

9 June 2017

## **Notice of General Meeting for AMNT Transaction**

Macmahon Holdings Limited ACN 007 634 406 (**Macmahon** or the **Company**, ASX:MAH) refers to its previous announcements regarding the AMNT Transaction.

The Board of Macmahon has today approved the Notice of General Meeting in relation to a meeting of shareholders to be held on Wednesday 12 July 2017 to consider the AMNT Transaction.

The Notice of General Meeting (which incorporates an explanatory statement, an independent expert's report and an investigating accountant's report) has been dispatched to shareholders today.

A copy of the Notice of General Meeting is attached. It is an important document and shareholders are encouraged to read it in full.

ENDS

For further information, please contact:

Christian Sealey    General Manager – Investor Relations & Communications    +61 497 828 300

### ***About Macmahon***

*Macmahon is a leading Australian company offering the complete package of mining services to miners throughout Australia and in New Zealand, South East Asia 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 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](http://www.macmahon.com.au) for more information.

# NOTICE OF GENERAL MEETING



**MACMAHON**

Macmahon Holdings Limited ABN 93 007 634 406



NOTICE IS HEREBY GIVEN of a Meeting of Shareholders of Macmahon Holdings Limited ABN 93 007 634 406.

**DATE OF MEETING:**

Wednesday, 12 July 2017

**TIME OF MEETING:**

9.30am (WST)

**PLACE OF MEETING:**

Macmahon's Head Office  
15 Hudswell Road  
Perth Airport WA 6105

## YOUR VOTE IS IMPORTANT



Your Directors unanimously recommend that you **VOTE FOR THE RESOLUTION** (in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable).

If you have any questions about the matters in this Notice of Meeting please do not hesitate to contact the Macmahon Shareholder Information Line on 1300 449 257 or +61 2 8022 7948 (for callers outside Australia).

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should consult their professional advisers before voting.

# IMPORTANT NOTICES AND DISCLAIMERS

## BACKGROUND

Notice is hereby given that a Meeting of Shareholders of Macmahon Holdings Limited ABN 93 007 634 406 (**Macmahon** or **the Company**) will be held at Macmahon's Head Office, 15 Hudswell Road, Perth Airport WA on Wednesday, 12 July 2017 at 9.30am (WST).

Attached to, and forming part of, this Notice of Meeting is an Explanatory Statement that provides Shareholders with background information and further details on the Resolution to be considered at the Meeting in order to understand the reasons for, and the effect of, the Resolution (if approved). The approval of the Resolution is one of the Conditions Precedent to the AMNT Transaction.

## DEFINED TERMS

A number of defined terms are used in this Notice of Meeting. Those terms are defined in the Glossary appearing after the Explanatory Statement below.

## DISCLAIMER AS TO FORWARD LOOKING STATEMENTS

This Notice of Meeting (which includes the notice of meeting, the Explanatory Statement, the Proxy Form, the Independent Expert's Report (including the Independent Valuer's Report) and the Investigating Accountant's Report) contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. These forward looking statements are based on, among other things, Macmahon's assumptions, expectations, estimates, objectives, plans and intentions.

Forward looking statements are subject to inherent risks and uncertainties. Although Macmahon believes that the expectations reflected in any forward looking statement included in this Notice of Meeting are reasonable, no assurance can be given that such expectations will prove to be correct. Actual events, results or outcomes may differ materially from the events, results or outcomes expressed or implied in any forward looking statement. Except as required by applicable law or the ASX Listing Rules, Macmahon does not undertake to update or revise these forward looking statements, nor any other statement whether written or oral, that may be made from time to time by or on behalf of Macmahon, whether as a result of new information, future events or otherwise.

None of Macmahon (nor any of its officers or employees), or any other person named in this Notice of Meeting, or any person involved in the preparation of this Notice of Meeting makes any representation or warranty (express or implied) as to the accuracy or likelihood or fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement.

The forward looking statements in this Notice of Meeting reflect views held only as at the date of this Notice of Meeting.

The Directors consider that they have used reasonable care in preparing forward looking financial information (Guidance) in this Notice of Meeting. However, the Guidance is not fact, rather it is predictive in character and there are margins of uncertainty surrounding any assumptions about future conditions and anticipated performance. The Guidance may differ materially from results ultimately achieved. You are cautioned not to place undue reliance on the Guidance. Forward looking information is by its very nature subject to uncertainties and can be affected by unexpected events, many of which are outside the control of Macmahon's directors. Any variation to the assumptions on which the Guidance has been prepared could be materially positive or negative to actual financial performance. Therefore Macmahon's directors cannot guarantee the achievement of the Guidance.

The Guidance should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the best estimate assumptions or that Macmahon will achieve, or is likely to achieve, the particular results. The Guidance also takes no account of the adviser

and other third party costs incurred to date and to be incurred by Macmahon on the basis that they are non-recurring and therefore not reflective of the underlying performance of Macmahon.

## NON-IFRS FINANCIAL INFORMATION

This Notice of Meeting uses non-IFRS financial information including EBITDA and EBIT which are used to measure both group and operational performance. Non-IFRS measures have not been subject to audit or review.

## NO ACCOUNT OF PERSONAL CIRCUMSTANCES AND NO OFFER OF SECURITIES

This Notice of Meeting does not take into account the individual investment objectives, financial or tax situation or particular needs of any person. You should seek independent legal, financial and taxation advice before making a decision as to whether or not to vote in favour of the Resolution.

This Notice of Meeting is not an offer, invitation or recommendation to subscribe for or purchase securities in the Company and is not a disclosure document. Nor does this Notice constitute investment or financial product advice (nor tax, accounting or legal advice) and is not intended to be used for the basis of making an investment decision.

## RISK FACTORS

Shareholders should note that there are a number of risk factors which will apply to their holdings of Shares if the AMNT Transaction occurs (assuming the Resolution is approved). The Section entitled "Key reasons to vote against the AMNT Transaction" on page 6 and Section 3 of the Explanatory Statement below, Section 7 of the Explanatory Statement: "Risks Associated with the AMNT Transaction and Potential Mitigants" and paragraph 14 of the Independent Expert's Report set out some of those key risks.

## EFFECT OF ROUNDING

Certain figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Notice of Meeting may be subject to the effect of rounding. Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Notice of Meeting.

Any discrepancies between totals in tables or financial information, or in calculations, graphs or charts are due to rounding.

## MAPS AND DIAGRAMS

Any diagrams, charts, maps, graphs, figures and tables appearing in this Notice of Meeting are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the last practicable date before finalisation of this Notice of Meeting, being Tuesday, 6 June 2017.

## NOTICE TO PERSONS OUTSIDE AUSTRALIA

This Notice of Meeting has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

The distribution of this Notice of Meeting may, in some countries, be restricted by law or regulation. Accordingly, persons who come into possession of this Notice of Meeting should inform themselves of, and observe, any such restrictions.

## AUTHORISATION

No person is authorised to give any information or make any representation in connection with the AMNT Transaction, as it relates to the Resolution, which is not contained in this Notice of Meeting. Any information or representation not contained in this Notice of

Meeting (other than to the extent that information has been provided by Macmahon), may not be relied on as having been authorised by Macmahon or the Board in connection with the Resolution.

## PRIVACY

To assist Macmahon to conduct the Meeting, Macmahon may collect personal information including names, contact details and shareholdings of Shareholders and the names of persons appointed by Shareholders to act as proxy at the Meeting. Personal information of this nature may be disclosed by Macmahon to its share registry, print and mail service providers, and Macmahon's agents for the purposes of implementing the AMNT Transaction. Shareholders have certain rights to access their personal information that has been collected. If you would like details of information about you held by Macmahon, please contact the Macmahon Shareholder Information Line on 1300 449 257 or +61 2 8022 7948 (for callers outside Australia).

## RESPONSIBILITY FOR INFORMATION

The information contained in this Notice of Meeting (except for the Independent Expert's Report, the Independent Valuer's Report, the Investigating Accountant's Report and information regarding the AMNT Parties, the Custodian and each of their associates and their intentions) has been prepared by Macmahon and is the responsibility of Macmahon. None of the AMNT Parties nor the Custodian assumes any responsibility for the accuracy or completeness of this information. Information concerning the AMNT Parties and their intentions has been provided by the AMNT Group. Information concerning the Custodian and its associates has been provided by the Custodian. None of Macmahon, its associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

Lonergan Edwards & Associates ACN 095 445 560 (the **Independent Expert**) has prepared the Independent Expert's Report, which annexes the Independent Valuer's Report prepared by Staffe Pty Ltd ACN 007 634 406 (the **Independent Valuer**). The Independent Expert and the Independent Valuer have consented to the inclusion of their reports, and references to them, in this Notice of Meeting. The Independent Expert and the Independent Valuer take responsibility for their respective reports, and references to them, but they are not responsible for any other information contained within this Notice of Meeting. Shareholders are urged to read the Independent Expert's Report (which annexes the Independent Valuer's Report) set out in Annexure A carefully to understand the scope of the reports, the methodology of the assessment, the sources of information and the assumptions made.

KPMG Financial Advisory Services (Australia) Pty Limited (**KPMG Transaction Services**) has prepared the Investigating Accountant's Report. KPMG Transaction Services has consented to the inclusion of its Investigating Accountant's Report in Annexure B to this Notice of Meeting and references to it in the form and context in which it is so included. With the exception of the consent stated above, KPMG Transaction Services has not authorised the issue of this Notice of Meeting. Accordingly, it takes no responsibility for any other statements, or material in, or omissions from, this Notice of Meeting, the scope of the report or the sources of information.

## ASIC AND ASX INVOLVEMENT

A copy of this Notice of Meeting has been lodged with ASIC pursuant to ASIC Regulatory Guide 74 and with ASX pursuant to the ASX Listing Rules. Neither ASIC, nor ASX, nor any of their officers, take any responsibility for the contents of this Notice of Meeting.

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# CHAIRMAN'S LETTER



9 June 2017

Dear fellow Macmahon Shareholders,

## MEETING TO CONSIDER THE AMNT TRANSACTION<sup>1</sup>

On behalf of the Macmahon Board, I am very pleased to provide you with this Notice of Meeting about the Company's proposed transaction with AMNT.

The transaction is being presented for all Shareholders to consider at a meeting to be held on Wednesday, 12 July 2017.

Your Directors **unanimously recommend that Shareholders approve the AMNT Transaction by voting in favour of the Resolution to be considered at the Meeting, and all Directors who hold or control Shares intend to vote their own shareholdings in favour of it** (in both cases, in the absence of a superior proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable).

## A COMPELLING OPPORTUNITY

Maximising value for all Shareholders is of utmost importance to Macmahon. As many of you will be aware, the Macmahon Board recently recommended that Shareholders reject a takeover offer from CIMIC. That offer did not represent fair value or adequately reflect the improving outlook and opportunities for Macmahon in the mining services sector. However, your Directors believe the proposed AMNT Transaction is a compelling opportunity for Macmahon and its Shareholders.

If the AMNT Transaction proceeds:

1. Macmahon will become the life-of-mine mining services contractor at AMNT's Batu Hijau Mine in Indonesia under an alliance style contract. The Batu Hijau Mine has been operating since the year 2000 and is the second largest copper-gold mine in Indonesia. This Mining Services Contract is expected to generate approximately US\$2.9 billion in revenue for the Company over the next 14 years;
2. Macmahon will acquire existing Mobile Equipment independently valued at US\$145.6 million from AMNT in order to perform the Mining Services Contract, and will pay for this equipment by issuing new Macmahon Shares to a subsidiary of AMNT. As a result, AMNT's subsidiary will obtain a 44.3% shareholding in Macmahon; and
3. Macmahon will have the benefit of an Alliance Agreement with AMNT (and related entities) to support future growth.

Further details of the AMNT Transaction can be found in Section 1, and the agreements referred to above are explained in greater detail in Section 4.

## BENEFITS OF THE AMNT TRANSACTION

Your Directors believe the AMNT Transaction has the potential to be transformational for Macmahon.

The expected benefits of the AMNT Transaction include improved earnings, increased scale and diversity of the order book, a strengthened balance sheet and improved growth prospects. More information about these expected benefits is set out in Section 2. Of course, the AMNT Transaction is not without risks, and more information about these is set out in Sections 3 and 7. However, on balance, the Board believes the AMNT Transaction will deliver substantial value accretion to Macmahon Shareholders<sup>2</sup>, and therefore recommends that Shareholders vote in favour of it.

1. Defined terms are set out in the Glossary on page 59 of the Explanatory Statement.

2. Although there can be no guarantee that this will occur.

### THE INDEPENDENT EXPERT'S OPINION

To assist Shareholders in assessing the AMNT Transaction, Macmahon has appointed Lonergan Edwards & Associates to prepare an Independent Expert's Report. In its report, the Independent Expert has concluded that the AMNT Transaction is **fair and reasonable** to Shareholders. Please see Annexure A, which is a full copy of the Independent Expert's Report. This is an important document, and Shareholders are advised to read it in full.

### YOUR VOTE IS IMPORTANT

Your vote is important as the AMNT Transaction needs a certain level of Macmahon shareholder support to be approved. I strongly encourage you to read this Notice of Meeting carefully as it contains information material to a decision on how to vote.

If you desire a bigger, stronger and more profitable Macmahon I strongly urge you to vote in favour of the Resolution by attending the Meeting, by voting online, or by completing and sending in your Proxy Form. This form must be returned (in accordance with the instructions on the Proxy Form) by 9.30am (WST) on Monday, 10 July 2017.

If you require any further information, please call the Shareholder Information Line on 1300 449 257 or +61 2 8022 7948 (for callers outside Australia).

On behalf of the Board of Macmahon, I would like to take this opportunity to thank you in advance for your ongoing support of Macmahon. The Macmahon Board believes the AMNT Transaction is compelling and encourages you to vote in favour of it.

Yours sincerely,



Jim Walker  
Chairman  
Macmahon Holdings Limited

# YOUR VOTE IS IMPORTANT



Your Directors unanimously recommend that you **VOTE FOR THE RESOLUTION** (in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable).

# KEY REASONS TO VOTE IN FAVOUR OF THE RESOLUTION AND SUPPORT THE AMNT TRANSACTION

## 1 UNANIMOUS DIRECTORS' RECOMMENDATION TO VOTE IN FAVOUR

The Directors unanimously recommend that you vote in favour of the AMNT Transaction in the absence of a superior proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable.<sup>1</sup>

## 2 DELIVERS A SIGNIFICANT LONG-TERM, ALLIANCE-STYLE CONTRACT WITH EXPECTED REVENUE OF US\$1.8 BILLION OVER FIRST 5 YEARS

Under the AMNT Transaction Macmahon will be awarded a Mining Services Contract at the Batu Hijau Mine, a high quality, long term copper-gold mine. Macmahon expects to generate US\$1.8 billion in revenue over the first 5 years from commencement of Full Operations at Batu Hijau.<sup>2</sup> There is also potential for additional revenue if AMNT develops its significant Elang deposit and/or the Nangka prospect.

Under the Mining Services Contract, payments to Macmahon for mining services will be 'cost plus' and made prior to the beginning of each month. Any negative adjustments under the downside sharing arrangement will be limited to Macmahon's margin.<sup>3</sup>

The Consideration Shares issued will be held in escrow for at least 30 months, with the potential for these shares to be bought back if the Mining Services Contract is terminated in this period.<sup>4</sup>

## 3 THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE AMNT TRANSACTION IS FAIR AND REASONABLE AND SIGNIFICANTLY VALUE ACCRETIVE FOR MACMAHON SHAREHOLDERS

The Independent Expert has concluded that the AMNT Transaction is fair and reasonable to Shareholders, in the absence of a superior proposal, and that in the Independent Expert's view the "AMNT Transaction is significantly value accretive for Macmahon Shareholders".<sup>5</sup>

1. The reasons for this recommendation are set out or referred to in Section 1.7 and in the "Key reasons to vote in favour of the AMNT Transaction" in Section 2. You should also refer to Section 3 ("Key reasons to vote against the AMNT Transaction") and Section 7 of the Explanatory Statement and paragraph 14 of the Independent Expert's Report for further information in relation to the risks to Shareholders arising from the AMNT Transaction.

2. Subject to implementation of the AMNT Transaction, Macmahon expects to commence the full scope of works at the Batu Hijau mining operations (i.e. Full Operations) from 1 March 2018, but this may be delayed. Commencement of Full Operations requires certain matters to be agreed or achieved during Phase 1 of the Mining Services Contract. The expected revenue from the Mining Services Contract is based on Macmahon's internal pricing models, and was calculated by analysing AMNT's mine plan for Batu Hijau and estimating the total revenues for Macmahon (using a 'bottom-up' build-up of estimated costs and applying anticipated margins) in moving the quantities of material set out in that mine plan (see further at paragraph 179 of the Independent Expert's Report, which is attached as Annexure A). Refer to financial assumptions in Section 5.3 and risks in Section 5.6 and AMNT Transaction Risks and Potential Mitigants in Section 7.

3. See Section 4.2 for further detail regarding the Mining Services Contract.

4. See a discussion of the Escrow Deed at Section 4.4.

5. See paragraph 14 and 199 of the Independent Expert's Report, which is attached as Annexure A. It is an important document and you are encouraged to read it in full.

## 4 ATTRACTIVE SUBSCRIPTION PRICE

The AMNT Transaction subscription price of \$0.203 per share is above the top end of the Independent Expert's valuation range (on a controlling interest basis prior to the AMNT Transaction), a 27% premium to the 1-month VWAP and a 40% premium to CIMIC's recent (expired) A\$0.145 takeover offer.<sup>6</sup>

## 5 EXPECTED TO SIGNIFICANTLY IMPROVE SCALE AND DIVERSIFICATION OF ORDER BOOK

Significant increase in order book (4.2x existing order book<sup>7</sup>) by adding expected US\$2.9 billion over the anticipated 14-year life of mine at Batu Hijau<sup>8</sup>, and increases the diversity of the order book across commodities and customers.

## 6 SUBSTANTIALLY IMPROVES FORECAST EARNINGS, IMPROVES BALANCE SHEET STRENGTH AND EXPECTED FINANCING FLEXIBILITY

On the basis of the AMNT Transaction, updated FY2018 Macmahon Guidance of \$620–\$680 million of revenue and \$40–\$50 million of EBIT,<sup>9</sup> with the full benefit of the Mining Services Contract only expected to be realised in FY2019 following ramp up to Full Operations.<sup>10</sup>

The AMNT Transaction adds significant balance sheet strength and increased cashflows which may assist in tendering for future work, particularly large projects.<sup>11</sup>

## 7 EXPECTED TO IMPROVE ASIAN GROWTH PROSPECTS AND NEW SUPPORTIVE MAJOR SHAREHOLDER

Builds on Macmahon's existing successful Indonesian operating experience and provides further regional profile and scale to support South-East Asian growth prospects.

Introduces a supportive major shareholder as a strategic alliance partner with agreed protocols for its participation in Macmahon's decision making.<sup>12</sup>

The reasons why you may wish to vote in favour of the AMNT Transaction are set out in more detail in Section 2 ("Key reasons to vote in favour of the AMNT Transaction").

6. Subscription price exceeds the Independent Expert's valuation range of \$0.180 to \$0.202 for Macmahon on a controlling interest basis prior to the AMNT Transaction as set out in the Independent Expert's Report attached to this Notice as Annexure A. Last close and VWAPs on ASX calculated as at 3 May 2017, the last Macmahon trading day prior to announcement of the execution of binding documentation in respect of the AMNT Transaction. The Subscription price also represents a premium of 31% to the ASX closing price of Macmahon Shares of \$0.155 on Tuesday, 6 June 2017, being the last practicable date prior to the finalisation of this Notice. CIMIC Group Investment Pty Ltd's recent cash bid of \$0.145 per share closed on 9 March 2017.

7. Based on an existing order book of A\$1.2 billion as at 31 March 2017, an indicative increase to the order book of US\$2.9 billion for Batu Hijau and an AUD:USD exchange rate of 0.7518.

8. See note 2 above.

9. See Section 5 for further details of FY2018 Guidance, including assumptions, risks and sensitivity analysis. Guidance relates to continuing operations only, excludes significant items (including takeover and transaction costs).

10. See note 2 above.

11. See Section 2.8 of the Explanatory Statement for further information about the expected impact on Macmahon's balance sheet if the AMNT Transaction proceeds.

12. AMC and AMNT have entered into an Alliance Agreement with Macmahon. See details of this at Section 4.3. See further at Section 4.6 for details of the Nominee Conflict and Confidentiality Protocol that will apply to AMNT's nominee directors.



# KEY REASONS TO VOTE AGAINST THE RESOLUTION AND NOT SUPPORT THE AMNT TRANSACTION

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- 1** You may disagree with the Directors' unanimous recommendation and/or the Independent Expert's conclusion.
  - 2** You may believe that there is potential for a superior proposal to be made in respect of Macmahon in the foreseeable future and that the implementation of the AMNT Transaction significantly reduces the likelihood of this occurring.
  - 3** You may prefer Macmahon's current ownership structure, and not want AMC (who will acquire a significant shareholding in Macmahon and have rights to nominate two directors to the Board) to have significant influence over Macmahon.
  - 4** You may prefer to participate in the future financial performance of Macmahon without the dilution of the AMNT Transaction.
  - 5** You may consider the AMNT Transaction will introduce risks to Macmahon which are not acceptable to you, or you may wish to maintain an investment in an entity with the specific risk characteristics of Macmahon without the AMNT Transaction.
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The reasons why you may wish to vote against the AMNT Transaction are set out in more detail in Section 3 ("Key reasons to vote against the AMNT Transaction").

# NOTICE OF MEETING



## MACMAHON HOLDINGS LIMITED ABN 93 007 634 406 (Macmahon or the Company)

**NOTICE IS GIVEN** that a general meeting of Macmahon will be held at Macmahon's Head Office at 15 Hudswell Road, Perth Airport, WA on Wednesday, 12 July 2017 at 9.30am (WST).

### BUSINESS

#### 1. RESOLUTION – APPROVAL OF THE AMNT TRANSACTION AND THE ACQUISITION OF SHARES IN MACMAHON

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

“That, for the purposes of item 7 of section 611 of the Corporations Act, and for all other purposes, all aspects of the AMNT Transaction are approved including for:

- a. *Macmahon to issue 954,064,924 Shares (being the **Consideration Shares**) to the Custodian on behalf of AMC (and for the Custodian to acquire those Consideration Shares on behalf of AMC) in consideration for the acquisition of the Mobile Equipment by Macmahon Indonesia;*
- b. *each of the Approval Parties to acquire relevant interests in no more than 44.3% of all Shares as a result of the acquisition of the Consideration Shares referred to in paragraph (a) of this Resolution and, where applicable, as a result of their entry into the Escrow Deed; and*
- c. *Macmahon to acquire relevant interests in no more than 44.3% of all Shares as a result of certain terms of, and rights exercisable by Macmahon under, the Escrow Deed and the Alliance Agreement including in respect of the Consideration Shares,*

on the terms set out in the Explanatory Statement.”

### VOTING PROHIBITION

The Company will disregard any votes cast in favour of the Resolution by any of the Approval Parties and by any of their respective associates.

### DETERMINATION OF SHAREHOLDERS' RIGHT TO VOTE

The Directors have determined, pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) and ASX Settlement Operating Rule 5.6.1, that the persons eligible to vote at the Meeting are those who are registered Shareholders at 7:00 pm (EST) on Monday, 10 July 2017.

### 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. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

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 (as summarised below).

Sections 250BB and 250BC of the Corporations Act apply to voting by proxy. The effect of these sections is 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 chair, 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 of the Corporations Act 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).

## Notice of Meeting *continued*

### **Transfer of non-chair proxy to chair in certain circumstances**

Section 250BC of the Corporations Act 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.

### **CHAIRMAN'S INTENTION**

If you appoint the Chairman of the Meeting as your proxy and you do not direct the Chairman as to how to vote on the Resolution, the Chairman intends to vote in favour of the Resolution.

### **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 in one of the ways specified below by 9.30am (WST) on Monday, 10 July 2017. In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes of receipt of proxy appointments:

- Electronically: by visiting [www.investorvote.com.au](http://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](http://www.intermediaryonline.com) to submit your voting instructions.
- By hand: Computershare Investor Services Pty Limited Level 11, 172 St Georges Terrace Perth WA 6000
- By Facsimile: (within Australia) 1800 783 447 (outside Australia) +61 3 9473 2555
- By post: GPO Box D182 PERTH WA 6840

### **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 (such as: (i) a letter or certificate, executed in accordance with the body corporate's constitution or the Corporations Act, authorising the person as a representative; or (ii) a copy of a resolution, certified by a secretary or a director of the body corporate, appointing the person as a representative), unless it has previously been given to the Company.

By Order of the Board

Greg Gettingby  
*Company Secretary*

9 June 2017

# EXPLANATORY STATEMENT

## 1. OVERVIEW OF THE AMNT TRANSACTION

### 1.1 Background

On 1 March 2017, Macmahon announced to ASX that it had entered into a non-binding heads of agreement with AMNT in respect of a proposal to pursue the potentially transformational AMNT Transaction.

On 8 May 2017, Macmahon announced to ASX that it had signed binding documentation to implement the AMNT Transaction. The key documents signed, and their purpose, is as follows:

- **Mining Services Contract** by which Macmahon Indonesia will be awarded a life-of-mine, alliance style contract to provide earthmoving and mining services at the Batu Hijau Mine in Indonesia (and, potentially, other prospects which may be developed by AMNT or any related body corporate of AMNT, in the same mining area as the Batu Hijau Mine, including, without limitation, the Elang and Nangka prospects);
- **Implementation Deed** by which Macmahon Indonesia will acquire the existing Mobile Equipment at Batu Hijau so that it can perform the Mining Services Contract and, in consideration for this, Macmahon will issue the Consideration Shares to AMC<sup>1</sup> (a subsidiary of AMNT) which will result in AMC becoming Macmahon's largest shareholder; and
- **Alliance Agreement** by which the parties set out their agreement with respect to matters relating to the Board of Macmahon (including a right for AMC to appoint two nominee directors), principles of cooperation between the parties including to support Macmahon's potential future growth, and the potential orderly market sale of the Consideration Shares in the future.

The parties have also subsequently agreed and signed the:

- **Escrow Deed** by which the Consideration Shares issued by Macmahon will be held by (and in the name of) the Custodian on behalf of AMC pursuant to an escrow arrangement for the Escrow Period (expected to be at least 30 months from Completion).

These documents are explained in greater detail in Section 4. Details of the new Proposed Directors are set out in Section 8.9.

The AMNT Transaction (and the documents described above) will only take full effect from Completion under the Implementation Deed. Completion is subject to a number of Conditions Precedent being satisfied or waived. Those Conditions Precedent (and their current status) are discussed in Section 1.4 below. One of the Conditions Precedent is the passing of the Resolution at the Meeting.

If any Condition Precedent has not been satisfied or waived by 29 September 2017 (or any later date agreed by the parties), and agreement cannot be reached within 5 business days as to an alternative method of achieving the desired commercial objectives, the AMNT Transaction will not proceed under the terms of the Implementation Deed, and none of the other agreements referred to above will come into full effect. See Section 1.5 below for a discussion of the implications of the Resolution not being passed, and the AMNT Transaction not proceeding.

