed in April 2013.

Solomon Rail Spur (WA)

Macmahon was awarded the \$340 million Solomon Rail Spur contract in December 2011. The Solomon Rail Spur project is located in the Pilbara region of Western Australia and involves the development of 53 km of rail formation to connect Fortescue Metals Group's main rail line with the Solomon deposit.

Under the contract Macmahon has been involved in the construction of four major bridges including two over the Fortescue River, earthworks, with sidings and associated drainage, plus the formation of level crossings over the Great Northern Highway and other roads in the region. Macmahon was also engaged to construct 12,500 m of drainage culverts.

The contract is expected to be completed in February 2013.

Gladstone LNG (QLD)

Macmahon was awarded the \$150 million Gladstone LNG contract in March 2011. The Gladstone LNG Project is a joint venture between Santos and LNG companies Petronas, Total and KOGAS. The project is located on Curtis Island, 2 km offshore from Gladstone, Queensland, and involves processing coal seam gas into LNG.

Macmahon's role is to perform civil works on the project, including clearing, bulk earthworks, pavements, roads and drainages for a 160 hectare site on the south west side of Curtis Island. Macmahon's work also includes pre-casting most concrete formations and other concrete structures on the mainland and barge these across to the island.

The contract is expected to be completed in April 2013.

ULAN Line Alliance (NSW)

In 2009 the Ulan Line Alliance project was awarded to Macmahon and its subsidiary Macmahon Rail with a value for Macmahon of \$60 million. The project involves the design and construction of 11 passing loops and associated tunnel ventilation works on the line between Muswellbrook and Ulan in New South Wales. The contract is expected to be completed in April 2013.



The Hong Kong Tunnel Project

The Hong Kong XRL 822 project is a joint venture between Macmahon (25%) and Leighton Asia (75%). The contract was awarded by the MTR Corporation Limited in Hong Kong and is worth \$115 million to Macmahon. The contract involves the construction of a 7.6km twin-track tunnel, adits, ventilation buildings and a 90 metre deep ventilation shaft in the Tse Uk Tsuen and Shek Yam section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link. The contract is expected to be completed in March 2015.

The Trangie Project (NSW)

Macmahon was awarded the Trangie Project in December 2011 in joint venture with water technology solutions provider ADASA Sistemas SA. The Trangie Project relates to the improvement of water efficiency and resource management in the Murray Darling Basin in New South Wales.

Under the joint venture arrangement Macmahon is constructing a new stock and domestic pipeline network that will return 18,842 ML of water entitlements to the Commonwealth Water Entitlement Holder. The Trangie Nevertire channel modernisation includes the reshaping and rubber lining of 153 km of earthen channel, the installation of hydraulic gates and farm outlet meters, performing pump station upgrades, SCADA automation and telemetry for remote monitoring and operation. Under the contract a 238 km stock and domestic pipeline network will also be designed and installed, including the construction of balance tanks and pump stations used to supply stock and domestic water to more than 90 properties within the region.

The contract is expected to be completed in December 2014.

3.1.4 Construction Tenders

At the date of this report, Macmahon currently has the following 'material' or 'substantial' tenders outstanding:

Strathfield Dive (Awarded 7 December 2012)

The Strathfield Dive tender involves a joint venture between Macmahon and BTP. and was awarded by the NSW Government to deliver the North Strathfield Rail Underpass project. The contract will involve the construction of a new rail underpass, 3.2km of new track, civil and associated rail systems works and an upgrade of Concord West Station. The project will employ about 400 people directly with works to start immediately. Construction is scheduled for completion in late 2015. The structure of the contract will ensure the joint venture recovers the costs of the project, with the margin to be determined based on performance against pre-agreed targets.

F2E Pacific Highway Road (Awarded 20 December 2012)

The Frederickton to Eungai ("F2E") Pacific Highway Road tender involves a joint venture between Thiess and Macmahon. The \$458 million (Macmahon share of approximately \$180 million) design and construct contract involves a 26.5 km upgrade of the Pacific Highway between Frederickton and Eungai in New South Wales, with construction expected to begin in mid 2013. The project is expected to be completed in 2016.

Gosford Passing Loop Rail (Outstanding)

The Gosford Passing Loop Rail project tender involves the construction of two passing loops between Gosford and Narara Stations in New South Wales. The project also includes the construction of six new rail under bridges, the establishment of maintenance access roads and gates and the modifications to the existing signalling and communications system. If won, Macmahon's share of the contract value would be \$100 million. This tender was open for registration of interest and no decision has been made to appoint the approved contractor.



Macmahon also has the following tenders outstanding:

- ▶ GEP-1 Pipe Ground Improvements (estimated value of \$60 million)
- ▶ Great Northern Highway Bridge Variation (estimated value of \$25 million)

3.1.5 Mining Business

Macmahon's mining business performs surface mining and underground mining operations within Australia, New Zealand, Asia, Africa and Mongolia. Macmahon entered the mining services sector in 1967 and has since become a well established mining services provider, with experience in commodities such as coal, iron ore, diamonds, gold, copper, nickel, manganese, limestone and phosphates.

Some of the surface mining activities that Macmahon performs include drill and blast, bulk and selective mining, crushing and screening, train loading and the use of a large range of mining equipment. Underground mining operations range from total mine development and production to specialised services.

Further information on Macmahon's mining business can be found in Macmahon's recent ASX announcements including its 2012 Annual Report.

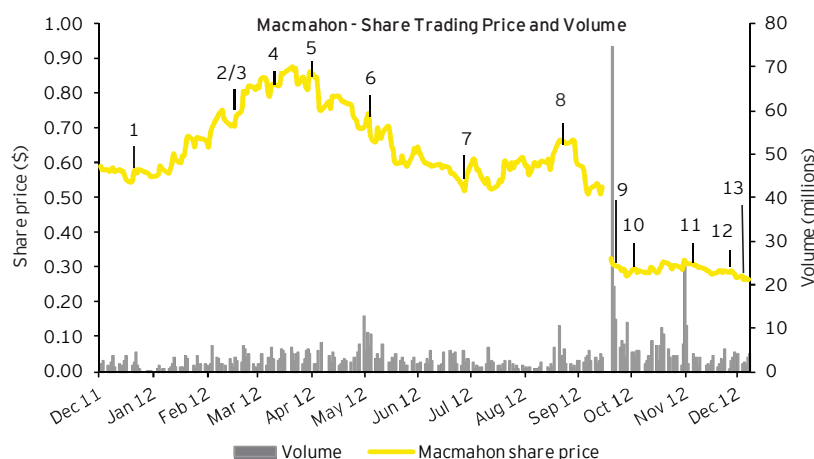
3.2 Macmahon's share price performance

The following table summarises the monthly trading prices of Macmahon's shares on the ASX over the period 1 December 2011 to 7 December 2012, the last trading day prior to the announcement of the Proposed Transaction. The last trading price of a Macmahon share on 7 December 2012 was \$0.27.

Macmahon - Monthly Share Trading Summary						
Date	High A\$	Low A\$	Close A\$	VWAP A\$	Monthly Vol millions	Liquidity %
Dec-11	0.60	0.55	0.56	0.57	33.6	4.6%
Jan-12	0.68	0.56	0.66	0.63	28.8	3.9%
Feb-12	0.83	0.65	0.82	0.75	55.4	7.6%
Mar-12	0.90	0.78	0.86	0.84	77.7	10.6%
Apr-12	0.86	0.68	0.70	0.75	67.9	9.3%
May-12	0.75	0.58	0.65	0.67	80.4	11.0%
Jun-12	0.65	0.51	0.58	0.57	53.4	7.3%
Jul-12	0.62	0.52	0.61	0.57	34.6	4.7%
Aug-12	0.69	0.57	0.60	0.64	49.9	6.8%
Sep-12	0.61	0.27	0.28	0.35	170.3	23.3%
Oct-12	0.35	0.28	0.32	0.30	121.3	16.4%
Nov-12	0.33	0.27	0.27	0.30	62.6	8.4%
To 07 Dec 12	0.28	0.26	0.27	0.27	11.8	1.6%

Source: Capital IQ

The chart below shows the daily share price and trading volumes for Macmahon between 1 December 2011 and 7 December 2012. The trading price is based on the daily closing price.



Source: Capital IQ, Company announcements

The table and chart show that over the period considered, Macmahon's share price traded to a high of \$0.90 in March 2012, decreasing to a low of \$0.52 by July 2012, before increasing moderately to \$0.69 in August 2012. Prior to announcing the earnings guidance downgrade on 19 September 2012, the Company requested a trading halt prior to commencement of trading on 17 September 2012. The closing price of the Company's shares on 14 September 2012, the previous Friday, was \$0.53. After announcing the earnings downgrade and the resignation of Mr Bowen, the long term CEO and Managing Director, on 19 September 2012, the Company's share price opened at \$0.35 and traded down to a low of \$0.28, closing on that day at a price of \$0.33. Throughout October and November 2012 Macmahon's share price has traded between \$0.28 and \$0.32, closing at \$0.27 on 7 December 2012. The Company went into a trading halt on 8 December 2012, pending the announcement of the new strategy and exit from the Construction Business on 12 December 2012.

In addition to the regular quarterly, interim and annual reporting announcements, the material announcements made by Macmahon across the period above, that may have had an impact on the Company's share price are summarised below:

1. 21 December 2011 - Macmahon announced that a \$330 million contract with FMG had been signed. The contract related to the development of 81 km of rail to form the main rail line through the Chichester Range to the Solomon deposit.
2. 20 February 2012 - Macmahon announced it had signed a new contract to design and construct the Darwin Marine Supply Base, which was estimated to be worth approximately \$100 million. In construction partnership with ShoreASCO Consortium and Capella Capital, Macmahon was engaged to build wharf and dockside infrastructure to service offshore supply vessels. The project was scheduled for completion by the end of calendar year 2013 and was estimated to employ over 120 people.
3. 21 February 2012 - The Company announced the release of its financial report for the first half of financial year 2013. Key highlights included an increase in revenue and profit after tax over the first half of the prior year of 38% and 27% respectively. A dividend of 1.5 cents per share was also announced.



4. 15 March 2012 - Macmahon announced that it has been awarded a \$340 million contract for the Ichthys LNG Project, for which the Company would work in joint venture with John Holland. Macmahon was engaged to undertake civil construction works including the construction of roads, earthworks, drainage and ground improvements associated with finishing the earthwork levels for the LNG plant and its associated facilities.
5. 30 March 2012 - Macmahon announced it had been awarded a new \$50 million contract to construct the Ranger 3 Deeps exploration decline for Energy Resources of Australia Limited ("ERA"). The contract included a boxcut, complete portal establishment and 2,200 metres of development works in preparation for ERA's diamond drilling program.
6. 2 May 2012 - Macmahon announced that progress had been made with the Tavan Tolgoi coal contract for Erdenes MGL in Mongolia. Following discussions it had been decided that Macmahon would be taking over 100% of the contract that was previously a 50:50 joint venture arrangement. Macmahon had commenced site operations on 2 January 2012, coal mining and overburden stripping was well underway, temporary workshop facilities had been constructed and an experienced management team had been put in place.
7. 21 June 2012 - The Company announced that it had been awarded a \$220 million design and construct contract by the Western Australian Government, for the Great Northern Highway Realignment in Port Hedland. The project involves the establishment of approximately eight kilometres of new road and a major intersection connecting Broome and Port Headland Road.
8. 20 August 2012 - Macmahon announced that its full year financial results for financial year 2012 had been finalised. Key highlights for the 2012 financial year included a 49% increase in revenue and an increase in net profit after tax of 45% in comparison to the prior financial year. A further dividend of 2.5 cents per share was also announced.
9. 19 September 2012 - Macmahon updated its earnings guidance for FY13 following a further management review of its Hope Downs 4 Rail Earthworks contract in WA, and increased uncertainty about the outlook for new construction work given recent market volatility.

Also, an announcement was made by the Company that the Chief Executive Officer and Managing Director Nick Bowen had resigned. Mr Ross Carroll was appointed as the Company's new Chief Executive Officer and Managing Director.
10. 28 September 2012 - Macmahon announced that it had been awarded a \$200 million, three year extension to its Olympic Dam contract in South Australia with BHPB. The new extension would require Macmahon to continue its current activities across the site.
11. 31 October 2012 - The Company announced it had been nominated as preferred contractor by FMG for a contract to deliver open cut mining services as part of the expansion of the Christmas Creek iron ore mine in the Pilbara region. If awarded, the five year contract with a value of approximately \$1.8 billion would be the Company's largest ever mining contract.
12. 23 November 2012 - Macmahon announced that it could confirm that a joint venture between Macmahon and Thiess had been nominated as preferred contractor by the New South Wales Government to construct a 25.8 km four lane divided carriageway as part of the Pacific Highway Upgrade.
13. 7 December 2012 - Macmahon confirmed the 50:50 partnership between Macmahon and BTP has been awarded an Alliance contract by the NSW Government to deliver the North Strathfield Rail Underpass project. The \$260 million (Macmahon's share is \$130 million) contract will involve the construction of a new rail underpass, 3.2km of new track, civil and associated rail systems works and an upgrade of Concord West Station.



4. Overview of Leighton

Leighton is based in Sydney, Australia, was founded in 1949 and listed on the ASX in 1962. The company provides development, construction, contract mining, and operation and maintenance services to the infrastructure, resources and property markets throughout Australia, Asia, the Middle East and Southern Africa. The operations of Leighton are structured through the following operating entities:

- ▶ Thies is an Australian based engineering, construction and mining services company. It has more than 19,000 employees throughout Australia, India, Indonesia and New Zealand. Some of the services provided by Thies include mining solutions, civil engineering, process engineering, building, remediation, telecommunications, utilities and facilities management.
- ▶ John Holland provides a diverse range of contracting and services. It is based in Australia and has operations within Australia, Hong Kong, New Zealand and Singapore. It has more than 7,000 employees and provides tunnelling, communications, building and civil construction services to the infrastructure sector and assists in the delivery of major water and environment, energy, mining, and minerals and industrial projects within the energy and resources sector.
- ▶ Leighton Contractors is an Australian based company that provides diversified contracting services to governments, major corporations and other companies. Leighton Contractors is a project development, construction and services contractor that specialises in civil engineering and infrastructure, building, contract mining, energy, telecommunications and facility management. It employs more than 10,000 people and operates within Australia, New Zealand and Papua New Guinea.
- ▶ Leighton Properties operates solely within Australia and undertakes commercial, residential, bulky goods and mixed industrial property development projects. It has 50 employees and its head office is located in Sydney, Australia.
- ▶ Leighton Asia is a construction and mining services company with current operations in Brunei, Cambodia, China, Guam, Hong Kong, Indonesia, Laos, Macau, Malaysia, Mongolia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.
- ▶ Leighton Welspun is based in India and provides contracting work to a range of industries including oil and gas, building, infrastructure and mining. It employs over 3,000 people and provides its clients the latest in construction technology and methodologies, as well as a flexible approach to contracting structures. Leighton currently has a 65% interest in Leighton Welspun through a joint venture.
- ▶ Leighton Offshore is an engineering, procurement, construction, installation and commissioning and life of field services contractor. It provides contracting services to the offshore oil and gas sectors across south-east Asia, the Middle East and Africa and has over 400 employees
- ▶ Habtoor Leighton Group provides construction development and asset management services in the Middle East and North Africa. It is based in Dubai and employs over 24,000 people, operating throughout Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. Leighton currently has a 45% interest in the Habtoor Leighton Group.

For the nine month period to 30 September 2012, Leighton announced total revenue of \$16.9 billion, net profit after tax of \$316.8 million and net assets of \$2.7 billion. Leighton's market capitalisation as at 7 December 2012 was \$5.7 billion. Leighton's major shareholder is HOCHTIEF Australia Holdings Limited with a 53% interest as at March 2012.



5. The Construction Industry

5.1 Overview

The Construction industry in Australia consists of companies engaged in the construction of buildings, roads, railroads, irrigation projects, harbour or river works, water, gas, sewerage, storm water drains, mains, electricity, other transmission lines or towers, pipelines, oil refineries, civil engineering projects and on-site assembly of prefabricated buildings. It includes repairs and renovation, mine site preparation, demolitions or excavations and the installation of utilities. Demand in this industry is driven by investment in mining and energy infrastructure, but also anti-cyclical spending by governments on the construction of roads and schools.

The four largest firms account for less than 15% of the annual revenues for the sector, indicating a low level of concentration (especially when compared to the general economy). This is due to the fact that the majority of revenue originates from small-scale contracting firms with less than five employees. Major participants in this industry include Leighton, Downer EDI Limited, Lend Lease Corporation Limited, Brookfield Multiplex, Laing O'Rourke plc and Macmahon.

