

20 August 2013

2013 Full Year Results – Questions and Answers

Operational Update

Q – Revenue from continuing operations increased substantially on the prior year. What was the main reason for this?

A – The increase in revenue was mainly attributed to Surface Mining projects such as the Tropicana Gold Project and the Christmas Creek Mine expansion.

Other significant projects included Eaglefield/Lenton, Orebody 24 and Boddington and new work at Area C. Underground projects such as the Ranger 3 Deeps project and expansions at Argyle and Olympic Dam also contributed to the result.

Q – Why was your profit for continuing operations lower than expected?

A – The result was lower than expected due to the take-up of non-cash provisions for disputed claims, doubtful debts and asset impairment recognised in 2013. Claims and debtors will be actively pursued for recovery in 2014, but have been provided for until we have more certainty. The recognition of these provisions reflects the current economic uncertainty affecting the sector.

Q – How did your major projects perform over the year?

A – Our major projects are all performing in line with expectation. We have recently completed the ramp-up at the \$900 million Tropicana Gold Project and the \$1.8 billion Christmas Creek Mine expansion, which was awarded in January. Macmahon operations at both projects remain Lost Time Injury (LTI) free.

Record production was achieved at Orebody 18, both for total productive movement and tonnes of ore railed in 2013, despite issues with equipment availability in the first half of the year. The current contract ended in February 2013 and we are in the final stages of extension negotiations with the client.

Works at the Eaglefield Coal Mine in Queensland were completed and operations have moved into the adjacent Lenton pit. Contract extension negotiations are continuing with our client. The project remains LTI free.

In September 2012, Underground Mining secured a \$200 million, three year extension at Olympic Dam, where we have been operating since 2004. This was the sixth contract extension for this project.

Macmahon reached its 10th year of operation in South East Asia and continues to maintain a strong relationship with its client, Lafarge. The ramp-up at Calabar, the Company's second contract in Nigeria, is progressing well. A one year extension to the Lhok Nga contract was secured in November 2012 and will take the contract through to June 2019. Operations at Kanthan recorded 3000 days LTI free, Ewekoro, Lhok Nga and Rawang recorded 1000 days LTI free and Calabar recorded one year LTI free

Wet weather impacted operations at Orebody 18 (WA), Cameby (QLD) and Ewekoro in Nigeria during the year.

Q – Are there any major issues or projects at risk?

A – The Company's order book consists mainly of contracts with blue-chip clients. While we do not believe any contracts are at any immediate risk of termination, there is always the risk that clients will take operations in-house or place contract renewals out to competitive tender.

In light of prevailing coal prices – there is significant uncertainty surrounding the renewal of the Cameby Downs contract, which is due for renewal in November.

Operations at Argyle continue, albeit at reduced levels, following a scale back in operations in July. We will continue working closely with Rio Tinto to ensure that we best service their production requirements as they work through the cycle.

Likewise, with Christmas Creek, we are working closely with Fortescue on their hub optimisation strategy for the delivery of their Fortescue blend. Whilst this work is incomplete, Macmahon has lowered its revenue reliance on this project to around \$300 million for 2014.

In Mongolia, the coal industry has stagnated due to lower coal prices being received from Chinese customers. As a result, production at our Tavan Tolgoi operations has been scaled back to match demand. We are continuing to work closely with our client and expect coal production to increase in the coming months.

CSA Contract Termination

Q – What is the update on the CSA termination?

A – The contract termination was a disappointment for Macmahon. We are now preparing for settlement negotiations with Cobar Management Pty Ltd, which are due to resume in September. We will provide an update to the market in due course.

We have taken a non-cash provision for disputed claims in our accounts which may be recovered in 2014, pending the outcome of settlement discussions.

Construction Sale Update

Q – What is the status of the construction sale and remaining construction projects?