### 1.2 Purpose of the Meeting

Under the Corporations Act, a person cannot acquire an interest in shares in a listed company if, as a result, their (or someone else's) voting power in that company will exceed (or increase beyond) 20% unless that acquisition fits within a specified exception. A number of companies in a corporate group (such as holding companies) may often all obtain (or be taken to obtain) the same voting power in shares acquired by one member of their group due to levels of control that they may be able to exercise.<sup>2</sup>

One of the specified exceptions (set out in the Corporations Act) to the prohibition is where the acquisition is approved by shareholders in general meeting.

The AMNT Transaction would see a number of parties obtain voting power in Macmahon in excess of the 20% threshold. These are:

- a. AMC (and the AMNT Parties) who would, as a result of:
  - i. the issue of the Consideration Shares to (or for the benefit of) AMC; and
  - ii. being deemed to be associates of Macmahon because of the arrangements contained in the Alliance Agreement, acquire voting power in Macmahon of approximately 44.3%; and
- b. Macmahon itself who would, as a result of:
  - i. the restrictions on disposal of the Consideration Shares contained in both the Escrow Deed and Alliance Agreement; and
  - ii. being deemed to be an associate of AMC (and the AMNT Parties) due to the provisions of the Alliance Agreement relating to the composition of Macmahon's board, also be taken to have acquired voting power in itself of approximately 44.3%.

1. Initially these shares will be registered in the name of, and held by, the Custodian pursuant to the terms of the Escrow Deed. See Section 4.4 of the Explanatory Statement for further detail regarding the escrow arrangements.

2. See further explanation in Sections 12.1 and 12.2.

## Explanatory Statement *continued*

Each of these acquisitions is therefore the subject of the Resolution, and proposed to be approved by Macmahon Shareholders at the Meeting. The passing of the Resolution is one of the Conditions Precedent that is required to be satisfied before the AMNT Transaction can be implemented. Further information regarding the Corporations Act requirements is set out in Sections 12.1 and 12.2.

### 1.3 Rationale for the AMNT Transaction

The Directors believe the AMNT Transaction has the potential to be transformational for Macmahon. If completed in accordance with its terms, the Directors expect (although cannot guarantee) that the AMNT Transaction will increase the scale, operational diversity, revenue, order book and growth prospects of Macmahon in the medium term. Further information on the Directors' rationale for supporting the AMNT Transaction is set out in Section 1.7.

### 1.4 Completion of the AMNT Transaction and status of Conditions Precedent

As noted above, all of the elements of the AMNT Transaction will only become effective once Completion occurs under the Implementation Deed. For Completion to occur, all of the Conditions Precedent must be satisfied or waived in accordance with the Implementation Deed. The Conditions Precedent, the date by which those Conditions Precedent must be satisfied, and their current status is set out in the table below. It is anticipated that the passage of the Resolution at the Meeting will be the final Condition Precedent to be satisfied. If this does not occur by 29 September 2017 (or such other date as Macmahon and AMNT may agree) then the parties may have rights to terminate the Implementation Deed if they cannot reach agreement as to an alternate method of implementing their commercial objectives within 5 business days.

Macmahon will confirm the status of all outstanding Conditions Precedent by way of announcements to ASX prior to the Meeting or, where no material update is available prior to the Meeting, at the Meeting. As at the date of this Notice, Macmahon is not aware of any circumstances which indicate that any of the outstanding Conditions Precedent (other than passage of the Resolution) will not be satisfied by the Relevant Date (although Macmahon can give no assurances that all such Conditions Precedent will be satisfied by the Relevant Date or at all).

Conditions Precedent	Party entitled to benefit	Party responsible	Date by which must be satisfied	Status
a. <b>FIRB approval</b> – for acquisition of Consideration Shares pursuant to AMNT Transaction	AMNT and Macmahon, (cannot be waived)	AMNT	Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	Satisfied – FIRB approval received on 5 May 2017
b. <b>Indonesian regulatory condition</b> – AMNT determines (following an announcement in the local and national mass media) that no local or national mining services company in Indonesia can carry out the services the subject of the Mining Services Contract	Macmahon and AMNT	AMNT	To be confirmed on each of the date on which AMNT first made the determination, the date of the Implementation Deed, the day prior to the Dispatch Date and the Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	This condition has been confirmed as at the date on which AMNT first made the determination, the date of the Implementation Deed and the day prior to the Dispatch Date. The final confirmation in respect of this condition will be given at or before the Meeting
c. <b>Indonesian legal opinion</b> – Macmahon obtaining an Indonesian legal opinion in a form satisfactory to it confirming that: <ol style="list-style-type: none"> <li>AMNT is entitled under Indonesian law to award the Mining Services Contract, conduct mining operations for the period of the Mining Services Contract, and sell (and transfer title to) the Mobile Equipment; and</li> <li>Macmahon Indonesia has all licences and authorisations required to enable it to perform the Mining Services Contract and to acquire title to the Mobile Equipment.</li> </ol>	Macmahon	Macmahon	To be confirmed on each of the date of the Implementation Deed, the day prior to the Dispatch Date and the Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	This condition has been confirmed as at the date of the Implementation Deed and the day prior to the Dispatch Date. The final confirmation in respect of this condition will be given at or before the Meeting

<b>Conditions Precedent</b>	<b>Party entitled to benefit</b>	<b>Party responsible</b>	<b>Date by which must be satisfied</b>	<b>Status</b>
d. <b>Escrow Deed</b> – Macmahon, AMC and the Custodian entering into an agreement whereby the Consideration Shares will be held by the Custodian for the Escrow Period	Macmahon, AMNT and AMC (cannot be waived)	Macmahon, AMNT and AMC	The Dispatch Date (or such later date as is acceptable to Macmahon)	Satisfied – The Escrow Deed was entered into on 5 June 2017 and is described at Section 4.4
e. <b>No Change of Control</b> – no third party acquiring voting power of more than 35% in Macmahon	Macmahon and AMNT	Not applicable	The Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	Pending (as at the Dispatch Date). Status to be confirmed at or before the Meeting. As at the last practicable date before finalisation of this Notice, to Macmahon's knowledge the substantial shareholders in Macmahon are as set out in Section 10.4 and no third party has voting power approaching 35%.
f. <b>Lender consents</b> – AMNT obtaining all consents required from its senior lenders, or otherwise required to permit it to sell unencumbered title to the Mobile Equipment to Macmahon Indonesia	AMNT and Macmahon (cannot be waived)	AMNT	Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	Pending (as at the Dispatch Date). AMNT has informed Macmahon that it is liaising with its senior lenders to obtain the required consents. Status to be confirmed at or before the Meeting
g. <b>Trakindo interest in Mobile Equipment</b> – AMNT acquires good title to all Mobile Equipment (or components of Mobile Equipment) currently held by the existing maintenance provider at Batu Hijau, PT Trakindo Utama, who may currently have an interest in certain components under retention of title or security for payment arrangements	Macmahon and AMNT	AMNT	Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	Pending (as at the Dispatch Date). AMNT has informed Macmahon that it is liaising with Trakindo to have this confirmed. Status to be confirmed at or before the Meeting
h. <b>Macmahon Indonesia licence amendment</b> – Macmahon Indonesia obtaining an amendment to its existing Indonesian in-principle business licence to the extent necessary to permit the acquisition of the Mobile Equipment and performance of obligations under the Mining Services Contract	Macmahon	Macmahon	Relevant Date (being the cut-off time for determining eligibility to vote at the Meeting)	Pending (as at the Dispatch Date). Macmahon has made application for the necessary amendment. Status to be confirmed at or before the Meeting
i. <b>Independent Expert's Report conclusion</b> – the Independent Expert concluding that the AMNT Transaction is either fair and reasonable or not fair but reasonable to Macmahon Shareholders (and maintaining that opinion up until the date of the Meeting)	Macmahon	Macmahon	Date of the Meeting	This condition is satisfied as at the date of this Notice of Meeting (see Independent Expert's Report at Annexure A). The ongoing status of this condition will be confirmed at the Meeting

## Explanatory Statement *continued*

Conditions Precedent	Party entitled to benefit	Party responsible	Date by which must be satisfied	Status
j. <b>Shareholder approval</b> – Macmahon Shareholders approving the Resolution at the Meeting	Macmahon (cannot be waived)	Macmahon	End Date (being 29 September 2017 or any later date agreed)	Pending (as at the Dispatch Date). Approval to be sought at the Meeting

### 1.5 Implications to Macmahon if the Resolution is not approved

#### a. AMNT Transaction

If the Resolution is not approved, the AMNT Transaction will not proceed.

The Implementation Deed provides that if the Resolution is not approved by 29 September 2017 (or such later date as may be agreed), the Implementation Deed may be terminated by Macmahon or AMNT if they cannot reach agreement as to an alternate method of implementing their commercial objectives within 5 business days.

The other agreements documenting the AMNT Transaction will not come into full effect if Completion does not occur under the Implementation Deed.

Even if the Resolution is approved at the Meeting, Shareholders should be aware that the AMNT Transaction may still fail if any other Condition Precedent is not satisfied or waived.

#### b. Projects

If the Resolution is not approved, or the AMNT Transaction otherwise fails (for example if one of the other Conditions Precedent is not satisfied or waived), the Board intends that Macmahon will continue to operate as it did before announcement of the AMNT Transaction. This includes pursuing other mining services contract opportunities, including as described in Macmahon's Target's Statement dated 27 February 2017.

However, the Board has considered Macmahon's current business model and determined that the AMNT Transaction represents the best opportunity currently available for the Company to expand its scale and reach of operations.

#### c. Financial impact on Macmahon if the AMNT Transaction does not proceed

If the AMNT Transaction does not proceed, Macmahon is not liable to pay a break fee to AMNT.

Should the AMNT Transaction not occur, the anticipated financial impact on Macmahon would be Macmahon's costs in respect of the AMNT Transaction, including advisory, legal, accounting, tax, expert and printing costs, which are estimated to be approximately \$2.0 million to \$2.5 million (exclusive of GST) in aggregate.

### 1.6 Expert Reports

#### a. Independent Expert's Report

To assist Shareholders to assess the AMNT Transaction and consider whether to vote in favour of the Resolution, Macmahon appointed the Independent Expert to prepare the Independent Expert's Report. The Independent Expert's Report annexes a copy of the Independent Valuer's Report (in respect of an independent valuation of the Mobile Equipment to be acquired by Macmahon Indonesia at Completion).

The Independent Expert has concluded that the AMNT Transaction is fair and reasonable to Macmahon Shareholders. Separately, the Independent Expert has concluded that Macmahon acquiring a relevant interest and voting power in itself under the AMNT Transaction (which is a technical, legal effect of the AMNT Transaction) is fair and reasonable to Shareholders.

The full Independent Expert's Report is set out in Annexure A. The Independent Expert's Report is an important document and Shareholders are encouraged to read it (and the Independent Valuer's Report) in full before deciding whether to vote in favour of the Resolution.

#### b. Investigating Accountant's Report

Macmahon has appointed KPMG Transaction Services to prepare an Investigating Accountant's Report in relation to the Pro forma Historical Statement of Financial Position (which pro forma is set out in Section 5.2) prepared by the Directors to show the impact of the AMNT Transaction on the historical financial position of Macmahon at 31 December 2016 as if the AMNT Transaction had occurred at that date. The Investigating Accountant's Report and accompanying Financial Services Guide is set out in Annexure B.

### 1.7 Directors' recommendation

After carefully considering all aspects, benefits and risks of the AMNT Transaction, the Independent Expert's Report and the Independent Valuer's Report, the Directors of Macmahon unanimously support the AMNT Transaction and each of them recommends that Shareholders **VOTE IN FAVOUR** of the Resolution in the absence of a superior proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable.

The Directors have formed this view for reasons including the following:

- a. While not guaranteed, the AMNT Transaction is expected to materially improve earnings and the diversity and scale of Macmahon's order book;
- b. The Independent Expert has concluded in the Independent Expert's Report that the AMNT Transaction is fair and reasonable to Macmahon Shareholders;
- c. The AMNT Transaction is expected to provide Macmahon with the opportunity to materially enhance its regional growth prospects;
- d. The AMNT Transaction is expected to provide increased balance sheet strength and flexibility;
- e. The Consideration Shares are being issued at an attractive valuation; and
- f. There has been a significant period of time and opportunity for a superior proposal to emerge. As at the date of this notice, no competing proposal has been received by Macmahon and the Directors are not aware of any superior proposal that is likely to be made.

Each Director intends to vote in favour of the Resolution in respect of any Macmahon Shares they hold or control, in the absence of a superior proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable.

Further detail regarding the above benefits is set out in Section 2 ("Key reasons to vote in favour of the AMNT Transaction"). Shareholders should, however, also consider the "Key reasons to vote against the AMNT Transaction" (at Section 3) and the "Risks Associated with the AMNT Transaction and Potential Mitigants" (at Section 7).



## Explanatory Statement *continued*

### 2. KEY REASONS TO VOTE IN FAVOUR OF THE AMNT TRANSACTION

Set out in this Section is information about the expected benefit of the AMNT Transaction. Your Directors believe the AMNT Transaction has the potential to be transformational for Macmahon and to position the company as a leading force in mining services.

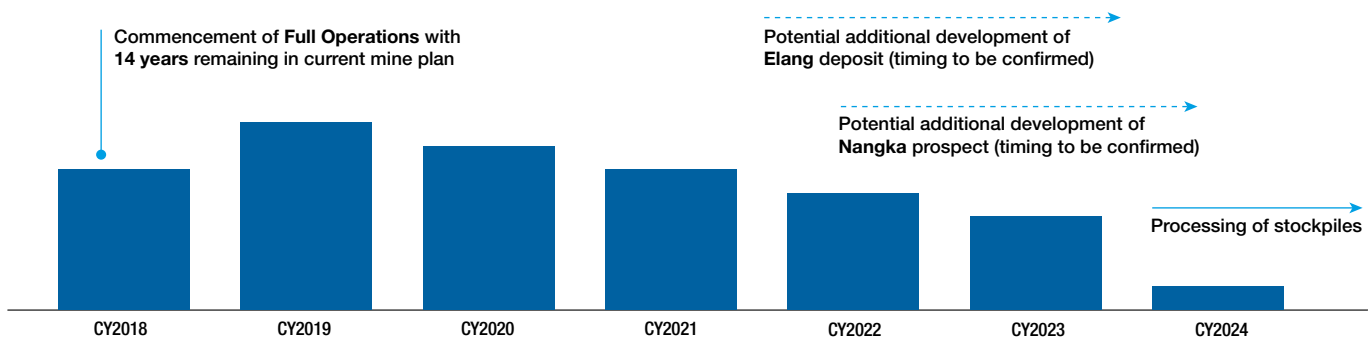
The expected benefits of the AMNT Transaction include improved earnings, increased scale and diversity of the order book, a strengthened balance sheet and improved growth prospects. More information about these expected benefits is set out in this Section 2. Of course, the AMNT Transaction is not without risks, and more information about these is set out in Section 7. However, on balance, the Board believes the transaction will deliver substantial value to Macmahon Shareholders, and therefore recommends that Shareholders support it.

#### 2.1 Unanimous Directors' Recommendation

The Directors unanimously recommend that you vote in favour of the Resolution and support the AMNT Transaction in the absence of a superior proposal, and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable.

Under the AMNT Transaction, Macmahon will be awarded a Mining Services Contract at the Batu Hijau Mine, a high quality, long term copper-gold mine. Macmahon expects to generate US\$2.9 billion in revenue over the life of the contract<sup>3</sup>, with US\$1.8 billion of that revenue expected to occur over the first 5 years from commencement of Full Operations.<sup>4</sup> There is also potential under the Mining Services Contract to extend the scope of work for AMNT beyond Batu Hijau to include the Elang deposit and Nangka prospect if they are developed. Elang is one of the world's largest undeveloped copper-gold porphyry deposits with estimated resources of 12.9 billion lbs copper and 19.7 million oz gold.<sup>5</sup> Further exploration and resource definition drilling is being undertaken at the Nangka prospect.

FIGURE 1: BATU HIJAU – TOTAL MATERIAL MINED PROFILE (Mt)



#### 2.2 The Independent Expert has concluded that the AMNT Transaction is fair and reasonable to, and significantly value accretive for, Macmahon Shareholders

The AMNT Transaction has been reviewed by the Independent Expert, Lonergan Edwards & Associates, who has assessed the valuation of Macmahon before and after the transaction. The Independent Expert's assessed portfolio interest value of Macmahon shares following implementation of the AMNT Transaction of \$0.198 per share (mid-point of \$0.187 – \$0.208 per share range) is greater than:

- the controlling interest value of Macmahon Shares prior to implementation of the AMNT Transaction of \$0.191 per Share (mid-point of \$0.180 – \$0.202 per Share range); and
- the portfolio interest value of Macmahon Shares prior to implementation of the AMNT Transaction of \$0.149 per Share (mid-point of \$0.140 – \$0.157).

The Independent Expert has therefore concluded that the AMNT Transaction is fair and reasonable to Shareholders in the absence of a superior proposal and that in the Independent Expert's view the "AMNT Transaction is significantly value accretive for Macmahon Shareholders".<sup>6</sup>

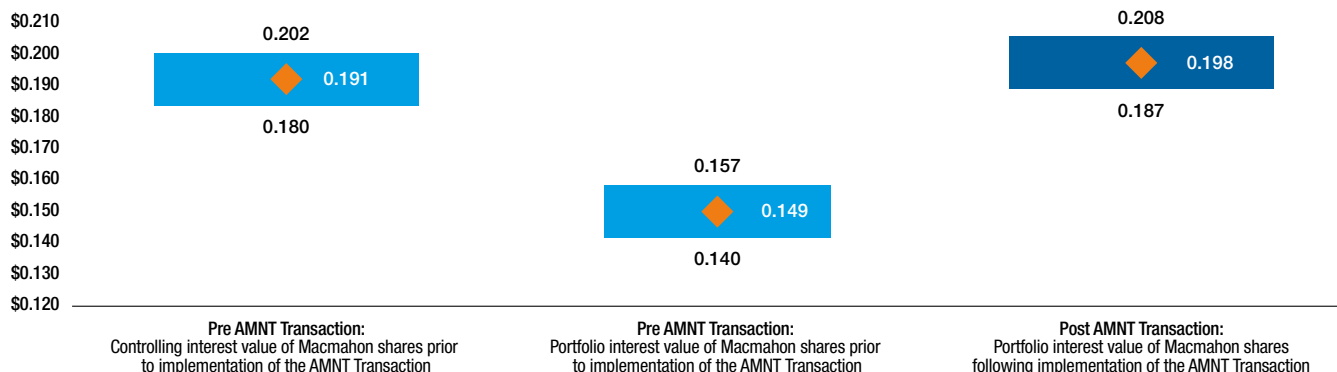
3. Refer to financial assumptions in Section 5.3 and risks in Section 5.6 and AMNT Transaction Risks and Potential Mitigants in Section 7. The expected revenue from the Mining Services Contract is based on Macmahon's internal pricing models, and was calculated by analysing AMNT's mine plan for Batu Hijau and estimating the total revenues for Macmahon (using a 'bottom-up' build-up of estimated costs and applying anticipated margins) in moving the quantities of material set out in that mine plan (see further at paragraph 179 of the Independent Expert's Report, which is attached as Annexure A).

4. Subject to implementation of the AMNT Transaction, Macmahon expects to commence the full scope of works at the Batu Hijau mining operations (i.e. Full Operations) from 1 March 2018, but this may be delayed. Commencement of Full Operations requires certain matters to be agreed or achieved during Phase 1 of the Mining Services Contract.

5. Sourced from PT Medco Energi Internasional Tbk company website, see <http://www.medcoenergi.com/en/our-operation/nr/page/gold>

6. See paragraph 14 and 199 of the Independent Expert's Report, which is attached as Annexure A. It is an important document and you are encouraged to read it in full.

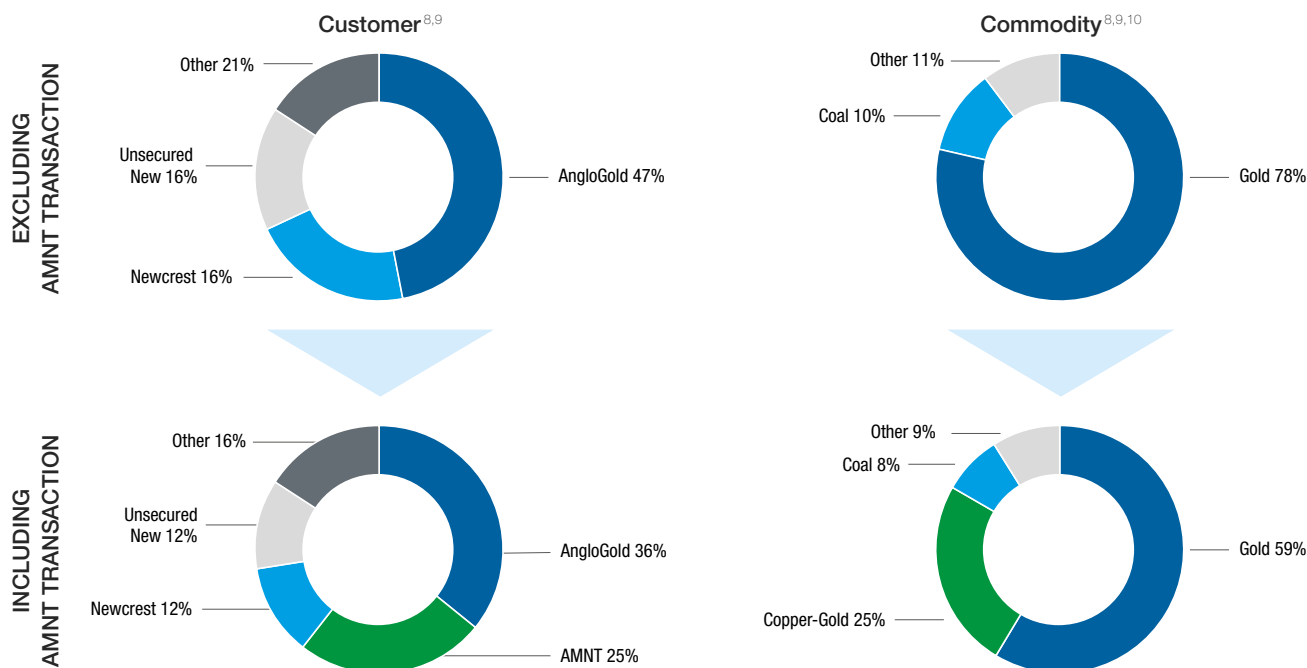
FIGURE 2: INDEPENDENT EXPERT'S VALUATION COMPARISON



**2.3 Expected to significantly improve scale and diversification of order book**

The AMNT Transaction would result in a significant increase in Macmahon’s order book (4.2x existing order book) by adding an expected US\$2.9 billion over the anticipated 14-year life of mine at the Batu Hijau Mine,<sup>7</sup> and would increase the diversity of the order book across customers, commodities and geographies.

FIGURE 3: FORECAST FY2018 REVENUE: PRE AND POST AMNT TRANSACTION



7. Based on an existing order book of A\$1.2 billion as at 31 March 2017, an indicative order book for Batu Hijau of US\$2.9 billion and an AUD:USD exchange rate of 0.7518. The expected revenue from the Mining Services Contract is based on Macmahon’s internal pricing models, and was calculated by analysing AMNT’s mine plan for Batu Hijau and estimating the total revenues for Macmahon (using a ‘bottom-up’ build-up of estimated costs and applying anticipated margins) in moving the quantities of material set out in that mine plan (see further at paragraph 179 of the Independent Expert’s Report, which is attached as Annexure A).

8. All ‘Unsecured New’ figures include potential revenue from the Byerwen Coal Mine contract where Macmahon has been selected as preferred contractor but a contract has not been executed – refer to FY2018 Guidance assumptions in Section 5.3 and risks in Section 5.6.

9. Based on assumed FY2018 revenue from the Batu Hijau contract of A\$160m at an exchange rate of AUD:USD 0.7518.

10. Revenue generated from Batu Hijau is categorised as Copper-Gold. Contracts categorised as Gold revenue may also include production of other metal by-products.

## Explanatory Statement *continued*

### 2.4 Substantially improves forecast earnings

Updated FY2018 Guidance of \$620 – \$680 million of revenue and \$40 – \$50 million of EBIT,<sup>11</sup> with the full benefit of the Mining Services Contract only expected to be realised in FY2019 following ramp up to Full Operations.

TABLE 1: GUIDANCE SUMMARY – FY2018

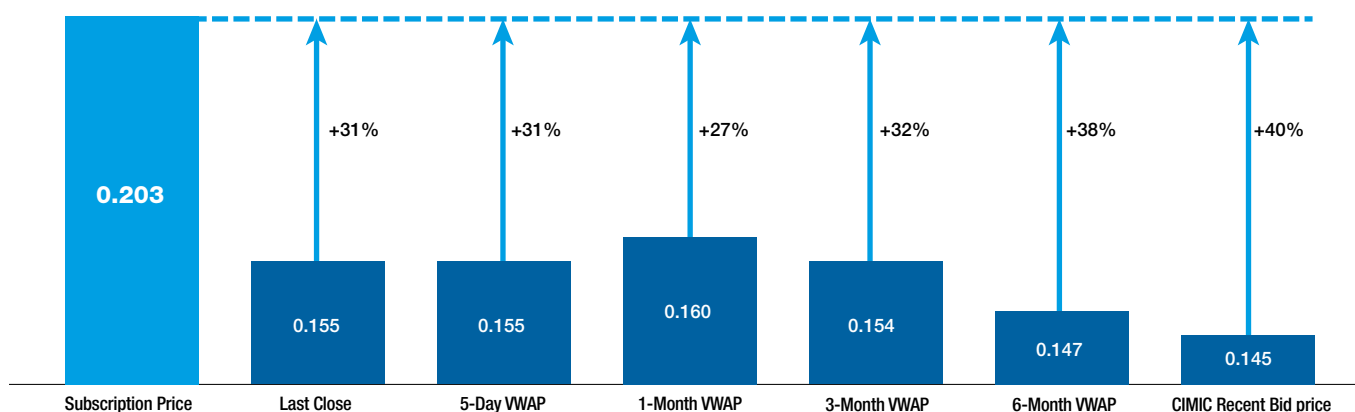
Guidance Summary (A\$m)		FY2018 Excl. AMNT	H1 FY2018 AMNT Impact (Midpoint)	H2 FY2018 AMNT Impact (Midpoint)	FY2018 Incl. AMNT
Earnings	Revenue	470 – 510	20	140	620 – 680
	EBITDA	67 – 75	18	30	112 – 125
	EBIT	30 – 35	2	11	40 – 50
	% EBIT margin	6.4% – 6.9%	10.0%	7.9%	6.5% – 7.4%
Capital Expenditure	Existing contracts:				
	- Stay in business	27.7	-	-	27.7
	- Expansion	-	-	-	-
	New contracts	60.5	193.7	5.0	259.2
	Total capital expenditure	88.2	193.7	5.0	286.9

**Note:** For FY2018 Guidance it is assumed that, following satisfaction of waiver or relevant conditions, the AMNT Transaction will complete during July 2017 and Phase 1 of the Mining Services Contract (the ramp up period) will commence on 1 August 2017. The Phase 1 ramp up will continue until 1 March 2018 at which point Macmahon will commence the full scope of mining at Batu Hijau (Full Operations). See Section 5.3 for full details. AMNT Impact figures refer to the midpoint of earnings guidance.