The level of capital intensity in the construction industry is low, meaning labour costs are significant. These labour costs include the hiring of trades people for manual labour purposes and also to operate machinery for the construction of roads, buildings, irrigation projects, water, gas, railroads and sewerage. IBISWorld estimates that wage costs are expected to have increased by a compound annual rate of 2.2% over the five years to FY12, representing approximately 26% of revenue. As the sector has become more efficient, wages have tended to fall over time as a proportion of revenue. Over the past five years, revenue has grown at a faster pace than wages.

Barriers to entry in the construction industry are medium, due to key participants in the industry having economies of scale and established distribution networks. However, economies of scale do vary between sub-industries. For example, in the Concreting Services sub-industry opportunities for new entrants is considered high. Conversely, Road and Bridge Construction is heavily concentrated, with the top four participants controlling more than 40% of the market, thereby making new entry more difficult. The sheer size and scale of operations within the non-dwelling building and the engineering construction sections of the industry have prompted barriers to entry to rise. However, due to significant service differentiation in the industry, the competition faced by new entrants is limited to operators offering identical services.

The level of competition in the Construction industry is high and the basis of this competition is generally price. Major public-sector projects often involve a tendering process where selection is based on price (but also the size and capabilities of the proposed contracting company). Competition in major private-sector projects is based primarily on the ability to deliver on time at or below the quoted price.

5.2 Outlook

In response to the weakening of commodity prices over the last year, the initial boom of new construction activity has begun to taper, as mining companies seek to scale back project costs. As a result, the demand for projects involving new, large infrastructure construction is starting to weaken. The construction industry is forecast to have subdued growth over the next five years.



According to IBISWorld, annual growth in the overall industry of 2.2% is expected to FY18. The value of non-building infrastructure construction is expected to decline by an annualised 0.8% over the next five years with the value of total road and bridge construction forecast to contract over the next two years but rebound to total subdued annualised growth of 1.1% over the five years through to FY18.

Cash generation will be a main focus for all contractors, with weakening economic conditions resulting in some delay in payments by customers. In addition, with a decrease in the number of large scale projects commencing, cash flow will be crucial in the near term as firms still have to fund overhead costs. Furthermore, as the availability of new projects becomes more limited, competition in the industry is expected to increase, resulting in lower margins and a greater risk for cost over-runs. This is further exacerbated by a significant increase in labour costs caused by the large number of projects commencing over the past decade.

The slowdown of the economy in Australia will further increase the sector's interest in offshore operations. Although many of the contractors in this industry have offshore operations, it is expected to see an increased focus on offshore expansion within the next 18 months.



6. Valuation methodology and approach

6.1 Definition of fair value

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have assessed the fair value of the Construction Assets in order to compare that amount with the Cash Consideration being offered by Leighton. Fair value is generally defined as:

"the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length"

Our assessment of the fair value of the Construction Assets has been done on a basis consistent with this definition.

6.2 Valuation methodology and approach

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- ▶ Discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
- ▶ Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- ▶ Amount that would be available for distribution to security holders on an orderly realisation of assets;
- ▶ Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- ▶ Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets; and
- ▶ Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information. A summary of each of these methodologies is outlined in Appendix B.



6.3 Valuation methodology adopted

Given the nature of the Proposed Transaction, whereby Leighton will acquire specific assets of the Construction Business, we have assessed the value of the assets being sold using the valuation method deemed most appropriate on an asset by asset basis given the nature of each of the Construction Assets.

We note that the Total Cash Consideration to be paid by Leighton is subject to numerous adjustments at the Effective Date of 31 December 2012 and thereafter. These adjustments are outlined in Section 1.3 of this report. Since the adjustments to the Cash Consideration have not been finalised as at the date of our report, our opinion of the fairness of the Proposed Transaction is based on the Unadjusted Cash Consideration of \$29.6 million, which is comprised of the amount being paid for the Project Contracts and the Plant Assets, adjusted for the forecast position at 31 December 2012 based on information available as at 30 November 2012⁹. We have also included the Tender Fees being paid for those Tenders that Macmahon has been successful in securing in the period between the announcement of the Proposed Transaction and the date of our report.

As described in Section 1.3, there are a number of other adjustments that will impact the Total Cash Consideration to be paid by Leighton. Of these other adjustments we have estimated the overclaim or underclaim position (for projects that are wholly owned by Macmahon), JV profits adjustments (for projects in a joint venture) and the margin adjustment based on forecast information detailed in Macmahon's contract valuation reports ("CVR"). All other adjustments are to be based on actual dollar amounts to be paid or to be received by Macmahon and will be made on a dollar-for-dollar basis. As such, they will not have an impact on our fair value assessment.

The following sections outline the valuation methods we have applied in valuing the Construction Assets.

6.3.1 Project Contracts

The Project Contracts consists of a basket of eight construction contracts that will be novated or transferred to Leighton under the Proposed Transaction. We have assessed the fair values of the Project Contracts on a DCF basis for the following reasons:

- ▶ The Project Contracts have varying contract lengths, costs to be incurred, profit margins and risks associated with the cash flows to be received by the holder of the contract;
- ▶ Operational and financial forecasts are available by contract and are updated monthly by Management;
- ▶ The Project Contracts have finite lives; and
- ▶ The DCF methodology enables us to consider different scenarios in relation to profit margins and discount rates.

In considering the Project Contracts, we held discussions with Management to obtain an understanding of the key contract terms and the risks and opportunities associated with the work to be completed on each of the projects.

⁹ Being the most recent financial information available.



6.3.2 Plant Assets

The fair value assessment of the Plant Assets was performed by Ernst & Young's Capital Equipment Valuation group. For the valuation of the Plant Assets, we applied the cost approach, and the market approach depending on the nature of the asset, availability of relevant information in the used equipment market, data provided in the fixed asset register and the data captured during site inspections.

Our assessment of the value of the Plant Assets is detailed in a separate report which is attached in full at Appendix G.

6.3.3 Tenders

The Tenders included in the Proposed Transaction include all construction tenders that Macmahon has been awarded since the announcement of the Proposed Transaction and those tenders that are currently awaiting a decision by the respective client.

Under the terms of the APA, Leighton will pay a Tender Fee for each Tender that is successfully awarded and is either novated to Leighton or for which Leighton executes a new contract.

The Tenders that have been included in our fair value assessment are those Tenders that Macmahon has been awarded prior to the date of our report.

In assessing the fair value of the Tender, we adopted a cost approach, under which we estimated the costs incurred to prepare the Tender and applied a margin. An income approach was not adopted for the fair value assessments due to the early stage nature of the Tenders, the lack of detailed financial forecasts including detailed CVRs and on the basis that no work had commenced as at the date of this report.

6.3.4 Adjustments to the Total Cash Consideration

As noted above, the adjustments that are made based on actual amounts have not been included in our analysis of the fair values of both the Construction Assets and the determination of the Total Cash Consideration to be paid by Leighton.

6.3.5 Valuation Methodology cross check

To assess the overall reasonableness of the fair value of the Construction Assets, we considered the appropriateness of cross checking the fair values determined on a DCF basis under the income approach with other acceptable valuation methodologies including the market based approach utilising comparable company transaction and trading multiples as well as reference to Macmahon's market capitalisation. We determined that these approaches were not feasible due to the following:

- ▶ The lack of any directly comparable transaction data that provides evidence to the value of contracts separate from the overall value of the business;
- ▶ The nature of the Proposed Transaction, which does not constitute Macmahon's entire Construction Business, and the finite duration of the Project Contracts collectively render a market approach based on trading and transaction multiples for construction businesses to be deemed inappropriate; and
- ▶ Macmahon's market capitalisation represents a measure of the market value of its underlying operations including the Mining Business and the Construction Business,. Any attempt to apportion this value to the Construction Assets would be subjective and not meaningful.



7. Valuation of the Construction Assets

7.1 Valuation of the Project Contracts

7.1.1 Overview

The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the inherent risks associated with those cash flows. We have assessed the fair value of the Project Contracts to be sold to Leighton under the Proposed Transaction on a DCF basis.

The Project Contracts that are to be sold to Leighton are summarised in the table below:

Area	Project Contracts	Macmahon Ownership	Forecast final turnover (\$m)	Forecast percentage complete at Dec 2012
Northern Territory	Ichthys LNG Project	50%	176.6	50%
	Darwin Marine Supply Base	100%	101.0	39%
	Shoal Bay Waste Disposal	100%	67.2	30%
Western Australia	Great Northern Highway Realignment	100%	222.9	7%
	Pilbara ISA	100%	170.2	27%
Rail	Glenfield Alliance	60%	149.7	96%
New South Wales	Superway Project	40%	NA	46%
	Bega Bypass - Princess Highway Upgrade	100%	30.2	53%

Source: Macmahon's CVRs

The forecast percentage complete at Dec 2012 is based on the forecasts included in the November 2012 CVRs.

Our assessment of the fair value of the Project Contracts does not include any amount for the Superway Project on the basis that under the APA, if the Superway Project incurs a trading loss, Macmahon is required to:

- ▶ Repay the cash distribution Macmahon has received from the Superway JV; and
- ▶ Contribute up to \$25 million to the Superway JV for its share of the loss.

The Superway JV has forecast that the Superway Project will incur a trading loss. As a consequence, Macmahon will not receive any cash consideration for the transfer of the Superway Project and will be liable to pay up to \$25 million (on a pre-tax basis) of its share of the Superway Loss.

Based on discussions with Management, as at the date of this report, Macmahon's share of the Superway Loss is not expected to exceed the Superway Cap. However, given the Superway Project is not expected to be completed until late 2013 or early 2014, the amount of the final Superway Loss cannot be quantified.



On the basis that the Superway Loss is not currently forecast to exceed the Superway Cap, the fair value associated with the Superway Cap is considered to be 'nil'.

7.1.1.1 Contract Valuation Reports (i.e. the CVRs)

Macmahon summarises the financial and operational progress of each of its construction contracts in a CVR that is updated on a monthly basis. The CVRs include the following information:

- ▶ Forecast cash to be received and cash costs to be incurred until the end of the contract and at its completion;
- ▶ Actual cash received and cash costs incurred since the commencement of the contract;
- ▶ The project margin recognised based on either:
 - the costs incurred to date as a percentage of total costs to be incurred; or
 - the costs incurred to date as a percentage of total costs to be incurred, provided that the project has incurred a minimum of 15% of forecast costs. In this instance, if a project has not reached the 15% threshold, no margin is recognised. Thereafter, the margin is recognised evenly over the remaining 85% of costs to be incurred.
- ▶ The project's overclaim (or underclaim) position, calculated as follows:

(Overclaim) / underclaim = project margin + costs incurred - cash billed to date

If the project margin and the costs incurred are greater than the cash billed to date, the project is in an underclaim position, and vice versa.

For Project Contracts where Macmahon is working within a joint venture, the contract will be in an 'underclaim' position if the joint venture has recognised profit but has not yet distributed that profit to the joint venture parties. We refer to the underclaim position of JV Contracts as "Undistributed JV Profit"

The overclaim or underclaim position is effectively a working capital position at a point in time.

7.1.2 Valuation approach

We have assessed a range of fair values for the Project Contracts using a DCF analysis of the cash flows to be received and the cash flows to be incurred under each contract subsequent to the Effective Date (being 31 December 2012). As a result, this method considers the Project Contract's overclaim, underclaim or Undistributed JV Profit position as it includes the cash flows attributable to the purchaser of the contract¹⁰.

¹⁰ Therefore if a Project Contract is in an underclaim position at the Effective Date, the buyer of the contract will earn the margin remaining for the contract as well as receive the amount of the underclaim from the client associated with the contract. The Cash Consideration being paid by Leighton also reflects the working capital position of each Project Contract as the amount of the underclaim position of the Project Contracts is added to the Total Cash Consideration. Alternatively, the amount of the overclaim position is deducted from the Cash Consideration.



7.1.3 Fair value of Project Contracts' forecast cash flows

In valuing the Project Contracts on a DCF basis we have considered the forecast cash flows as reflected in each project's CVR as at 30 November 2012 (the "November 2012 CVR"). Although the Cash Consideration to be paid by Leighton will be finalised subsequent to the Effective Date, we have adopted the November 2012 CVRs, as they are the most current information available as at the date of this report and as such most representative of the financial position of each Project Contract at the Effective Date.

Each of the November 2012 CVRs include the following information:

- ▶ Actual revenue received and costs incurred up to 30 November 2012;
- ▶ Project margins earned to 30 November 2012;
- ▶ Forecast revenue to be received and costs to be incurred until the earliest of the expected date of completion of the contract or 30 June 2015, on a monthly basis;
- ▶ Forecast margins to be earned until the earliest of the length of the contract or 30 June 2015, on a monthly basis; and
- ▶ The total cash to be received and costs to be incurred until the end of the contract.

By adopting the November 2012 CVRs in our valuation assessment, we have made the following adjustments:

- ▶ Included forecast cash flows applicable from 1 January 2013 to include only those cash flows forecast to be received subsequent to the Effective Date. This includes all cash to be received from the clients net of costs to be incurred to complete the Project Contracts;
- ▶ For the three Project Contracts that are forecast to end subsequent to the forecast period included in the CVRs, we have extended the forecast cash flows based on:
 - The difference between the forecast revenue and costs estimated to complete the contract and the amounts that have been included in the CVR forecasts; and
 - An allocation of the forecast revenue and costs over the remaining life of the contract prorated on a monthly basis. The Project Contracts have forecast durations ranging from six months to seven years;
- ▶ Included an allocation of overhead expense based on a range of 3.5% to 4.0% of revenue, to account for the associated overheads estimated to be required to complete the Project Contracts. This overhead allocation range was assessed with reference to Macmahon's actual and forecast FY13 overhead expenses for those regions of the Construction Business that form the majority of the Project Contracts and consideration of what a market participant would incur to manage the Project Contracts. We note that the range is lower than Macmahon's current levels of overhead expense as it does not consider additional overheads for non-project activities such as estimating and tendering;
- ▶ Applied a tax rate of 30% to the forecast monthly accounting margins net of overhead expenses; and
- ▶ Discounted the residual cash flows using a nominal after tax discount rate range of 14.0% to 17.0%. Our determination of an appropriate discount rate range is detailed in Appendix C.



A summary of the DCF analysis is shown in the following tables. The tables illustrate the fair values assessed when applying an amount of overheads equal to 3.5% and 4.0% of revenues, respectively.

Project Contracts - Valuation on a DCF basis (overheads as 4.0% of revenue)					
\$m	FY13	FY14	FY15	FY16	Total
Cash margin	11.2	10.4	23.1	3.2	51.5
Overhead costs at 4%	(7.5)	(9.2)	(2.6)	(1.7)	(22.2)
Tax expense	(3.7)	(5.3)	(0.4)	(0.5)	(10.8)
Free cash flows	(0.0)	(4.0)	20.1	1.0	18.6
Discounted value - low value	(0.3)	(4.2)	15.1	0.6	11.8
Discounted value - high value	(0.2)	(4.2)	15.8	0.7	12.8
Net present value - average	<u>12.3</u>				

Source: EY analysis

Project Contracts - Valuation on a DCF basis (overheads as 3.5% of revenue)					
\$m	FY13	FY14	FY15	FY16	Total
Cash margin	11.2	10.4	23.1	3.2	51.5
Overhead costs at 3.5%	(6.5)	(8.0)	(2.3)	(1.5)	(19.4)
Tax expense	(4.0)	(5.6)	(0.5)	(0.6)	(11.6)
Free cash flows	0.6	(3.2)	20.3	1.1	20.5
Discounted value - low value	0.3	(3.5)	15.2	0.7	13.5
Discounted value - high value	0.4	(3.5)	16.0	0.8	14.5
Net present value - average	<u>14.0</u>				

Source: EY analysis

The value based on the DCF analysis of the Project Contracts is in the range between \$12.3 million to \$14.0 million.

Fair value of the Project Contracts based on cash flows		
\$m	Low	High
Fair value based on cash flows	<u>12.3</u>	<u>14.0</u>

Source: EY analysis

7.2 Valuation of the Plant Assets

The fair value assessment of the Plant Assets was performed by Ernst & Young's Capital Equipment Valuation group. The report determining the valuation of the Plant Assets includes the methodology and assumptions used in the valuation. The report is located at Appendix G.

The fair value range assessed for the Plant Assets is summarised in the following table:

Fair value of Plant Assets		
\$m	Low	High
Plant Assets	<u>15.7</u>	<u>17.4</u>

Source: EY analysis



The fair value range assessed for the Plant Assets is in the range of \$15.7 million to \$17.4 million.