A - The majority of the construction projects have now been completed or novated to the Leighton Group with the vast majority of employees associated with those projects transferring with the sale. Two remaining projects that did not transfer with the sale included the Trangie Nevertire Irrigation Scheme project, which is expected to be completed in September 2013 and the Hong Kong XRL-822 project, for which we are a joint venture partner with Leighton Asia. That project is expected to be completed in May 2015. The Group has provided for expected losses on the Trangie project within the reported loss for 2013.

In addition, Macmahon also confirmed the sale of its rail assets to McConnell Dowell in May 2013, for \$4.6 million.

Of the \$67.0 million of construction fleet, \$20.1 million was sold to Leighton and McConnell Dowell, \$31.7 million was transferred to the Mining Business and a further \$2.0 million was sold on market. We have

taken an impairment provision on the remaining equipment to leave us with a net \$6.3 million held for sale at 30 June 2013.

Safety

Q – Please provide us an update on safety performance and any initiatives being undertaken by the Company?

A – The Company was deeply saddened by a fatality at the CSA Mine in March 2013. Safety is a key component of our operations and this incident had a significant impact. A thorough investigation into the incident was conducted.

We made a significant investment in new technologies to assist us in managing safety events and to give us greater transparency, consistency and oversight of our operations.

We also undertook a detailed review of our safety systems and processes with the aim of further enhancing the safety culture within Macmahon. The result of this review has seen the development of a Group Safety Improvement Plan that will be rolled out progressively over the coming 12 months.

The establishment of monthly CEO Significant Incident Review meetings also demonstrated the Executive Team's commitment to leading the safety conversation within the business to ensure it remains at the forefront of our employees' minds.

Cash Flow, Balance Sheet, Gearing and Covenants

Q – How did Construction losses impact the Company's cash flow?

Cash flow from operations increased by 25 per cent to \$108.6 million. Approximately \$64.0 million of receipts from customers from 2012 were delayed and collected in early 2013. Normalising for this and other timing differences, the cash flow from operations for 2013 was \$51.2 million, a decrease of 41 per cent compared to the prior corresponding period. The decrease in cash flow from operations was reflective of the losses incurred in the Construction Business during the year. Additional outflows from the Construction Business for 2014 are expected to be in the order of \$30-40 million.

Continuing operations generated strong operating cash flow during the period of \$117.9 million.

Q – How robust is the Company's balance sheet and how will you manage gearing levels?

The Company's balance sheet remains in a healthy position following the successful completion of the \$80.7 million fully underwritten entitlement offer in January 2013.

Proceeds of the offer were used to strengthen the balance sheet and to fund construction losses and capital expenditure requirements for the Christmas Creek Mine expansion.

Gearing ended the year at 15.4 per cent. We expect gearing levels to increase in the short-term, however the increase in available equipment, along with our pursuit of less capital intensive projects, will ensure that gearing levels remain within the internal maximum limit of 35 per cent net debt to equity.

The Company reduced its syndicated funding facility by \$40.5 million to \$434.5 million by closing one of its bank guarantee lines that was associated with the discontinued Construction Business. Over time as the remaining bank guarantees are transferred or expire, the Company intends to close additional lines to reduce fees where possible. The Company has \$187.0 million in unused facilities under its syndicated funding facility, including \$75.0 million in working capital facilities. All banking covenants remain within limits.

Corporate Cost Savings

Q – What was involved in the cost savings review and what savings have you achieved?

A - The year has seen a strong focus on cost reduction and the alignment of resources with the Company's new business model. A review of overheads aimed at creating a flatter management structure and a centralised support services function was conducted during the year. The Company's offices in Perth and Brisbane have been downsized and the Sydney office closed.

Business Outlook

Q – What is your revenue forecast for 2014 and what are the risks around this forecast?

A – The Company is forecasting revenue in the range of \$0.9 – 1.2 billion in 2014. The risks to this forecast include:

- *Fewer new work opportunities*
- *Scope reductions and contract deferrals by customers*
- *Significant increase in competition*

Q – What margin do you expect going forward?