### 2.5 Attractive subscription price

The AMNT Transaction subscription price of \$0.203 per share is above the top end of the Independent Expert's valuation range of \$0.180 to \$0.202 (on a controlling interest basis prior to the AMNT Transaction), a 27% premium to the 1-month VWAP and a 40% premium to CIMIC's recent (expired) A\$0.145 takeover offer.<sup>12</sup>

FIGURE 4: SUBSCRIPTION PRICE AND PREMIUM TO HISTORICAL TRADING



11. Refer to FY2018 Guidance, together with assumptions (and sensitivity analysis) in Section 5.3 and risks in Section 5.6.

12. Subscription price exceeds the Independent Expert's valuation range of \$0.180 to \$0.202 for Macmahon on a controlling interest basis prior to the AMNT Transaction as set out in the Independent Expert's Report attached to this Notice as Annexure A. Last close and VWAPs on ASX calculated as at 3 May 2017, the last Macmahon trading day prior to announcement of the execution of binding documentation in respect of the AMNT Transaction. The Subscription price represents a premium of 31% to the ASX closing price of Macmahon Shares of \$0.155 on Tuesday, 6 June 2017, being the last practicable date prior to the finalisation of this Notice. CIMIC Group Investment Pty Ltd's recent cash bid of \$0.145 per share close on 9 March 2017.

## 2.6 Expected to improve Asian growth prospects

Macmahon has successfully operated in Indonesia since 2008 and has existing projects at Martabe and Lhoknga. The AMNT Transaction would build on Macmahon's existing successful Indonesian operating experience and provide further South-East Asian growth prospects, including the potential to extend the scope of work for AMNT beyond Batu Hijau to include the Elang deposit and Nangka prospects if they are developed.

## 2.7 New supportive major shareholder and strategic alliance partner

Introduces a supportive major shareholder as a strategic alliance partner with agreed protocols for its participation in Macmahon's decision making.<sup>13</sup> AMC, AMNT, API and their related bodies corporate have agreed to support Macmahon in seeking further mining services opportunities.<sup>14</sup>

## 2.8 Improved balance sheet strength and expected financing flexibility

Adds significant balance sheet strength and increased cashflows that may assist in tendering for future work, particularly large projects. Net assets would increase to \$378 million<sup>15</sup> based on the addition of US\$145.6 million of equipment and increased earnings are expected almost immediately following completion, with expected revenue from the AMNT Transaction per FY2018 Guidance of \$150 – \$170 million.<sup>16</sup>

## 2.9 Risk management mechanisms agreed

Under the Mining Services Contract, payments to Macmahon for mining services will be made prior to the beginning of each month on a 'cost plus' basis.<sup>17</sup> Any negative adjustments under the downside sharing arrangement will be limited to Macmahon's margin if costs are more than expected, which limits exposure for Macmahon for any unexpected cost overruns.

AMC's Consideration Shares will be held in escrow for at least 30 months by an Australian professional custodian with the potential for these shares to be bought back if the Mining Services Contract is terminated.<sup>18</sup>

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13. AMNT and AMC are parties to the Alliance Agreement which gives AMC the right to appoint up to 2 nominee directors, but contains other provisions regarding the composition of the Board and principles of cooperation – see further discussion of this agreement at Section 4.3. The AMC nominee directors will be subject to the Nominee Conflict and Confidentiality Protocol – see further discussion of this at Section 4.6.

14. There is no guarantee that further contracts will arise for Macmahon or that any such contracts will be profitable.

15. See Section 5.1 for Pro Forma Historical Statement of Financial Position as at 31 December 2016 together with basis of preparation.

16. Refer to FY2018 Guidance, together with assumptions (and sensitivity analysis) in Section 5.3 and risks in Section 5.6.

17. See a discussion of the Mining Services Contract at Section 4.2.

18. See a discussion of the Escrow Deed at Section 4.4.

## Explanatory Statement *continued*

### 3. KEY REASONS TO VOTE AGAINST THE AMNT TRANSACTION

Set out below are some key reasons you may wish to vote against the AMNT Transaction. You should also note that there are a number of risk factors which will apply to your holdings of Shares if the AMNT Transaction occurs (assuming the Resolution is approved). Section 7 of this Explanatory Statement and paragraph 14 of the Independent Expert's Report set out some of those risks.

#### 3.1 You may disagree with the unanimous Directors' recommendation or the Independent Expert's conclusion.

You may disagree with the unanimous recommendation of the Directors, who have recommended that Macmahon Shareholders vote in favour of the Resolution and support the AMNT Transaction in the absence of a superior proposal, and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable.

Similarly, you may disagree with the conclusion of the Independent Expert, who has concluded that the AMNT Transaction is fair and reasonable to Shareholders, in the absence of a superior proposal.

#### 3.2 You may believe that there is potential for a superior proposal to be made in the foreseeable future and the implementation of the AMNT Transaction significantly reduces the likelihood of this occurring.

If implemented, the AMNT Transaction will result in AMC receiving a 44.3% shareholding in Macmahon which may reduce the probability in the future of any control transaction proposal being received by Macmahon, as it is unlikely that any party can achieve control without the support of AMC.

However, since the initial announcement of the non-binding HOA on 1 March 2017 and the announcement on 8 May 2017 of the binding documentation being signed in respect of the AMNT Transaction, there has been a significant period of time and opportunity for a superior proposal to emerge. As at the date of this Notice of Meeting, no competing proposal has been received by Macmahon and the Directors are not aware of any superior proposal that is likely to be made.

#### 3.3 You may prefer Macmahon's current ownership structure, and not want AMC (who will acquire a significant shareholding in Macmahon and have rights to nominate two directors to the Board) to have significant influence over Macmahon.

Following the implementation of the AMNT Transaction, AMC is expected to have a 44.3% interest in Macmahon. Based on Macmahon's share register and historical turnout to Shareholder meetings, this will afford AMNT effective control of Shareholder resolutions. Despite this effective control of Shareholder resolutions and its Board representation, AMC and its two shareholders have stated that their intentions are to allow Macmahon to continue to operate as an independent company to maximise value for all of Macmahon's Shareholders. In addition, AMC is a party to the Alliance Agreement which contains provisions regarding the composition of the Macmahon Board; and the AMC nominee directors will be subject to the Nominee Conflict and Confidentiality Protocol.<sup>19</sup>

#### 3.4 You may prefer to participate in the future financial performance of Macmahon without the dilution of the AMNT Transaction.

The AMNT Transaction will result in 954,064,924 new Macmahon Shares being issued to AMC.<sup>20</sup> This will represent 44.3% of the expanded Shares on issue and result in material dilution to existing Macmahon Shareholders. You may want to vote against the Resolution to preserve your investment in Macmahon Shares without dilution and therefore to maintain your exposure to Macmahon's existing business without the AMNT Transaction.

#### 3.5 You may consider the AMNT Transaction will introduce risks to Macmahon which are not acceptable to you, or you may wish to maintain an investment in an entity with the specific risk characteristics of Macmahon without the AMNT Transaction.

If implemented, the AMNT Transaction will introduce a number of new specific risks as outlined in Section 7. You may not want to introduce exposure to these risks and the resulting different overall investment risk profile of Macmahon following the implementation of the AMNT Transaction. You may wish instead to preserve your investment in Macmahon Shares with Macmahon's existing risk profile. You should seek investment, legal or other professional advice in relation to your own circumstances.

19. See further discussion of the Alliance Agreement at Section 4.3, and of the Nominee Conflict and Confidentiality Protocol at Section 4.6.

20. Initially these Consideration Shares will be held by the Custodian pursuant to the terms of the Escrow Deed – see discussion at Section 4.4.

## 4. MATERIAL TRANSACTION DOCUMENTS

The key documents signed to implement the AMNT Transaction are as follows:

- the Mining Services Contract;
- the Implementation Deed;
- the Alliance Agreement; and
- the Escrow Deed.

This Section summarises those documents, together with the proposed terms of appointment of AMC nominees to the Macmahon Board (being the Proposed Directors) and the Nominee Conflict and Confidentiality Protocol that they will be subject to.

### 4.1 Summary of the Implementation Deed

Macmahon, Macmahon Indonesia, AMNT, API and AMC are parties to the Implementation Deed<sup>21</sup> which sets out the terms and conditions pursuant to which:

- AMNT agrees to sell the Mobile Equipment to Macmahon Indonesia;
- Macmahon Indonesia requests Macmahon to issue the Consideration Shares (in consideration for Macmahon Indonesia's acquisition of the Mobile Equipment);
- AMNT directs Macmahon to issue the Consideration Shares to the Custodian to hold on escrow for AMNT's appointee, AMC;<sup>22</sup> and
- to the extent permitted by Indonesian law, AMNT will engage Macmahon Indonesia to provide certain mining services at the Batu Hijau Mine pursuant to the terms of the Mining Services Contract.

On the Completion Date, AMC will be owned by AMNT (as to 65%) and by API (as to 35%). Further information in relation to both AMNT and API is set out at Section 8.

#### a. Conditions Precedent

The transactions contemplated by the Implementation Deed will not take effect until certain Conditions Precedent are satisfied or waived. Those Conditions, and the status of each of them, is set out at Section 1.4 above.

#### b. Consideration

In return for Macmahon issuing the Consideration Shares to AMC,<sup>22</sup> Macmahon Indonesia will reimburse Macmahon by way of intra-group loan agreements, with each loan agreement to be entered into on Completion.

#### c. Mobile Equipment

The Mobile Equipment is the mobile mining equipment currently used by AMNT at the Batu Hijau Mine, including Hitachi mining shovels, caterpillar 793 dump trucks, Caterpillar dozers/bulldozers and wheel dozers and well as numerous other assets necessary for the provision of the services under the Mining Services Contract. The Mobile Equipment has all been the subject of a due diligence review by Macmahon and has been independently valued by the Independent Valuer.

On the business day prior to Completion, Macmahon and AMNT will undertake a stocktake of the Mobile Equipment. To the extent that any Mobile Equipment is found to be missing, substantially damaged or encumbered, AMNT must replace such Mobile Equipment at no cost to Macmahon or, if it is not replaced to Macmahon's satisfaction, Macmahon Indonesia may replace it and any expense incurred may be recovered from AMNT in accordance with the terms of the Mining Services Contract.

#### d. Pre-Completion obligations

- (Macmahon) Macmahon must take all necessary steps to implement the AMNT Transaction, including (amongst other things) by providing AMNT with access to its records, carrying on its business in the ordinary and usual course and ensuring that no "prescribed event" occurs between signing of the Implementation Deed and Completion. A "prescribed event" includes Macmahon converting its share capital, or Macmahon (or its subsidiaries) reducing or buying-back its share capital; issuing or entering into an agreement to issue shares or options (other than on exercise of Macmahon Performance Rights); issuing or agreeing to issue convertible notes; disposing or agreeing to dispose of a substantial part of its business or property; encumbering or agreeing to encumber a substantial part of its business or property; or resolving to be wound up, unless AMNT consents in writing to the occurrence of the relevant event.

21. A copy of the Implementation Deed (redacted for certain schedules and annexures) was released by Macmahon to ASX on 8 May 2017.

22. The Shares will be held by the Custodian for the Escrow Period. See Section 4.4.

## Explanatory Statement *continued*

- ii. **(AMNT and API)** AMNT and API must both take all necessary steps to implement the AMNT Transaction, including (amongst other things) taking all necessary steps to satisfy the FIRB Condition Precedent<sup>23</sup> (refer Section 1.4); providing all assistance and information reasonably requested by Macmahon Indonesia's legal counsel in relation to the preparation of the Indonesian legal opinion (refer to Section 1.4); providing all assistance and information required by the Independent Expert, the Independent Valuer and the Investigating Accountant; immediately informing Macmahon if it becomes aware that any of the material provided by it for inclusion in this Notice is misleading or deceptive; maintaining, adequately insuring and not otherwise encumbering the Mobile Equipment; providing Macmahon with reasonable access to the Batu Hijau Mine site and AMNT's representatives and records; and carrying on its business at Batu Hijau Mine in the ordinary and usual course.

### **e. Liabilities and indemnities**

Neither Macmahon nor Macmahon Indonesia assumes any liability:

- i. in respect of liabilities incurred or arising prior to Completion;
- ii. of AMNT or its related bodies corporate in respect of any breach or non-performance by them of any contract, obligation or applicable law;
- iii. in respect of any tax relating to the Mobile Equipment which is deemed for tax purposes to have occurred prior to Completion; or
- iv. of AMNT or its related bodies corporate to pay any amounts owing by them to a creditor as at Completion for goods and services supplied in relation to the Mobile Equipment.

All parties have given usual warranties regarding their capacity and standing. In addition, AMNT has given certain sale warranties to Macmahon and Macmahon Indonesia regarding the Mobile Equipment.

Macmahon indemnifies AMNT against all loss suffered by AMNT which arises from, or is incurred in connection with, any breach by Macmahon of the warranties given by it under the Implementation Deed.

Each of AMNT, API and AMC indemnify both Macmahon and Macmahon Indonesia against any loss suffered by them which arises from, or is incurred in connection with, any breach of the warranties given by AMNT, API and AMC (as applicable) under the Implementation Deed.

### **f. Escrow and Cessation Amount**

The Implementation Deed includes a Condition Precedent that the parties enter into an escrow deed with an Australian professional custodian who would hold the Consideration Shares (under an escrow arrangement) for at least 30 months from Completion. This Condition Precedent was satisfied by the execution of the Escrow Deed with the Custodian on 5 June 2017. The Escrow Deed is discussed further at Section 4.4.

### **g. Termination**

Where a Condition Precedent listed in Section 1.4 above is not fulfilled or waived by the applicable date, Macmahon and AMNT must meet in good faith to determine whether the AMNT Transaction may proceed by way of alternative means and may agree to extend the Dispatch Date, Relevant Date or the End Date (as appropriate). If no agreement can be reached within 5 business days, the party entitled to the benefit of the relevant Condition Precedent may terminate the Implementation Deed.

Either Macmahon or AMNT may terminate the Implementation Deed if, at any time prior to 8.00am on the date of Completion, the other party is in material breach of the Implementation Deed and that breach is not remedied within 10 business days (or such shorter period ending on the End Date) of receipt of notice requesting that such breach be remedied.

### **h. Dispute resolution**

Any dispute arising under the Implementation Deed is to be referred to specified senior management representatives of the relevant parties for resolution, prior to any party commencing arbitration proceedings. Any arbitration will be conducted in Singapore in accordance with the rules of the Singapore International Arbitration Centre.

### **i. Governing law**

The Implementation Deed is governed by the laws of Western Australia, except in relation to a dispute which is referred to and resolved by arbitration, as outlined in Section 4.1(h) above. However, this does not prevent a party seeking interim or urgent relief through the Western Australian courts in relation to the dispute which is the subject of arbitration.

A complete conformed copy of the Implementation Deed, redacted only so as to remove certain schedules and the annexed Mining Services Contract, was attached to Macmahon's announcement to ASX entitled "Macmahon signs binding documentation for AMNT transaction" released on 8 May 2017.

23. AMC received FIRB approval in respect of the AMNT Transaction on 5 May 2017.

## 4.2 Summary of the Mining Services Contract

Subject to and with effect from Completion, a life of mine, alliance style mining services contract for the Batu Hijau Mine in Indonesia will become effective between Macmahon Indonesia and AMNT. A summary of the key terms of the Mining Services Contract is set out below.

### a. Scope of works

The scope of works (which will be refined and finalised during the period of up to 12 months from the commencement date of the Mining Services Contract (**Phase 1**)) is expected to include the preparation of short-term mine plans and material scheduling, drilling and blasting operations, loading and hauling of waste, rehabilitation work, dewatering, wall-maintenance and leasing of equipment, facilities, manpower and associated services.

During Phase 1 of the Mining Services Contract, Macmahon Indonesia will mobilise to site, employ workers and the parties will agree on target costs and production levels. Macmahon Indonesia will then commence the full scope of works during the remainder of the term of the Mining Services Contract (**Phase 2 or Full Operations**).<sup>24</sup>

Importantly, the services under the Mining Services Contract will extend to any other mineral prospects that are developed in the same mining area as the Batu Hijau Mine by AMNT, or any related body corporate of AMNT, including, without limitation, the Elang and Nangka prospects (each an **Other Mine**). For each Other Mine that is developed by a related body corporate of AMNT, AMNT must procure that the related body corporate enters into a contract with Macmahon Indonesia or its nominee in relation to the Other Mine on the same terms as the Mining Services Contract (with only minimal changes as are necessary to replace references to the Batu Hijau Mine with references to the Other Mine).

### b. Pricing and payments

Payments to Macmahon will be based on a 'cost-plus' structure in which the actual costs incurred by Macmahon in performing the work (except for some limited types of excluded costs) will be reimbursed, together with a margin. Payment will be made prior to the beginning of each month, including for equipment depreciation costs which will be charged regardless of whether the equipment is being used.

During Full Operations, the margin will be based on the higher of a pre-agreed return on capital, or a margin on costs metric. During Full Operations there is also the potential for further upside or downside sharing (subject to a floor on the downside at nil contract margin) dependent on performance against annual cost and production targets. The details of the return on capital, margin on costs metrics and further details of the upside and downside sharing mechanism have been determined based on Macmahon's experience and broader industry accepted levels.

All invoices under the contract will be stated and payable in Indonesian rupiah. However, the Mining Services Contract provides for cost targets and the Cessation Amount to be adjusted based on movements in the IDR:USD exchange rate.

### c. Variations

During the term of the contract, variations may be directed by AMNT. A variation, together with other specified events, entitles Macmahon Indonesia to seek an adjustment of the relevant annual cost and production targets, with the adjustment being determined by the alliance leadership team.

### d. Alliance leadership team

The parties will form an alliance leadership team, with equal membership from both parties, which will (amongst other things) facilitate discussions regarding performance of the Mining Services Contract services, and monitor and determine performance against contract targets.

### e. Term

The term of the Mining Services Contract expires on the later of the end of life of the Batu Hijau Mine and the end of life of any Other Mine to which the Mining Services Contract applies, unless terminated earlier in accordance with the terms of the Mining Services Contract.

### f. Assignment and sub-contracting

Macmahon Indonesia must not assign all or any part of its rights and obligations without the prior written approval of AMNT. Macmahon Indonesia may not engage a sub-contractor to perform all or any part of the works under the Mining Services Contract without the prior written approval of AMNT, which consent must not be unreasonably withheld.

### g. Termination

The Mining Services Contract may be terminated:

- i. by either party, by notice in writing where the parties fail to agree on the refinements to the scope of works for Full Operations, the mine plan, or the cost or production targets for the first Full Operations year by the first anniversary of the commencement date;
- ii. by either party, by notice in writing where the annual production schedule for a Full Operations year is not approved by the alliance leadership team prior to the end of the first quarter of that Full Operations year;
- iii. by AMNT on 30 days' notice, if AMNT has directed Macmahon Indonesia to suspend its services, and the suspension continues for a period of 6 consecutive months;

24. In its Guidance for FY2018 relating to the Batu Hijau contract, Macmahon has assumed that Full Operations will commence on 1 March 2018. Commencement of Full Operations requires certain matters to be agreed or achieved during Phase 1 of the Mining Services Contract.



## Explanatory Statement *continued*

- iv. by either party, by notice in writing where a party cannot perform its obligations under the Mining Services Contract due to a force majeure event for a period of 6 consecutive months, despite its reasonable endeavours to do so;
- v. by either party on 60 days' notice where the other party commits a material breach of the Mining Services Contract and fails to remedy such breach within 30 days' of written notice requiring the defaulting party to remedy the breach;
- vi. by either party immediately, where the other party is subject to an insolvency event;
- vii. by either party on 60 days' notice where the other party is subject to a change of control;
- viii. by Macmahon Indonesia, if AMNT fails to make an undisputed payment under the Mining Services Contract; or
- ix. by AMNT on 60 days' notice, where during a 12 month period during Full Operations, the total actual costs payable to Macmahon Indonesia in performing its obligations under the Mining Services Contract exceed the total target costs plus the agreed downside cap for that period.

### h. Cessation Amount

If the Mining Services Contract is terminated for any reason then AMNT will (following notice from Macmahon Indonesia) be required to pay a Cessation Amount to Macmahon Indonesia. This Cessation Amount is the sum of:

- i. a fixed amount which reduces to nil over a 5 year period; and
- ii. the then written down value of any plant and equipment assets that may have been acquired by Macmahon Indonesia for the project after the commencement date of the Mining Services Contract.

Upon receipt of the Cessation Amount, Macmahon Indonesia must transfer ownership of its plant and equipment used at the site to AMNT.

### i. Governing law

The Mining Services Contract is governed by the laws of the Republic of Indonesia.

### j. Dispute resolution

Where the alliance leadership team cannot resolve a dispute, the dispute shall be settled by non-appealable arbitration in Singapore in English pursuant to the Singapore International Arbitration Centre rules (other than disputes related to certain technical matters that must be referred to an expert for determination).

## 4.3 Summary of the Alliance Agreement

As described in Section 4.1 above, subject to Completion under the Implementation Deed, Macmahon will issue the Consideration Shares to AMNT's subsidiary, AMC,<sup>25</sup> in consideration for AMNT selling the Mobile Equipment to Macmahon Indonesia.

Each of Macmahon, AMNT, API and AMC are parties to the Alliance Agreement<sup>26</sup> which regulates the matters set out below. The Alliance Agreement does not become binding on the parties unless and until Completion occurs.

### a. Board representation

- i. **(Nominee directors)** For so long as AMNT and API (in aggregate) have voting power in Macmahon which is not less than 35%, AMC may nominate 2 nominee directors of Macmahon; and where AMNT and API's aggregate voting power is not less than 15% and not more than 35%, AMC may nominate 1 nominee director of Macmahon.

Where AMNT and API's aggregate voting power in Macmahon falls below a relevant threshold, AMC must procure that the nominee director(s) immediately resign without any entitlement to compensation for loss of office.<sup>27</sup> If either AMNT or API is in material breach of the Alliance Agreement (other than in respect of the principles of cooperation), and that breach is not remedied within 30 business days, AMC's right to nominate Macmahon directors immediately ceases. All rights to nominate nominee directors will permanently lapse if AMNT and API's aggregate voting power falls below 5% at any stage.

- ii. **(Initial appointment of nominee directors)** Subject to Completion, and each AMC nominee director being acceptable to the Board, Macmahon will appoint each AMC nominee director as a director of Macmahon.<sup>28</sup>
- iii. **(Replacement of nominee directors)** If an AMC nominee director resigns or otherwise lawfully ceases to be a director, AMC may nominate an alternative person to be an AMC nominee director (subject to the thresholds referred to in Section 4.3(a)(i) above).
- iv. **(Ongoing constitution of Board)** No AMC nominee director may serve as Chairman of the Board; and for the duration of the Alliance Agreement, the majority of the Board must comprise independent directors. AMNT, API and AMC must also procure that each AMC nominee director complies with the Nominee Director Conflict and Confidentiality Protocol (which is discussed at Section 4.6 below).
- v. **(Rights as shareholder preserved)** The Alliance Agreement does not preclude AMC, AMNT or API from exercising any rights in respect of Shares held (in accordance with the Constitution and the Corporations Act) except to the extent that such exercise would result in a breach of an express term of the agreement; or nominating or recommending any person for appointment or election as a director of Macmahon.

25. The Shares will be held by the Custodian for the Escrow Period. See Section 4.4.

26. A copy of the Alliance Agreement was released to ASX by Macmahon on 8 May 2017.

27. Nomination rights will revive if voting power subsequently increases above the relevant threshold.

28. The two new Proposed Directors are discussed at Section 8.9.

#### **b. Principles of cooperation**

As soon as practicable following Completion, and for so long as AMNT and API have aggregate voting power in Macmahon of at least 15%, the parties agree to assist and support each other in the following ways:

- i. **(Development and growth in Indonesia and Asia)** AMNT and API will assist Macmahon, to the extent they are reasonably capable of doing so, in its development and growth in Indonesia and Asia by providing access to resources, information and personnel to plan, manage and control its existing operations and develop and pursue a growth strategy for future operations;
- ii. **(Partner of choice)** Subject to any obligations AMNT and API have at law with respect to engagement of local service providers, each of AMNT and API will treat Macmahon as their partner of choice in all other mining activities they undertake and will give Macmahon a first right of refusal in relation to providing mining services for such activities;
- iii. **(Provision of mining services in Indonesia and Asia)** AMNT and API will assist Macmahon, to the extent they are reasonably capable of doing so, in identifying and pursuing opportunities to provide mining services in Indonesia and Asia, including by assisting Macmahon to identify and approach prospective clients;
- iv. **(Potential acquisitions)** AMNT and API will assist Macmahon, to the extent they are reasonably capable of doing so, to identify opportunities for the potential acquisitions of businesses in Australia, Indonesia and Asia and undertake due diligence and identify sources of funding in respect of those potential acquisitions; and
- v. **(PT Medco Mining and PT Ithaca Resources)** AMNT and API will facilitate discussions between Macmahon and certain other Indonesian companies (PT Medco Mining and PT Ithaca Resources) in relation to the potential award of mining services contracts from those entities to Macmahon Indonesia.

These arrangements will not oblige any of Macmahon, AMNT or API to breach an agreement with a third party, incur any material expense or liability, enter into any agreement with a third party, or provide any guarantee or indemnity, and these arrangements will not apply to the extent they are contrary to any applicable laws.

#### **c. Procedure for orderly market sale of Consideration Shares**

On expiry of the Escrow Period, and while AMNT and API have aggregate voting power in Macmahon which is not less than 5%, AMNT, API and AMC each agree that:

- i. they will not sell, grant any option, or otherwise dispose of any interest in any Consideration Shares, if the number of Consideration Shares it would dispose of (when aggregated with all disposals during the previous 12 months) would be more than 10% of the total issued share capital of Macmahon;
- ii. they will give written notice to Macmahon of any intention to sell any Consideration Shares, specifying the price per Share and number of Shares to be sold (which cannot exceed the 10% limit described above); and
- iii. if Macmahon gives notice of an alternative buyer who will buy the relevant Consideration Shares for a price not less than that specified in the notice, AMC must sell the Consideration Shares to such alternative buyer.

These restrictions do not apply to a disposal of Consideration Shares by way of acceptance of a bona fide takeover offer under Chapter 6 of the Corporations Act; pursuant to a scheme of arrangement; or by way of off-market disposal of all of the Consideration Shares to a related body corporate of AMC.

#### **d. Termination**

The rights and obligations of the parties under the Alliance Agreement terminate on the earliest to occur of (i) the date on which a person, other than AMNT (or its subsidiaries), API (or its subsidiaries) or their respective associates obtains voting power of more than 50% in Macmahon; (ii) the date on which AMNT holds less than 5% voting power in Macmahon; or (iii) the date the Alliance Agreement is terminated by agreement between the parties.