7.3 Valuation of the Tenders

The Tenders included in the Proposed Transaction are represented by the construction tenders that Macmahon has either been awarded since the announcement of the Proposed Transaction or are currently awaiting a decision by the respective client.

Under the terms of the APA, Leighton will pay a Tender Fee for each Tender provided that it has been successfully awarded and has been novated to Leighton or Leighton executes a new contract with respect of the Tender.

As at the date of this report, Macmahon had been successful with regard to two of the Tenders, being:

- ▶ the Strathfield Dive Rail Underpass tender; and
- ▶ the F2E Pacific Highway Road.

To assess the fair value of the Tender, we adopted a cost approach. Under this approach, we were provided by Management an estimated cost to prepare the Tender documents and have added a notional profit margin of 10% to 20%. As stated in Section 6.3.3, an income approach was not adopted for the fair value assessments due to the early stage nature of the Tenders, the lack of detailed financial forecasts including detailed CVRs and on the basis that no work had been commenced as at the date of this report.

The following table outlines the fair value range of the Tenders that have been successfully won by Macmahon as at the date of this report.

Fair value of Tenders	Low	High
\$m		
Strathfield Dive Rail Underpass	1.3	1.4
F2E Pacific Highway Road	2.0	2.2
Fair value of Tenders	3.3	3.6

Source: EY analysis

The fair value of the Tenders is in the range of \$3.3 million to \$3.6 million.

7.4 Valuation Summary

Our range of fair values assessed for the Construction Assets is summarised in the table below.

Fair value of the Construction Assets	Low	High
\$m		
Fair value of Project Contracts	12.3	14.0
Fair value of Plant Assets	15.7	17.4
Fair value of Tenders	3.3	3.6
Total fair value of Construction Assets	31.3	35.0

Source: EY analysis



We note that the fair value range above is based on the most recent information available as at the date of this report. In addition, we have not assessed a value of the Employee Provisions, as this amount will be adjusted as at the Effective Date based on its book value less an adjustment for tax. An equal amount will be deducted from the Total Cash Consideration.

Based on this assessment we have determined the fair value of the Construction Assets to be in the range of between \$31.3 million and \$35.0 million.



8. Evaluation of the Proposed Transaction

8.1 Approach

In forming our opinion as to whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders we have considered:

- ▶ the overall terms and conditions of the Proposed Transaction;
- ▶ the rationale for the Proposed Transaction;
- ▶ the impact of the disposal of the Construction Assets and the proposed exit from the Construction Business on the underlying operations of Macmahon;
- ▶ whether or not the Non-Associated Shareholders are better off, or at least no worse off because of the Proposed Transaction;
- ▶ the alternatives to the Proposed Transaction; and
- ▶ other significant qualitative factors.

8.2 Fairness

In determining whether the Proposed Transaction is fair to the Non-Associated Shareholders we have compared the fair values assessed for the Construction Assets with an estimate of the Adjusted Cash Consideration being offered by Leighton.

8.2.1 Estimate of Adjusted Cash Consideration

The Adjusted Cash Consideration is the Unadjusted Cash Consideration of \$29.6 million net of the adjustments that are to be determined as at the Effective Date (i.e. 31 December 2012). Subsequent to the Effective Date, the Adjusted Cash Consideration may be further adjusted to account for items that change in value subsequent to the Effective Date and in some cases, subsequent to the Completion Date. As such, the "Total Cash Consideration" ultimately paid by Leighton is subject to change as the Proposed Transaction progresses and after the Completion Date.

Due to the timing of our assessment, being prior to the finalisation of the adjustments to be made as at the Effective Date, we have estimated the amount of the Adjusted Cash Consideration to be paid by Leighton based on the November 2012 CVRs. The Unadjusted Cash Consideration, as per the APA, was based on an estimate of the 31 December 2012 position using information available as at 30 September 2012. The following table summarises the adjustments to be applied to the Unadjusted Cash Consideration based on our estimate as at 30 November 2012. For clarity, we have also included reference to those adjustments that we have not included in our estimate of the Adjusted Cash Consideration.



Estimate of Adjusted Cash Consideration \$m	Reference	Estimate of Cash Consideration
Project Contracts Consideration		14.1
Project Assets Consideration		15.5
Unadjusted Cash Consideration		29.6
Adjustments:		
Margin Adjustment	1	1.9
Adjustment to Plant Consideration	2	NA
Accrued Transferring Employee Entitlements	3	NA
Net overclaim	4	(20.7)
Unadjusted JV Profit	5	12.9
Tender Fee	6	6.3
Adjusted Cash Consideration		29.9

Source: EY analysis

The Adjusted Cash Consideration, including those adjustments that are to be made once information is available as at the Effective Date, are summarised as follows:

1. Margin Adjustment

An adjustment will be made if the Dec Forecast Margin (percentage of costs remaining to be incurred as at 31 December 2012) for each of the Project Contracts is different from the margin contained in Macmahon's September 2012 CVRs forecast to be outstanding as at 31 December 2012. An adjustment will only be made if the actual percentage of costs to be complete at 31 December 2012 is different from the forecast amount of costs remaining to be completed. If there is a difference in work to be completed, the associated margin remaining is either greater than or less than the position forecast at September 2012.

The consideration to be paid by Leighton will be adjusted based on the difference between the actual percentage completed compared to the forecast percentage to have been completed at 31 December 2012. The difference is multiplied by the Sep Forecast Margin and is then apportioned over the remaining duration of the contract. These amounts are then discounted using the adjustment factors outlined in Section 1.3.

As these amounts are currently not known, we have estimated the Margin Adjustment based on the forecast position as at 31 December 2012 of each of the Project Contracts in the November 2012 CVRs. In doing so, we aligned the basis of the fair value of the Project Contracts (based on forecasts available at 30 November 2012) to the adjusted Project Contract Consideration based on the forecast percentage to be complete at 31 December 2012 as per information available at 30 November 2012.

To calculate an estimate of the Margin adjustment, we compared the forecast percentage complete at 31 December 2012 using the November 2012 CVRs and compared that amount to the forecast percentage complete at 31 December 2012 in the September 2012 CVRs.

The differences in the margins remaining were then prorated evenly over the remaining life of the contracts and discounted and adjusted to an after tax basis using the prescribed post-tax discount factors.



The total amount of the Margin Adjustment was estimated to be approximately \$1.9 million. This analysis forms an estimate of the Margin Adjustment to be made as at the Effective Date only. The actual amount of this adjustment is subject to change based on the December 2012 CVRs.

2. Plant Consideration

The adjustment to the Plant Consideration will reflect the difference between the Plant Consideration of \$15.5 million and the written down value of the Plant Assets as at the Effective Date. As the written down value of the Plant Assets at the Effective Date is not known at the date of this report, we have not included an adjustment. According to Management, any required adjustment is not expected to be material.

3. Accrued employee entitlements

The adjustment for the accrued entitlements for the transferring Construction Employees will be an amount equal to 70% of their book value as at the Effective Date. As the fair value is assumed to be equal to its monetary value and an adjustment would be required to decrease both the fair value of the Construction Assets and the Adjusted Cash Consideration, we have not included an estimate in our calculation.

4. Net overclaim

An adjustment for the overclaim or underclaim position of the Project Contracts will be made as at the Effective Date to account for the lack of margins or additional margins (as the case may be) that Leighton will earn over the duration of the Project Contracts. As per our analysis in Section 7.1, we have estimated the Project Contracts will be in a net overclaim position of approximately \$20.7 million at the Effective Date. This analysis forms as estimate of the overclaim or underclaim position as at the Effective Date only. The actual amount of this adjustment is subject to change based on the December 2012 CVRs.

5. Undistributed JV Profits

A deduction to the Cash Consideration for any Undistributed JV Profits will be made as at the Effective Date. As per our analysis in Section 7.1, we have estimated the Project Contracts in joint ventures will have Undistributed JV Profits of \$12.9 million at the Effective Date. This analysis forms as estimate of the Undistributed JV Profit as at the Effective Date only. The actual amount of this adjustment is subject to change based on the December 2012 CVRs.

6. Tender Fees

Leighton will pay a Tender Fee for each Tender provided that it has been successfully awarded and has been novated to Leighton or Leighton executes a new contract with respect of the Tender.

As at the date of this report, Macmahon had been successful with regards to two of the Tenders, being:

- ▶ the Strathfield Dive Rail Underpass tender; and
- ▶ the F2E Pacific Highway Road.

In accordance with the APA, Leighton will pay Macmahon a total of \$6.3 million for these Tenders. As such, we have added that amount to the estimate of the Adjusted Cash Consideration.



8.2.2 Comparison of values

The comparison of values, based on the fair values assessed in Section 7 and the Adjusted Cash Consideration estimated in Section 8.2.1 is summarised in the following table:

Comparison of values		
\$m	Low	High
Total fair value of the Construction Assets (A)	31.3	35.0
Estimate of Adjusted Cash Consideration (B)	29.9	29.9
Premium / (discount) of Cash Consideration over Construction Assets (\$m)	(1.4)	(5.2)
Premium / (discount) of Cash Consideration over Construction Assets (%)	(4.6%)	(14.7%)

Source: EY analysis

Our comparison of values presented above compares the fair value of the Construction Assets being sold or transferred (refer to the Total fair value of Construction Assets (A) in the table above) with the value of the Cash Consideration being offered by Leighton (refer to the Estimate of Adjusted Cash Consideration (B) in the table above).

In considering the consistency of our comparison between the fair values and the Cash Consideration, to confirm that it is on a like for like basis, we have had regard to the following:

Fair Value of the Construction Assets

- ▶ the Fair Value of Project Contracts has been determined on a DCF approach and includes the cash flows to be received and the cash flows to be incurred under each contract which are attributable to the purchaser of the contract. As a result, this method considers the Project Contract's overclaim, underclaim or Undistributed JV Profit position as it includes the cash flows attributable to the purchaser of the contract; and
- ▶ the Fair Value of Project Contracts has been determined based on forecast cash flows as reflected in the November 2012 CVRs.

Adjusted Cash Consideration

- ▶ the Project Contract Consideration was determined by Leighton with reference to the forecast accounting margins to be earned over the duration of the contracts per the September 2012 CVRs. For those Project Contracts that are estimated to be in an overclaim, underclaim or Undistributed Profit position at the Effective Date, an acquirer will not be able to realise those margins. On the basis that the Fair Value of Project Contracts has been determined based on cash flow margins and therefore includes the Project Contract's overclaim, underclaim or Undistributed Profit position, the Adjusted Cash Consideration also includes adjustments for Net overclaim and Unadjusted JV Profit; and
- ▶ the Project Contract Consideration has been determined with reference to the September 2012 CVRs. A margin adjustment may be required if the Dec Forecast Margin for each of the Project Contracts is different from the Sep Forecast Margin. On the basis that the Fair Value of Project Contracts has been determined based on the November 2012 CVRs, the Adjusted Cash Consideration includes an estimated Margin Adjustment based on the forecast position of each of the Project Contracts in the November 2012 CVRs.



Based on our analysis we have assessed the fair value of the Construction Assets to be in the range of \$31.3 million and \$35.0 million. On the basis that Macmahon will receive an estimated Adjusted Cash Consideration of \$29.9 million, Macmahon is receiving a discount of 4.6% at the low end of our valuation range and a discount of 14.7% at the high end.

8.2.3 Fairness conclusion

In relation to the Proposed Transaction, if the Adjusted Cash Consideration being offered by Leighton is within the range of fair values assessed for the Construction Assets, the Proposed Transaction would be considered "fair". On the basis of the analysis summarised in Section 8.2.2, the Adjusted Cash Consideration being offered by Leighton is less than the fair value of the Construction Assets and therefore, in our opinion, the Proposed Transaction is not fair to the Non-Associated Shareholders.

We note that on the basis that Macmahon's share of the loss on the Superway Project is not currently forecast to exceed the Superway Cap, the fair value associated with the Superway Cap is considered to be 'nil'. If the final Superway Loss exceeds the Superway Cap, the fair value of that benefit to Macmahon would equate to the amount of the excess.

8.3 Reasonableness

RG 111 provides that "An offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absences of any higher bid before the close of the offer."

In assessing whether or not the Proposed Transaction is reasonable, we have had regard to the commercial and qualitative factors set out in Section 8.4 and other factors in Section 8.5.

8.4 Commercial and qualitative factors

As part of assessing the Proposed Transaction we have considered the commercial and qualitative factors relating to the proposed sale of the Construction Assets to Leighton. We have also considered the potential advantages and disadvantages of the Proposed Transaction to the Non-Associated Shareholders.

The factors considered are summarised below. We note that individual Macmahon Shareholders may interpret these factors differently depending on their individual circumstances.

8.4.1 Macmahon's new strategy

After the earnings downgrade and the management changes were announced on 19 September 2012, the Company's market capitalisation reduced to approximately \$230 million, a decrease of approximately 53% from its market capitalisation of \$490 million around the time of announcing the record FY12 results on 20 August 2012. As a result of the earnings downgrade and the deterioration in the Construction Business, Management announced that, at the direction of the Board, it would undertake a review of all of the construction projects together with a strategic evaluation of the risks and opportunities of the Construction Business as a whole.

The issues which led to the earnings downgrade in September 2012 were not dissimilar to the issues which arose in FY11 when a \$48.9 million before tax write-off was required on a construction project. The impact on Macmahon of these write-offs have been significant regardless of the profits generated on projects or by the Mining Business as they have had a major influence on the variability of the Company's trading results.



Following on from the strategic review, on 12 December 2012, Macmahon announced its new operational strategy to focus solely on the Mining Business by exiting the Construction Business to become a dedicated full service mining contractor. Management also announced that further substantial write-downs in the Construction Business were to be made, with the loss before tax for the Construction Business forecast for FY13 to be between \$65 million and \$90 million.

At the same time as announcing its new strategy and the exit from the Construction Business, Macmahon announced that it had entered into the MOU with Leighton in relation to the Proposed Transaction. Regardless of whether or not the Proposed Transaction proceeds, the Company has made it clear that the exit from the Construction Business is a priority. In the absence of a sale, the exit from the Construction Business is to be managed on a run-off basis. If this were to occur it is expected that significant closure related costs would be incurred to wind up the Construction Business including corporate and regional office overhead, administration costs and employee redundancy costs. These amounts are likely to be reduced significantly in the event that a sale of all or part of the business is completed to Leighton or another party. The extent to which this occurs depends upon how many employees and what other obligations are assumed by the purchaser of the Construction Business.

In conjunction with the announcement of the new strategy, the intention to exit the Construction Business and the MOU, Macmahon announced its intention to undertake a fully underwritten Entitlement Offer to raise approximately \$80 million at a price of \$0.16 per share. The funds raised under the Entitlement Offer are to be used to strengthen the balance sheet following the recent Construction Business write-downs, ensure financial flexibility to support the growth of the Mining Business, finance the ramp-up of new contract mining projects and to fund ongoing working capital requirements.

As a result of focusing on its Mining Business, on completion of the Proposed Transaction, Macmahon's operations will consist primarily of the following:

- ▶ An order book of mining service contracts estimated to be approximately \$1.9 billion (at October 2012 and excluding the Christmas Creek Project contract);
- ▶ A project tender for the \$1.8 billion, five year Christmas Creek Project with FMG that is awaiting final confirmation that it has been won. Macmahon is currently the preferred contractor and has commenced relocating staff and equipment to site;
- ▶ Operations consisting of surface, underground and international mining projects;
- ▶ Approximately \$45 million of equipment from the Construction Business retained for the Mining Business or potentially sold;
- ▶ The management of operations relating to the Retained Contracts;
- ▶ Macmahon will be responsible for its portion of the losses associated with the Superway Project (up to \$25.0 million on a pre-tax basis);
- ▶ If the Proposed Transaction proceeds, costs of \$11.5 million are estimated to be incurred for restructuring, redundancy and closure costs; and
- ▶ Macmahon will retain the liabilities associated with the Retained Contracts and liabilities associated with Project Contracts that relate to the period prior to the Effective Date.



8.4.2 Advantages

Opportunity to realise proceeds net of closure costs on exit from the Construction Business

Based on Macmahon's review of its operations, Management and the Board have made the decision to exit the Construction Business. Further, Management has stated that in the absence of the Proposed Transaction, a sale to other third parties would be pursued. In the event that Macmahon does not realise a sale of the business, the exit will be achieved by adopting strategies to eventually wind the business down which would involve the incurrence of significant closure related costs including both corporate and regional office overhead and administration costs and employee redundancy costs. Should the Proposed Transaction proceed, Macmahon will realise proceeds on the sale of the Construction Assets, net of any restructuring and redundancy costs, (including expenses directly associated with the management of the Project Contracts and costs associated with the Construction Employees who are working on Project Contracts and those employed in Macmahon's office in the Northern Territory who are offered employment by Leighton), which we understand would be incurred regardless over a period of time as the Construction Business is wound down if not sold. The sale of the Construction Assets is considered by Management to be the most efficient and expedient way of exiting the Construction Business and one which will minimise the incurrence of wind up costs.

