

7 February 2013

The Manager
Company Announcements Officer
Australian Securities Exchange
Exchange Plaza, 2 The Esplanade,
Perth WA 6000

Dear Sir/Madam,

Letter to Shareholders

Macmahon Holdings Ltd (ASX:MAH) has dispatched the attached letter to shareholders.

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For further information, please contact:

Investor Relations

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About Macmahon

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

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

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

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

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



MACMAHON

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Dear Shareholder

I am writing to you in advance of the upcoming Extraordinary General Meeting of Macmahon Holdings Limited shareholders, to be held on Tuesday, 26 February 2013, regarding the sale of our Construction projects. By now you should have received the Notice of Meeting documentation which provides detailed information to assist you in the consideration of your vote.

As announced on 24 December 2012, Macmahon entered into an Asset Purchase Agreement with Leighton for it to acquire the majority of our Construction projects (the "Proposed Transaction"), subject to a shareholder vote. Your Independent Directors unanimously support the Proposed Transaction and recommend that shareholders vote in favour of the Resolution to approve the Proposed Transaction. It should be noted that Leighton and its Associates cannot vote on the Proposed Transaction and your vote plays an important role in determining the outcome of this process.

The sale represents a realignment of our strategy to deliver a full suite of mining services, which seeks to reduce Macmahon's risk profile and deliver consistent, sustainable earnings for our shareholders. Previously we had recognised the need to grow our regionally based Construction business to spread overhead costs and risks, and, most importantly, at the same time provide continuity of employment for critical key staff. However, recent increased competition together with a shrinking market has limited the opportunities to profitably grow that business. These dynamics are considered to lead to more aggressive pricing and contractual terms and conditions, and therefore risks. In contrast, many of our Mining contracts are based on long-term relationships (allowing time to work through issues) with a strong alignment in interests between us and the mining company revolving around production. This generally leads to a more acceptable risk profile when compared to the short-term, adversarial nature of construction contracts.

At the time the decision was taken to exit Construction, the company was dealing with a number of underperforming projects. Critical to the initiatives implemented to stabilise these projects and close them out without any further significant losses was in turn the need to stabilise the Construction business and retain key people. To have gone through a public sale process at this time may have exposed the company to tens of millions of dollars in further project losses due to the possibility of key staff walking away given a very uncertain future. For this reason, and the fact that Leighton already had a good working knowledge of our Construction business through joint venture arrangements, the company pursued confidential negotiations with Leighton in the first instance. By the time the Proposed Transaction was announced, the majority of key staff then had a degree of certainty relating to the continuity of employment. The Proposed Transaction was negotiated on an arm's length basis with both companies conceding ground to reach the final outcome.

Your Independent Directors determined the Proposed Transaction was in the best interests of shareholders, particularly given:

- the transaction's highly certain terms and limited conditions;
- the capped risk on further losses in respect of the Urban 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 removal of approximately \$8.7 million of pre-tax employee liabilities from our balance sheet; and
- the significant reduction in potential closure costs in the event we were forced to wind down our construction business.

The Independent Expert, Ernst & Young has determined the Proposed Transaction to be “not fair but reasonable”, as outlined in the report included in the Notice of Meeting documentation. However, your Independent Directors consider that the \$1.4 million variance from the fair value range is not material in the context of Macmahon’s forward strategy and the certainty the Proposed Transaction provides the Company, particularly as any alternatives are not without material risk.

Furthermore, the Independent Expert has concluded that the potential advantages outweigh the potential disadvantages to the shareholders as a whole and that Macmahon’s shareholders are likely to be better off if the Proposed Transaction proceeds.

You may also be aware that, subsequent to entering into this Proposed Transaction, Macmahon received a number of approaches from Sembawang Australia Pty Ltd, a subsidiary of Indian-based company Punj Lloyd Ltd. Macmahon’s Independent Directors gave thorough consideration to these approaches and unanimously rejected them. Given the proposals contained little detail, were non-binding and highly conditional, the Independent Directors decided that it was not in the best interests of shareholders to walk away from the certainty of the Proposed Transaction with Leighton in the hope of being able to do a better deal with Sembawang. To have destabilised the Construction business (and possibly lose key staff) at this time to pursue a highly conditional, indicative proposal from Sembawang was an unacceptable risk.

Sembawang’s proposals were also rejected by your Independent Directors given:

- the very limited information provided by Sembawang, even after it was requested by Macmahon;
- the significant uncertainty and risk regarding the completion of a transaction, particularly given the requirement for joint venture and client consent for the novation of contracts;
- the lack of transparency on the consideration being offered; and
- Sembawang’s conduct, including breach of normal commercial confidentiality, releasing inconsistent statements and threatening legal action.

As such, I would like to reiterate that your Independent Directors unanimously support the Proposed Transaction and intend to vote in favour of the Resolution in respect of the Macmahon shares over which they have voting control. Accordingly, the Independent Directors encourage you to register your vote in support of the Proposed Transaction and Macmahon’s new strategy.

Yours sincerely



Ken Scott-Mackenzie
Chairman, Macmahon Holdings