#### **e. Dispute resolution**

The provisions of the Implementation Deed relating to dispute resolution apply to the Alliance Agreement.

#### **f. Governing law**

The Alliance Agreement is governed by the laws of Western Australia, except in relation to a dispute which is referred to and resolved by arbitration (as discussed at Sections 4.1(h) and 4.1(i) above).

By technical operation of Chapter 6 of the Corporations Act, the orderly sale arrangements under the Alliance Agreement and the provisions of the Escrow Deed could, from Completion, cause Macmahon to have a relevant interest in excess of 20% of all Macmahon Shares (from time to time) such that it would exceed the 20% voting power threshold contemplated by section 606(1) of the Corporations Act. In addition, the provisions of the Alliance Agreement relating to the ongoing composition of the Macmahon Board could result in Macmahon being deemed to be an associate of the AMNT Parties.

## Explanatory Statement *continued*

This is because these arrangements contemplate that Macmahon would have certain powers to control (by restriction) AMC's exercise of the power to dispose of the Consideration Shares, or evidence a relevant agreement to influence the composition of the Macmahon Board. For this reason, the Resolution also seeks approval from Shareholders for Macmahon to acquire a relevant interest in the Consideration Shares for these purposes.

Please refer to Section 12 for further information.

### 4.4 Summary of the Escrow Deed

As described in Section 1.1 above (and in satisfaction of the "Escrow Deed" Condition Precedent referred to at Section 1.4 above), Macmahon, Macmahon Contracting International Pte Ltd, Macmahon Contractors Pty Ltd, AMC and the Custodian have on 5 June 2017 entered into the Escrow Deed. Pursuant to this, at Completion, the Consideration Shares will be issued to the Custodian to be held on escrow for the initial Qualifying Period (of 30 months following Completion). This escrow period may be extended for up to another 12 months if a Trigger Event occurs within that Qualifying Period. The aggregate of the Qualifying Period, and any such further period of up to 12 months, are collectively referred to as the "**Escrow Period**".

If no Trigger Event occurs during the Qualifying Period, the Consideration Shares will pass absolutely from the Custodian to AMC following the end of the 30 month Qualifying Period.

#### a. Obligations of Macmahon

On the Completion Date, Macmahon must issue the Consideration Shares in accordance with the Implementation Deed to the Custodian. If a Trigger Event occurs during the Qualifying Period, Macmahon must give notice of this to the Custodian.

#### b. Obligations of the Custodian

During the Escrow Period, the Custodian will hold the Consideration Shares as custodian for AMC (subject to a holding lock) until all of the Consideration Shares are released from escrow and either transferred to AMC or bought-back and cancelled by Macmahon (or otherwise dealt with in accordance with the deed).

#### c. Rights attaching to Consideration Shares

- i. During the Escrow Period, the Custodian will forward AMC a copy of all notices and other correspondence received in respect of the Consideration Shares.
- ii. AMC may direct the exercise of any voting rights attaching to the Consideration Shares by giving written instructions to the Custodian, subject to the occurrence of a Trigger Event (on and from the occurrence of a Trigger Event, certain voting rights are restricted in respect of removing and appointing directors (other than AMC nominee directors)).
- iii. During the Escrow Period, none of the Consideration Shares may be transferred or dealt and AMC cannot create or allow any security interest (other than, in both cases, as set out below).
- iv. AMC is entitled to receive all dividends and distributions (if any) paid on the Consideration Shares.

#### d. Trigger Event

A Trigger Event occurs where Macmahon has not received payment of the Cessation Amount in cash in accordance with the Mining Services Contract following a termination of that contract prior to the end of the Qualifying Period.

If a Trigger Event occurs during the Qualifying Period:

- i. voting and other rights in respect of the Consideration Shares are restricted in respect of removing and appointing directors of Macmahon (other than the AMC nominee directors); and
- ii. within 5 business days of receipt of notice of a Trigger Event, the Custodian must either pay the Cessation Amount to Macmahon in cash, or request that Macmahon makes a selective buy-back offer to the Custodian in respect of shares held by the Custodian.

#### e. Transfer of Consideration Shares

The Custodian must not transfer or otherwise deal with the Consideration Shares except:

- i. to transfer the Consideration Shares to AMC at the end of the Qualifying Period (where no Trigger Event has occurred);
- ii. to transfer the Consideration Shares to AMC, where the Custodian has paid the Cessation Amount in cash to Macmahon;
- iii. to accept a buy-back offer from Macmahon. In this event, Macmahon will buy back some or all of the Consideration Shares in return for a transfer to AMC of all issued shares in Macmahon Contracting International Pte Ltd and Macmahon Indonesia (and therefore, indirectly, the remaining Mobile Equipment and other plant and equipment used at the Batu Hijau Mine) and transfer the balance of the Consideration Shares not bought back to AMC.<sup>29</sup> The number of Consideration Shares the subject of any buy-back will be determined by dividing the Cessation Amount (converted into Australian dollars) by the Macmahon VWAP. If the resultant number is equal to or greater than the number of Consideration Shares, then all Consideration Shares will be bought back);

29. Any buy-back will be subject to certain conditions precedent including Macmahon shareholder approval under the Corporations Act, and the transfer (out of Macmahon Contracting International) of any assets and liabilities not related to the Batu Hijau Mine.

- iv. to transfer title to the Consideration Shares to AMC, where a buy-back offer requested by the Custodian has not been completed or implemented in accordance with its terms within 12 months of the occurrence of a Trigger Event<sup>30</sup>; or
- v. to accept a bona fide takeover offer made for all Macmahon Shares provided that the parties first agree (acting reasonably) the terms on which any consideration received by the Custodian will continue to be held in escrow for the balance of the Escrow Period.

**f. Security interest**

During the Escrow Period, the Custodian (at the direction of AMC) is permitted to grant a registerable security interest over the Consideration Shares in favour of the senior and secured financiers of AMNT. The form of the security will be agreed by the parties. Any such security interest will not be able to enforced until the Consideration Shares are transferred to AMC in accordance with the Escrow Deed and the security interest will lapse if the Custodian gives a buy-back request or occurrence of a Trigger Event.

**g. Termination**

A termination event occurs where all Consideration Shares are transferred such that the Custodian no longer holds any Consideration Shares or where the Custodian is required by law to terminate the escrow arrangements. The Custodian must give AMC notice of a termination event as soon as possible, and then transfer the (remaining) Consideration Shares to AMC.

**h. Governing Law**

The Escrow Deed is governed by the laws of Western Australia.

**4.5 Summary of terms of appointment of Proposed Directors**

Subject to Completion, AMC will nominate the Proposed Directors to the Board.<sup>31</sup> The key terms of appointment of the Proposed Directors are as follows:

**a. Nominee Conflict and Confidentiality Protocol**

Each of the Proposed Directors must confirm that they acknowledge and agree to comply with the terms of the Nominee Conflict and Confidentiality Protocol.

**b. Terms of appointment**

The Proposed Directors will enter director appointment agreements, which are on terms similar to those of the other Directors of Macmahon. The Proposed Directors will agree that, in the event that AMNT's nomination right under the Alliance Agreement lapses, they will:

- i. immediately resign from the Board with immediate effect; and
- ii. immediately resign from any other position they may hold at that time with the Company or with any related bodies corporate, without being entitled to any termination payment or other compensation for loss of office.

**c. Remuneration**

The Proposed Directors' remuneration will be consistent with remuneration paid to other non-executive Directors and will fall within the existing non-executive director fee cap as approved by Shareholders.

**d. Agreement to provide information for Listing Rules purposes**

The Proposed Directors will also enter into agreements with Macmahon where they agree to disclose information to Macmahon to enable it to satisfy its disclosure obligations (regarding details of director's interests in securities of the company).

**4.6 Summary of Nominee Conflict and Confidentiality Protocol**

The Board shall adopt the Nominee Conflict and Confidentiality Protocol (**Protocol**),<sup>32</sup> the purpose of which is to set out the procedures for the Board to manage actual or perceived conflicts that may arise in respect of any nominee directors in relation to their duties as a director of the Company and their duties or interests in relation to the AMNT Parties. At Completion under the Implementation Deed, each of the Proposed Directors will be required to confirm that they acknowledge the Protocol and agree to its terms. The Protocol provides as follows:

**a. Sensitive Matters**

Where the Board is required to consider:

- i. any matter relating to a project of any of the AMNT Parties (including the Batu Hijau Mine);
- ii. any matter involving or relating to contracts or proposed contracts between the Company and any of the AMNT Parties;
- iii. any matter relating to invoicing any of the AMNT Parties for services provided at the Batu Hijau Mine or any project in which one or more of the AMNT Parties holds an interest;

30. In which case all parties will continue to have all rights they have under the Mining Services Agreement with respect to the payment of the Cessation Amount.

31. Details of the proposed AMC nominee directors are set out at Section 8.9.

32. A copy of the Protocol was annexed to the copy of the Implementation Deed released by Macmahon to ASX on 8 May 2017.

## Explanatory Statement *continued*

- iv. a proposed or potential transaction affecting the control of the Company or any of its related bodies corporate, where the Board believes that there will be material control consequences arising from the transaction or the transaction is not a scrip takeover bid made by the Company for another entity;
- v. a proposed transaction or activity of the Company that may compete with the activities or the legal or commercial interests of any of the AMNT Parties;
- vi. any proposed transaction with any of the AMNT Parties where that entity's interest in the transaction does not align with the interests of the Company's other Shareholders; and
- vii. any other matter that the Board agrees will give rise to an actual or perceived conflict between a nominee director's duties to the Company and their duties to one or more of the AMNT Parties,

(each a **Sensitive Matter**),

an AMC nominee director may not be present at the Board meeting, or Board committee meeting, when that matter is considered and must not vote on that matter except where the full Board is required by law to determine a particular matter.

### **b. Access to Information**

An AMC nominee director will not be provided with any sensitive information relating to a Sensitive Matter including (but not limited to) agendas, papers and minutes, drafts of documents prepared by the Company or third parties, draft or final contracts or other legal or commercial documents and any legal, commercial, financial or other advice provided to the Board or Board committee in relation to a Sensitive Matter. A nominee director will only receive access if the full Board is required by law to determine a Sensitive Matter, but a nominee director may receive ongoing progress reports in respect of a Sensitive Matter (with any sensitive information removed) to the extent required to enable the nominee director to comply with their directors' duties to the Company.

### **c. Duty of confidentiality**

An AMC nominee director must not disclose information in relation to a Sensitive Matter to any of the AMNT Parties or any other person without the prior written consent of the Board, and must maintain the confidentiality of all information obtained in the course of their directorship of the Company.

## **4.7 No other contracts or arrangements connected with the AMNT Transaction**

As far as the Directors are aware, other than as summarised in this Section 4 and as at the date of this Notice:

- there is no other contract or proposed contract which is conditional upon, or directly or indirectly dependent on, Shareholders' approval of the Resolution; and
- there is no proposal whereby any property will be transferred between the Company and any of the AMNT Parties or any of their associates.

## 5. IMPACT OF THE AMNT TRANSACTION ON MACMAHON'S FINANCIAL POSITION AND FINANCIAL PERFORMANCE

### 5.1 Introduction and basis of preparation

#### a. Introduction

The financial information in this Section 5 comprises:

- the pro forma historical statement of financial position of Macmahon at 31 December 2016, which is presented to show the historical statement of financial position after adjusting for certain pro forma adjustments identified by the Directors to reflect the impact of the AMNT Transaction as if it had occurred at that date (**Pro Forma Historical Statement of Financial Position**); and
- the Macmahon earnings guidance for FY2018, stated both before and after the expected impact of the AMNT Transaction (the **Guidance**),

collectively the **Financial Information**.

The Financial Information should be read in conjunction with the other information contained within this Notice of Meeting.

The Guidance should be read in conjunction with the Directors' material best estimate assumptions described in Section 5.3 and the risk factors in Section 5.6 of this Notice of Meeting.

#### b. Basis of preparation

##### *Pro Forma Historical Statement of Financial Position*

The Pro Forma Historical Statement of Financial Position in this Section has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, other mandatory professional reporting requirements and Macmahon's adopted accounting policies.

The Pro Forma Historical Statement of Financial Position in this Section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act.

Macmahon Shareholders should refer to Macmahon's audited financial statements for FY2016 and Macmahon's reviewed financial statements for the half year ended 31 December 2016 for more detailed disclosures in relation to the historical financial performance, financial position and accounting policies of Macmahon.

The historical statement of financial position was extracted from the reviewed Interim Financial Report of Macmahon for the six months ended 31 December 2016.

##### *Guidance*

The Guidance represents the Directors' best estimate of Macmahon's anticipated financial performance for FY2018, based on:

- an assessment of current economic and market conditions;
- an ongoing anticipated improvement in operating conditions for the mining services sector resulting from the improved commodity price environment;
- ongoing revenue from Macmahon's contracted order book, which is the future value of work or services that are under contract;
- anticipated improvements in financial and operational performance at Telfer;
- potential new contract awards, in addition to the Batu Hijau project, anticipated to commence during FY2018; and
- a number of other material best estimate assumptions set out in Section 5.3 of this Notice of Meeting as determined by the Directors.

The Directors consider that they have used reasonable care in preparing the Guidance and consider the assumptions to be reasonable when taken as a whole. However, the Guidance is not fact; rather, it is predictive in character and there are margins of uncertainty surrounding any assumptions about future conditions and anticipated performance. The Guidance may differ materially from results ultimately achieved. Shareholders are cautioned not to place undue reliance on the Guidance. Forward looking information is by its very nature subject to uncertainties and can be affected by unexpected events, many of which are outside the control of the Directors. Any variation to the assumptions on which the Guidance has been prepared could be materially positive or negative to actual financial performance. Therefore, the Directors cannot guarantee the achievement of the Guidance.

The Guidance should not be regarded as a representation or warranty with respect to its accuracy, or the accuracy of the best estimate assumptions, or that Macmahon will achieve, or is likely to achieve, the particular results. Macmahon Shareholders are encouraged to read the material best estimate assumptions and sensitivities in Section 5.3 in conjunction with the risk factors set out in Section 5.6 of this Notice of Meeting.

The Guidance also takes no account of the adviser and other third party costs incurred to date and to be incurred by Macmahon in undertaking the AMNT Transaction on the basis that they are non-recurring and therefore not reflective of the underlying performance of Macmahon. If completed, the AMNT Transaction costs are estimated to be between \$3.5 million and \$4.0 million and will be offset against share capital where possible.

Shareholders should also read the disclaimer as to forward looking statements set out on page 1 of this Notice.

## Explanatory Statement *continued*

### 5.2 Pro Forma Historical Statement of Financial Position

The Pro Forma Historical Statement of Financial Position has been prepared by management and shows the historical statement of financial position of Macmahon at 31 December 2016 after adjusting for certain pro forma adjustments identified by the Directors to reflect the impact of the AMNT Transaction as if it had occurred at that date. The pro forma adjustments are detailed in notes 1 to 3 below.

The Pro Forma Historical Statement of Financial Position has been reviewed by KPMG Transaction Services whose Investigating Accountant's Report can be found in Annexure B to this Notice.

Pro Forma Historical Statement of Financial Position (A\$'000)	Note	31-Dec-16 Reported	31-Dec-16 Adj.	31-Dec-16 Pro Forma
<b>Assets</b>				
Current assets				
Cash and cash equivalents	1	59,629	(3,750)	55,879
Trade and other receivables	2	45,963	19,368	65,331
Inventories		35,436	–	35,436
Income tax receivable		13,218	–	13,218
Assets classified as held for sale		4,176	–	4,176
<b>Total current assets</b>		<b>158,422</b>	<b>15,618</b>	<b>174,040</b>
Non-current assets				
Investments accounted for using equity method		6,173	–	6,173
Property, plant and equipment	3	123,349	193,675	317,024
Deferred tax		618	–	618
<b>Total non-current assets</b>		<b>130,140</b>	<b>193,675</b>	<b>323,815</b>
<b>Total assets</b>		<b>288,562</b>	<b>209,293</b>	<b>497,855</b>
<b>Liabilities</b>				
Current liabilities				
Trade and other payables	2	63,265	19,368	82,663
Borrowings		1,887	–	1,887
Employee benefits		11,496	–	11,496
Provisions		15,407	–	15,407
<b>Total current liabilities</b>		<b>92,055</b>	<b>19,368</b>	<b>111,423</b>
Non-current liabilities				
Borrowings		7,893	–	7,893
Employee benefits		441	–	441
<b>Total non-current liabilities</b>		<b>8,334</b>	<b>–</b>	<b>8,334</b>
<b>Total liabilities</b>		<b>100,389</b>	<b>19,368</b>	<b>119,757</b>
<b>Net assets</b>		<b>188,173</b>	<b>189,925</b>	<b>378,098</b>
<b>Equity</b>				
Issued Capital	1	384,794	189,925	574,719
Reserves		(7,395)	–	(7,395)
Accumulated losses		(189,226)	–	(189,226)
<b>Total equity</b>		<b>188,173</b>	<b>189,925</b>	<b>378,098</b>
<b>NTA per share</b>				
NTA/share (cents)		15.7	19.9	17.5
Shares on issue ('000)		1,200,921	954,065	2,154,986

The Pro Forma Historical Statement of Financial Position set out above contains the following pro forma adjustments:

- \$189.9 million increase to issued capital following the issue of 954,064,924 new ordinary Shares to AMC at \$0.203 per Share, offset by transaction costs directly related to the Share issue of \$3.75 million;

2. \$19.4 million in VAT payable on the transfer of the Mobile Equipment from AMNT to the Macmahon group. The VAT paid on the asset transfer is refundable by the Indonesian tax authorities and as such recognised as a current receivable. The initial payment of the VAT will be funded by AMNT and as such the Macmahon group will recognise a payable amount to AMNT for the VAT amount which will only be repayable once the VAT is refunded from the Indonesian tax authorities; and
3. \$193.7 million increase to property, plant and equipment based on the independent Mobile Equipment valuation of US\$145.6 million, translated at an exchange rate of US\$0.7518 to A\$1 as consideration for the issue of new Shares in the Company.

### 5.3 Guidance

If implemented, the AMNT Transaction would complete and commence after 30 June 2017 and therefore the AMNT Transaction would not have an impact on FY2017 guidance.

A summary of Macmahon's Guidance for FY2018, excluding and including the AMNT Transaction, is as follows.

TABLE 2: GUIDANCE SUMMARY FY2018

	Guidance Summary (A\$m)	FY2018 Excl. AMNT	H1 FY2018 AMNT Impact (Midpoint)	H2 FY2018 AMNT Impact (Midpoint)	FY2018 Incl. AMNT
<b>Earnings</b>	Revenue	470 – 510	20	140	620 – 680
	EBITDA	67 – 75	18	30	112 – 125
	EBIT	30 – 35	2	11	40 – 50
	% EBIT margin	6.4% – 6.9%	10.0%	7.9%	6.5% – 7.4%
<b>Capital Expenditure</b>	Existing contracts:				
	– Stay in business	27.7	–	–	27.7
	– Expansion	–	–	–	–
	New contracts	60.5	193.7	5.0	259.2
	Total capital expenditure	88.2	193.7	5.0	286.9

*Note: For FY2018 Guidance it is assumed that, following satisfaction or waiver or relevant conditions, the AMNT Transaction will complete during July 2017 and Phase 1 of the Mining Services Contract (the ramp up period) will commence on 1 August 2017. The Phase 1 ramp up will continue until 1 March 2018 at which point Macmahon will commence the full scope of mining at Batu Hijau (Full Operations). AMNT Impact figures refer to the midpoint of earnings guidance.*

#### FY2018 Guidance – Excluding the AMNT Transaction

- In FY2018, excluding the potential impact of the AMNT Transaction, Macmahon is anticipating revenue of between \$470 – \$510 million and EBIT of between \$30 – \$35 million.
- The key assumptions underlying the FY2018 Guidance are set out below, subject to the sensitivity analysis which follows and the risk factors in Section 5.6:
  - Macmahon is anticipating that Telfer will generate a modest profit in FY2018 despite having previously generated significant losses given that:
    - the majority of the primary loading equipment rebuilds have now been completed;
    - the working areas expected to be the most difficult, West Dome Interim Stage 2 and the Main Dome Stage 4, are nearing completion and the primary production excavator has now been removed from that area;
    - Macmahon is now working in new areas where mining activities are expected to be more efficient because they involve shorter trucking hauls, higher excavator productivity rates and easier geological and hydrological conditions; and
    - from February 2017, Macmahon increased its rates for the Telfer project as a result of applying the contractual rise and fall mechanism.
  - Macmahon expects to continue to realise ongoing ad-hoc revenue from its underground mining services business, based on past activity levels. No material revenue growth is assumed in relation to those activities.
  - Revenue growth is anticipated to be derived from Telfer and Tropicana based on anticipated increased productivity at Telfer and increased mining volumes at both projects based on the existing long term mine plans. Macmahon has assumed that none of its existing long term contracts are terminated.
  - Macmahon expects to be successful in securing revenue during FY2018 from at least two new contracts. In previous guidance re-affirmed on 8 May 2017, Macmahon had assumed three new contracts would be secured. However, FY2018 Guidance remains unchanged because the likelihood that the other two contracts will be awarded to Macmahon has increased and the third contract that was not secured was significantly less material. If Macmahon is not successful in achieving any new long-term contracts in FY2018, EBIT is anticipated to be approximately \$25 million.



## Explanatory Statement *continued*

- Capital expenditure for FY2018 is expected to be \$88.2 million comprising expenditure on existing contracts of \$27.7 million and \$60.5 million in relation to two potential new contracts. New sources of funding will be required to assist with meeting the anticipated capital expenditure to carry out the new contracts. The structure and timing of that funding has not yet been determined, but the basis of the assumption that the necessary funding will be secured is that funding has been traditionally available to Macmahon once a contract is secured. Refer to Section 5.4 for further information.

### FY2018 Guidance – Including the AMNT Transaction

- In FY2018, including the potential impact of the AMNT Transaction, Macmahon is anticipating substantially improved financial performance with revenue increasing to between \$620 – \$680 million and EBIT to increase to between \$40 – \$50 million.
- The key assumptions underlying the earnings impact of the AMNT Transaction on FY2018 Guidance are set out below, subject to the sensitivity analysis which follows and the risk factors in Section 5.6:
  - completion of the AMNT Transaction occurs so as to permit the commencement of the Mining Services Contract on 1 August 2017;
  - Macmahon commences the full scope of Batu Hijau mining operations under the Mining Services Contract (i.e. Full Operations) from 1 March 2018. Therefore,
    - the first full year of earnings from the Mining Services Contract will be FY2019; and
    - an exchange rate of 0.7518 (AUD:USD) prevails throughout FY2018.
- Figures 5 and 6 summarise the revenue and EBIT Guidance for FY2018, both excluding and including the expected impact of the AMNT Transaction.

FIGURE 5: FY2018 REVENUE GUIDANCE INCLUDING THE AMNT TRANSACTION

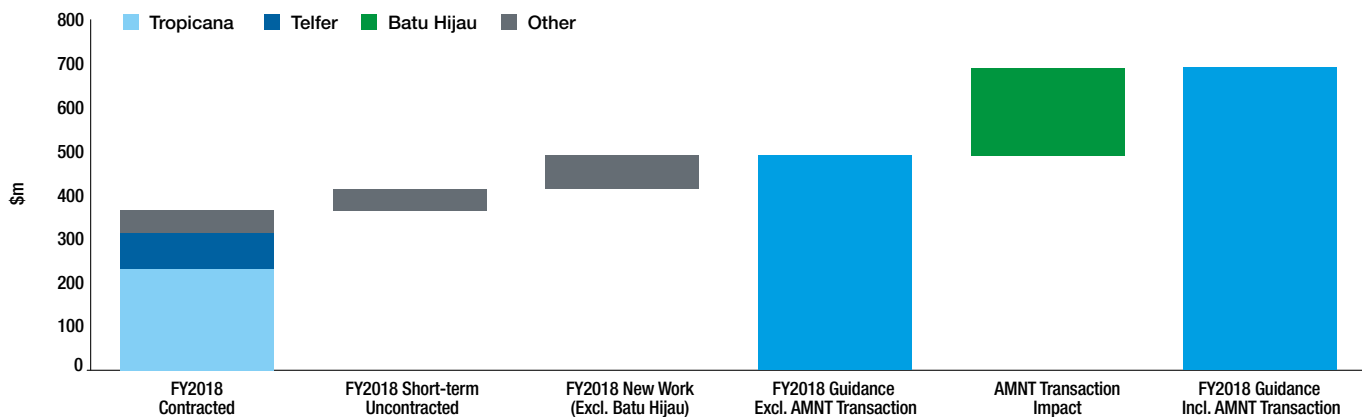
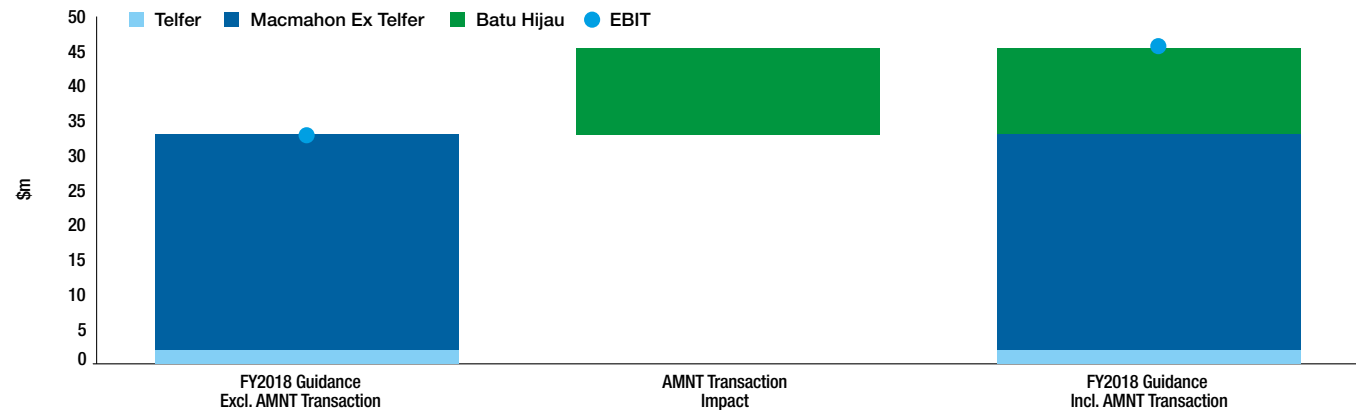


FIGURE 6: FY2018 EBIT GUIDANCE INCLUDING THE AMNT TRANSACTION



The FY2018 anticipated revenue and EBIT are inherently uncertain and the following table summarises the key sensitivities in both revenues and EBIT:

TABLE 3: FY2018 SENSITIVITY ANALYSIS

Sensitivity Analysis (A\$m)	FY2018 Excl. AMNT Transaction		FY2018 Incl. AMNT Transaction	
	Revenue	EBIT	Revenue	EBIT
FY2018 Guidance	470 – 510	30 – 35	620 – 680	40 – 50
Mid-point FY2018 Guidance	490	32.5	650	45
No new long-term contracts	(76.4)	(6.8)	(236.7)	(19.9)
± 1% movement in Telfer EBIT margin		± 0.8		± 0.8
± 1% movement in Batu Hijau EBIT margin				± 1.6
Bringing forward Batu Hijau Full Operations commencement to 1 January 2018			+ 57.6	+ 5.6
Delay in Batu Hijau Full Operations commencement to 1 July 2018			(113.0)	(9.0)
± 0.01 AUD:USD exchange rate			± 2.1	± 0.2
± 1% movement in EBIT margin		± 4.9		± 6.5
± 5% movement in revenue based on an average EBIT margin of 6.5-7.4%	± 24.5	± 1.7	± 32.5	± 2.3

**Note:** Sensitivity analysis flexes each variable for FY2018 relative to Guidance. Each metric is flexed in isolation to provide an indicative assessment of incremental financial impact. The analysis ignores the impact of correlation between variables.