Cap on the Superway Loss

In accordance with the APA, Macmahon's exposure to further loss on the Superway Project will be capped at a maximum of \$25.0 million (on a pre-tax basis). If the Proposed Transaction does not proceed, and Macmahon's share of the Superway Loss exceeds the Superway Cap, Macmahon will be liable for its additional share of the losses. The Proposed Transaction will therefore limit Macmahon's exposure to the final loss on the Superway Project.

In our assessment of fair value, we have not assessed the possible value associated with the Superway Cap on the basis that as at the date of this report, the loss on the Superway Project is not forecast to exceed the Superway Cap. We note that if the final Superway Loss exceeds the Superway Cap, it is to the advantage of the Non-Associated Shareholders.

Mechanism to facilitate exit from Project Contracts in joint venture with Leighton

Macmahon is in joint venture agreements with Leighton subsidiaries including the Ichthys LNG Project and Superway Project Contracts as well as the F2E Pacific Highway Road tender. On the basis that Leighton would need to consent (such consent not to be unreasonably withheld) to the substitution of a new joint venture partner for Macmahon, the Proposed Transaction facilitates the sale of the Project Contracts and tenders which may otherwise have to be retained if Leighton's consent was reasonably withheld.

Increased transparency of the underlying business

The sale of the Construction Assets through the Proposed Transaction and the eventual exit from the Construction Business should increase the transparency of the Mining Business. Given the historical trading performance of the Construction Business, the underlying historical financial performance and future growth prospects of the Mining Business have more recently been overshadowed by the negative impact of the operational issues and losses incurred by the Construction Business. The Construction Business' volatility of earnings, substantial write-downs and losses have adversely impacted Macmahon's overall financial performance and consistency of earnings. The new strategy to focus on the Mining Business and the exit by Macmahon from the volatility experienced in the Construction Business is expected to improve the Company's earnings and risk profile.

The focus of Macmahon as a dedicated full service mining contractor should have a positive impact on the way the market perceives and rates Macmahon shares trading at on the ASX, which should, in turn, be to the advantage of the Non-Associated Shareholders.



Reduction of Construction Business uncertainty and ability to retain key staff

Management has stated that regardless of whether or not the Proposed Transaction proceeds, Macmahon will be exiting the Construction Business. Should the Proposed Transaction not proceed, uncertainty arising may materially impact on the Company's ability to retain key staff to manage the Project Contracts.

8.4.3 Disadvantages

Macmahon will maintain exposure to the Construction Business through the Retained Contracts and any liabilities arising under already completed construction projects

While Macmahon management and Board have announced the exit from the Construction Business to be a priority, the terms of the Proposed Transaction exclude the Retained Contracts, the majority of which are nearing completion, as well as the Hong Kong Tunnel Project which is expected to be completed in March 2015 and the Trangie Project, which is expected to be completed in December 2014. As a result, while the Proposed Transaction facilitates an immediate exit from a significant portion of the Construction Business, Macmahon will maintain exposure to the Construction Business in the manner described above.

No participation in the future growth of the Construction Business

Should the Proposed Transaction proceed, Macmahon's assets will be comprised of its Mining Business and the Retained Contracts together with the cash raised from the Entitlement Offer. With Macmahon no longer having an interest in the Construction Assets, the Non-Associated Shareholders would be giving up the right to participate in the future upside, if any, associated with the Construction Business.

One-off transaction costs

Management has estimated that incremental costs associated with the Proposed Transaction will be approximately \$1.5 million. These costs include advisory fees, costs for the preparation of the Notice of Meeting and Information Memorandum, professional fees and costs associated with the dispatch of documents. We understand that the majority of these costs will be borne by Macmahon regardless of whether the Proposed Transaction is or is not approved.

8.5 Other factors

8.5.1 Market reaction post the announcement of the Proposed Transaction

The last trading price of Macmahon's shares on the ASX on 7 December 2012, being the last trading day prior to the announcement of the Proposed Transaction, was \$0.265. On that date the Company went into a trading halt pending the announcement.

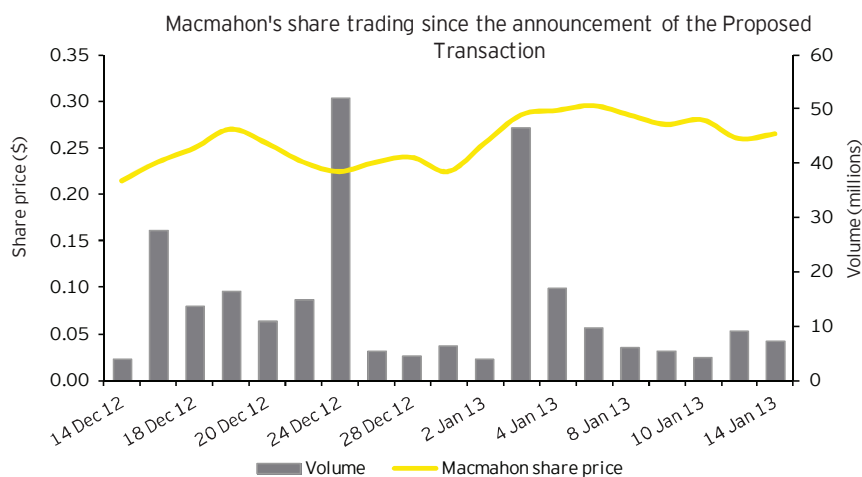
At the same time as announcing the new strategy of focusing on the development of the Mining Business, the proposed exit from the Construction Business, a further downgrade in FY13 earnings and the Proposed Transaction, Macmahon also announced the fully underwritten Entitlement Offer to raise approximately \$80 million from a pro rata issue of shares on a 2 for 3 basis at an issue price of \$0.16 per share. Accordingly, through the Entitlement Offer the Company proposes to increase the number of shares on issue by 66.7% at a discount to its last trading price of approximately 40% and a discount to the theoretical ex-rights price ("TERP")¹¹ of 28.3%.

¹¹ TERP is the theoretical price at which shares should trade after the ex-date for a new rights issue.



On 20 December 2012, Macmahon announced that the Institutional Component of the Entitlement Offer had been successfully completed through the issue of 263,521,900 shares, raising approximately \$42 million. The Retail Component closes on 14 January 2013 and is to raise approximately \$38 million. On completion of the Institutional Component the number of shares the Company had on issue increased to 1,020,539,461. The shares issued commenced trading on the ASX on 21 December 2012. The nature of the Entitlement Offer being fully underwritten (including both the Institutional Component and the Retail Component) and the successful completion of the Institutional Component suggest the confidence that the underwriters and investors have in Macmahon's new strategy to focus solely on the Mining Business.

Based on the daily closing price of the Company's shares, the following chart illustrates the prices and volumes at which Macmahon's shares traded over the period 14 December 2012, the day the Company resumed trading, and 14 January 2013.



Source: S&P Capital IQ, EY analysis

On 14 December 2012, the first trading day after the announcement of Macmahon's new strategy and the Proposed Transaction, the Company's shares traded from \$0.18 to \$0.22 before closing on that day at \$0.215. Since then, Macmahon's share price has traded in the range of between \$0.22 and \$0.30, closing on 14 January 2013 at \$0.265. This trading range is consistent with the prices at which Macmahon's shares were being bought and sold in the period leading up to the announcement of the Proposed Transaction, which averaged \$0.270 for the five trading days to 7 December 2012.

In considering the impact of the Entitlement Offer and the increase in the number of shares on issue by 66.7%, we have had regard to the pricing of the equity raising at a 28.3% discount to the TERP on 7 December 2012 of \$0.223. With the exception of the trading on 24 December 2012, when Macmahon shares traded at a low of \$0.22, Macmahon's shares have traded at a premium to TERP.



On the day of the announcement of the Proposed Transaction, approximately 4% of Macmahon's outstanding shares were traded. From 14 December to 14 January 2013, approximately 28% of Macmahon's shares were traded (based on a volume weighted number of shares on issue), compared to average monthly trading totals of 9.5% for the year preceding the announcement of the Proposed Transaction. On 21 December 2012 the shares issued under the Institutional Component of the Entitlement Offer commenced trading and it was the final day that Macmahon was included in the ASX/S&P 200 Index. The high volume traded on 21 December 2012 may be reflective of both of these events.

It is of note that while Macmahon's shares post the announcement of the new strategy and the exit from the Construction Business, including the Proposed Transaction, have traded at prices less than prior to the announcement, they have for the most part traded at a premium to the TERP since the Entitlement Offer priced at a 28.3% discount to TERP. Based on this and with regard to the significant size of the equity raising, the market appears to have a positive view of the Company's new strategy of focusing on the Mining Business, whether this extends to the Proposed Transaction is difficult to assess.

8.5.2 Sembawang Proposal

On 3 January 2013, Sembawang Australia Pty Ltd ("Sembawang"), a wholly-owned subsidiary of Sembawang Engineers and Constructors Pte Ltd, issued a press release to announce a proposal for the acquisition of the Construction Business (the "Sembawang Proposal"). The two standalone offers included in the Sembawang Proposal are summarised below:

- ▶ Offer 1: To purchase Macmahon's construction businesses as going concerns; or
- ▶ Offer 2: A counter proposal to the APA made by Leighton, on identical terms, for an additional consideration of A\$5 million.

Both of these offers are subject to satisfactory due diligence and Sembawang Board approval by 31 January 2013.

On 4 January 2013, Macmahon announced that it had received an unsolicited, non-binding, incomplete and conditional proposal from Sembawang consistent with the terms described in the Sembawang press release. Macmahon further disclosed that, pursuant to the terms of the APA and consistent with the exclusivity arrangements set out in the MOU, the Company is subject to certain legal restrictions that apply to Macmahon's response to any competing proposal to the Proposed Transaction. These restrictions mean that, for as long as the APA remains in place, Macmahon cannot, without Leighton's prior consent, provide due diligence access to any competitive bidder for the purposes of satisfying any due diligence conditions.

On 10 January 2013, Macmahon announced confirmation that it had received a revised offer for the Construction Business from Sembawang which supersedes their previous offer announced 3 January 2013. The revised Sembawang Proposal reflected identical terms to the 3 January 2013 offers with additional disclosure of consideration of A\$38 million to purchase Macmahon's construction businesses as going concerns.

On 11 January 2013, Macmahon announced confirmation of a further letter received from Sembawang that reiterated and further outlined the previous offer made for the Macmahon construction businesses on a non-binding and conditional basis. The letter also stated that the Sembawang Proposal was open for acceptance by Macmahon until 12 January 2013. As indicated in the announcement, the independent Directors requested clarification from Sembawang about its proposal to enable them to make a proper assessment of the merits of the Sembawang Proposal. On this basis the Independent Directors stated that they were not in a position to respond to the Sembawang Proposal by the deadline set by Sembawang.



On 14 January 2013, Macmahon acknowledged the withdrawal of the Sembawang Proposal which had lapsed as confirmed in Sembawang's press release dated 13 January 2013. Sembawang had stated that it will not be making any further offers for the construction businesses of Macmahon.

On 14 January 2013, Macmahon made a second announcement confirming that they had received a revised offer from Sembawang to acquire certain construction assets to match the terms of the APA with Leighton, plus A\$5 million. The conditions attached to the revised offer are consistent with those described in Sembawang's previous proposal announced 11 January 2013. In the announcement Macmahon has rejected the latest Sembawang Proposal for the following reasons:

- ▶ the failure by Sembawang to provide clarification in relation to the Sembawang Proposals as previously sought by the Independent Directors;
- ▶ the significant uncertainty and risk to complete the Sembawang Proposal particularly given the requirement for joint venture and client consent for the novation of contracts; and
- ▶ the uncertain financial incentive for Macmahon shareholders given the conditions to the Sembawang Proposal.

On this basis the Independent Directors have concluded that the Sembawang Proposal is not in the interests of shareholders.

8.5.3 Alternatives

We have discussed the likelihood of alternative offers to the Proposed Transaction emerging for the Construction Business with Management and the Independent Directors. The Independent Directors of Macmahon have advised that they have not received an alternative binding proposal for the Construction Business at the date of this report. In considering the likelihood of any alternatives to the Proposed Transaction being received we have had regard to the following considerations:

- ▶ We note that due to the joint venture agreements with Leighton including the Ichthys LNG Project and the Superway Project Contract as well as the F2E Pacific Highway Road tender, the inclusion of these Project Contracts in an alternative offer, including the Sembawang Proposal, would require Leighton's consent (such consent not to be unreasonably withheld) to a substitution in joint venture partner for Macmahon. If Leighton's consent was reasonably withheld, an alternative offer may need to exclude these agreements and as such, would result in additional contracts having to be retained by Macmahon than those contemplated in the Proposed Transaction. The requirement to obtain consent from Leighton applies irrespective of whether the APA remains in place; and
- ▶ Macmahon has stated that regardless of whether or not the Proposed Transaction proceeds, the decision to exit the Construction Business will remain a priority. In the event that it does not realise a sale of the business, the exit will be achieved by adopting strategies to eventually wind the business down which would involve the incurrence of significant closure related costs. The fact that the Proposed Transaction will result in a high proportion of these costs being avoided is of significant value to Macmahon over and above the sale price for the business.



8.5.4 Independent Directors' view

In relation to the Independent Directors recommendation on the Proposed Transaction, we note that the Independent Directors of Macmahon have unanimously recommended the Proposed Transaction to the Non-Associated Shareholders. The support of the Independent Directors should provide additional comfort to the Non-Associated Shareholders.

8.5.5 Tax implications

According to calculations provided by Management, we note that as a result of the Proposed Transaction, Macmahon is not expected to incur any additional tax liabilities from the sale of the Construction Assets under the Proposed Transaction.

8.5.6 Other considerations

This independent expert's report only provides general information. It does not take into account a shareholder's individual situation, objectives and needs. It is not intended to replace professional advice obtained by Macmahon Shareholders. Macmahon Shareholders should consider whether this report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this report. Macmahon Shareholders should seek their own professional advice.

This report has been prepared to assist the Non-Associated Shareholders in assessing the merits of the Proposed Transaction.

Whether individual shareholders should vote to accept or not accept the Proposed Transaction depends upon their individual situation, objectives and needs, as well as each shareholder's views as to the reasonableness factors associated with either accepting or not accepting the Proposed Transaction.



9. Conclusion on the Proposed Transaction

Ernst & Young Transaction Advisory Services considers the Proposed Transaction to be not fair but reasonable to the Non-Associated Shareholders of Macmahon.

Based on the analysis conducted throughout this report, which indicated that Leighton is offering a discount to the fair values of the Construction Assets, the Proposed Transaction is not fair to the Non-Associated Shareholders of Macmahon.

In Section 8.4, we set out the commercial and qualitative factors relevant to the consideration of the Proposed Transaction and in Section 8.5 we considered other factors relevant to the Proposed Transaction. While individual shareholders may interpret these factors differently depending on their own individual circumstances, in Ernst & Young Transaction Advisory Services' opinion the potential advantages outweigh the potential disadvantages to the shareholders as a whole. In particular we note that the extent to which we have assessed the Proposed Transaction to be not fair is comparatively small relative to the market capitalisation of Macmahon and also relative to the potential costs that could be incurred on Macmahon's exit from the Construction Business in the event that a sale of the Construction Assets is not affected.

Based on the results of the analysis undertaken, in our opinion, the Proposed Transaction is not fair but reasonable to the Non-Associated Shareholders of Macmahon.

Having regard to the nature of the Proposed Transaction and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that the Non-Associated Shareholders are likely to be better off if the Proposed Transaction proceeds.



Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Macmahon.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Macmahon with reference to Regulatory Guide 112, *Independence of experts*.

This report has been prepared specifically for the Shareholders of Macmahon in relation to the Proposed Transaction. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than the Macmahon Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Macmahon, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix E to this report.

Macmahon has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of Macmahon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately \$100,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young and Ms Brenda Moore, an authorised representative of Ernst & Young Transaction Advisory Services and an Executive Director of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.



It is not intended that the report should be used for any other purpose other than to be included in the Notice of Meeting and Information Memorandum to be sent to Macmahon shareholders with respect to the Proposed Transaction. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Meeting and Information Memorandum.