A – The Company recognises that there is increased competition when tendering for new work and renewing existing contracts. Additionally, downward pressure on commodity prices has led to a push by clients to reduce costs. These factors combined are expected to result in increased pressure on our profit margins. As a consequence, there is a strong focus on margin growth through the Company's business improvement program. Initiatives include:

- *Right-sizing the business*
- *Asset utilisation*
- *Cost reduction*
- *Supply contract renewal*

Q – The order book looks good for the short-term but how will you maintain this level?

A - Our mining order book achieved record levels during 2013, with the award of the Christmas Creek Mine expansion contract significantly increasing the size of our Surface Mining operations. At year end, the order book stood at \$3.2 billion, with \$717 million already secured for 2014. In addition, we are expecting to secure an additional \$181 million of contract extensions for 2014 at Eaglefield/Lenton and Orebody 18.

Despite slowing market conditions, Macmahon's low cost commodity focus and close working relationships with our clients have ensured our order book remains strong. Downward pressure on commodity prices has resulted in a reduced domestic tender pipeline and there is greater competition for work.

Internationally, the Company is actively pursuing opportunities to grow its order book. The Company's considered approach to international expansion is focused on identifying key projects in Africa, Central Asia and South East Asia to support our overseas expansion, while also offsetting rising cost pressures being experienced domestically in Australia. We are currently exploring several opportunities in both Africa and Asia with Lafarge and are in the process of tendering for the Company's first underground mining project in Ghana.

Q – The Company has made a significant investment in capital, is this expected to continue?

A – The increase in 2013 capital expenditure was in line with the scheduled ramp-up at Tropicana, where the Company invested approximately \$75.0 million on plant and equipment. This included the purchase of ten 793F haul trucks, two excavators and three drill rigs. In addition to this another \$36.8 million was placed on site under an operating lease arrangement.

In 2014, capital expenditure will be managed downwards through the utilisation of existing capacity and low cost rental/lease options. Capital expenditure for 2014 is expected to be in the range of \$100 – \$150 million.

Q – When do you expect to return to paying dividends?

A – In light of the reported loss position of the Company, no dividend was declared for the year ending 30 June 2013. The Board remains committed to a 50 per cent dividend payout ratio. However, the Company's short-term focus for capital management will be on reducing debt and strengthening its balance sheet.

Market Outlook

Q – What is your view on where the market is heading?

The 2014 financial year is shaping up to be another challenging year for the mining services industry. Downward pressure on commodity prices will continue to present challenges for our industry. Whilst we expect to see limited investment in greenfield opportunities, there is likely to be a heightened focus on increasing output from producing mines.

While there is still a significant tendering pipeline of \$3.9 billion currently available (75% domestic, 25% international), we expect to see an increase in the number of contractors competing for work. This, in combination with a perceived push by mine owners to take mining activities in-house will undoubtedly place additional pressure on profit margins.

Business Model and Strategy – Risk Management

Q – What has the Company done to strengthen its approach to managing risk?

The Company conducted a strategic review during the year which highlighted significant risks associated with the Construction Business. Consequently the decision was made to exit this business. The new mining focused business model has markedly reduced the Company's risk profile and positioned it to deliver more sustainable earnings in the future.

The Executive Team is committed to improving the Company's risk management process to better control risk at each stage of the project lifecycle including revising its tender process to ensure we adequately assess project risks early in the tender phase.

Improved information and reporting systems are expected to deliver increased visibility over our operations in 2014, resulting in greater cost control and more certainty over project performance.

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About Macmahon

Macmahon is a leading Australian company providing the complete package of mining services to clients throughout Australia and in New Zealand, South East Asia, Mongolia and Africa.

An ASX listed company, Macmahon's diverse and comprehensive capabilities provide an end to end service offering to its mining and engineering clients.

Macmahon's extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.

With an expanding international footprint, 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.