#### 5.4 Financing facilities

In addition to existing facilities that may be available, further finance and operating leases may be entered into over the next 18 months in order to fund the purchase of new equipment that will be required for new contracts, although there is no guarantee that new contracts eventuate. The basis of the assumption that the necessary funding will be secured is that funding has traditionally been available to Macmahon once a contract is secured.

#### 5.5 Transaction expenses

As a result of the AMNT Transaction being successfully completed, the aggregate amount of fees and expenses to be incurred (or expected to be incurred) is currently estimated to be approximately \$3.5 million to \$4.0 million (exclusive of GST). They include:

- fees payable to financial, accounting, tax and legal advisers, the Independent Expert, the Independent Valuer and the Investigating Accountant; and
- costs relating to printing and dispatch of this Notice of Meeting and costs of the Shareholder Information Line.

AMNT Transaction costs have been excluded from the Guidance because they are non-recurring and therefore not reflective of the underlying performance of Macmahon.

## Explanatory Statement *continued*

### 5.6 Risk factors relevant to Guidance

There are a number of risks including those outlined below and the specific risks associated with the AMNT Transaction in Section 7 that could materially affect the future operating and financial performance of Macmahon:

#### Risks

<b>Performance of Telfer</b>	<ul style="list-style-type: none"> <li>- There can be no guarantee that the Guidance in this document in relation to Telfer will be realised.</li> <li>- There is a risk that the assumptions described in Section 5.3 may be incorrect.</li> <li>- Although these risks apply to all projects, Telfer is particularly material to Macmahon.</li> </ul>
<b>Performance of Batu Hijau Mine</b>	<ul style="list-style-type: none"> <li>- There can be no guarantee that the Guidance in this document in relation to the Batu Hijau Mine will be realised.</li> <li>- The Batu Hijau Mine project remains subject to completion of the AMNT Transaction and the satisfaction or waiver of the Conditions Precedent to it, including Macmahon Shareholder approval and AMNT lender consents.</li> <li>- There is a risk that the assumptions described in Section 5.3 may be incorrect.</li> <li>- There is a risk that AMNT's ability to export production from the Batu Hijau Mine project will be curtailed, and that this will have a negative impact on the viability of the project.</li> <li>- There is a risk that AMNT will not be able to secure finance to complete the cut-backs at the Batu Hijau Mine required to expose the next stage of ore.</li> <li>- Commencement of Full Operations requires certain matters to be agreed/achieved during Phase 1 of the Mining Services Contract. There is no guarantee this will occur.</li> <li>- Any underperformance at the Batu Hijau Mine will be particularly material to Macmahon.</li> </ul>
<b>Guidance</b>	<ul style="list-style-type: none"> <li>- Macmahon has provided earnings Guidance on the basis of several assumptions and forecasts, which may subsequently prove to be incorrect.</li> <li>- Guidance is not a guarantee of future performance, and involves known and unknown risks, many of which are beyond the control of Macmahon.</li> <li>- Key identified risks that may result in Macmahon not meeting its Guidance include the other risk factors described in Section 5.6, termination of key contracts, variability in cost and productivity assumptions, and inability to recover claims and variations from clients.<sup>33</sup></li> <li>- Macmahon's actual results may differ materially from its Guidance and the assumptions on which the Guidance is based.</li> </ul>
<b>Reliance on key customers</b>	<ul style="list-style-type: none"> <li>- Macmahon's business relies on a number of individual contracts and business alliances and Macmahon derives a significant proportion of its revenue from a small number of key long term customers and business relationships with a few organisations. In the event that any of these customers reduces production or scales back operations, terminates the relationship, defaults on a contract or fails to renew their contract with Macmahon, this may have an adverse impact on the financial performance and/or financial position of Macmahon.</li> </ul>
<b>Industry and commodity cycles</b>	<ul style="list-style-type: none"> <li>- Macmahon's financial performance is influenced by the level of activity in the resources and mining industry, which is impacted by a number of factors beyond the control of Macmahon. This includes:               <ul style="list-style-type: none"> <li>- demand for mining production, which may be influenced by factors including (but not limited to) prices of commodities, exchange rates and the competitiveness of Australian mining operations;</li> <li>- government policy on infrastructure spending;</li> <li>- the policies of mine owners including their decisions to undertake their own mining operations or to outsource these functions; and</li> <li>- the availability and cost of key resources including people, large earth moving equipment and critical consumables.</li> </ul> </li> <li>- Macmahon is indirectly exposed to movements in commodity prices, which are volatile and beyond Macmahon's control.</li> <li>- Adverse movements in commodity prices may reduce the pipeline of work in the mining sector and the level of demand for the services of Macmahon's mining business, which could have a material impact on Macmahon's operating and financial performance.</li> </ul>

33. Other general risks relevant to a shareholding in Macmahon were outlined in section 8.2 of Macmahon's Target's Statement dated 27 February 2017.

## Risks

<b>Failure to win new contracts</b>	<ul style="list-style-type: none"> <li>- Macmahon's performance is impacted by its ability to win, extend and complete new contracts. Any failure by Macmahon to continue to win new contracts and work will impact its financial performance and position.</li> <li>- Macmahon expects to continue to have a broad range of competitors across all of its operations, which impacts the attainable margins obtainable on contracts. There is a risk that existing and increased future competition may limit the ability to win new contracts or achieve attractive margins.</li> </ul>
<b>Early contract termination and contract variations</b>	<ul style="list-style-type: none"> <li>- Guidance is partly based on current contracts in hand and Macmahon derives a significant proportion of its revenue from providing services under large contracts. A client could terminate services on short term notice and as a result, there can be no assurance that work in hand will be realised as revenue in any future period. There could be future risks and costs arising from any termination of contract.</li> <li>- Early termination or failure to renew a contract by Macmahon's clients when that renewal is expected is likely to have an adverse effect on financial performance.</li> <li>- While Macmahon has no reason to believe any existing or potential contracts will be terminated, there can be no assurance that this will not occur.</li> <li>- Due to the nature of Macmahon's business, there is also a risk that Macmahon's claims for contract variations are disputed and not ultimately agreed, or are insufficiently certain at a point in time such that they cannot be brought to account in a given accounting period.</li> </ul>
<b>Project delivery risk</b>	<ul style="list-style-type: none"> <li>- Execution and delivery of projects involves judgment regarding the planning, development and operation of complex operating facilities and equipment. As a result, Macmahon's operations, cash flows and liquidity could be affected if the resources or time needed to complete a project are miscalculated, if it fails to meet contractual obligations, or if it encounters delays or unspecified conditions.</li> </ul>
<b>Margins, operations, safety and environment</b>	<ul style="list-style-type: none"> <li>- Cost overruns, unfavourable contract outcomes, serious or continued operational failure, disruption at key facilities, disruptions to communication systems or a safety incident have the potential to have an adverse financial impact.</li> <li>- Macmahon is also exposed to input costs through its operations, such as the cost of fuel and energy sources, equipment and personnel. To the extent that these costs cannot be passed on to customers in a timely manner, or at all, Macmahon's financial performance could be adversely affected.</li> <li>- Macmahon's operations involve risk to personnel and property. An accident may occur that results in serious injury or death, damage to property and environment, which may have an adverse effect on Macmahon's financial performance, and reputation and ability to win new contracts.</li> </ul>
<b>Contract pricing risk</b>	<ul style="list-style-type: none"> <li>- If Macmahon materially underestimates the cost of providing services, equipment, or plant, there is a risk of a negative impact on Macmahon's financial performance.</li> </ul>
<b>Commodity price exposure</b>	<ul style="list-style-type: none"> <li>- Gold and copper are the two most important commodities contributing to Macmahon's order book (including the Mining Services Contract) and tender pipeline. If the gold and copper industries were to suffer, it would have a material adverse effect on Macmahon revenues and profitability.</li> </ul>
<b>Equipment and consumable availability</b>	<ul style="list-style-type: none"> <li>- Macmahon has a significant fleet of equipment and has a substantial ongoing requirement for consumables including tyres, parts and lubricants. If Macmahon cannot secure a reliable supply of equipment and consumables, there is a risk that its operational and financial performance may be adversely affected.</li> </ul>
<b>Key personnel</b>	<ul style="list-style-type: none"> <li>- Macmahon's growth and profitability may be limited by loss of key operating personnel, inability to recruit and retain skilled and experienced employees or by increases in compensation costs.</li> <li>- If changes occur in certain key personnel of Macmahon's group, this may materially</li> </ul>

## Explanatory Statement *continued*

### Risks

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- Currency fluctuation** – Macmahon is exposed to fluctuations in the value of the Australian dollar versus other currencies due to its international operations. Because Macmahon's consolidated financial results are reported in Australian dollars, if Macmahon generates sales or earnings or has assets and liabilities in other currencies (such as under the Mining Services Contract), the translation into Australian dollars for financial reporting purposes could result in a significant increase or decrease in the amount of those sales or earnings and net assets.
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- Partner and control risk**
- Macmahon may undertake services through and participate in joint ventures or partnering/alliance arrangements. The success of these partnering activities depends on satisfactory performance by Macmahon's partners. The failure of partners to meet performance obligations could impose additional financial and performance obligations that could cause significant impact on Macmahon's reputation and financial results, including loss or termination of the contract and loss of profits.
  - If the Transaction completes, AMC will become the largest shareholder of Macmahon with a 44.3% shareholding and will obtain significant influence over Macmahon, with the ability to block special resolutions of Shareholders and potentially to pass or block ordinary resolutions. AMC's interests as a shareholder of Macmahon may differ from the interests of other Shareholders, and the existence of this shareholding (together with other major shareholdings) may reduce the prospects of persons making takeover bids for Macmahon in the future.
- 
- Country risk**
- While Macmahon primarily operates in Australia it also operates in South East Asia and may undertake new projects in mining regions such as West Africa, where sovereign risk may be higher than is the case in Australia.
  - Operating in international markets can expose Macmahon to additional adverse economic conditions, civil unrest, conflicts, security breaches and bribery and corrupt practices.
  - Some countries in which Macmahon operates, or may operate in future, have less developed legal, regulatory or political systems than in Australia, which may be subject to unexpected or sudden change or in which it may be more difficult to enforce legal rights.
  - The financial performance and position of Macmahon's foreign operations may be adversely affected by changes in the fiscal or regulatory regimes applying in the relevant jurisdictions, changes in, or difficulties in interpreting and complying with local laws and regulations of different countries (including tax, labour, foreign investment law) and nullification, modification or renegotiation of, or difficulties or delays in enforcing contracts with clients or joint venture partners that are subject to local law.
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## 6. IMPACT OF THE AMNT TRANSACTION ON MACMAHON'S CAPITAL STRUCTURE

### 6.1 Macmahon's capital structure before and after the AMNT Transaction

Macmahon's capital structure as at the date of this Notice, and following Completion of the AMNT Transaction, is set out below (assuming no change to the number of Performance Rights on issue and no vesting of Performance Rights<sup>34</sup>):

Securities on issue as at the date of this Notice	Consideration Shares issued pursuant to the AMNT Transaction	Securities on issue after Completion
1,200,920,894 Shares	954,064,924 Shares	2,154,985,818 Shares
12,118,502 Macmahon Performance Rights <sup>35</sup>	–	12,118,502 Macmahon Performance Rights <sup>35</sup>

There are sufficient Shares held on trust in the Macmahon Holdings Limited Employee Share Ownership Plans Trust to satisfy the vesting of all Macmahon Performance Rights on issue. Those Shares held on trust are included in the aggregate number of Shares specified in the table above. The Board does not propose to exercise any of its discretions in relation to the Macmahon Performance Rights as a result of the AMNT Transaction. The Macmahon Performance Rights will remain in place and will continue to vest and/or lapse in the usual course subject to the achievement of vesting hurdles.

Under the Escrow Deed (discussed at Section 4.4), the Consideration Shares will be held by the Custodian for a period of at least 30 months from Completion. Further, the Consideration Shares are subject to limitations relating to their disposal after the end of that period under the orderly sale arrangements contemplated by the Alliance Agreement, which is discussed at Section 4.3. These escrow and orderly sale arrangements constrain the disposal of Shares by AMC (or related entities), subject to the exceptions to those restrictions summarised in Sections 4.3 and 4.4.

### 6.2 Impact on the status of Macmahon under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)*

Under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)* (FATA), where an investment by a foreign person is proposed and is subject to the FATA, the Australian Federal Treasurer has certain powers to block the transaction, impose conditions on the transaction, or require that the transaction be undone, where the transaction would be contrary to the national interest.

The Federal Treasurer's powers include prohibiting a person proposing to acquire shares or assets of an Australian corporation or business from doing so if, as a result of the acquisition, one or more foreign persons would gain control of the Australian corporation or business and the result would be contrary to the national interest. If the person has already acquired the shares or assets, the Federal Treasurer may order that the shares or assets be disposed of to an approved person.

Macmahon is already considered to be a "foreign person" under the FATA as it is a corporation in which a foreign corporation (CIMIC) holds more than a 20% interest. As a foreign person, Macmahon's ability to acquire interests in certain securities, assets or Australian land, and to take actions in relation to entities (being corporations and unit trusts) and businesses that have a connection to Australia, is subject to the restrictions in the FATA.

AMNT is not a foreign government entity and is not a foreign government investor and accordingly will not cause Macmahon to become a foreign government investor (to whom more stringent restrictions would apply).

34. Some Macmahon Performance Rights may vest or lapse before the date of the Meeting. Further details relating to the terms and conditions of the Macmahon Performance Rights are set out in Macmahon's FY 2016 Annual Report (pages 21 (and following) and 73 (and following)).

35. There are sufficient Shares held on trust in the Macmahon Holdings Limited Employee Share Ownership Plans Trust to satisfy the vesting of all Macmahon Performance Rights on issue.

## Explanatory Statement *continued*

### 7. RISKS ASSOCIATED WITH THE AMNT TRANSACTION AND POTENTIAL MITIGANTS

Risks	Potential mitigants
<ul style="list-style-type: none"> <li>The AMNT Transaction will significantly increase Macmahon's exposure to Indonesia, which is generally considered a higher risk jurisdiction than Australia.</li> </ul>	<ul style="list-style-type: none"> <li>Macmahon has significant previous experience operating in the South-East Asian region, including having operated in Indonesia since 2008.</li> <li>Macmahon will have a significant stakeholder in AMNT, a company that is experienced in operating in the jurisdiction.</li> </ul>
<ul style="list-style-type: none"> <li>The AMNT Transaction will result in the issue of approximately 954 million shares to (or on behalf of) AMC with AMC becoming Macmahon's largest shareholder with a 44.3% shareholding.</li> <li>This 44.3% shareholding may reduce the probability in the future of any control transaction proposal being received by Macmahon, as it is unlikely that any party could achieve control without the support of AMC.</li> </ul>	<ul style="list-style-type: none"> <li>Since the initial announcement of the non-binding HOA on 1 March 2017 and the announcement on 8 May 2017 of binding documentation being signed, there has been a significant period of time and opportunity for a superior proposal to emerge. However, as at the date of this Notice, no proposal has been received by Macmahon and the Directors are not aware of any further proposal that is likely to be made.</li> <li>In assessing the reasonableness of the AMNT Transaction, the Independent Expert has specifically taken into account this issue by comparing a controlling interest value of Macmahon shares prior to the AMNT Transaction with the portfolio (or minority interest) value of Macmahon shares after implementation of the AMNT transaction. Taking this portfolio discount into account, the Independent Expert still concludes that in the Independent Expert's view "the AMNT Transaction is significantly value accretive for Macmahon Shareholders".<sup>36</sup></li> </ul>
<ul style="list-style-type: none"> <li>The AMNT Transaction will result in AMC becoming Macmahon's largest shareholder with a 44.3% shareholding and the right to appoint 2 Directors to the Macmahon Board.</li> <li>As Macmahon's largest customer, there is a potential for a conflict of interest with AMC (related party of AMNT) becoming Macmahon's largest shareholder with representation on the Board.</li> </ul>	<ul style="list-style-type: none"> <li>Under the Alliance Agreement no AMC nominee director may serve as Chairman of the Board and for the duration of the Alliance Agreement, the majority of the Board must comprise independent directors with an independent chairman. See Section 4.3 for further details of the Alliance Agreement.</li> <li>AMNT, API and AMC must also procure that each AMC nominee director complies with the Nominee Conflict and Confidentiality Protocol (refer to Section 4.6 for details). This Protocol sets out procedures for the Board to manage actual or perceived conflicts that may arise.</li> <li>Chapter 2E of the Corporations Act requires shareholder approval for a public company to give a financial benefit to a related party (unless an exception applies). Macmahon, as a public company, is not able to give the AMNT Parties which control Macmahon (or their respective directors and subsidiaries) a financial benefit other than as permitted by Chapter 2E. The main exceptions are approval of shareholders (other than the related parties involved) and arms' length dealings. Future dealings between Macmahon and AMNT which are not contemplated by the AMNT Transaction will therefore need to be approved by Shareholders or be on terms which would be reasonable if the parties were dealing at arm's length (or less favourable to the related party than such terms), unless another exception applies.<sup>37</sup></li> <li>Listing Rule 10.1 provides that neither a listed entity nor its child entities can acquire a substantial asset from, or dispose of a substantial asset to, amongst others, a related party without shareholder approval (which requires an independent expert's report and voting prohibitions on parties to the transaction). Future transactions between Macmahon and AMNT (or connected entities) which are not contemplated by the AMNT Transaction could potentially require shareholder approval where their value (or the value of the consideration) is 5% or more of Macmahon's equity interests.<sup>37</sup></li> </ul>

36. See paragraphs 14 and 199 of the Independent Expert's Report, which is attached as Annexure A. It is an important document and you are encouraged to read it in full.

37. See Section 12.5 for further details.

## Risks

- Under the AMNT Transaction, Macmahon is purchasing Mobile Equipment that is not readily saleable or re-deployable because of the high costs of doing so given the remote island location of the Batu Hijau Mine.
- There are a number of reasons the Mining Service Contract can be terminated including if the parties cannot agree the target costs (as is required annually under the contract).
- To address this risk, if the Mining Services Contract is terminated for any reason in the first 5 years from Completion, AMNT is required to re-purchase the Mobile Equipment at a pre-agreed value (which decreases to nil over 5 years).
- As a result, Macmahon has a material credit exposure to AMNT for the amount of the termination payment in the event termination occurs.

- AMNT operates the Batu Hijau Mine operations under Indonesian law via a Contract of Work (CoW) and an initial mining licence (referred to as an IUPK).
- Under recent changes to mining regulations in Indonesia, copper concentrate exports are not permitted from mines operated under a CoW, unless they also hold an IUPK.
- The longer-term ability of Batu Hijau to export copper concentrate is subject to Indonesian regulatory risk and in the first instance likely requires AMNT to convert its existing IUPK to a permanent IUPK.

- AMNT will likely be required to raise further external capital to fund the cutback required to expose the next stage of ore at the Batu Hijau Mine.
- Macmahon is indirectly exposed to AMNT's ability to successfully raise the capital required to progress the project and thereby deliver Macmahon the expected revenue under the Mining Services Contract.

- Under the Mining Services Contract there is an initial ramp up period whilst baseline target costs are determined and agreed (Phase 1).
- There is a risk target costs cannot be agreed, or there is a material time delay in agreeing such costs.
- Phase 1 is expected to take 6-12 months before Full Operations commence. For its FY2018 Guidance, Macmahon has assumed Full Operations commence on 1 March 2018.

## Potential mitigants

- As at 31 December 2016 AMNT had net assets exceeding US\$2.5 billion (unaudited).
- To provide additional protection, the Consideration Shares issued by Macmahon will be issued to (and held by) an Australian professional custodian under an escrow arrangement for 30 months from Completion.
- If the Mining Services Contract is terminated during the 30 month period (triggering the right to receive the Cessation Amount) and AMNT does not pay the Cessation Amount to Macmahon Indonesia, the Custodian will either pay the relevant amount in cash or request that the Consideration Shares be bought-back and cancelled. See Section 4.4 for further details of this escrow arrangement.

- AMNT's owners are Indonesian entities with significant experience in managing Indonesian regulatory issues and are well aware of the Indonesian government policy position around the export of copper concentrate.
- AMNT has advised Macmahon that it is confident of securing the required approvals to continue to export copper concentrate in the short/medium term. As part of the longer term business plan, AMNT's intention is to build a copper smelter which will mean that AMNT will no longer be exporting copper concentrate.
- In the event that Macmahon's Mining Services Contract is terminated in the first 5 years, Macmahon will be entitled to receive the Cessation Amount.

- AMNT is highly confident of being able to secure any future funding required for the Batu Hijau Mine.
- In the event that any required financing is not raised and Macmahon's Mining Service Contract is terminated, during the first 5 years Macmahon will be entitled to receive the Cessation Amount.

- If the parties are not able to agree target costs within 12 months then Macmahon is able to terminate the Mining Services Contract and a termination payment is due from AMNT to Macmahon.
- Regardless of the timing of the commencement of Full Operations, from commencement of the Mining Services Contract, Macmahon will continue to incur depreciation charges on the Mobile Equipment purchased.



## Explanatory Statement *continued*

Risks	Potential mitigants
<ul style="list-style-type: none"> <li>- AMNT currently employs significantly more employees in Batu Hijau mining operations than it is expected Macmahon will require to deliver the services contemplated under the Mining Services Contract.</li> <li>- The transition to a smaller work force may present legal and social issues and may delay commencement of Full Operations under the Mining Services Contract.</li> </ul>	<ul style="list-style-type: none"> <li>- The Mining Services Contract is structured so as to have a period of time (Phase 1) where Macmahon Indonesia will mobilise to site, the parties will agree on target costs and production levels and will implement a strategy in relation to the local workforce.</li> <li>- AMNT has advised Macmahon that it has the financial resources to cover the expected costs of reducing the size of the Batu Hijau workforce.</li> <li>- Only once Phase 1 has been completed will Macmahon Indonesia commence Full Operations.</li> <li>- Regardless of the timing of the commencement of Full Operations, from commencement of the Mining Services Contract, Macmahon will continue to re-coup depreciation charges on the Mobile Equipment purchased.</li> </ul>
<ul style="list-style-type: none"> <li>- Batu Hijau earns the majority of its revenue from copper and therefore the AMNT Transaction materially increases Macmahon's exposure to copper and any material decrease in the copper price.</li> </ul>	<ul style="list-style-type: none"> <li>- Batu Hijau sits in the first quartile of the cost curve for copper mines globally with a C1 cost of US\$1.17/lb.<sup>38</sup></li> </ul>
<ul style="list-style-type: none"> <li>- Macmahon is buying a significant amount of used Mobile Equipment which has an uncertain value.</li> <li>- Being located on a remote island in Indonesia, the Mobile Equipment is difficult to move or redeploy and therefore its value is intrinsically linked to the ongoing operations of the Batu Hijau mine.</li> </ul>	<ul style="list-style-type: none"> <li>- The Mobile Equipment has been valued by the Independent Valuer – the summary of this valuation is included within the Independent Expert's Report.</li> <li>- The value of capital expenditure incurred by Macmahon on the Mobile Equipment is able to be recovered through the Mining Services Contract pricing mechanism.</li> <li>- In the event that Macmahon's Mining Services Contract is terminated in the first 5 years, Macmahon will be entitled to receive the Cessation Amount.</li> </ul>
<ul style="list-style-type: none"> <li>- The AMNT Transaction may trigger termination rights in some existing contracts with other clients.</li> </ul>	<ul style="list-style-type: none"> <li>- Macmahon has been in close contact with customers in relation to the proposed AMNT Transaction and there has been no indication that any customer will terminate its contract if the AMNT Transaction proceeds.</li> </ul>
<ul style="list-style-type: none"> <li>- The AMNT Transaction will result in a step change in the size and complexity of Macmahon's operations. There is a risk this change will not be managed appropriately.</li> </ul>	<ul style="list-style-type: none"> <li>- Macmahon will have a reasonable period of time to both prepare for the completion of the AMNT Transaction and to work in Phase 1 with AMNT to prepare for Full Operations (expected in the first half of calendar year 2018).</li> <li>- Macmahon's Board and management have already commenced planning for this transition.</li> </ul>
<ul style="list-style-type: none"> <li>- Although AMNT has agreed that the Consideration Shares will be held on escrow by the Custodian for a period of at least 30 months from Completion, there are no contractual restrictions preventing AMNT (or its group entities) from acquiring further Macmahon Shares.</li> <li>- Given AMC's 44.3% shareholding, the provisions of the Corporations Act will restrict AMNT and AMC's ability to freely acquire further shares. However, AMNT could potentially acquire more than 50% of Macmahon Shares on issue within one year under the 'creep' exception in Item 9 of s 611 of the Corporations Act without needing to make a full takeover bid.</li> </ul>	<ul style="list-style-type: none"> <li>- Under the Alliance Agreement no AMC nominee director may serve as Chairman of the Board and for the duration of the Alliance Agreement, the majority of the Board must comprise independent directors with an independent chairman. See Section 4.3 for further details of the Alliance Agreement.</li> <li>- AMNT, API and AMC must also procure that each AMC nominee director complies with the Nominee Conflict and Confidentiality Protocol (refer to Section 4.6 for details). This Protocol sets out procedures for the Board to manage actual or perceived conflicts that may arise.</li> </ul>
<ul style="list-style-type: none"> <li>- Development of the AMNT opportunity could divert Macmahon's focus from existing customer contracts.</li> </ul>	<ul style="list-style-type: none"> <li>- Macmahon will have a reasonable period of time to both prepare for the completion of the AMNT Transaction and to work in Phase 1 with AMNT to prepare for Full Operations (expected in the first half of calendar year 2018).</li> <li>- Macmahon's Board and management have already commenced planning for this transition in a way to ensure that existing operations are not unduly impacted by the introduction of the Mining Services Contract.</li> </ul>

38. See page 5 of the Investor Presentation released to ASX on 8 May 2017.

## 8. INFORMATION ABOUT THE AMNT PARTIES AND THEIR ASSOCIATES

### 8.1 Information about AMNT

AMNT is an Indonesian mining company which was incorporated on 27 November 1986, and operates the Batu Hijau Mine, which is one of several prospects in the concession held by AMNT on the island of Sumbawa, Nusa Tenggara, Indonesia.

The Batu Hijau Mine is the second largest operating copper-gold mine in Indonesia and a world class asset that commenced production in 2000.