Appendix B Summary of Valuation Methodologies

Discounted cash flows

The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and/or are expecting considerable volatility or growth in earnings, as well as businesses with a finite life (such as mining projects). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

Capitalisation of earnings

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

Net asset backing

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value. This methodology is appropriate where a project, a business or company is not making an adequate return on its assets or where there are surplus non-operational assets. This method is also appropriate for companies that are holding assets that are not sufficiently advanced to enable the preparation of long term cash flow forecasts.

Market based approach

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.



Appendix C Determination of discount rates

Introduction

Our valuation of the Project Contracts is based on A\$ denominated forecast cash flows that have been prepared on a nominal, ungeared and post-tax basis. To determine the net present value of these cash flows we have assessed the appropriate discount rate on a nominal, post-tax weighted average cost of capital ("WACC") basis. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided.

Under a classical tax system the post tax WACC is commonly calculated as follows:

$$WACC = R_e \times \frac{E}{D + E} + R_d (1 - t_c) \times \frac{D}{D + E}$$

Where:

WACC - post tax weighted average cost of capital

R_e - required rate of return on equity capital

E - market value of equity capital

D - market value of debt

R_d - required rate of return on debt capital

t_c - statutory corporate tax rate

In the following paragraphs we comment on each of the assumptions we make in respect of each of the main variables in this formula.

Required rate of return on equity

The capital asset pricing model ("CAPM") is a model for estimating the rate of return required by an equity investor on an investment.

Under CAPM the required rate of return on equity (R_e) is calculated as follows:

$$R_e = R_f + \beta_e \times (R_m - R_f) + R_s$$

Where:

R_e - rate of return on equity

R_f - risk free rate of return

β_e - expected equity beta of the investment

R_m - expected rate of return on the market portfolio of risky investments

$(R_m - R_f)$ - excess return of the market over the risk free rate, or the market risk premium

R_s - specific risk premium



Risk free rate

The ten-year government bond market is the most widely adopted proxy for the risk free rate. Where the term of the cash flow forecast period to which the WACC is applied either exceeds ten years or is less than 10 years, the 10-year yield is still broadly accepted in practice as an appropriate substitute due to the depth of the market.

We believe that the current risk free rate (usually estimated with reference to the 10 year Government bond rate) is at historically low levels. Most market observers regard this as inconsistent with current share prices, the observed volatility in markets and general economic uncertainty. In response, many valuers have either used a normalised risk free rate, increased their estimates of the market risk premium or have included an additional risk factor in their calculations of the cost of equity. Our preference is to normalise the risk free rate to best reflect the longer term position.

Based on a historical analysis of the risk free rate using the 10 year Australian Government bond rate, a long term range of 5.2% to 5.4% appears appropriate. On this basis, in determining an appropriate risk free rate we have considered the 10 year Australian Government bond yield as at 30 November 2012 of 3.17% and add a further 2.00%. These inputs combined result in a risk free rate of 5.17%.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. Our assessment of the expected return of the market over the risk free rate is based on various studies based on historic returns over the short term and long term, forward-looking premium estimates, recent published views, academic studies and current market research. These sources generated a range of indications of market risk premium. However, our consideration of the data led us to the conclusion that 6.0% represented a consensus of reasonable viewpoints of a market risk premium, and for the purpose of this report we have adopted a market risk premium of 6.0%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation. In order to determine an appropriate beta to use for the valuation of the Construction Business, we have considered the observed betas of comparable companies with similar assets.

Beta can be expressed as an equity beta, which includes the effect of gearing on equity returns, and as an asset beta, which removes the impact of gearing. The asset beta will be lower than the equity beta for any given investment, with the extent of the difference dependent on the level of debt in the capital structure. The greater the level of gearing, the greater is the risk faced by equity holders (as debt holders have a contractual right of return and so first claim on the operating income). Accordingly, for a given asset beta, the equity beta will increase as the level of gearing increases.



We used the following formula to undertake the de-gearing and re-gearing exercise:

$$\beta_e = \beta_a \left(1 + \frac{D}{E} (1 - t_c) \right)$$

Where:

β_e - the equity or geared beta

β_a - the ungeared beta

t_c - the statutory corporate tax rate

D/E - equals the market value of debt divided by the market value of equity capital

Our analysis of the un-gearred betas for construction companies with operations in Australia is set out in the table below.

Comparable Company	Raw Beta ¹	Market Capitalisation ²	Net Debt/Equity ³	Asset Beta ⁴
Leighton Holdings Limited	1.39	5,674.47	7.1%	1.32
Clough Limited	0.89	658.97	(8.4%)	0.89
Decmil Group Limited.	1.44	395.28	(23.1%)	1.44
Ausenco Limited	1.34	351.97	9.4%	1.26
Forge Group Limited	1.29	371.39	(26.2%)	1.29
Sedgman Limited	1.12	206.74	(5.1%)	1.12
MacMahon Holdings Ltd.	1.19	237.51	0.4%	1.19
Watpac Ltd.	0.81	109.68	35.1%	0.65
AJ Lucas Group Limited	1.19	100.82	86.3%	0.74
Brierty Limited	0.99	37.40	58.8%	0.70
VDM Group Limited	1.46	10.27	95.7%	0.87
Low	0.81		(26.2%)	0.65
Simple Average	1.19		20.9%	1.04
Median	1.19		7.1%	1.12
Weighted Average	1.32		4.2%	1.26
High	1.46		95.7%	1.44

Notes

1. Raw beta calculated over a 2 year period with weekly observations except where otherwise stated.

2. Market Capitalisation at last reporting period in currencies of the local exchange.

3. Net debt is total debt less cash and cash equivalents over a four year historic period (where available). Equity value is at 12 December 2012.

4. Where the Net Debt/Equity ratio is negative the ungeared Beta has been taken to equal the Geared Beta

Source: S&P Capital IQ, EY analysis



We have adopted an asset beta for the Construction Business in the range of 1.10 to 1.30. In selecting this beta range, we have considered the following:

- ▶ The average and median asset betas of companies with comparable operations to the Construction Business are 1.04 and 1.12, respectively;
- ▶ Macmahon's asset beta is 1.19 and Leighton's asset beta is 1.32;
- ▶ We adopted the S&P CapitalIQ two year weekly beta calculated against the S&P/ASX 200 Index as the chosen beta;
- ▶ Where Correlation (R Squared) is less than 0.04, the correlating beta has been omitted from consideration; and
- ▶ Observed betas for individual companies fall within a wide range and also vary depending on the data source considered.

Capital structure

In calculating the WACC, we need to determine an optimal capital structure at which to re-gear the asset beta, and with which to weight the cost of equity and cost of debt. Generally, the gearing level adopted should reflect the level of debt that can reasonably be sustained by any company operating in an industry, rather than actual gearing maintained by the current business owners.

In order to determine an appropriate capital structure for the Construction Business, we have had regard to both Macmahon's capital structures, and the capital structure of other companies in the industry. In relation to the capital structure, we note that Macmahon's debt to equity ratio over the last four years ranged from, -11% to 21%, with a negative debt to equity ratio implying a net cash position. The debt to equity ratio of comparable companies over the past four years has ranged from -26% to 96%.

We have assumed that the Project Contracts would be funded from both debt and equity and have adopted a gearing ratio of 20% for these operations.

Cost of debt

We have developed an estimate of the cost of debt for the WACC on the basis of a margin over the yield on 10-year Australian Government bonds.

The debt premium over the risk free rate reflects debt related risks specific to the business being valued (i.e. the risk that the business will default on payments). The cost of debt represents the cost of funding over the life of the cash flow models. In arriving at an appropriate debt premium we have had regard to a number of factors including:

- ▶ The margin implicit in corporate bond yields over government bond yields. Implied yields reflect the market's view of risk as at a point in time and care should be exercised before incorporating these into any assessment of an entity's cost of debt; and
- ▶ The debt ratings of comparable companies, in particular, Standard & Poor's BBB credit ratings.

Similarly to the risk free rate, we believe that the Australian corporate bonds (usually estimated with reference to the 8 year corporate bond rate) are at historically low levels. Based on a historical analysis of corporate bonds we have implied a premium of 2.00% attributable to the low corporate bond rate.

After considering the above factors, with particular emphasis on the long-term spread of Australian BBB rated corporate bonds, we adopted a cost of debt of 8.37%.



Specific Risk Premium

We have adopted a specific risk premium in the range of 3.0% to 5.0% for the following reasons:

- ▶ The inputs described above were derived from comparable company data that relate to the whole of business operation. As contracts represent a portion of each companies' operations, a risk premium for a smaller basket of contracts is reasonable; and
- ▶ Macmahon's recent history with regards to losses in some of its construction contracts.

WACC

On the basis of the above, we have adopted the following inputs in our calculation of a range of nominal, post-tax WACC:

Parameter	Low	High
Risk free rate	3.16%	3.16%
Market risk premium	6.0%	6.0%
Additional risk premium	2.0%	2.0%
Specific risk premium	3.0%	5.0%
Asset beta	1.15	1.35
Equity beta	1.31	1.54
Debt premium	2.88%	2.88%
Nominal pre-tax cost of debt	8.04%	8.04%
Tax rate	30.0%	30.0%
Debt: equity (D/E)	20.5%	20.5%
Debt proportion (D / V)	17.0%	17.0%
Equity proportion (E / V)	83.0%	83.0%

Parameter	Low	High
Cost of equity	16.0%	19.4%
Nominal post tax WACC	14.2%	17.1%
Rounded	14.0%	17.0%

Source: EY analysis

Based on the above analysis, we have assessed the following nominal, post-tax discount rates to apply in the valuation of the Project Contracts in the range of 14.0% to 17.0%.



Appendix D Description of comparable companies

Clough Limited

Clough Limited ("Clough") provides engineering and construction services as well as asset support services to the resources and oil and gas industries in Australia and south east Asia, in particular Papua New Guinea ("PNG"). Clough's engineering division provides concept and feasibility, Front End Engineering Design ("FEED"), detailed design and engineering, procurement and construction management ("EPCM") services. In addition, through its capital projects division, Clough delivers procurement, fabrication and construction services. Clough also provides services through its jetties and near shore marine division, including port and harbour design and construction, as well as commissioning and asset support services. Clough is based in Perth and is listed on the ASX.

Decmil Group Limited

Decmil Group Limited ("Decmil") is a design, civil engineering and construction company providing its services to the resource, oil and gas and infrastructure industries in Australia and in particular the north west region of WA. Decmil is engaged in civil works including small and large scale brownfield and greenfield projects, construction services including industrial buildings, plant and storage facilities as well as accommodation facilities, including an accommodation village near Gladstone, Queensland. Decmil is based in Perth and is listed on the ASX.

Ausenco Limited

Ausenco Limited ("Ausenco") is a company which provides engineering and project management services to the resource and energy sectors in Australia and internationally. Included in Ausenco's service offering is program management, engineering, procurement, construction management, commissioning, concept and feasibility and control systems services. Ausenco is headquartered in Brisbane and is listed on the ASX.

Forge Group Limited

Forge Group Limited ("Forge") provides engineering, procurement and construction services primarily to the oil and gas, infrastructure and resource sectors in Australia, Africa and New Zealand. Forge's wholly owned subsidiaries include Abesque Engineering and Construction Limited ("Abesque"), a provider of design, engineering and project management services, Cimeco Pty Limited ("Cimeco"), an Australian construction contractor, Webb Construction West Africa Limited ("Webb"), a construction contractor in Africa, and CTEC Pty Limited ("CTEC"), an international provider of power generation. Forge is based in Perth and is listed on the ASX.



Sedgman Limited

Sedgman Limited ("Sedgman") provides mineral processing and associated infrastructure solutions to the resources industry across a number of countries including Australia, Botswana, Chile, China, Colombia, Mongolia, South Africa and Mozambique. Sedgman's operations include the design, construction and operation of coal handling and preparation plants, as well as the provision of consulting, engineering and contracting services. Sedgman is headquartered in Brisbane and is listed on the ASX.

Watpac Limited

Watpac Limited ("Watpac") is a company offering contracting, civil and mining and property development services across Australia. Watpac's portfolio of construction projects have involved a wide variety of sectors including the aged care, education, entertainment, government, residential, retail and sports sectors. Watpac's civil and mining division is involved with projects such as road and bridge works, rail works, pavements, sewers and pipelines, coastal infrastructure, sub-divisions, civil landscaping, dams and commercial infrastructure. Watpac's property operations are based around the development of commercial, industrial, retail and residential property. These property development projects have included apartment buildings, shopping centres, industrial estates and commercial offices. Watpac is based in Brisbane and is listed on the ASX.

AJ Lucas Group Limited

AJ Lucas Group Limited ("AJ Lucas") is an engineering and construction company with clients in the energy, water and waste water, resources and public infrastructure sectors across Australia. AJ Lucas bases its operations around three divisions, comprising of its drilling, engineering and construction, and oil and gas divisions. The company's drilling segment offers drilling services to the coal and coal seam gas industries. Engineering and construction activities include construction and civil engineering services and facilities management services, as well as pipe installation and horizontal directional drilling. Through its oil and gas division, AJ Lucas explores for and commercialises unconventional and conventional hydrocarbons. AJ Lucas is headquartered in Sydney and is listed on the ASX.

Brierty Limited

Brierty Limited ("Brierty") is an engineering company providing civil construction and mining services in Australia. The company's operations are based around its urban infrastructure, civil infrastructure and mining divisions. Brierty's urban infrastructure segment is involved in the development of urban and regional land through services including bulk earthworks, road works, stormwater drainage, reticulation and landscaping. The company has also provided a wide range of plant and site infrastructure solutions as well as road construction and maintenance as part of its civil infrastructure division. Brierty's mining operations include contracted services such as drill and blast, train loading, vegetation clearing and bulk overburden stripping. Brierty is based in Perth and is listed on the ASX.



VDM Group Limited

VDM Group Limited ("VDM") is an engineering and construction company providing solutions to the resources, transport, civil infrastructure and urban development sectors in Australia. The company offers building construction services such as remote area camp and village accommodation, workshops, airports and warehouses. In addition VDM provides civil construction services for bulk earthworks, land development, marine and port infrastructure, roads and bridges, water and wastewater and concrete structures. Other services provided by VDM include a variety of engineering services from civil engineering to environmental consulting, as well as engineering services for infrastructure, transport, water, planning, project management and other purposes. VDM is based in Perth and is listed on the ASX.



Appendix E Sources of information

In preparing this report, Ernst & Young Transaction Advisory Services had regard to the following sources of information:

- ▶ Macmahon's annual reports for FY09, FY10, FY11 and FY12;
- ▶ the Construction Business balance sheets as at 1Apr11, 31Dec11 and 31Mar12;
- ▶ The MOU and APA between Leighton and Macmahon;
- ▶ The September 2012 CVRs and the November 2012 CVRs for each of the Project Contracts;
- ▶ Various contracts related to the Project Contracts;
- ▶ Forecast and budget information pertaining to Macmahon's Construction Business including overhead forecasts;
- ▶ final draft Notice of Meeting prepared by Macmahon for the Meeting;
- ▶ discussions with Macmahon Management;
- ▶ various public disclosure documents lodged by Macmahon with the ASX, including public announcements in relation to the Proposed Transaction;
- ▶ information from Macmahon's website, www.macmahon.com.au;
- ▶ ASIC Regulatory Guides;
- ▶ Reuters;
- ▶ Capital IQ;
- ▶ IBISWorld;
- ▶ Various broker reports for Macmahon;
- ▶ Thompson Research;
- ▶ the Act and the Regulations;
- ▶ DatAnalysis; and
- ▶ other publicly available information.



Appendix F Glossary

Abbreviation	Full Title / Description
XHXX	The first (1) or second (2) half of the fiscal year ending 30 June XX
A\$	Australian dollar
ACCC	Australian Competition and Consumer Commission
AGM	Annual general meeting
APA	Asset purchase agreement
APES 225	APES 225: <i>Valuation Services (revised)</i>
Act	The Corporations Act
Adjusted Cash Consideration	Net amount of the Unadjusted Cash Consideration of \$29.6 million and the first set of adjustments that will be determined as at the Effective Date
AJ Lucas	AJ Lucas Group Limited
APES 225	APES 225: <i>Valuation Services</i> , issued by the Accounting Professional & Ethical Standards Board Limited in May 2012
ASA	Asset sale agreement
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Ausenco	Ausenco Limited
Board	Board of Directors
BTP	Bouygues Travaux Publics
Brierty	Brierty Limited
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
COO	Chief Operating Officer
Cash consideration	Cash consideration of approximately \$20.0 million, subject to several adjustments pending finalisation of the transaction
Clough	Clough Limited
Completion Date	28 February 2013
Completion Adjustments	Further adjustments made to account for items that may change in value subsequent to the Effective Date
Construction Assets	Project Contracts, Plant Assets, Tenders and Construction Employees who accept an offer of employment from Leighton
Construction Business	Macmahon's construction business
Construction Employees	Employees who are working on a Project Contract on or around the completion date of the Proposed Transaction
CVR	Contract valuation report
Dec Forecast Margin	Forecast margin outstanding as at 31 December 2012
Decmil	Decmil Group Limited
DCF	Discounted cash flow
Effective Date	31 December 2012
Entitlement Offer	A fully underwritten 2 for 3 pro rata entitlement offer at \$0.16 per share to raise approximately \$80 million
ERA	Energy Resources of Australia Limited



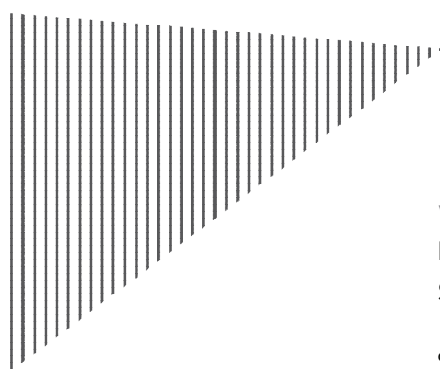
Abbreviation	Full Title / Description
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
F2E	Frederickton to Eungai
FMG	Fortescue Metals Group Ltd
Fair value	the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length
Forge	Forge Group Limited
FSG	Financial Services Guide
FYxx, FYxxA	Financial year ended 30 June 20xx
GFC	Global Financial Crisis
Glenfield Alliance	Glenfield Transport Interchange contract
Hope Downs 4 Rail Contract	Hope Downs 4 Rail Earthworks contract
ISA	Integrated Services Arrangement
Ichthys LNG Project	Ichthys Onshore LNG Facility Site Development Works Project
Independent Directors	The Directors of Macmahon excluding Mr Vyril Vella
Institutional Component	Part of the Entitlement Offer to institutional shareholders totalling approximately \$42 million
ISA	Integrated Services Arrangement
Junxx, JunxxA	Financial position as at 30 June 20xx
JV	Joint venture
Leed	Leed Engineering and Construction Pty Limited
Leighton	Leighton Holdings Limited
m	Million
Macmahon or the Company	Macmahon Holdings Ltd
Management	Macmahon management
Margin Adjustment	The adjustment to account for the forecast margin outstanding as at the Effective Date.
Meeting	Extraordinary general meeting of the Company that is to be held on or about 26 February 2013
Mining Business	Macmahon's mining business
MOU	Memorandum of Understanding
Non-associated shareholders	Macmahon shareholders not associated with Leighton
November 2012 CVR	The CVR's with an effective date of 30 November 2012
Overclaim	A project will be in an overclaim position if the Project Revenue is greater than the Project Valuation
Plant Assets	Specified plant and equipment that is used solely for the Project Contracts to be sold in the Proposed Transaction
Plant Consideration	\$15.5 million for the acquisition of the Plant Assets
Post Completion Adjustments	Further adjustments made to account for items that may change in value subsequent to the Completion Date
Project Contracts	A number of Macmahon's current and ongoing construction contracts to be transferred or novated to Leighton as part of the Proposed Transaction
Project Contract Consideration	\$14.1 million for the novation of the Project Contracts
Proposed Transaction	The transfer or sale of the Construction Assets to Leighton



Abbreviation	Full Title / Description
Project Revenue	The amount of cumulative revenue billed to the client under a Project Contract at a specific date
Project Valuation	The amount of cumulative cost incurred under a Project Contract as at a specific date plus the margin or minus the loss (as the case may be) that has been declared in respect of that Project Contract as at that same date.
Report	Independent Expert's Report
Retail Component	Part of the Entitlement Offer to retail shareholders totalling approximately \$38 million
Retained Contracts	Contracts retained by Macmahon
RG 111	ASIC Regulatory Guide 111: Content of expert reports
Forecast Margin	Margin in Macmahon's September 2012 CVRs forecast to be outstanding as at 31 December 2012
Sedgman	Sedgman Limited
Sep Forecast Margin	The forecast margin to be outstanding as at 31 December 2012 as included in the September CVR
Seymour Whyte	Seymour Whyte Limited
Superway Cap	The adjustment to the valuation of the Superway Project, capped at \$25 million
Superway JV	A joint venture between Macmahon (40% interest), Leighton's subsidiary John Holland (40% interest) and Leed (20% interest)
Superway loss	The loss expected on the Superway Project
Superway Project	South Road Superway Project
Tender Fee	Fee for successful construction tenders that have been novated to Leighton
Total Cash Consideration	The total amount paid by Leighton
Trangie Project	Trangie-Nevertire Irrigation Scheme project
Unadjusted Cash Consideration	The cash consideration of \$29.6 million as stated in the APA.
Underclaim	A project will be in an underclaim position if the Project Revenue is less than the Project Valuation
VDM	VDM Group Limited
WACC	Weighted average cost of capital
Watpac	Watpac Limited



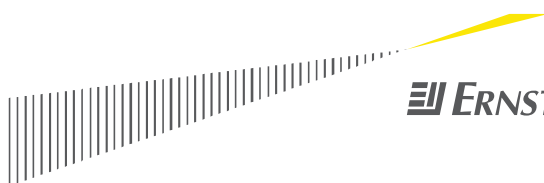
Appendix G Valuation of Plant Assets



**Valuation of certain plant and equipment
Macmahon Holdings Limited
Sale of the Construction Assets**

9 January 2013

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The Independent Directors
Macmahon Holdings Limited
Level 3, 27-31 Troode St
West Perth WA 6005

9 January 2013

Dear Sirs

Valuation of certain plant and equipment

In accordance with our engagement agreement dated 23 November 2012 we are pleased to present the following report (the Report) in respect of the valuation of certain plant and equipment (the Plant Assets) of Macmahon Holdings Limited (Macmahon) as at 31 December 2012 (Valuation Date). The results of our analysis will be used solely for the purpose of providing information for an independent expert's report being undertaken by Ernst & Young Transaction Services.

The scope of our analysis included inspecting the Plant Assets, reviewing the fixed asset records, selecting and implementing appropriate valuation methodologies in the analysis of the Plant Assets and preparing the following Report summarising our recommendations of market value, along with the data and significant assumptions on which these market values were based. In accordance with our engagement agreement, our analysis is subject to the limiting conditions contained in the following Report.

Our Report is provided to you for the above purpose only, and should not be used or relied upon for any other purpose, nor should it be disclosed to, or discussed with, any other party (except relevant statutory authorities or your professional advisors acting in that capacity provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) without our prior written consent.

We appreciate the opportunity to provide our valuation services to you. Please do not hesitate to contact us if you have any questions about this engagement or if we may be of any further assistance.

Yours faithfully
Ernst & Young

Roy Farthing, FAPI, ASA (M&TS)
Certified Practising Valuer (Plant & Machinery)
Partner

Liability limited by a scheme approved under Professional Standards Legislation



Contents

1.	Executive summary	2
1.1	Engagement overview	2
1.1.1	Purpose and date of valuation	2
1.1.2	Subject assets.....	2
1.1.3	Summary of values.....	3
1.1.4	Inspections.....	4
1.1.5	Procedures.....	4
1.1.6	Standard, premise and definition of value.....	4
1.1.7	Exclusions	5
1.1.8	Sources of data.....	6
1.1.9	Certifications.....	6
1.1.10	Declaration in relation to APES 225 (Valuation Services).....	6
1.1.11	Limitations	6
1.1.12	Conflict of interest	6
2.	Valuation of plant and equipment	7
2.1	Description of assets	7
2.1.1	Shoal Bay Waste Disposal	7
2.1.2	Darwin Marine Supply Base	7
2.1.3	Ichthys LNG Project (Inpex JV).....	8
2.1.4	Great Northern Highway Realignment Project.....	8
2.2	Data gathering procedures.....	9
2.3	Valuation approach	10
2.4	Specific assumptions.....	11
2.4.1	Determination of replacement costs	12
2.4.2	Market data analysis.....	12
2.4.3	Effective life and residual values.....	14
2.5	Valuation results.....	15
Appendix A	Sources of data	16
Appendix B	Valuation approaches and methods	17
Appendix C	Limitations.....	19
Appendix D	Certification.....	22
Appendix E	Asset schedule	23
Appendix F	Photographic record.....	24



1. Executive summary

1.1 Engagement overview

1.1.1 Purpose and date of valuation

Macmahon Holdings Limited (Macmahon) engaged Ernst & Young to perform a market value assessment of certain plant and equipment (the Plant Assets).

In addition we have completed forecast market valuations of the Plant Assets at the estimated date of completion for the contract for which each item of equipment is required.

The results of our analysis will be used solely for the purpose of providing information for an independent expert's report being undertaken Ernst & Young Transaction Services.

The effective date of this valuation is 31 December 2012.

Our report is provided to you for the above purpose only, and should not be used or relied upon for any other purpose, nor should it be disclosed to, or discussed with, any other party (except relevant statutory authorities or your professional advisors acting in that capacity on the understanding that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) without our prior written consent.

1.1.2 Subject assets

This report pertains to the following Plant Assets of Macmahon as at the Valuation Date. The Plant Assets include assets used for the following specific construction projects and locations:

- ▶ Bega Bypass Project, New South Wales
- ▶ Glenfield MAC Recharge, New South Wales
- ▶ Northern Territory Workshop, Darwin
- ▶ Shoal Bay Waste Disposal, Darwin
- ▶ Ichthys LNG Project (Inpex JV), Darwin
- ▶ Marine Supply Base, Darwin
- ▶ Pilbara Integrated Services Arrangement, Western Australia
- ▶ Great Northern Highway Realignment, Western Australia.

and are composed primarily of the following asset categories:

- ▶ Mobile plant
- ▶ Heavy vehicles
- ▶ Light vehicles
- ▶ Construction services equipment
- ▶ Workshop equipment.



More detailed descriptions of the Plant Assets are provided later in this report.

1.1.3 Summary of values

Based on the scope of work, and for the reasons set forth in this Report, we have assessed the current and forecast market values of the Plant Assets for the purpose of providing information for an independent expert's report. The results of this process are summarised in the table below:

Schedule (AUD 000's)	Original cost	Net book value	Market value - low	Market value - high
Schedule 3 - Primary plant assets	15,884	11,951	12,300	13,600
Schedule 4 - Other plant assets	4,090	3,501	3,400	3,800
Total	19,974	15,451	15,700	17,400

We have been advised by Management that a number of assets in the Primary Plant Assets list had been sold as at the Valuation Date and accordingly we have excluded these from the valuation. These assets are light vehicles with asset numbers LV5489, LV5497, LV5498, LV5500, LV5523, LV5525, LV5528, LV5614, LV5615 and LV5639 each having a net book value of zero. Light vehicle LV5691 was also sold and had a net book value of AUD 34,280.

We also note that a small number of minor assets in the Other Plant Assets list have not been ascribed a market value due to insufficient information. These assets are listed below:

- ▶ Lighting towers LP0149, LP0150
- ▶ Generator GN0159
- ▶ Air compressor CP0032
- ▶ Service truck TR2568
- ▶ Tandem box trailer TZ0084
- ▶ Trailer with VIN number 6N4MODERN4TC10799.

We note that each of these assets are minor in nature and have a net book value of zero.

Detailed summaries of our valuation conclusions are provided later in this report.



1.1.4 Inspections

Inspections of the Plant Assets were undertaken at the following project sites:

Location	Date of inspection
► Shoal Bay Waste Disposal, Darwin	► 13 December 2012
► Marine Supply Base, Darwin	► 14 December 2012
► Ichthys LNG Project (Inpex JV)	► 14 December 2012
► Northern Territory Workshop, Darwin	► 13 December 2012
► Great Northern Highway Realignment, Port Hedland	► 13 December 2012

We note that the majority of the assets were in use and generally appeared to be in a good working condition.

Our observations on the existence, location and condition of the Plant Assets were consistent with the data provided and representations made by Macmahon.

1.1.5 Procedures

The procedures we followed during our engagement were as follows:

- Analysed the information provided by Management
- Inspected a representative sample of the Plant Assets and interviewed Macmahon personnel and Management in relation to the Plant Assets including issues such as capacity, utilisation, modern equivalent assets, potential use of the assets and potential secondary markets
- Conducted market research in relation to the replacement cost and market value of the Plant Assets
- Utilised market research, existing data held on file, data provided by management, and valuation modelling techniques in order to develop a market value assessment of the Plant Assets
- Documented our valuation analysis in a suitably detailed report.

1.1.6 Standard, premise and definition of value

Plant and equipment valuers typically adopt the following definition of market value published by the International Valuation Standards Committee (IVSC) and endorsed by the Australian Property Institute (API) and the American Society of Appraisers (ASA):

"... the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion."

For a going concern business the definition further assumes continuation of existing use, subject to highest and best use.



Title to the assets is assumed to be good and marketable unless otherwise stated. The assets are further assumed to be free and clear of any or all liens, easements or encumbrances unless otherwise stated.

1.1.7 Exclusions

The following assets were excluded from our valuation analysis:

- ▶ Land
- ▶ Stock and materials in trade
- ▶ Hope Downs 4 project assets
- ▶ Solomon Rail Spur project assets
- ▶ Gladstone LNG project assets
- ▶ Blowering Dam Safety Upgrade project assets
- ▶ Glenugie Alliance project assets
- ▶ Jindabyne project assets
- ▶ Copeton Dam project assets
- ▶ Kingston Foreshore Development project assets
- ▶ Ross River Dam JV project assets
- ▶ Jilalan JV project assets
- ▶ Karara Rail project assets
- ▶ Great Eastern Highway/Roe Interchange project assets
- ▶ Goldfields Esperance project assets
- ▶ Karratha to Tom Price project assets
- ▶ Reid Highway project assets
- ▶ Boat Beach Road project assets
- ▶ ERA Ranger Box Cut project assets
- ▶ RAAF Base project assets.
- ▶ All other assets not specifically noted in the section of this report titled *Description of assets* have been excluded from this report.

We have not considered the impact of any site or environmental rehabilitation costs in our analysis.



1.1.8 Sources of data

We considered Macmahon's equipment listing and other documents pertaining to the Plant Assets in our valuation analysis. We also held conversations with Macmahon Management and project personnel during the course of our engagement. Please see Appendix A for a detailed list of sources of information.

1.1.9 Certifications

The valuation of the Plant Assets was conducted under the direction of Roy Farthing. The certification is included later in this report in Appendix D.

1.1.10 Declaration in relation to APES 225 (Valuation Services)

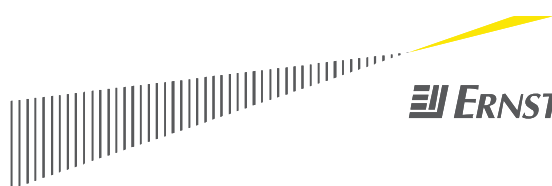
Our Report has been prepared in accordance with APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board in May 2012. As required under the Standard we confirm that we are independent of Macmahon.

1.1.11 Limitations

In accordance with our engagement agreement and the transmittal letter that accompanies this Report, our analysis is subject to the limiting conditions contained in Appendix C. Additionally, this Report, the conclusions contained herein and the associated appendices should not be read or utilised in any way without consideration of these limiting conditions.

1.1.12 Conflict of interest

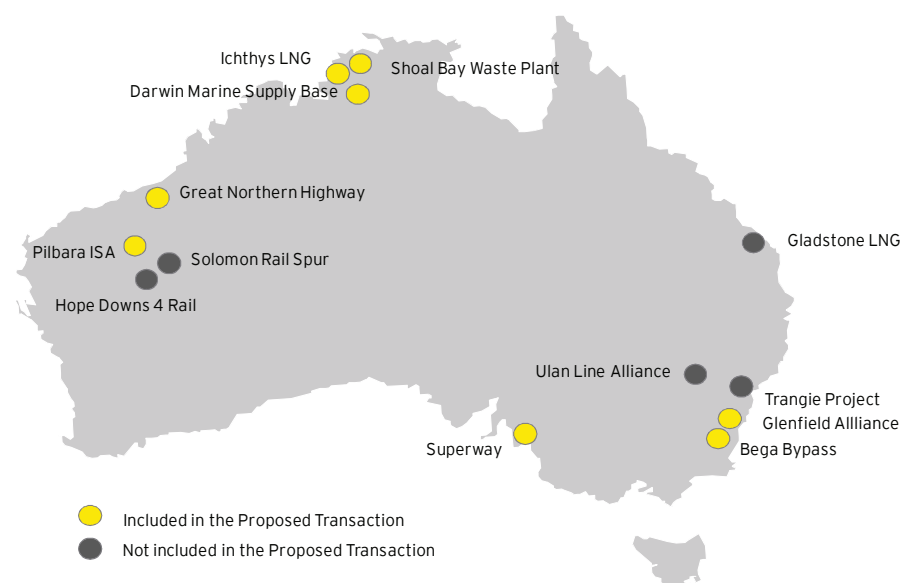
To the best of our knowledge there has been no previous, nor is there any current or planned future relationship between Macmahon and Ernst & Young which would create a possible conflict of interest.