Since commencing production in 2000, the Batu Hijau Mine has produced approximately 8 million ounces of gold and 3.6 million tonnes of copper. Based upon the existing Batu Hijau open-pit mine plan, AMNT has assessed the mine life until at least 2025, followed by processing of long-term stockpiles until at least 2031. Importantly, AMNT considers there to be significant expansion potential through the development of the Elang deposit and the Nangka prospect, which are currently under assessment by AMNT.

In calendar year 2016, Batu Hijau produced approximately 216,000 tonnes of copper and approximately 800,000 ounces of gold. AMNT has a large fleet of mining equipment at the site with estimated capacity of 200 million tonnes per annum. The Batu Hijau facilities include a processing plant with a design capacity of 120,000 tonnes per day, a 112 mega watt coal-fired power plant, a port with ferry terminal, air services and an established town site.

As at 31 December 2016 AMNT had net assets exceeding US\$2.5 billion (unaudited).

#### *Ownership of AMNT*

AMNT's major shareholder is AMI, with a shareholding interest of 82.2% in AMNT.

The shareholders of AMI are:

- AM Investama (as to 0.01%); and
- AM Mineral Ventura (as to 99.99%).

The major shareholders of AM Investama and AM Mineral Ventura (and indirectly through AM Investama and AM Mineral Ventura, AMI) are:

- API (as to 50%), a private investment company (which is further described below); and
- MedcoEnergi (as to 50%), which is a publicly listed integrated energy company headquartered in Indonesia. MedcoEnergi is further described below.

Further information about API and MedcoEnergi is set out in Sections 8.2 and 8.4 below.

The sole director of each of AMI, AM Investama and AM Mineral Ventura is Mr Agus Projosasmito and the sole commissioner is Mr Aditya Sasmito.

In November 2016, AMI acquired its 82.2% interest in the Batu Hijau Mine from (among others) the Newmont Mining Corporation and Sumitomo Corporation (a Japanese corporation), for total payments of approximately US\$1,475 million, and contingent payments of approximately US\$658 million, tied to higher copper prices and any future development of the Elang deposit.

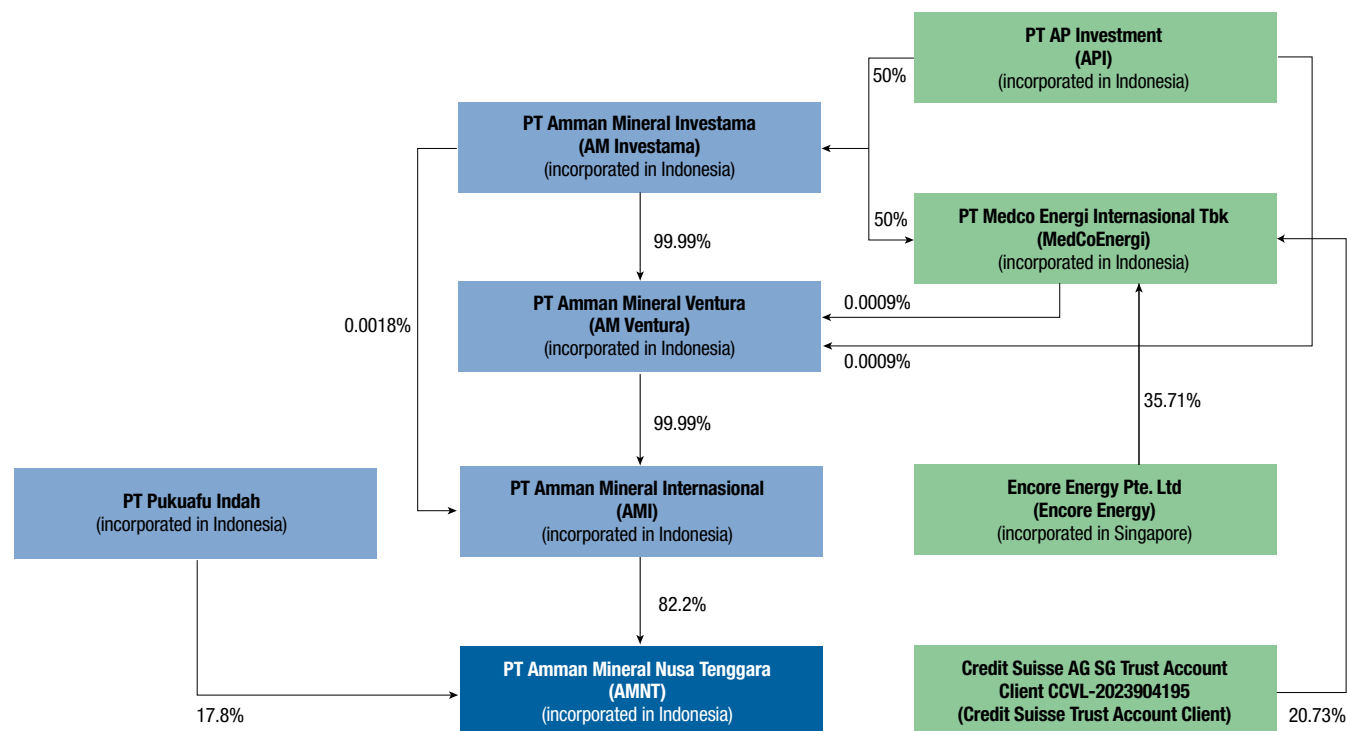
AMNT's minority shareholder is PT Pukuafu Indah, with a shareholding interest of 17.8%. PT Pukuafu Indah is effectively owned by five individuals who are Indonesian nationals, Musana Hermana Agustina Merukh (as to 20%), Lucky Yustiarti Merukh (as to 20%), Nunik Elizabeth Merukh (as to 20%), Rudolf Johaness Merukh (as to 20%) and Ninuk Herlina Merukh, SH (as to 20%).

An organisational chart showing the ownership structure of AMNT is set out below.

## Explanatory Statement *continued*

DIAGRAM 1: OWNERSHIP STRUCTURE OF AMNT

AMNT Ownership Structure



### Board of directors and management of AMNT

The directors of AMNT and their relationships with shareholders of AMNT are as follows:

Director	Position	Nominee of shareholder of AMNT
Mr Rachmat Makkasau	President Director – executive	No
Mr Agus Projosasmito	Vice President Director – non-executive	Yes, API
Mr Alexander Ramlie	Director – executive	No
Mr Naveen Chandralal	Director – executive	No
Mr David Gibbs	Director – executive	No
Mr Muhammad Lutfi	Commissioner – non-executive	No

Further information about Mr Agus Projosasmito is set out in Section 8.3. Mr Projosasmito is the controller of 60% of the shares in API, which holds (indirectly through AM Investama and AM Mineral Ventura) 50% of the shares in AMI, AMNT's largest shareholder. MedcoEnergi also holds (indirectly through AM Investama and AM Mineral Ventura) 50% of the shares in AMI.

Further information about Mr Alexander Ramlie, who is proposed to be appointed to the Board of Macmahon on completion of the AMNT Transaction is set out in Section 8.9.

### 8.2 Information about API

API is an Indonesian private investment company holding investments in a number of industries in Indonesia, including mining. API is owned by three individuals who are Indonesian nationals, Aditya Sasmito (as to 20%), Adrian Wicaksono (as to 20%) and Agus Projosasmito (as to 60%).

The directors of API comprise Agus Projosasmito (President Director), Adrian Wicaksono and Aditya Sasmito.

### 8.3 Information about Agus Projosasmito

Mr Agus Projosasmito is a director of AMNT, AMI, AM Investama, AM Mineral Ventura and API.

Mr Projosasmito is an entrepreneur who is well-known within the Indonesian business community. He currently serves as President Director/Chief Executive Office of PT Ithaca Resources and PT Maduma Coal Energy, both of which are coal mine concession holders and operators, and as President Commissioner/Chairman of PT Nusantara Mahabakti, a money brokerage firm, and PT NC Securities, a securities brokerage company. He is a shareholder in all four businesses.

In Ithaca Resources, Mr Projosasmito is a partner of Mr Anthony Salim, the current patriarch of the Salim Group.

Some of the other notable businesses where Mr Projosasmito has been a shareholder include Star Energy, an oil and gas company, where he was co-founder. Star Energy was established in 2003 to acquire the Kakap Production Sharing Contract, and its operating rights, from Conoco Phillips. Kakap is located in the Natuna Sea, 486km northeast of Singapore and 1,247km north of Jakarta, covering over 2,000 square kilometres in two separate blocks. Kakap currently produces close to 4,000 barrels of oil and condensates today.

Star Energy, led by Mr Projosasmito and other partners, subsequently acquired Wayang Windu Power Generation (**Wayang Windu**) in 2004, a power generation concession managed under a Joint Operation Contract with Pertamina to develop geothermal resources within a 12,960 hectare contract area, from Deutsche Bank and Credit Suisse, with an enterprise value of more than US\$500 million. Wayang Windu at that time operated a geothermal power generation facility, and its concession is located 40 km south of Bandung in West Java, producing 110MW of electricity.

Mr Projosasmito started his career in banking and capital markets, and has served in various senior positions in financial institutions in Indonesia, such as Vice President Director/Deputy CEO of PT DBS Securities Indonesia, and Director and Head of Capital Markets of PT Danareksa (Persero), an Indonesian state-owned financial services institution.

### 8.4 Information about MedcoEnergi

MedcoEnergi is a publicly-listed integrated energy company focusing on oil and gas exploration and production in Indonesia. MedcoEnergi is listed on the Indonesia Stock Exchange and is the second largest oil and gas exploration and producing company in Indonesia.

In addition to its oil and gas activities, MedcoEnergi is also involved in power generation, renewable fuels, chemicals and other energy-related fields, such as electricity, liquefied petroleum gas (LPG) processing, trading and distribution of high speed diesel, gas transportation and coal mining.

MedcoEnergi's largest shareholder (as to 35.71%) is Encore Energy, a company associated with the Panigoro family, the founders of MedcoEnergi. Credit Suisse is the second largest shareholder of MedcoEnergi (as to 20.73%).

### 8.5 Information about AMC

AMC has been appointed by AMNT to subscribe for the Consideration Shares, which will represent approximately 44.3% of the expanded share capital in Macmahon at completion of the AMNT Transaction.

The directors of AMC are Alexander Ramlie and Arief Sidarto, who are executives of AMNT.

As at the date of this Notice, AMC is owned as follows:

- a. AMS, a subsidiary of AMNT (as to 95%); and
- b. Benete, a subsidiary of API (as to 5%).

As at the date of Completion of the AMNT Transaction, AMC will be owned and controlled as follows:

- a. AMS, a subsidiary of AMNT (as to 65%); and
- b. Benete, a subsidiary of API (as to 35%).

On Completion of the AMNT Transaction, AMC will be ultimately controlled as follows:

- a. by Agus Projosasmito and API through:
  - i. Agus Projosasmito's 60% shareholding interest in API and API's 50% (indirect) shareholding interest in AMI, which holds 82.2% in AMNT (which will hold 65% of AMC through its subsidiary AMS); and
  - ii. API's wholly owned subsidiary, Benete (which will hold 35% of AMC); and
- b. by MedcoEnergi through its 50% (indirect) shareholding interest in AMI, which holds 82.2% in AMNT (which will hold 65% of AMC through its subsidiary AMS).

# Explanatory Statement *continued*

Organisational charts showing the structure and ownership of the AMNT Group and the AMNT Upstream Parties, both prior to and following Completion of the AMNT Transaction, are set out below.

DIAGRAM 2: STRUCTURE AND OWNERSHIP OF THE AMNT GROUP AND THE AMNT UPSTREAM PARTIES PRIOR TO COMPLETION OF THE AMNT TRANSACTION

ACM organisational structure prior to Completion of AMNT Transaction

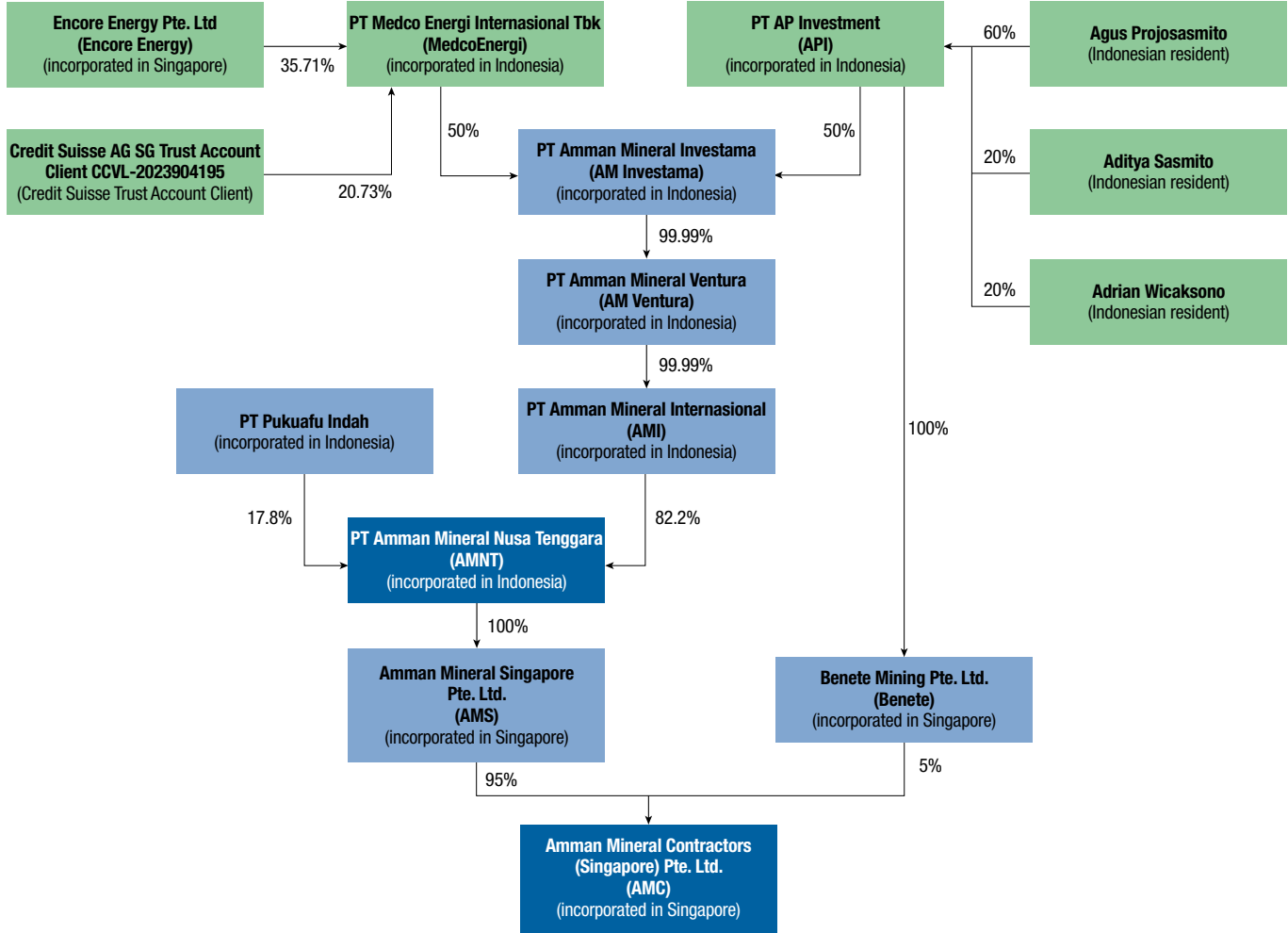
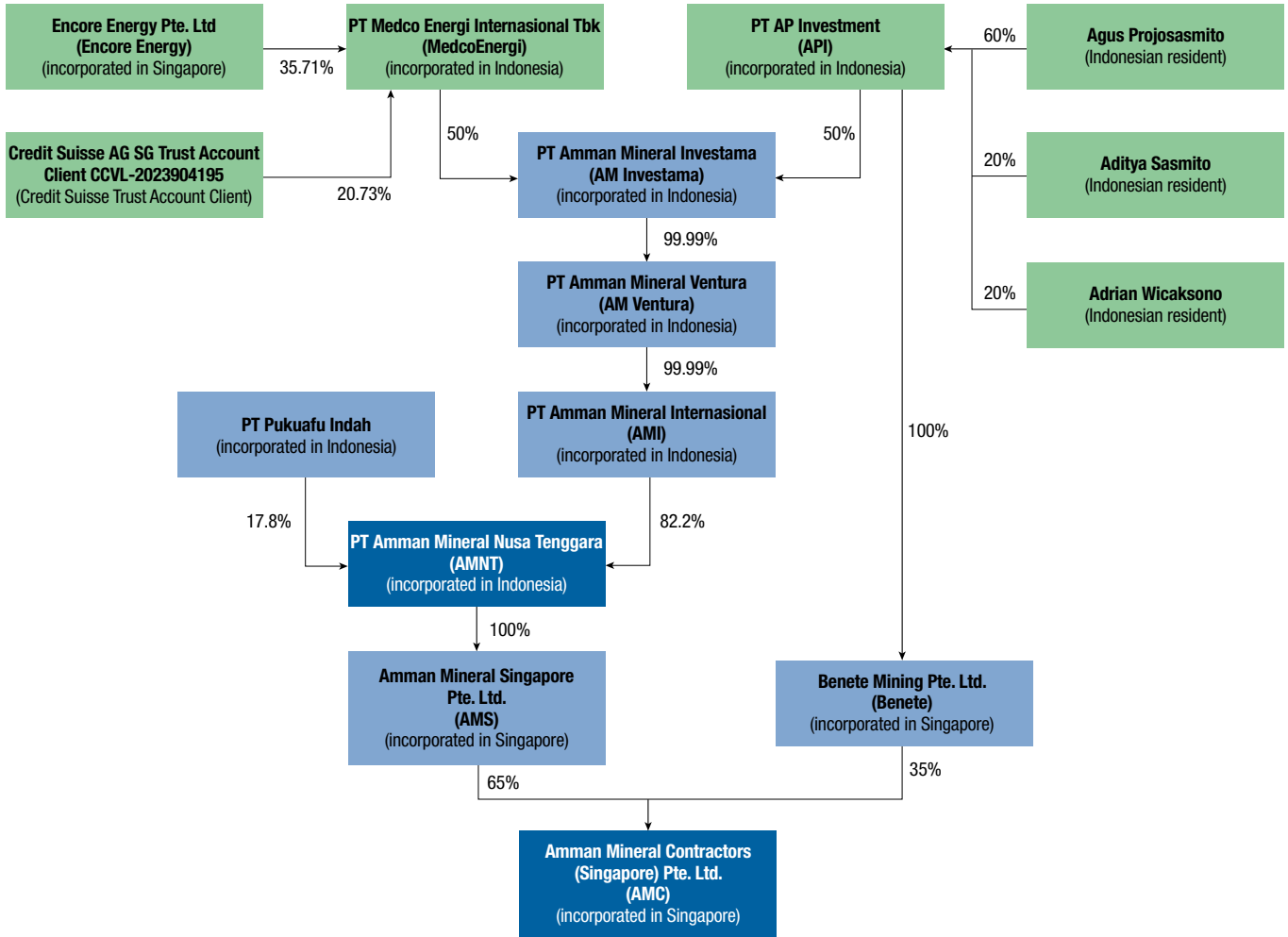


DIAGRAM 3: STRUCTURE AND OWNERSHIP OF THE AMNT GROUP AND THE AMNT UPSTREAM PARTIES FOLLOWING COMPLETION OF THE AMNT TRANSACTION

AMC organisational structure following Completion of AMNT Transaction



**8.6 Information about Encore Energy and Credit Suisse**

Encore Energy is the largest shareholder of MedcoEnergi (as to 35.71%). It is a private company associated with the Panigoro family of Indonesia, the founders of MedcoEnergi. Credit Suisse is the second largest shareholder of MedcoEnergi (as to 20.73%).

## Explanatory Statement *continued*

### 8.7 Voting power of AMNT and its associates

On completion of the AMNT Transaction, AMNT and associates of AMNT will have, or be deemed under the Corporations Act to have, voting power in Macmahon as follows:

Person	Nature of Relevant Interest/ Association	Present voting power in Macmahon	Voting power/deemed voting power in Macmahon on completion of the AMNT Transaction
AMC	Subsidiary of AMS, AMNT and AMI Power to control the exercise of rights to vote attached to 954,064,924 Macmahon Shares	0%	44.3%
AMS	Subsidiary of AMNT and AMI Controller and shareholder of AMC (as to 65%)	0%	44.3%
AMNT	Parent of AMS Controller of AMS Controlled by AMI	0%	44.3%
AMI	Controller and shareholder of AMNT (82.2%) Controlled by AM Mineral Ventura	0%	44.3%
AM Mineral Ventura	Controller of AMI Controlled by AM Investama	0%	44.3%
AM Investama	Controller of AM Mineral Ventura	0%	44.3%
API	Shareholder of AMI (50%) and controller of Benete	0%	44.3%
MedcoEnergi	Shareholder of AMI (50%)	0%	44.3%
Benete	Subsidiary of API Shareholder of AMC (35%)	0%	44.3%
Agus Projosasmito	Controller and shareholder of API (60%) Director API, AMI, AM Investama, AM Ventura and AMNT	0%	44.3%
Encore Energy	Shareholder of MedcoEnergi (35.71%)	0%	44.3%
Credit Suisse	Shareholder of MedcoEnergi (20.73%)	0%	44.3%

In addition, the parties to the Alliance Agreement (Macmahon, AMNT, API and the Subscriber) may be deemed associates because the Alliance Agreement is a "relevant agreement" which influences the composition of Macmahon's board.

On Completion of the AMNT Transaction, each of AMNT and its associates (including those identified in the table above) will have or be deemed to have:

- a relevant interest in 954,064,924 Macmahon Shares (representing 44.3% of the total Macmahon Shares on issue on completion of the AMNT Transaction); and
- the same voting power in Macmahon Shares that AMC has, i.e. 44.3%.

None of AMNT and its associates as identified in the above table hold any Macmahon Shares as at the date of this Notice of Meeting.

## 8.8 Intentions of the AMNT Parties and their associates

### Introduction

This Section sets out the AMNT Group's intentions and, to the extent known to the AMNT Group, the intentions of each of the AMNT Parties in relation to Macmahon, on the basis of the facts and information concerning Macmahon known to any of the AMNT Parties and the existing circumstances affecting the business of Macmahon, in relation to the following:

- the continuation of the business of Macmahon;
- any major changes to be made to the business of Macmahon, including any redeployment of the fixed assets of Macmahon; and
- the future employment of the present employees of Macmahon.

The primary intention of the AMNT Parties is to maximise the value of Macmahon for all Shareholders over the long term.

### Intentions upon issue of the Consideration Shares

If Completion occurs and the Consideration Shares are issued, then the intentions of the AMNT Parties are as follows:

#### a. Intentions regarding Macmahon's business

Other than as a consequence of the AMNT Transaction and Macmahon's entry into the Mining Services Contract with AMNT, the AMNT Parties have no present intention to make any material changes to Macmahon's business following Completion of the AMNT Transaction.

#### b. ASX listing

It is the intention of the AMNT Parties that the existing listing of Macmahon and the quotation of Shares on the Australian Securities Exchange continue.

#### c. Board independence to be maintained

It is the intention of the AMNT Parties that Macmahon maintains a strong board of directors that operates independently of, and separately to, the AMNT Group and which comprises a majority of independent Directors.

AMC will seek the appointment of two executives of AMNT, being Mr Alexander Ramlie and Mr Arief Sidarto, to the Macmahon Board.

It is anticipated that immediately following completion of the AMNT Transaction, the Board will consist of a total of 6 directors, including AMNT's nominee Directors, comprising:

Mr Jim Walker – Independent Non Executive Chairman

Mr Giles Everist – Independent Non Executive Director

Ms Eva Skira – Independent Non Executive Director

Mr Vyiril Vella – Independent Non Executive Director

Mr Alexander Ramlie – Non Executive Director (nominee of AMC)

Mr Arief Sidarto – Non Executive Director (nominee of AMC)

Further details of AMC's nominee Directors to be appointed to the Board on completion of the AMNT Transaction are set out in Section 8.9. Further details of the AMNT Group's rights to nominate nominee Directors are set out in Section 4.3.

Committees to oversee audit, remuneration and appointments will be chaired by independent non-executive directors.

Nominees of AMC to the Macmahon board (being initially Messrs Ramlie and Sidarto) who are not independent will excuse themselves from Board deliberations over certain resolutions involving matters conflicting with the interests of AMC's nominee Directors or the AMNT Group. AMNT further expects that in some circumstances the Macmahon Board may require independent legal and financial advice on material dealings with the AMNT Group to determine whether terms are fair and reasonable and to ensure they are at arms' length.

With effect from Completion, the Board has also adopted a Nominee Conflict and Confidentiality Protocol which provides a framework which is intended to facilitate compliance with applicable laws relating to conflicts of interests and duties in relation to AMC's nominee Directors. The AMC nominee Directors must also acknowledge and agree to adopt the Nominee Conflict and Confidentiality Protocol, prior to their appointment. Further details of the corporate governance requirements agreed with Macmahon are set out in Sections 4.3 and 4.6 of this Notice. Also, a copy of the Nominee Conflict and Confidentiality Protocol is annexed to the Implementation Deed (released to ASX on 8 May 2017), and is also available on the Company's website at: [http://mah.live.irmau.com/irm/PDF/1734\\_0/BindingdocumentationsignedforAMNTtransaction](http://mah.live.irmau.com/irm/PDF/1734_0/BindingdocumentationsignedforAMNTtransaction)

The AMC nominee Directors will be obliged to comply with their legal obligations, such as to act in good faith, in the best interests of Macmahon and for proper purposes, and to have regard to the interests of Macmahon and all of its Shareholders.

#### d. Registered office and operational management of Macmahon

It is the intention of the AMNT Parties that Macmahon's management continues to operate independently of the AMNT Group and that the registered office of Macmahon and the effective place of management will remain in Perth, Western Australia for the foreseeable future.



## Explanatory Statement *continued*

### e. Further capital injections

The AMNT Parties do not have any present intention to inject further capital into Macmahon. However, following Completion of the AMNT Transaction the AMNT Parties will consider on a case by case basis any requests by Macmahon for further capital.

### f. Future employment of the present employees of Macmahon

The AMNT Parties do not have any present intention to make any changes to the employment of Macmahon's present employees following Completion of the AMNT Transaction.

### g. Transfer of property between Macmahon and AMNT Group

Other than as contemplated by the AMNT Transaction, the AMNT Parties do not have any present intention to transfer any property between Macmahon and the AMNT Parties following Completion of the AMNT Transaction.

### h. Redeployment of Macmahon's fixed assets

The AMNT Parties do not have any present intention to redeploy any of Macmahon's fixed assets following Completion of the AMNT Transaction.

### i. Financial and dividend policies

The AMNT Parties do not have any present intention to change the financial or dividend policies of Macmahon.

## 8.9 Proposed Directors

If Resolution 1 is approved, the other Conditions Precedent under the Implementation Deed are fulfilled or waived and Completion occurs, from Completion AMC is entitled (under the Alliance Agreement) to appoint up to two nominees to the Board.