2. Valuation of plant and equipment

2.1 Description of assets

The map below provides an overview of Macmahon's construction operations.



2.1.1 Shoal Bay Waste Disposal

The Shoal Bay Waste Disposal facility is the local waste facility for the township of Darwin and accepts all waste products. The operation is open 7 days a week and utilises the following types of major assets:

- ▶ Caterpillar tracked dozer
- ▶ Caterpillar wheel loader
- ▶ Caterpillar skid steer loader
- ▶ Caterpillar integrated tool carrier
- ▶ Caterpillar road grader
- ▶ Caterpillar sheep's foot and small wheeled compactors

There are also other mobile assets such as a Hino hook truck for the industrial bins, Hino truck with tipper body and self bunded fuel storage tanks.

2.1.2 Darwin Marine Supply Base

The Darwin Marine Supply Base is located within the confines of the Darwin Port precinct. The project is responsible for delivery of infrastructure for the Port. Assets that are used in the operation include the following:



- ▶ 2 x Caterpillar road graders
- ▶ Caterpillar integrated tool carrier
- ▶ Caterpillar front end loader
- ▶ Caterpillar skid steer loader
- ▶ Kenworth water service truck
- ▶ Kenworth tip truck
- ▶ Caterpillar backhoe
- ▶ Hitachi 35 tonne excavator and

There are also a number of small passenger light vehicles that service this facility.

2.1.3 Ichthys LNG Project (Inpex JV)

This project is a joint venture with John Holland and requires the establishment of access roads, earthworks, and undertaking drainage and ground improvement works for the onshore gas processing facility. The asset utilised in this operation are shown below.

- ▶ 4x Caterpillar graders
- ▶ 4x Caterpillar dump trucks
- ▶ Caterpillar backhoe
- ▶ 3x Caterpillar front end loaders
- ▶ Bomag tyre roller
- ▶ Komatsu tracked excavator
- ▶ 2x Caterpillar tracked excavators
- ▶ 2x Hitachi mini tracked excavators and
- ▶ 2x Kenworth water trucks.

2.1.4 Great Northern Highway Realignment Project

The Great Northern Highway Project is located in Port Hedland, Western Australia. The project includes the development of a major interchange and associated new road. Assets that are used in the operation include the following:

- ▶ 2 x Caterpillar road graders
- ▶ 2 x Caterpillar track dozer (one recently transferred from Solomon)
- ▶ 2 x Caterpillar articulated dump truck (recently transferred from Solomon)
- ▶ Isuzu service truck (recently transferred from Solomon)



There are also a number of small passenger light vehicles that service this facility.

2.1.5 Other projects

In addition to the above project sites that were inspected there are a number of smaller project sites that utilise similar equipment types. These projects include:

- ▶ Pilbara Integrated Services Arrangement, Western Australia
- ▶ Bega Bypass Project, New South Wales
- ▶ Glenfield Alliance, New South Wales

A detailed list of the equipment is included at Appendix F.

2.2 Data gathering procedures

The initial phase of this engagement began with our data collection procedures. We received a fixed asset register (FAR) from Macmahon Management. The fixed asset information contained data such as an asset description, asset identification number, location identifier, cost basis, and year of acquisition on a line-item by line-item basis. Based on the data provided, we categorised each of the fixed assets into pre-defined asset categories as appropriate and used this information as the basis for our analysis.

We also performed a site review at a number of Macmahon projects to view a sample of the major plant and equipment assets and to compare and contrast our observations to the FAR provided by Management. During our site review, we also consulted with Macmahon personnel to discuss the nature of the operations, maintenance policies, modifications, unusual operating conditions, and any perceived changes that might impact the continued use of the plant and equipment assets. In addition, we also noted information for a sample of assets that included material of construction, age, observed physical condition, current use and future utility.

In order to confirm that the FAR provided to us reflects an accurate record of the acquired plant and equipment we completed the following procedures:

- ▶ We performed site inspections of the Plant Assets at the locations noted in section 1.1.4 above and captured all the data necessary for valuation purposes. The result of this process was a physical verification of a sample of material assets that exceeded 95% of the total net book value of the Plant Assets
- ▶ We obtained and collated data from a variety of sources including project costs, maintenance reports and registration papers
- ▶ We conducted further interviews and discussions with Macmahon personnel to clarify, refine and cleanse the above data.

Based on our review of the plant and equipment assets and our discussions with Management, we then adjusted the FAR for any necessary additions or deletions to reflect the assets in place as of the Valuation Date. After completing our inspection, reviews, and discussions with Management, we then used the data provided in conjunction with information gathered as the basis for our valuation analysis.

Whilst we inspected a sample of the plant and equipment assets, we have also relied on information provided to us by Macmahon.



2.3 Valuation approach

The methods and procedures used to perform the valuation of the Plant Assets are intended to conform to the standards promulgated by the IVSC and the API. We considered the cost, income and market approaches and concluded that the income approach was not an appropriate valuation approach in this situation because it captures, by default, all assets and liabilities both tangible and intangible.

For the valuation of the Plant Assets, we therefore applied the cost approach, and the market approach depending on the nature of the asset, availability of relevant information in the used equipment market, data provided in the FAR and the data captured during our site inspections.

The market approach analyses market conditions and transactions comparable to the Plant Assets, and determines market value where reliable and available data in respect of comparable sales can be found. In this context, market value is determined by comparing recent sales of similar assets and adjusting these comparables having regard to factors such as age, condition and type of sale. In the market approach, physical, functional and some forms of economic obsolescence are reflected and measured by the market. To consider the assets under a continued use premise, direct costs for installation and freight, have been calculated and added as appropriate.

The market approach was applied where we were able to identify sufficient information in respect of comparable sales and offering data, and was based on data sourced from various online and published sources.

For assets where we could not find sufficient comparable market data, we relied on the cost approach. In our cost approach analysis, the current replacement cost new or reproduction cost new (RCN) for each asset was calculated using the direct method. Under the direct method the RCN is determined by reference to published price data, manufacturer's price lists and information obtained directly from manufacturers and suppliers. Our assessments of RCN include direct costs associated with freight, duty, local delivery, installation and commissioning where appropriate.

For all other assets where we did not apply the direct method of the cost approach, we used the indirect method. Using the indirect method, the current RCN for each asset or group of assets was determined by indexing the original capitalised cost having regard to the vintage and type of each asset. These costs generally include the base cost of the asset and any additional cost considerations relating to the installation of the asset. The price adjustments/index factors used in our analysis are based on the asset type and manufacture date. Index factors were derived from various published sources including the Australian Bureau of Statistics, and The Bureau of Labour Statistics.

Due to the fact that the assets have been in use over varying periods of time, it is reasonable to assume that an asset's value is something less than its current RCN. Therefore, allowances have been made for physical, functional, and economic factors affecting utility and value as they might apply.

Depreciation is used as a tool to measure the impact of the various forms of obsolescence on value. We have adopted methods of depreciation that reflect loss in value profiles for similar assets. The final selection of the rate and amount of depreciation has been based on our assessment of the total and remaining effective working life and the level of residual value (if any) of the asset at the end of its effective working life.



Primarily we have applied two types of depreciation depending on the type of asset. The two depreciation types being straight-line and diminishing value profiles. Straight-line depreciation has been used for assets that only demonstrate physical deterioration such as site improvements and structural works. The diminishing value depreciation profile has been used for assets that lose value due to two or more obsolescence factors (and where limited or no market evidence is available). We have also endeavoured to adopt a depreciation profile that reflects typical market behaviour having regard to the appropriate life and residual value.

Functional obsolescence is the loss in value or usefulness of an asset caused by inefficiencies or inadequacies of the asset itself, when compared to a more efficient or less costly replacement asset. When compared to new technologies the Plant Assets can exhibit excess operating costs, excess construction (excess capital cost), over-capacity, inadequacy, or lack of utility. Our replacement cost analysis for the Plant Assets address any components of excess capital costs (functional obsolescence) inherent within these assets due to the use of current equipment prices and materials in our replacement cost analysis.

Economic obsolescence results from external economic factors. It is defined as the impairment of desirability or useful life arising from economic forces, such as changes in optimum use, legislative enactments that restrict and impair the right to use the assets for their intended use, and changes in supply and demand relationships.

Economic obsolescence is further defined as the loss in value or usefulness of a property caused by factors external to the asset. Because economic obsolescence is usually a function of outside influences that affect an entire business, it can best be measured using the income approach or by comparing the value of the enterprise or business as a whole with the values allocated to the assets and liabilities used by that enterprise or business to generate cash flows.

The standard and frequency of maintenance is a significant factor in the determination of valuation lives. All other things being equal, a regularly and well-maintained asset of equipment will have a longer valuation life than an identical asset of equipment which is subjected to poor and infrequent maintenance. We have adopted a variety of valuation lives depending upon the nature of the asset.

We have applied residual values to certain asset groups of between 0% and 10% of replacement cost at the end of the asset's valuation life, which is reflective of the increased maintenance costs that would be required as the machine ages and the likely disposal value.

2.4 Specific assumptions

This section outlines the specific assumptions adopted as part of this valuation. The key factors considered are as follows:

- ▶ Determination of replacement costs
- ▶ Market data analysis
- ▶ Effective life and residual values
- ▶ Forecast market valuation.



2.4.1 Determination of replacement costs

In determining the RCN of the Plant Assets several sources were utilised. Where the Plant Assets were generic in nature we obtained current cost information from online sources and machinery suppliers.

In estimating the RCNs for specialised assets we considered information from machinery suppliers as well as information provided by Macmahon. Where possible we cross-checked the information to ensure it was suitable for valuation purposes.

2.4.2 Market data analysis

The market approach analyses market conditions and transactions comparable to the subject asset being valued, and determines market value where reliable data on comparable sales is available. In this context, market value is determined by comparing recent sales of similar assets and adjusting these comparables based on factors such as age, condition and type of sale. In the market approach, physical, functional and some forms of economic obsolescence are reflected and measured by the market.

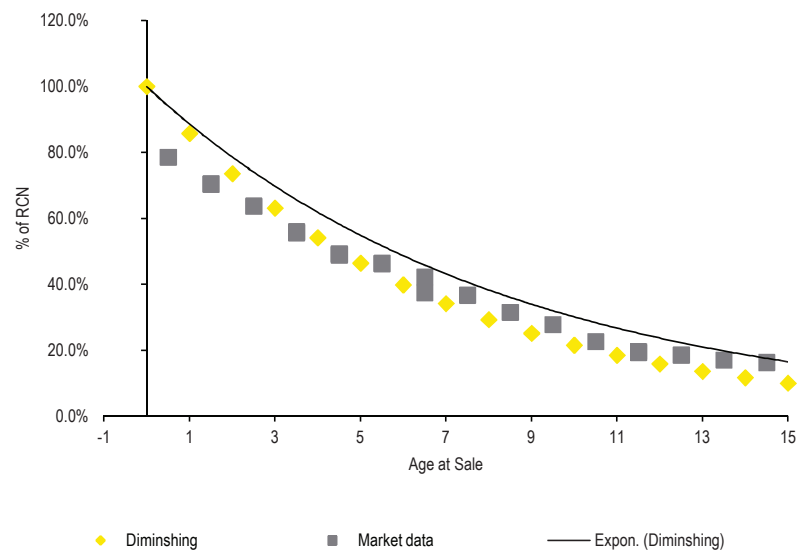
The market data used in our analysis with relation to the mobile plant and light vehicles comprises both actual sales (primarily auction values) and current asking prices.

In order to meaningfully analyse the data we undertook the following procedures:

- ▶ Collated sales data
- ▶ Plotted a scatter graph of the market data on the basis of age (x axis) against market value as a percentage of current RCN value (y axis)
- ▶ Adjusted the secondary market data set for any obvious outliers
- ▶ Inserted a regression line into the scatter chart
- ▶ Based on the regression line formula estimated a value for each asset on an age basis



The regression line was replicated in our valuation model by using an exponential curve with the same parameters as those indicated by the secondary market data. This depreciation curve was then applied to the current replacement cost of each asset which results in a market value for each asset. An example of this analysis, relating to Toyota Hilux sales data, is shown in the graph below.



For those assets for which insufficient data was available in order to generate a scatter graph, we adopted a regression line based on the loss in value profile derived from the market for similar assets.

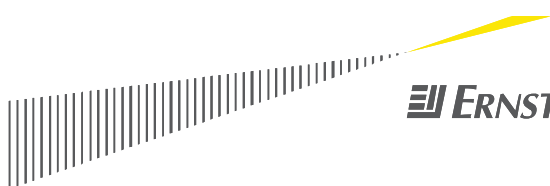
In other circumstances, where we have been able to identify comparable sales or asking prices for an asset directly comparable to the subject asset, we have determined values by direct reference to that market data.



2.4.3 Effective life and residual values

The table below shows the effective lives, depreciation methods and residual values used in our analysis:

Depreciation class	Useful Economic Life	Residual	Depreciation Profile
Buildings-portable	20	5%	Diminishing value
Bins	30	0%	Straight line
Comms equipment	10	5%	Diminishing value
Compressors	15	5%	Diminishing value
Computer Equipment	5	5%	Diminishing value
Containers	15	5%	Straight line
Furniture & Fixtures	10	5%	Diminishing value
Generators	15	10%	Diminishing value
Heavy vehicles	15	5%	Diminishing value
Light Vehicles	10	5%	Diminishing value
Mobile plant-10 year life	10	10%	Diminishing value
Mobile plant-12 year life	12	10%	Diminishing value
Mobile plant-15 year life	15	10%	Diminishing value
Mobile plant-20 year life	20	10%	Diminishing value
Monitoring equipment	15	5%	Diminishing value
Office equipment	10	5%	Diminishing value
Pumps	20	5%	Diminishing value
Screens	25	5%	Diminishing value
Tanks	40	2%	Straight line
Warehouse equipment	25	5%	Diminishing value
Workshop equipment-light duty	15	5%	Diminishing value
Software	8	0%	Straight line



2.5 Valuation results

Based on the scope of work, and for the reasons set forth in this Report, we have assessed the current market values of the Plant Assets. The results of this process are summarised in the table below:

Project (AUD 000's)	Original cost	Net book value	Market value - low	Market value - high
NSW-Glenfield MAC Recharge	329	44	200	220
NSW-Bega Bypass	33	30	30	30
NT-NT Workshop	2,024	267	1,000	1,100
NT-Shoal Bay	2,381	1,995	1,740	1,900
NT-INPEX	4,805	4,463	3,940	4,400
NT-Marine Supply Base	1,598	703	670	740
WA-Pilbara ISA	96	0	20	20
WA-Grt Northern Hwy	5,857	5,122	5,070	5,600
WA-NT	2,800	2,800	2,900	3,200
WA-Idle Plant	53	0	30	40
Schedule 4-Additional	0	26	100	150
Total	19,974	15,451	15,700	17,400



Appendix A Sources of data

We considered asset information and other documents pertaining to this engagement in our valuation analysis.

Internal sources of information

Our analysis is based on documents and information provided to us by management, including:

- ▶ Fixed asset records including:
 - 01.11 Construction - Asset List by Project 20121217 - ODR.xlsm
 - 01.03 Construction - Asset List by Project_9113169_2 (CSF_Sydney) - ODR.xlsm
 - 01.01 Construction Asset Register - Sep 12.xlsx
 - 01.05 NT - Civil Plant Register.xls
 - 01.06 Inpex site vehicles.xlsx
 - 01.07 NTWS Car Register.xlsx
 - 01.08 MJHJVSOS.xlsx
 - 01.09 NT Assets Nov12.xlsx
 - 01.13 Delta Primary Asset Register.xlsx
 - 01.12 Delta Other Plant Asset Register.xlsx
- ▶ Plant registration and maintenance documents
- ▶ Summary of projects and contract end dates.

External sources of information

- ▶ Discussions and emails with suppliers
- ▶ Glass's Information Services
- ▶ Machinerytrader.com
- ▶ Grays online
- ▶ Australian Bureau of Statistics.



Appendix B Valuation approaches and methods

Overview

Intangible and tangible assets should be valued based on the appropriate application of the income, market, and cost approaches. Although all three approaches should be considered in a valuation analysis, the fact pattern surrounding the transaction, the nature of the assets, and the availability of data will dictate which approach, or approaches, are ultimately utilised to calculate the value of each intangible and tangible asset.