It is proposed that AMC's initial nominees will be Alexander Ramlie and Arief Sidarto (which nominees are generally subject to change at AMC's discretion and to retirement by rotation as required by the Constitution and the Listing Rules). Messrs Ramlie and Sidarto will be appointed to the Board as soon as practicable after Completion but will stand for election at Macmahon's next annual general meeting.

The following information is provided in respect of each of Alexander Ramlie and Arief Sidarto:

### Alexander Ramlie

<b>Proposed role</b>	– Non-executive Director
<b>Expertise and qualifications</b>	<ul style="list-style-type: none"> <li>– Alex is a Director of AMNT.</li> <li>– Prior to becoming a director of AMNT, Alex was the President Director and Chief Executive Officer of PT Borneo Lumbung Energi &amp; Metal Tbk from 2011 to 2015. Borneo operates a hard coking coal mine in Tuhup, Central Kalimantan, which is held by its wholly-owned subsidiary, PT Asmin Koalindo Tuhup.</li> <li>– Between 2012 and 2015, Alex was also a Director of Bumi PLC, a Vice-President Commissioner/ Vice-Chairman of PT Berau Coal Energy Tbk and its subsidiary, PT Berau Coal, and held Commissioner positions in PT Bumi Resources Tbk, PT Kaltim Prima Coal, and PT Arutmin Indonesia.</li> <li>– Before entering the mining industry in 2011, Alex was a private equity professional and was Managing Director of Ancora Capital Management Pte. Ltd., an Indonesia-focused private equity fund.</li> <li>– Alex began his career as an investment banker at Lazard Frères &amp; Co and has a Bachelor of Arts and a Master of Arts in Economics from Boston University.</li> </ul>
<b>Affiliations</b>	<ul style="list-style-type: none"> <li>– Director and executive employee of AMNT.</li> <li>– Alexander Ramlie is also a director of the following private companies: <ul style="list-style-type: none"> <li>– PT Amman Mineral Nusa Tenggara (an Indonesian entity)</li> <li>– Shweggen Asia Pte Ltd (a Singapore entity)</li> <li>– Benete International Trading FZE (a Dubai, UAE entity)</li> <li>– Amman Mineral Contractors (Singapore) Pte. Ltd. (a Singapore entity)</li> <li>– Amman Mineral Singapore Pte. Ltd. (a Singapore entity)</li> <li>– Benete Mining Pte. Ltd.(a Singapore entity)</li> <li>– Nusa Tenggara Mining Services Contractors Pte. Ltd. (a Singapore entity)</li> <li>– Phase Seven Contractors Pte. Ltd. (a Singapore entity)</li> </ul> </li> </ul>
<b>Interests in Macmahon Shares</b>	– Nil
<b>Intentions in relation to Macmahon</b>	– Alexander Ramlie has the same intentions in relation to Macmahon as the AMNT Group (as described in Section 8.9).

*Arief Widyan Sidarto*

<b>Proposed role</b>	- Non-executive Director
<b>Expertise and qualifications</b>	<ul style="list-style-type: none"> <li>- Arief is the Chief Financial Officer of AMNT.</li> <li>- Arief's qualifications include an MBA from Harvard Business School and two bachelor degrees with summa cum laude from The Wharton School of Finance and The Engineering School of the University of Pennsylvania.</li> <li>- Prior to joining AMNT in April 2017, Arief has had the following roles: <ul style="list-style-type: none"> <li>- Managing Director and Member of the Board of PT Rajawali Corpora, the holding company of a diversified business group with businesses, among others, palm plantation (IDX-listed), gold mining, coal mining (IDX-listed) and other mining assets, properties (St Regis, Four Seasons, Sheraton, etc.), transportation (IDX-listed), infrastructure (IDX-listed), and ad agency (IDX-listed); member of Finance and Investment Committee, Ethics Committee and Audit &amp; Risk Management Committee.</li> <li>- Managing Partner of Samuel Group from 2009 to 2015. Concurrently, Managing Director of Wellspring Capital Partners from 2010 to 2014.</li> <li>- Previously with Goldman Sachs New York in 1991 in its Structured Finance Division; relocated to Hong Kong and subsequently to Singapore to run investment banking and corporate finance as Chief Operating Officer. Responsible for deal execution (M&amp;As, LBOs, restructuring, debt and equity capital raisings), select client relationships and cross selling (commodities, asset-liability management products). Member of Goldman Sach's Commitments Committee.</li> </ul> </li> </ul>
<b>Affiliations</b>	<ul style="list-style-type: none"> <li>- Director and Chief Financial Officer of AMNT.</li> <li>- Arief Sidarto is also a director of the following private companies: <ul style="list-style-type: none"> <li>- In-Sing Minerals Pte. Ltd. (a Singapore entity)</li> <li>- Goodearth Universal Pte. Ltd. (a Singapore entity)</li> <li>- Amman Mineral Contractors (Singapore) Pte. Ltd. (a Singapore entity)</li> <li>- Amman Mineral Singapore Pte. Ltd. (a Singapore entity)</li> <li>- Benete Mining Pte. Ltd. (a Singapore entity)</li> <li>- Nusa Tenggara Mining Services Contractors Pte. Ltd. (a Singapore entity)</li> <li>- Phase Seven Contractors Pte. Ltd. (a Singapore entity)</li> </ul> </li> </ul>
<b>Interests in Macmahon Shares</b>	- Nil
<b>Intentions in relation to Macmahon</b>	- Arief Sidarto has the same intentions in relation to Macmahon as the AMNT Group (as described in Section 8.9).

**8.10 Further information**

The AMNT Group is not aware, and (to the extent known to the AMNT Group) none of the AMNT Parties are aware, of any additional information not set out in this Notice that would be relevant to Shareholders in deciding how to vote on the Resolution.

## Explanatory Statement *continued*

### 9. INFORMATION ABOUT THE CUSTODIAN

The Custodian is Perpetual Corporate Trust Limited (ABN 99 000 341 533). The Custodian was appointed, and will hold the Consideration Shares, pursuant to the terms of the Escrow Deed, which is summarised at Section 4.4.

#### 9.1 The Custodian's business

The Custodian is a wholly owned subsidiary of Perpetual Limited (**Perpetual**) and a part of the Perpetual group, which is an independent and diversified financial services group providing specialised investment management, personal wealth advisory and corporate fiduciary services.

Perpetual is one of Australia's largest wealth managers, and a leading provider of corporate trustee services. Perpetual's clients include Australian and international institutions, not-for-profit organisations, small businesses, financial advisers, individuals and families. Perpetual Limited listed on the Australian Securities Exchange (ASX:PPT) in 1964 and has offices in Sydney, Canberra, Melbourne, Brisbane, Adelaide and Perth.

Perpetual's three core businesses are Perpetual Investments, Perpetual Private and Perpetual Corporate Trust. Perpetual Corporate Trust is the leading provider of corporate trustee services to the funds management sector and debt capital markets in Australia, providing a range of agency and escrow services. Perpetual acts as an independent party, holding assets on trust for the benefit of all parties in an escrow arrangement.

#### 9.2 Associates of the Custodian

As noted above, the Custodian is a part of the Perpetual group. Perpetual has a number of subsidiary and controlled entities, details of which can be located in Perpetual's public disclosures (including its annual report to shareholders as released to ASX). A number of the significant Perpetual subsidiaries include Australian Trustees Limited, Fordham Business Advisors Pty Ltd, Grosvenor Financial Services Pty Limited, the Trust Company Limited, Perpetual Acquisition Company Limited and Perpetual Asset Management Ltd.

#### 9.3 Board of directors and management of the Custodian

As at the date of this Notice, the directors and the members of the senior management team of the Custodian are:

a. Christopher Green (Group Executive Perpetual Corporate Trust)

Mr Green was appointed as a PTCL director in October 2008. Mr Green joined Perpetual Limited in 2006 and has held the roles of General Manager — Trust & Fund Services, and from 2008, Group Executive Corporate Trust;

b. Rodney Garth Ellwood (General Manager Debt Market Services)

Mr Ellwood was appointed as a PTCL director in February 2017. Mr Ellwood is General Manager — Debt Market Services and has responsibility for all debt market transactions;

c. Gillian Larkins (Chief Financial Officer)

Ms Larkins was appointed as a PTCL director in January 2016. Ms Larkins joined Perpetual as Group Executive Transformation Office in October 2012, and assumed the role of Chief Financial Officer in January 2013;

d. Glenda Charles (Deputy Company Secretary Corporate Services)

Ms Charles was appointed as a PTCL director in October 1996. Ms Charles joined Perpetual in 1994 and was appointed Assistant Company Secretary of Perpetual in 1999 and Deputy Company Secretary in 2009; and

e. Sylvie Dimarco (Assistant Company Secretary Corporate Services)

Ms Dimarco was appointed as a PTCL director in January 2015. Ms Dimarco was appointed as co-Company Secretary of TTCSAL on 17 December 2015.

#### 9.4 Role and interest of the Custodian

The Custodian will hold, and deal with, the Consideration Shares as strictly contemplated by the Escrow Deed (see Section 4.4). The Custodian has no duty to otherwise make decisions in respect of the Consideration Shares and is not obliged to consider the suitability of the Consideration Shares as an investment for AMC. The Custodian must not vote on any Macmahon shareholder resolution other than in accordance with the directions of AMC under the Escrow Deed (and only where permitted under the Escrow Deed). As a bare trustee under the Escrow Deed, the Custodian itself will not acquire any relevant interest in Macmahon shares as a result of the application of section 609(2) of the Corporations Act.

## 10. INFORMATION ABOUT MACMAHON

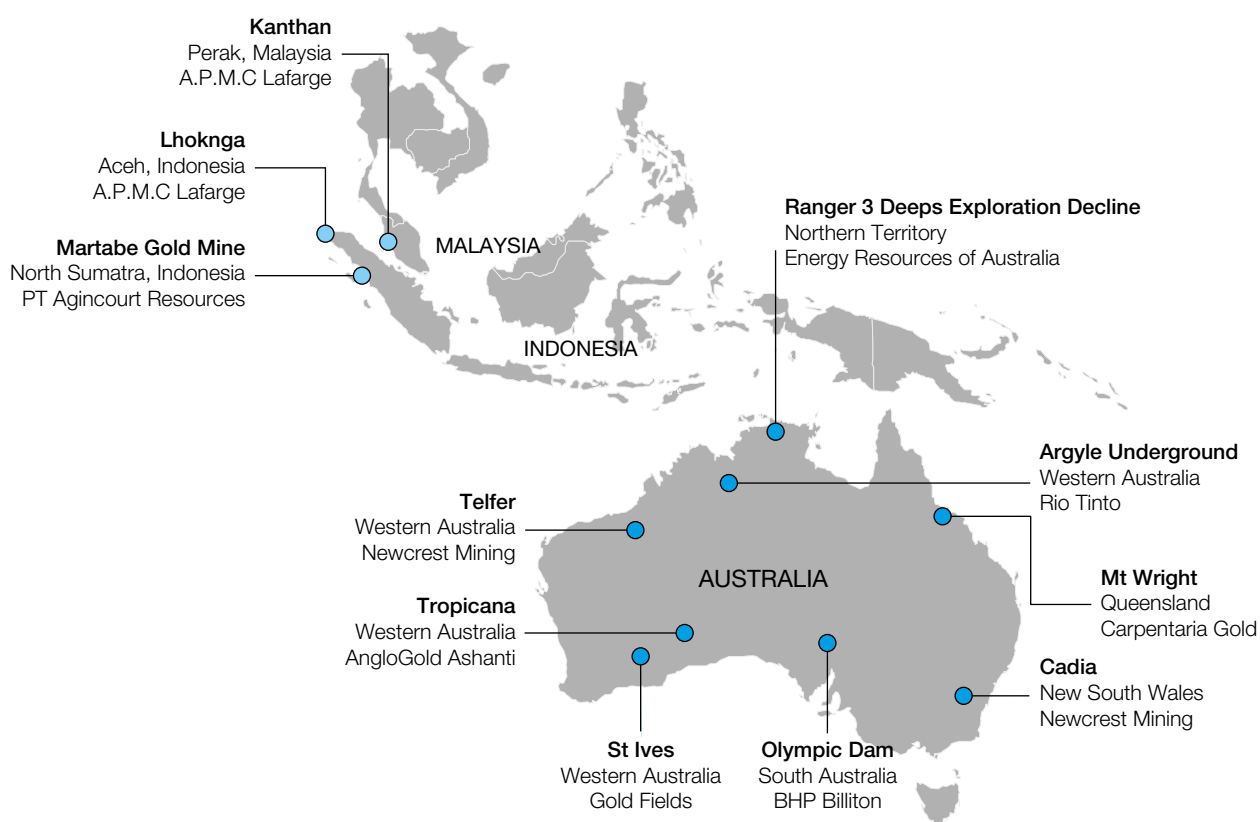
Macmahon is an Australian based contractor offering a range of mining services in Australia and internationally.

Macmahon was listed on ASX on 1 December 1983 (ASX code: MAH), currently employs approximately 1,600 people and operates its head office from Perth, Western Australia.

As at the last practicable date before finalisation of this Notice, being 6 June 2017, Macmahon has 1,200,920,894 Shares on issue and a market capitalisation of approximately \$186 million (based on the closing trading price on ASX on 6 June 2017 of \$0.155 per Share).

### 10.1 Map of current Macmahon operations

Macmahon's operations are primarily based in Australia, with a growing focus on Southeast Asia.



### 10.2 Board of directors of Macmahon

As at the date of this Notice, the Directors of Macmahon are:

- Jim Walker (Independent Non-Executive Chairman);
- Giles Everist (Independent Non-Executive Director);
- Eva Skira (Independent Non-Executive Director); and
- Vyril Vella (Independent Non-Executive Director).

## Explanatory Statement *continued*

### 10.3 Macmahon management team

As at the date of this Notice, Macmahon's management team comprises:

- a. Michael Finnegan (Chief Executive Officer);
- b. José Martins (Chief Financial Officer);
- c. Greg Gettingby (General Counsel & Company Secretary);
- d. Dan Peel (Operations Manager Surface Mining);
- e. James Glover (Underground Operations Manager);
- f. Russell Taylor (General Manager Surface Mining Australia);
- g. Michael Fisher (Operations Manager Mining Indonesia);
- h. David Van Den Berg (Chief Technology and Innovation Officer);
- i. Mark Hatfield (General Manager Maintenance);
- j. Katherine Blacklock (Human Resources Manager); and
- k. Kale Ross (Manager HSEQ).

### 10.4 Substantial holders

As at 6 June 2017, being the last practicable date prior to finalisation of this Notice, based on the substantial shareholder notices provided to, or other information known to, Macmahon, the substantial holders of Shares are:

Name of substantial holder	Number of Shares	Percentage shareholding based on current issued Shares
CIMIC Group Investments Pty Limited	283,944,229	23.64%
Forager Funds Management Pty Ltd	116,758,286	9.72%
Schroder Investment Management Australia Limited	62,545,555	5.21%

Upon Completion, the substantial holders of Shares will be:

Name of substantial holder	Number of Shares held as at the date of this Notice	Number of Shares held following Completion <sup>39</sup>	Percentage shareholding based on issued Shares following Completion
AMC	Nil	954,064,924	44.27%
CIMIC Group Investments Pty Limited	283,944,229	283,944,229	13.18%
Forager Funds Management Pty Ltd	116,758,286	116,758,286	5.42%
Schroder Investment Management Australia Limited	62,545,555	62,545,555	2.90%

39. Assuming there is no change to the holdings of CIMIC Group Investments Pty Limited, Forager Funds Management Pty Ltd and Schroder Investment Management Australia Limited from the date of this Notice and no other new substantial holders.

## 10.5 Intentions on issue of the Consideration Shares

This Section sets out Macmahon's intentions (which in this Section are the current Directors' intentions), if Completion occurs and the Consideration Shares are issued, in relation to the following:

- the continuation of the business of Macmahon;
- any major changes to be made to the business of Macmahon, including any redeployment of the fixed assets of Macmahon; and
- the future employment of the present employees of Macmahon.

Macmahon's intentions are being disclosed in this Explanatory Statement because of the technical relevant interest in the Consideration Shares that Macmahon is proposed to obtain by operation of the Escrow Deed and the Alliance Agreement.

The primary intention of Macmahon is to maximise the value of Macmahon for all Shareholders over the long term. Statements referred to in this Section 10.5 are statements of current intention only which may change as new information becomes available or circumstances change. The statements referred to in this Section 10.5 should be read in this context and in light of the statements of intention of the AMNT Parties in Section 8.9.

### a. Intentions regarding Macmahon's business

Other than as a consequence of the AMNT Transaction and Macmahon's entry into the Mining Services Contract with AMNT, Macmahon has no present intention to make any material changes to Macmahon's business following Completion of the AMNT Transaction. Macmahon proposes to continue to pursue its announced strategies, including as set out on page 12 of the recent Investor Presentation.

### b. ASX listing

It is the intention of Macmahon that the existing listing of Macmahon and the quotation of Shares on the Australian Securities Exchange continue.

### c. Board independence to be maintained

It is the intention of Macmahon that Macmahon maintains a strong board of directors that operates independently of, and separately to, the AMNT Group and which comprises a majority of independent Directors. Further details relating to these matters are set out in Sections 4.3, 4.6 and 8.8(c) of this Notice.

### d. Registered office and operational management of Macmahon

It is the intention of Macmahon that Macmahon's management continues to operate independently of the AMNT Group and that the registered office of Macmahon and the effective place of management will remain in Perth, Western Australia for the foreseeable future.

### e. Further capital injections

Macmahon does not have any present intention to seek further injections of capital into Macmahon, but will continue to assess its capital requirements and will make decisions as to future capital raising activities based on its needs at the relevant time (including as to the form of any capital raising and the likely investors who may participate).

### f. Future employment of the present employees of Macmahon

Macmahon does not have any present intention to make any changes to the employment of Macmahon's present employees following Completion of the AMNT Transaction.

### g. Transfer of property between Macmahon and AMNT Group

Other than as contemplated by the AMNT Transaction, Macmahon does not have any present intention to transfer any property between Macmahon and the AMNT Parties following Completion of the AMNT Transaction.

### h. Redeployment of Macmahon's fixed assets

Macmahon does not have any present intention to redeploy any of Macmahon's fixed assets following Completion of the AMNT Transaction.

### i. Financial and dividend policies

Macmahon does not have any present intention to change the financial or dividend policies of Macmahon.

## Explanatory Statement *continued*

### 11. IMPACT ON AND BENEFITS FOR DIRECTORS AND MANAGEMENT

#### 11.1 Interests of the Directors in the AMNT Transaction

The Directors do not have a material personal interest in the outcome of the Resolution other than to the extent of their respective interests in Shares described below in this Section 11.1.

As at the date of this Notice of Meeting, the relevant interests of the Directors in Shares are as follows:

#### RELEVANT INTERESTS OF CURRENT DIRECTORS IN SHARES

Director	Number of Shares
Jim Walker	300,000 <sup>40</sup>
Giles Everist	100,000 <sup>41</sup>
Eva Skira	None
Vyrl Vella	1,357,842 <sup>42</sup>

As at the date of this Notice of Meeting, no Director had a relevant interest in any Macmahon Performance Rights.

Each of the Directors intends to vote in favour of the Resolution to the extent they own or control Shares.

#### 11.2 Proposed benefits to management

No special benefits to management (such as the vesting of Macmahon Performance Rights or additional payments) are proposed to be triggered by the AMNT Transaction.

#### 11.3 Corporate governance and Board independence

Macmahon will be obliged to comply with all applicable laws and the ASX Listing Rules in relation to any dealings between Macmahon and AMNT (including in relation to the Proposed Directors), including:

- seeking Shareholder approval for any transactions between Macmahon and AMNT Parties (or their associates) where required by any applicable law or the ASX Listing Rules (see further Section 12.5); and
- complying with applicable laws relating to conflicts of interest for directors and directors' exclusion from voting in relation to matters considered by the Board to give rise to a conflict or perceived conflict, including by operation of the Nominee Conflict and Confidentiality Protocol under which Macmahon, AMNT and the Proposed Directors have agreed that the Proposed Directors will not be present or vote on such matters. Refer to Section 4.6 for further information in relation to the Nominee Conflict and Confidentiality Protocol.

The Proposed Directors will be obliged to comply with their legal obligations, such as to act in good faith, in the best interests of Macmahon and for proper purposes, and to have regard to the interests of Shareholders and Macmahon as a whole.

40. The shares are held by BT Select Portfolio Pension Plan as trustee for James Allan Walker, registered owner BT Portfolio Services Ltd.

41. The shares are held by Mrs Sally Marjorie Everist as trustee for the Everist Family Trust. Mr Everist is a beneficiary of the trust.

42. The shares are held by Evercity Pty Ltd as trustee for the Vella Superannuation Fund. Mr Vella is a director of the trustee and a beneficiary of the trust.

## 12. ADDITIONAL INFORMATION FOR THE RESOLUTION

### 12.1 Regulatory requirements for the Resolution

Section 606(1) of the Corporations Act provides that a person must not (without an available exemption under the Corporations Act) acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to the securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's voting power in the listed company increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

Under section 608(1) of the Corporations Act, a person has a relevant interest in securities if they are the holder of the securities, have the power to exercise, or control the exercise of, a right to vote attached to the securities or have power to dispose of, or control the exercise of a power to dispose of, the securities. It does not matter how remote the relevant interest is, or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

If the Resolution is approved and the AMNT Transaction occurs, the issue of the Consideration Shares will result in a number of entities obtaining a relevant interest in Macmahon shares and will cause the voting power of a number of entities to exceed the 20% limit (set out above). The issue of Consideration Shares will therefore need to fit within an appropriate exemption from the prohibition on exceeding the 20% limit – see Section 12.2 below.

The following entities will obtain a relevant interest in 44.3% of Macmahon's shares as a result of the AMNT Transaction:

- AMC will acquire a 44.3% relevant interest in Macmahon as it will have the power to control the exercise of rights to vote attached to the Consideration Shares;
- each of AM Investama, AM Ventura, AMI, AMNT and AMS will be deemed to have a 44.3% relevant interest in Macmahon because AM Investama controls AM Ventura which in turn controls AMI which in turn controls AMNT which in turn controls AMS which in turn controls AMC (which has the relevant interest described above);
- each of API and MedcoEnergi will be deemed to have a 44.3% relevant interest in Macmahon, because they each hold more than 20% of AM Investama and are therefore deemed to hold the same relevant interest as AM Investama. API will also be deemed to have a 44.3% relevant interest in Macmahon because it controls Benete (which has the relevant interest described below);
- Benete will be deemed to have a 44.3% relevant interest because it holds more than 20% of the shares in AMC;
- Mr Agus Projosasmito will be deemed to have a 44.3% relevant interest in Macmahon because he controls API;
- Encore Energy will be deemed to have a 44.3% relevant interest in Macmahon because it holds 35.71% of the shares in MedcoEnergi (which has the relevant interest described above); and
- Credit Suisse will be deemed to have a 44.3% relevant interest in Macmahon because it holds 20.73% of the shares in MedcoEnergi (which has the relevant interest described above).

Another technical, legal effect of Completion is that Macmahon itself will also acquire a relevant interest in the Consideration Shares (and therefore a 44.3% relevant interest in Macmahon) because:

- Macmahon will be a party to the Escrow Deed under which the Consideration Shares will be held by the Custodian on escrow for a period of at least 30 months from issue of the Consideration Shares. Refer to Section 4.4 for a summary of the terms of the Escrow Deed;
- for the duration of the Alliance Agreement, Macmahon is party to orderly sale arrangements that restrict AMC from disposing of the Consideration Shares other than in accordance with the requirements specified in the Alliance Agreement. Refer to Section 4.3 for a summary of the terms of the Alliance Agreement; and
- for the duration of the Alliance Agreement, Macmahon is party to an agreement that contains provisions relation to the composition of the Macmahon board (which may be a "relevant agreement"), and therefore Macmahon may be deemed to be an associate of AMC (and the AMNT Parties),

(together, the **Macmahon Rights**).

Accordingly, because of the technical relevant interest that Macmahon would acquire in Shares by operation of the Escrow Deed and the Alliance Agreement (or as a result of being a deemed associate of AMC), Macmahon's technical voting power in Macmahon would exceed 20%, which means that Macmahon also needs to fit within an appropriate exemption from the prohibition on exceeding the 20% limit described above.



## Explanatory Statement *continued*

### 12.2 Section 611, Item 7 Approval

An exemption to the 20% limit is available under item 7 of section 611 of the Corporations Act. This section broadly provides that an acquisition approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from the prohibition in section 606(1), if:

- no votes are cast in favour of the resolution by:
  - the person proposing to make the acquisition and their associates; or
  - the persons (if any) from whom the acquisition is to be made and their associates; and
- the members of the company were given all information known to the person proposing to make the acquisition or their associates, or known to the company, that was material to the decision on how to vote on the resolution, including:
  - the identity of the person proposing to make the acquisition and their associates; and
  - the maximum extent of the increase in that person's voting power in the company that would result from the acquisition; and
  - the voting power that person would have as a result of the acquisition; and
  - the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and
  - the voting power that each of that person's associates would have as a result of the acquisition.

This Notice includes a voting prohibition statement restricting the Approval Parties and each of their associates from voting in favour of the Resolution. The information required under item 7 of section 611 of the Corporations Act is also set out in this Explanatory Statement.

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person, and the person's associates, have a relevant interest.

For the purposes of determining voting power under the Corporations Act, a person (**second person**) is an "associate" of the other person (**first person**) if:

- the first person is a body corporate and the second person is:
  - a body corporate the first person controls;
  - a body corporate that controls the first person; or
  - a body corporate that is controlled by an entity that controls the person;
- the second person has entered or proposed to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- the second person is a person with whom the first person is acting or has proposed to act, in concert in relation to the company's affairs.

Members of the corporate groups of each entity having a relevant interest will therefore be associates of the relevant entity (and will therefore acquire voting power equivalent to that held by the relevant entity).

The Resolution seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act, which can be passed by the approval of a simple majority of the votes validly cast by Shareholders (in person or by proxy or by representative) at the Meeting in accordance with applicable requirements.

The following information is provided to Shareholders:

#### a. The identity of the person proposing to make the acquisition and their associates

The Consideration Shares proposed to be issued pursuant to the Resolution are being issued to the Custodian to hold on escrow for AMC.

The following persons will acquire a 44.3% relevant interest in the Consideration Shares:

- |                      |                 |                      |
|----------------------|-----------------|----------------------|
| – AMC;               | – AMS;          | – AMNT;              |
| – AMI;               | – AM Ventura    | – AM Investama;      |
| – API;               | – MedcoEnergi;  | – Benete;            |
| – Agus Projosasmito; | – Encore Energy | – Credit Suisse; and |
| – Macmahon.          |                 |                      |

See Section 8 for further information about the AMNT Parties and the identities of their associates.

See Section 10 for further information about Macmahon and the identity of Macmahon's associates.

**b. The maximum extent of the increase in that person's voting power in the Company and the voting power that would result from the acquisition**

As at the date of this Notice, none of the AMNT Parties nor the Custodian nor Macmahon has any voting power in Macmahon.