Market approach

The market approach measures value based on what other purchasers in the market have paid for assets that can be considered reasonably similar to those being valued. When the market approach is utilised, data are collected on the prices paid for reasonably comparable assets. Adjustments are made to the comparable assets to compensate for differences between those assets and the asset being valued. The application of the market approach results in an estimate of the price reasonably expected to be realised from the sale of the asset.

In practice, sales prices, especially for intangible assets and specialised tangible assets, are rarely available since these are typically transferred as part of the sale of a business, not in piecemeal transactions. Furthermore, because many assets are often unique to a particular enterprise, a comparison between enterprises is difficult.

For these reasons, it is often problematic to apply the market approach for the valuation of intangible assets and many specialised tangible assets. It is however typically used for assets that are commonly traded in the market such as certain real property assets, general plant and equipment, motor vehicles, etc.

Cost approach

The cost approach is based on the premise that a prudent investor would pay no more for an asset than its replacement or reproduction cost. The cost to replace the asset would include the cost of constructing a similar asset of equivalent utility at prices applicable at the time of the valuation analysis. This estimate may then be adjusted to reflect losses in value attributable to obsolescence (physical, functional and/or economic).

It is often difficult to identify costs directly related to the subject asset, especially when the asset was created or acquired a long time ago. Further limitations to the cost approach include:

- ▶ it does not take into account the specific asset's potential profitability and therefore, its impact on the value
- ▶ there is no direct correlation between investments and value
- ▶ it is often not possible to estimate the reproduction cost of immaterial items.

Physical obsolescence measures the service potential consumed compared to the service potential remaining in the asset as a whole.

Technological obsolescence results from changes in the design and materials of construction of currently available assets. As manufacturing and construction techniques improve and lower cost materials become available, it becomes possible to construct assets with equivalent or improved output at lower cost levels. This form of obsolescence is particularly apparent in new



or emerging technologies and is reflected in the calculation of the RCN having regard to the lowest cost modern equivalent assets.

Functional obsolescence also results from changes in the design and materials of construction of currently available assets; however the impact on value is measured by reference to changes in operating costs rather than reductions in capital costs.

Economic obsolescence results from external economic factors. It is defined as the impairment of desirability or useful life arising from economic forces, such as changes in optimum use, legislative enactments that restrict and impair the right to use the assets for their intended use, and changes in supply and demand relationships.

The test of adequate profitability is the final step in the application of the cost approach and is required to identify and measure economic obsolescence. Economic obsolescence is defined as the loss in value or usefulness of a property caused by factors external to the asset. Because economic obsolescence is usually a function of outside influences that affect an entire business, it can best be measured using the income approach or by comparing the value of the enterprise or CGU as a whole with the values allocated to the assets and liabilities used by that enterprise or CGU to generate cash flows.



Appendix C Limitations

General limitations to our engagement

- ▶ Our Report may be relied upon by the Company for the purposes stated in section 1 only. You must maintain the Report in strictest confidence and must not disclose the Report to any other party or use the Report for any other purpose without our prior written consent, except that you may provide a copy of the Report to your officers and employees, and your professional advisors (financial, accounting and legal), who are assisting or advising you, provided that, in each case, you must first notify the recipient, and ensure that the recipient understands and agrees that:
 - the Report and its contents are confidential and may not be disclosed without our written consent
 - the recipient may use the Report only for the purpose of assisting or advising you and may not rely upon the Report or any of its contents
 - we accept no duty of care to the recipient in respect of any use the recipient may make of the Report or any of its contents
 - we disclaim any liability whatsoever to the recipient for all costs, loss, damage and liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our Report, the provision of our Report to the other party or the reliance upon our Report by the other party.
- ▶ Ernst & Young is not aware of any contingency, commitment or material issue which could materially affect Macmahon's economic environment and future performance and therefore, the fair value of Macmahon's assets and liabilities.
- ▶ The valuation date is **31 December 2012**. Therefore, the Report does not provide any guidance for the value of the assets at any other date.

Specific limitations to our engagement

The appraisal report is subject to the following general assumptions and limiting conditions as applicable:

No investigation has been made of, and no responsibility is assumed for, the legal description of the property being valued or legal matters, including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is assumed to be free and clear of any liens, easements, encroachments, or other encumbrances unless otherwise stated.

Information furnished by others, upon which all or portions of this appraisal are based, is believed to be reliable but has not been verified in all cases. No warranty is given as to the accuracy of such information.

It is assumed that all required licences, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization has been or can readily be obtained or renewed for any use on which the value estimates contained in this report are based.

No responsibility is taken for changes in market conditions, and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the date hereof.



The recommendation of value is predicated on the financial structure prevailing as of the date of this appraisal.

Responsible ownership and competent property management are assumed.

Neither Ernst & Young nor any individual signing or associated with this report shall be required by reason of this report to give further consultation, provide testimony, or appear in court or at other legal proceedings unless specified arrangements therefore have been made.

This report has been made only for the purpose stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including, without limitation, any conclusions as to value or the identity of Ernst & Young or any individual signing or associated with this report or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties except federal and state taxing authorities by any means without the prior written consent and approval of Ernst & Young.

The date of value to which the opinions expressed in this report apply is set forth in the letter of transmittal. Our recommendation of value is based on the purchasing power of the local currency, as of that date.

The allocation, if any, in this report of the total valuation among components of the property applies only to the program of utilisation stated in this report. The separate values for any components may not be applicable for any other purpose and must not be used in conjunction with any other appraisal.

This valuation has been made in conformance with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Australian Property Institute.

This appraisal report may not be included or referred to in any Securities and Exchange Commission filing or other public document.

Ernst & Young's maximum liability relating to services rendered under this report (regardless of form of action, whether in contract, negligence, or otherwise) shall be limited to the charges paid to Ernst & Young for the portion of its services or work products giving rise to liability. In no event shall Ernst & Young be liable for consequential, special, incidental, or punitive losses, damages or expenses (including, without limitation, lost profits, opportunity costs, etc.) even if it has been advised of their possible existence.

The client shall indemnify and hold harmless Ernst & Young and its personnel from and against any claims, liabilities, costs, and expenses (including, without limitation, attorneys' fees and the time of Ernst & Young personnel involved) brought against, paid, or incurred by Ernst & Young at any time and in any way arising out of or relating to Ernst & Young's services under this report, except to the extent finally determined to have resulted from the gross negligence or wilful misconduct of Ernst & Young personnel. This provision shall survive the termination of this agreement for any reason.

The valuation expressly excludes any consideration of the impact of the GST on the value of the property. The valuer reserves the right to review the valuation following provision by the client of an independent professional review of the impact of the GST on the property.

We have prepared this report having regard to information supplied by Macmahon and to information compiled and gathered by Ernst & Young. We have been assured that all information supplied to us by Macmahon is accurate and unbiased. During our investigations we have found no reason or evidence to suggest otherwise. As part of the valuation process we have adopted an approach combining various valuation procedures to determine the market value of the subject assets.



All information used or produced by Ernst and Young to obtain this valuation complies with recognised valuation practice and methodologies. The valuer is satisfied with the quality of information used in the production of this report.

The valuation methodologies used in this valuation are appropriate. In our choice of methodologies used for this valuation we have taken into account the type of assets, location, age, the industry and current domestic and overseas industry markets.

Declaration in relation to APES 225 (Valuation Services)

This Report outlines an opinion of market value that has been prepared by Ernst & Young on behalf of Macmahon.

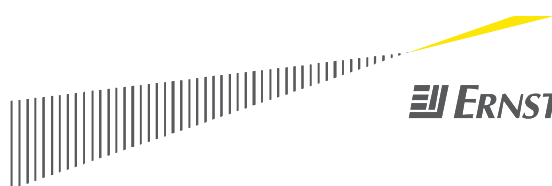
This Report has been prepared by Roy Farthing whose experience directly relevant to this assignment includes:

- ▶ Roy has been working in the valuations division of Ernst & Young for over 20 years leading a national team with offices in Melbourne, Sydney, and Brisbane, and covering valuation engagements throughout Australia and Asia.
- ▶ Roy has been specialising in the Valuations area for the past 35 years. During his time with Ernst & Young, Roy's experience has included valuations for financial reporting, taxation, structured finance, rating, tariff setting, regulatory, and insurance purposes. Roy particularly, has long-term experience in the valuation of plant and equipment.
- ▶ Roy is a Fellow of the Australian Property Institute with the designation Certified Practising Valuer (Plant and Machinery), Accredited Senior Appraiser of the American Society of Appraisers (ASA), and an Affiliate of Institute of Chartered Accountants of Australia.

In preparing this Report:

- ▶ Roy has acted independently
- ▶ Ernst & Young has been remunerated on the basis of time spent at the usual hourly rates of staff engaged to assist in the valuation, and no part of the fee is contingent on the conclusions reached, the content or the future use of this valuation report.

Ken Pendergast, a Partner in the Valuation and Business Modelling department of Ernst & Young acted as the Review Partner for this assignment.



Appendix D Certification

This certification is in respect of the valuation of plant & equipment described in this Report. To the best of our knowledge the statements of fact contained in this Report are true and correct.

The reported analyses, opinions and recommendations are limited only by the reported assumptions and limiting conditions, and are the undersigned's unbiased, professional analyses, opinions and recommendations.

We have no present or prospective interest in the property that is the subject of this Report, and have no personal interest or bias with respect to the parties involved. Our compensation is not contingent on any actions or events resulting from the analyses, opinions, or recommendations or the use of this Report.

Our analyses, opinions, and recommendations were developed, and this Report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice, subject to the Departure Rule within. This valuation has been made in conformance with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Australian Property Institute.

The API conducts a mandatory program of continuing education for its members.

The ASA conducts a mandatory program of continuing education for its accredited senior members, ASA. Such members who meet the minimum standards of this program are awarded periodic re-certification.

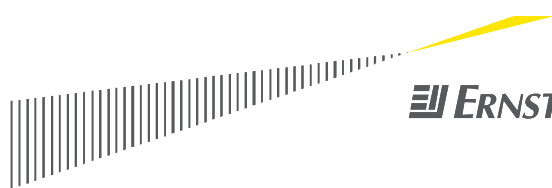
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Certified Practising Valuer (Plant & Machinery)
Partner

Principal valuers

Michael Prendergast, AAPI
Certified Practising Valuer (Plant & Machinery)
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Alex Fawcett, AAPI
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Associate Director

Matt Hills
Consultant



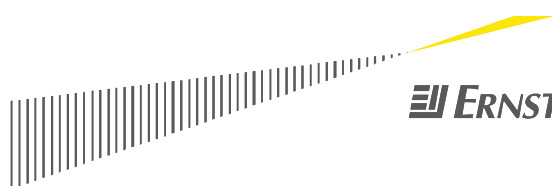
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23

Appendix E Asset schedule

Please see attached excel document

Asset schedule	Plant	Client Location	object	State	Plant Number	Description 1	Description 2	Manufacturer	Model	Serial / VINs	Region / Owner's	Utilisation (hours / month)	Build date	Build year	Estimated value	Market value estimate	Comments
PRIMARY PLANT ASSETS	NSW/REGA BRASS	NSW	X250C	1	ANORASSET	DAWLA TX 1200 GPS/LINE									2012	14,533	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NSW	D200C	1	ANORASSET	TOUC SAFETY CABINET									2005	2,066	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	3029N	1	ANORASSET	BRING MACHINE/VEHICLE/ASTI									2000	111	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	2640C	1	ANORASSET	NT Communications Equipment - EPO/Sensor									2005	145	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	304318	1	ANORASSET	Scatter Mobile Terminal									2012	5,199	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	SM4318	1	ANORASSET	Scatter Mobile Terminal									2005	29,994	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	A190C	1	ANORASSET	KIBOTA GENSEI 12.5A/VA									2005	5,565	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	A190C	1	ANORASSET	KIBOTA GENSEI 8/VA WORKSHOP									2005	2,969	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	B191C	1	ANORASSET	Mac Welding unit									2010	6,385	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	CG100C	1	ANORASSET	EXTRUDER/EXTRUDER PLUMP									2007	4,531	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	CG100C	1	ANORASSET	ARMED/ARMED/CHARGING I.R.									2005	1,169	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	0970C	1	ANORASSET	COMPARE PORTABLE COMPRESSOR									2005	366	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	0970C	1	ANORASSET	5.5HP/POWER/RETROL/ARCO									2008	4,954	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	W403C	1	ANORASSET	Trailer Box Pressure Cleaner									2008	4,954	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	W403C	1	ANORASSET	James 4000psi pressure cleaner									2012	2,927	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	M140C	1	ANORASSET	4 TON/1800 L/PALLET STORAGE									2008	1,598	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	M140C	1	ANORASSET	4 TON/1800 L/PALLET STORAGE									2008	1,598	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	M140C	1	ANORASSET	JOHN DEERE L415 L/MN TRACT									2009	1,127	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	0740C	1	ANORASSET	SELF-BLANKED FUEL TANK/5000									2005	113,879	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	SG10C	1	ANORASSET	PROTECTOR ALUMINUM/HEAVY DUTY									2005	697	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	SG200C	1	ANORASSET	PROTECTOR ALUMINUM/HEAVY DUTY									2008	720	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	SG200C	1	ANORASSET	PROTECTOR ALUMINUM/HEAVY DUTY									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y010C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y020C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005	17,864	
PRIMARY PLANT ASSETS	PRIMARY PLANT ASSETS	NT	Y030C	1	ANORASSET	WASTE BINS/RE-HINE									2005		



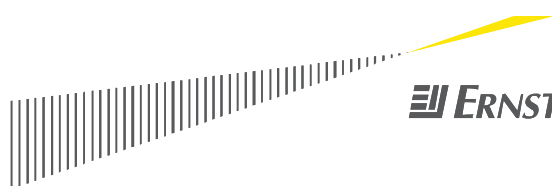
Appendix F Photographic record



Grader GD1358 - Port Hedland



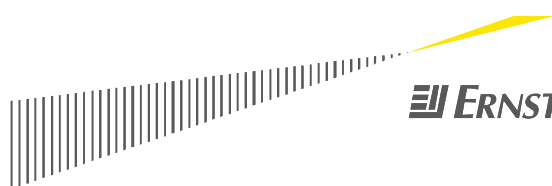
Dozer DZ8120 - Port Hedland



Light vehicle LV5507 - Port Hedland



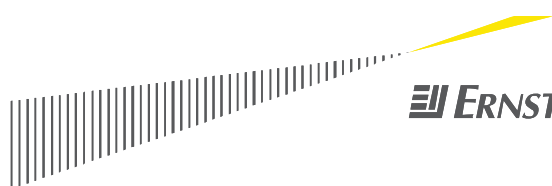
Articulated dump truck TD2201 - Port Hedland



Skid steer loader LO6074 - Shoal Bay Waste



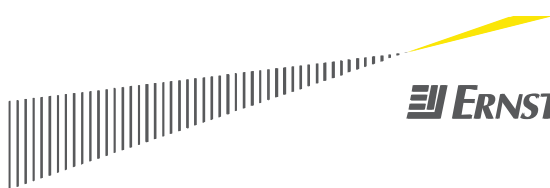
Articulated front end loader LO4564 - Shoal Bay Waste



Multi tyred roller R02000 - Darwin Marine Supply Base



Caterpillar road grader GD1363 - Ichthys LNG Project (Inpex JV)



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**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT EXPERT'S REPORT**

14 January 2013

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- ▶ financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- ▶ arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$100,000 (exclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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MACMAHON

ABN: 93 007 634 406

000001 000 MAH
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 787 930
(outside Australia) +61 3 9415 4000

Proxy Form



Vote online 24 hours a day, 7 days a week:

www.investorvote.com.au



Cast your proxy vote



Review and update your securityholding

Your secure access information is:

Control Number: 999999

SRN/HIN: 1999999999

PIN: 99999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 2:00pm (WST) Sunday 24 February 2013

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Macmahon Holdings Limited hereby appoint

☐

the Chairman
of the meeting **OR**



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Macmahon Holdings Limited to be held at City West Reception Centre, 45 Plaistowe Mews, City West Centre, West Perth, Western Australia on Tuesday, 26 February 2013 at 2:00pm (WST) and at any adjournment or postponement of that Meeting.

STEP 2 Item of Business



PLEASE NOTE: If you mark the **Abstain** box, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Resolution 1 Sale of Construction Projects to Leighton Holdings Limited

For

Against

Abstain

☐☐☐

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 1.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact
Name

Contact
Daytime
Telephone

Date / /

MAH

999999A

Computershare +