If the Resolution is approved and the AMNT Transaction occurs, all of the Approval Parties will have or be deemed to have voting power of 44.3% in Macmahon.

That voting power is not anticipated to be diluted by any vesting of existing Macmahon Performance Rights because there are, at the date of this Notice, sufficient Shares held on trust in the Macmahon Holdings Limited Employee Share Ownership Plans Trust to satisfy the Share allocation requirements arising from the vesting of all Macmahon Performance Rights on issue.

Consequently the maximum extent of the increase in the voting power in Macmahon of the Approval Parties is 44.3%.

**c. The maximum extent of the increase in the voting power of each of that person's associates and the voting power that would result from the acquisition**

If the Resolution is approved and if the AMNT Transaction occurs, the maximum total voting power in the Company of each the associates of each Approval Party would increase to 44.3%.

Given that as at the date of this Notice the voting power of each of the Approval Parties' associates is 0%, the maximum extent of the increase in the voting power of each of the associates of each Approval Party is 44.3%.

### **12.3 ASIC Regulatory Guide 74**

ASIC Regulatory Guide 74 requires that the following information be provided to Shareholders to enable Shareholders to make an informed decision on the Resolution:

**a. The identities of the person to whom the Consideration Shares are proposed to be issued, any other person who will have a relevant interest in the Consideration Shares and each of their associates.**

See Section 12.2(a).

**b. Full particulars (including the number and the percentage) of the Shares to which AMNT and its associates are or will be entitled immediately before and after the proposed acquisition (and to which the Macmahon Rights Apply).**

See Sections 12.2(b) and 12.2(c) above.

A total of 954,064,924 Shares will be issued as Consideration Shares and these Shares will represent approximately 44.3% of the Shares on issue following Completion. The Consideration Shares will rank equally with existing Shares from the date of issue of the Consideration Shares.

**c. The identity, associations (with the AMNT Parties, Macmahon and with any of their respective associates) and qualifications of any person who it is intended will become a director of the Company if Shareholders approve the Resolution and any interests which those proposed directors have in the contracts or proposed contracts relevant to Section 12.3(e).**

Alexander Ramlie and Arief Sidarto are directors and executives of AMNT and it is proposed that they will be appointed to the Board as soon as practicable after Completion of the AMNT Transaction.

See Section 8.9 for information about the qualifications and experience of Alexander Ramlie and Arief Sidarto.

Alexander Ramlie and Arief Sidarto are not parties to and have no personal interest in the Implementation Deed, the Mining Services Contract, the Alliance Agreement or the Escrow Deed. They will be appointed to the Board pursuant to terms of appointment on Completion of the AMNT Transaction. See Section 4.5 for a summary of those proposed terms of appointment.

**d. Statements of the AMNT Parties' and Macmahon's respective intentions regarding the future of the Company if Shareholders approve the Resolution, and in particular, any intention to change the business of the Company; any intention to inject further capital into the Company (and if so, how); the future employment of the present employees of the Company; any proposal whereby any assets will be transferred between the Company and the AMNT Parties or their associates; and any intention to otherwise redeploy the fixed assets of the Company.**

See Section 8.8 in relation to the intentions of the AMNT Parties and Section 10.5 in relation to Macmahon's intentions.

**e. Particulars of the terms of the proposed issue of Consideration Shares and any other contract or proposed contract between any of the AMNT Parties and the Company (or any of their associates) which is conditional upon, or directly or indirectly dependent on, Shareholders' agreement to the issue of Consideration Shares.**

The particulars of the AMNT Transaction (including the key terms of the Implementation Deed and the other agreements comprising that transaction) are set out in Sections 1 and 4.

There are no other contracts or proposed contracts relevant to this Section 12.3(e).

## Explanatory Statement *continued*

### **f. When the Consideration Shares are to be issued and when the Macmahon Rights will take effect**

If the Resolution is approved and the other Conditions Precedent are satisfied or waived by 29 September 2017 (or such other date as may be agreed between the parties to the Implementation Deed) the Consideration Shares are anticipated to be issued under the Implementation Deed on the date of Completion. That date is proposed to be five business days after satisfaction or waiver of the Conditions Precedent (or such other date as may be agreed between the parties to the Implementation Deed). As at the date of this Notice, it is proposed that Completion will take place during July 2017.

If the Resolution is approved and Completion occurs, the Macmahon Rights are anticipated to take effect:

- under the Escrow Deed, from Completion until expiry of the Escrow Period (subject to the terms of the Escrow Deed summarised in Section 4.4); and
- under the Alliance Agreement, from Completion until the Alliance Agreement terminates, which is proposed to occur on the earliest of:
  - the date on which a person, other than one or more members of the AMNT Group or any of their respective associates, obtains voting power of more than 50.1% in Macmahon;
  - the date on which AMNT first holds less than 5% voting power in Macmahon; or
  - any date the parties to the Alliance Agreement agree in writing to terminate the Alliance Agreement.

### **g. An explanation of the reasons for the issue of the Consideration Shares and the Macmahon Rights**

An explanation of the rationale for the AMNT Transaction and issue of the Consideration Shares is set out (or referred to) in Sections 1.3 and 1.7.

The reason for the grant of the Macmahon Rights is to:

- provide, under the Escrow Deed, for an initial 30 month period during which the Consideration Shares are held by the Custodian on escrow and may be subject to being bought back (and cancelled) in certain circumstances if Macmahon does not receive payment of the pre-agreed value of Mobile Equipment to be repurchased by AMNT following any termination of the Mining Services Contract during that 30 month period;
- provide for a process, under the Alliance Agreement, that assists to promote an ongoing, orderly market in Shares after expiry of the Escrow Period, and ensures that the Board composition is appropriate for an ASX-listed entity, with the aim of appropriately balancing the interests of Macmahon, the AMNT Group and other Shareholders; and
- provide, under the Alliance Agreement, for there to be certain arrangements with respect to the composition of the Macmahon board that are appropriate for an ASX-listed entity.

### **h. The interests of the Directors in the Resolution and in the contracts or proposed contracts relevant to Section 12.3(e)**

The Directors do not have a material personal interest in the outcome of the Resolution other than to the extent of their respective interests in Shares described in Section 11.1.

No special benefits to management (such as the vesting of performance rights or additional payments) are proposed to be triggered by the AMNT Transaction.

### **i. The identity of the Directors who approved or voted against the proposal to put the Resolution to Shareholders and the content of the Notice**

All of the Directors voted unanimously in favour of putting the Resolution, and the information contained in this Notice, to Shareholders.

### **j. The recommendation or otherwise of each Director as to whether the non-associated Shareholders should agree to the acquisition, and the reasons for that recommendation or otherwise**

In the absence of a superior proposal and subject to the Independent Expert maintaining its conclusion that the AMNT Transaction is reasonable, each of the Directors supports the AMNT Transaction and recommends that Shareholders VOTE IN FAVOUR of the Resolution.

The reasons for the Directors' recommendation are set out or referred to in Section 1.7 above.

### **k. Any intention of any of the AMNT Parties or Macmahon to change significantly the financial or dividend policies of the company**

See Section 8.8(i) in relation to the AMNT Parties and Section 10.5(i) in relation to Macmahon.

### **l. An analysis of whether the proposal to issue the Consideration Shares is fair and reasonable when considered in the context of the interests of the Shareholders other than those involved in the proposed issue of Consideration Shares or associated with such persons**

See Annexure A, which contains the Independent Expert's Report and the Independent Valuer's Report.

#### **12.4 Application of Listing Rule 7.1**

Listing Rule 7.1 imposes a limit on the number of equity securities (eg shares or options to subscribe for shares) which an ASX listed company can issue without shareholder approval. In general terms, a company may not, without prior shareholder approval, issue, or agree to issue equity securities if the equity securities will in themselves or when aggregated with the securities issued by the company during the previous 12 months exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period.

Listing Rule 7.2, exception 16 states that Listing Rule 7.1 does not apply to an issue of securities approved by shareholders for the purposes of item 7 of section 611 of the Corporations Act. Accordingly, the Resolution does not seek approval for the issue of Consideration Shares to the Custodian (or AMC) for the purposes of Listing Rule 7.1.

#### **12.5 Related party transactions and application of Listing Rules 10.1 and 10.11**

Chapter 2E of the Corporations Act requires shareholder approval for a public company to give a financial benefit to a related party (unless an exception applies) and the benefit must be given within 15 months of such approval.

Section 228(6) of the Corporations Act states that an entity is a related party of a public company at a particular time if the entity believes or has reasonable grounds to believe that it is likely to become a related party at any time in the future. As a result of this provision, the Directors consider that the members of the AMNT Group and those of the AMNT Upstream Parties which control Macmahon (and their respective directors and subsidiaries) are likely to be deemed to be related parties of Macmahon under the Corporations Act even though the AMNT Transaction has not yet completed. However, despite this, no shareholder approval of the AMNT Transaction is required because the AMNT Transaction was negotiated on an arms' length basis as between Macmahon and AMNT, and the Directors are therefore comfortable that the AMNT Transaction falls within the exception in section 210 of the Corporations Act for financial benefits given to related parties which would be reasonable in the circumstance if the parties were dealing at arm's length (or less favourable to the related party than such terms). This exception in section 210 of the Corporations Act also applies to any subsequent transactions which may occur between Macmahon and any related party to the extent such future transactions were negotiated upfront on arms' length terms (and fall within the scope of the AMNT Transaction) prior to the parties becoming related parties (such as the arrangements on termination of the Mining Services Contract (including the transfer of mining equipment or shares pursuant to those arrangements) or any extensions to the Mining Services Contract to cover other projects such as the Elang deposit or the Nangka prospect (should AMNT proceed to develop those assets)).

Also, the Directors consider each of the Proposed Directors may be a related party of Macmahon as Macmahon has reasonable grounds to believe that the Proposed Directors are likely to each become a related party of Macmahon in the future (due to their nomination for appointment to the board of Macmahon, subject to the Resolution being approved and subject to Completion occurring). The payment of directors' fees proposed to be paid to the Proposed Directors is a "financial benefit" for the purpose of Chapter 2E of the Corporations Act. However, no approval is required for that purpose under that part of the Corporations Act because the giving of those financial benefits is on arm's length terms and amounts to "reasonable remuneration" and is therefore considered to fall within the exception to shareholder approval in sections 210 and 211 of the Corporations Act.

Listing Rule 10.1 applies to acquisitions and disposals of substantial assets to related parties and other entities. As noted above, the Directors consider that the members of the AMNT Group and those of the AMNT Upstream Parties which control Macmahon (and their respective directors and subsidiaries) are likely to be deemed to be related parties of Macmahon under the Corporations Act even though the AMNT Transaction has not yet completed. However, under Listing Rule 10.3, the deeming provision in section 228(6) of the Corporations Act (which deems future related parties to already be related parties) is not applicable for the purposes of Listing Rule 10.1. A Listing Rule 10.1 approval of the AMNT Transaction is therefore not required for the acquisition of the Mobile Equipment or for any future transactions which were negotiated upfront (such as the arrangements on termination of the Mining Services Contract (including the transfer of mining equipment or shares pursuant to those arrangements) or any extensions to the Mining Services Contract to cover other projects such as the Elang deposit or the Nangka prospect (should AMNT proceed to develop those assets)) because for the purposes of Listing Rule 10.3, exception 5, the Implementation Deed, Escrow Deed and other documents setting out these arrangements were negotiated and put in place prior to any of those related parties having any shareholding in, or influence over, Macmahon.

Finally, Listing Rule 10.11 (which restricts issues of shares to related parties) does not apply to the AMNT Transaction because of Listing Rule 10.12 Exception 5 which states that the deeming provision in section 228(6) of the Corporations Act (which deems future related parties to already be related parties) is not applicable for the purposes of Listing Rule 10.11.

#### **12.6 Voting prohibition statement**

In accordance with item 7 of section 611 of the Corporations Act, none of the AMNT Parties, or Macmahon or any of their associates are permitted to vote in favour of the Resolution.

## Explanatory Statement *continued*

### 12.7 Consents

Each of the Independent Expert, the Independent Valuer, the Investigating Accountant, the AMNT Group, the Custodian, Alex Ramlie and Arief Sidarto have given and have not withdrawn their consent:

- to being named in this Notice of Meeting in the form and context in which they are named; and
- if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appears in the Notice of Meeting.

More specifically:

- the Independent Expert and Independent Valuer have given, and have not withdrawn, their consent to the inclusion of their reports in the form and context in which they appear in Annexure A and references to the Independent Expert's Report and Independent Valuer's Report in the form and context in which they appear in this Notice of Meeting; and
- the Investigating Accountant has given, and has not withdrawn, its consent to the inclusion of its report in the form and context in which it appears in Annexure B and references to the Investigating Account's Report in the form and context in which they appear in this Notice of Meeting.

Each person named in this Section 12.7 as having given its consent to the inclusion of a statement or being named in this Notice of Meeting:

- has not authorised or caused the issue of this Notice of Meeting;
- does not make, or purport to make, any statement in this Notice of Meeting or any statement on which a statement in this Notice of Meeting is based other than those statements or reports which have been included in this Notice of Meeting with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Notice of Meeting, other than a reference to its name and any statements or reports which have been included in this Notice of Meeting with the consent of that party.

### 13. FURTHER INFORMATION

Neither the Company nor the Directors are aware of any additional information not set out in this Notice that would be relevant to Shareholders in deciding how to vote on the Resolution.

# GLOSSARY

<b>Term</b>	<b>Meaning</b>
<b>\$</b>	means Australian dollars unless otherwise specified.
<b>Alliance Agreement</b>	means the alliance agreement between Macmahon and AMNT, a copy of which was annexed to the Implementation Deed (and released to ASX on 8 May 2017), and which agreement is summarised in Section 4.3.
<b>AM Investama</b>	means PT Amman Mineral Investama, the major shareholder of AM Ventura.
<b>AM Ventura</b>	means PT Amman Mineral Ventura, the major shareholder of AMI.
<b>AMC</b>	means Amman Mineral Contractors (Singapore) Pte. Ltd. UEN 201709581C, a company established in the Republic of Singapore. It is proposed that at the time of issue of the Consideration Shares, AMC will be controlled by AMNT (as to 65%) and by API (as to 35%).
<b>AMI</b>	means PT Amman Mineral Internasional, the major shareholder of AMNT.
<b>AMNT</b>	means PT Amman Mineral Nusa Tenggara, a company established in the Republic of Indonesia and the owner of the Batu Hijau Mine.
<b>AMNT Group</b>	means AMNT, AMC, AMS and any of their subsidiaries and associates.
<b>AMNT Parties</b>	means the members of the AMNT Group, the AMNT Upstream Parties and each of their associates.
<b>AMNT Transaction</b>	means the proposed transaction described in this Notice, including by which: <ol style="list-style-type: none"> <li>a. Macmahon Indonesia would be awarded the Mining Services Contract (described at Section 4.2);</li> <li>b. Macmahon Indonesia would (under the Implementation Deed described at Section 4.1) acquire the Mobile Equipment in order to undertake the Mining Services Contract;</li> <li>c. in consideration for the acquisition of the Mobile Equipment, Macmahon would (under the Implementation Deed described at Section 4.1) issue AMC the Consideration Shares;</li> <li>d. the Consideration Shares would (under the Escrow Deed described at Section 4.4) be held by the Custodian for a period of at least 30 months from the date of issue; and</li> <li>e. Macmahon, AMC, AMNT and API would enter into the Alliance Agreement (described at Section 4.3) to regulate certain matters relating to the board of Macmahon, cooperation so as to support Macmahon's future growth, and the potential future orderly sale of Macmahon Shares.</li> </ol>
<b>AMNT Upstream Parties</b>	means: <ol style="list-style-type: none"> <li>a. AMI;</li> <li>b. AM Investama;</li> <li>c. Ventura;</li> <li>d. Benete;</li> <li>e. API;</li> <li>f. MedcoEnergi;</li> <li>g. Agus Projosasmito;</li> <li>h. Encore Energy Pte. Ltd; and</li> <li>i. Credit Suisse.</li> </ol>
<b>AMS</b>	means Amman Mineral Singapore Pte. Ltd, a subsidiary of AMNT.
<b>API</b>	means PT AP Investment, a company incorporated in Indonesia.
<b>Approval Parties</b>	means the AMNT Group, the AMNT Upstream Parties and Macmahon.
<b>ASIC</b>	means the Australian Securities and Investments Commission.

## Glossary *continued*

<b>Term</b>	<b>Meaning</b>
<b>ASIC Regulatory Guide 74</b>	means ASIC Regulatory Guide 74 "Acquisitions approved by Shareholders".
<b>ASX</b>	means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.
<b>ASX Listing Rules</b>	means the official Listing Rules of ASX.
<b>Batu Hijau Mine</b>	means the Batu Hijau copper-gold mine owned and operated by AMNT on the island of Sumbawa, Nusa Tenggara, Indonesia.
<b>Benete</b>	means Benete Mining Pte. Ltd., a subsidiary of API.
<b>Board</b>	means the current board of directors of the Company.
<b>Cessation Amount</b>	means the amount determined in accordance with Annexure C to the Mining Services Contract and described in Section 4.2(h).
<b>Chair or Chairman</b>	means the chair of the Meeting.
<b>CIMIC</b>	means CIMIC Group Investments Pty Limited
<b>Company</b>	means Macmahon Holdings Limited ACN 007 634 406.
<b>Completion</b>	means completion under the Implementation Deed as described in Section 1.
<b>Completion Date</b>	means the date on which completion occurs under the Implementation Deed.
<b>Conditions Precedent</b>	means the conditions precedent to Completion as described in Section 1.4.
<b>Consideration Shares</b>	means the 954,064,924 Shares proposed to be issued in consideration for the Mobile Equipment pursuant to the Implementation Deed, which forms part of the AMNT Transaction.
<b>Constitution</b>	means the constitution of Macmahon.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Credit Suisse</b>	means Credit Suisse AG SG (Trust Account Client Clio Capital Ventures Ltd (BVI) -2023904195).
<b>Custodian</b>	means Perpetual Corporate Trust Limited (ABN 99 000 341 533).
<b>Directors</b>	means the current directors of Macmahon.
<b>Dispatch Date</b>	means Friday 9 June 2017.
<b>EBIT</b>	means earnings before interest and tax.
<b>EBITDA</b>	means earnings before interest, tax depreciation and amortisation.
<b>Encore Energy</b>	means Encore Energy Pte. Ltd., a company associated with the Panigoro family, the founders of MedcoEnergi.
<b>End Date</b>	means 29 September 2017.
<b>Escrow Deed</b>	means the agreement summarised in Section 4.4.
<b>Escrow Period</b>	has the meaning set out in Section 4.4.

<b>Term</b>	<b>Meaning</b>
<b>EST</b>	means Australian Eastern Standard Time as observed in Sydney, New South Wales.
<b>Explanatory Statement</b>	means the explanatory statement accompanying and forming part of the Notice of Meeting.
<b>FATA</b>	means the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
<b>Financial Information</b>	means as defined in Section 5.1.
<b>Financial Services Guide</b>	means the guide accompanying the Investigating Accountant's report set out in Annexure B to this Notice.
<b>FIRB</b>	means the Foreign Investment Review Board (Australia).
<b>Full Operations</b>	means, in relation to the Mining Services Contract, the period commencing on the first anniversary of the commencement date of the Mining Services Contract or earlier agreed date and continuing for the duration of the term.
<b>Guidance</b>	means the Macmahon revenue, earnings and capital expenditure guidance for FY2018, stated both before and after the expected impact of the AMNT Transaction, as set out in Section 5.
<b>HOA</b>	means the non-binding heads of agreement between Macmahon and AMNT in relation to the AMNT Transaction, which Macmahon announced to the ASX in redacted form on 1 March 2017.
<b>Implementation Deed</b>	means the conditional, binding Implementation Deed between Macmahon and AMNT in relation to the AMNT Transaction which Macmahon announced to the ASX in redacted form on 8 May 2017 and which is summarised in Section 4.1.
<b>Independent Expert</b>	means Lonergan Edwards & Associates Limited ACN 095 445 560.
<b>Independent Expert's Report or IER</b>	means the report produced by the Independent Expert set out in Annexure A to this Notice.
<b>Independent Valuer</b>	means Staffe Pty Ltd ACN 007 634 406.
<b>Independent Valuer's Report</b>	means the report produced by the Independent Valuer which is provided in Annexure A, annexed to the Independent Expert's Report.
<b>Investigating Accountant</b>	means KPMG Transaction Services.
<b>Investigating Accountant's Report</b>	means the report produced by the Investigating Accountant set out in Annexure B to this Notice.
<b>Investor Presentation</b>	means the Macmahon investor presentation in respect of the AMNT Transaction, as released to ASX on 8 May 2017.
<b>KPMG Transaction Services</b>	means KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Limited (ABN 43 007 363 215).
<b>Listing Rules</b>	means the official Listing Rules of ASX.
<b>Macmahon</b>	means Macmahon Holdings Limited ACN 007 634 406.
<b>Macmahon Indonesia</b>	means PT Macmahon Indonesia, a wholly-owned (indirect) subsidiary of Macmahon incorporated in Indonesia.
<b>Macmahon Performance Right</b>	means a performance right issued by Macmahon.



## Glossary *continued*

<b>Term</b>	<b>Meaning</b>
<b>Macmahon Rights</b>	has the meaning given in Section 12.1.
<b>Macmahon VWAP</b>	means the volume weighted average market price (as that term is defined in the Listing Rules) of Macmahon Shares traded on ASX over the 15 trading days ending on the date that is 5 business days prior to the date that Macmahon will (or reasonably believes it will) dispatch a notice of meeting to Shareholders in connection with a buy-back of buy-back shares after the announcement to ASX of the occurrence of a Trigger Event, rounded to three decimal places.
<b>MedcoEnergi</b>	means PT Medco Energi Internasional Tbk, a public company listed on the Indonesia Stock Exchange.
<b>Meeting</b>	means the general meeting of Macmahon convened by this Notice.
<b>Mining Services Contract</b>	means the contract between Macmahon Indonesia and AMNT providing for Macmahon Indonesia to, subject to Completion, provide certain earthmoving and mining services at the Batu Hijau Mine, which agreement is summarised in Section 4.2.
<b>Mobile Equipment</b>	means the mobile equipment to be purchased from AMNT by Macmahon Indonesia pursuant to the Implementation Deed, as further described in Section 4.1(c), in consideration for the issue of the Consideration Shares.
<b>Nominee Conflict and Confidentiality Protocol</b>	means the protocol which sets out the procedures for the Board to manage actual or perceived conflicts that may arise in respect of any AMC nominee director in relation to their duties as a director of the Company and their duties or interests in relation to the AMNT Group or the AMNT Upstream Parties, a copy of which was annexed to the Implementation Deed and which is summarised in Section 4.6.
<b>Notice or Notice of Meeting</b>	means this document, including the notice of general meeting, the Explanatory Statement, the Proxy Form, the Independent Expert's Report, the Independent Valuer's Report and the Investigating Accountant's Report.
<b>NTA</b>	means net tangible assets per Share.
<b>Other Mine</b>	means any other mineral prospects that are developed in the same mining area as the Batu Hijau Mine by AMNT, or any related body corporate of AMNT, including, without limitation, the Elang and Nangka prospects.
<b>Phase 1</b>	means the period of up to 12 months commencing on the commencement date of the Mining Services Contract.
<b>Phase 2</b>	has the same meaning as Full Operations.
<b>Pro Forma Historical Statement of Financial Position</b>	means the pro forma historical statement of financial position of Macmahon at 31 December 2016 as set out at Section 5.2.
<b>Proposed Directors</b>	means Alexander Ramlie and Arief Sidarto, the nominees of AMC pursuant to the Alliance Agreement, whose details are set out in Section 8.9.
<b>Proxy Form</b>	means the proxy form accompanying, and forming part of, the Notice.
<b>PT Ithaca Resources</b>	means PT Ithaca Resources, a company whose President Director/Chief Executive Officer is Mr Agus Projosasmito.
<b>PT Medco Mining</b>	means PT Medco Energi Mining Internasional, a subsidiary of MedcoEnergi.

<b>Term</b>	<b>Meaning</b>
<b>Qualifying Period</b>	means 30 months following Completion.
<b>Relevant Date</b>	means 7.00pm (EST) on Monday, 10 July 2017.
<b>Resolution</b>	means the resolution set out in the Notice of Meeting.
<b>Section</b>	means a section of this Explanatory Statement unless otherwise specified.
<b>Sensitive Matters</b>	means the sensitive matters set out in the Nominee Conflict and Confidentiality Protocol and further discussed in Section 4.6(a).
<b>Share</b>	means a fully paid ordinary share in the Company.
<b>Shareholder</b>	means a holder of Shares.
<b>Shareholder Information Line</b>	means 1300 449 257 or +61 2 8022 7948 (for callers outside Australia).
<b>Trigger Event</b>	means (for the purposes of the Escrow Deed) where Macmahon has not received payment of the Cessation Amount in cash in accordance with the Mining Services Contract following an expiry or termination of that contract occurring prior to the end of the Escrow Period.
<b>VAT</b>	means value added tax.
<b>VWAP</b>	means volume weighted average price on ASX over the relevant period.
<b>WST</b>	means Australian Western Standard Time as observed in Perth, Western Australia.

# ANNEXURE A. INDEPENDENT EXPERT'S REPORT (INCORPORATING INDEPENDENT VALUER'S REPORT)

## LONERGAN EDWARDS & ASSOCIATES LIMITED

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Level 7, 64 Castlereagh Street  
Sydney NSW 2000 Australia  
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500  
www.lonerangedwards.com.au

The Directors  
Macmahon Holdings Limited  
15 Hudswell Road  
Perth Airport WA 6105

9 June 2017

### Subject: The AMNT Transaction

Dear Directors

### The AMNT Transaction

- 1 On 8 May 2017, Macmahon Holdings Limited (Macmahon or the Company<sup>1</sup>) announced that it had entered into an agreement with PT Amman Mineral Nusa Tenggara and affiliated entities (AMNT<sup>2</sup>), subject to certain conditions including Macmahon shareholder approval (the AMNT Transaction). Pursuant to the AMNT Transaction:
- (a) Macmahon will be awarded a life of mine, alliance style mining contract for the Batu Hijau copper-gold mine in Indonesia owned by AMNT (the Mining Contract). The initial scope of work has an order book value<sup>3</sup> of approximately US\$2.9 billion over the life of the Batu Hijau operations, which may be extended to include the development of the Elang deposit and the Nangka prospect which are also controlled by AMNT
  - (b) Macmahon will acquire certain existing equipment<sup>4</sup> (the Sale Assets) at Batu Hijau from AMNT in order to undertake the mining contract. These Sale Assets have been independently valued at US\$145.6 million
  - (c) in consideration for the acquisition of the Sale Assets, Macmahon will issue 954,064,924 new Macmahon shares (Consideration Shares) to AMNT's subsidiary, Amman Mineral Contractors (Singapore) Pte. Ltd (AMC<sup>5</sup>), equivalent to 44.3% of Macmahon's expanded share capital post completion. The number of Consideration Shares was determined by dividing the independent valuation of the Sale Assets<sup>6</sup> by the agreed subscription price of A\$0.203 per Macmahon share (Issue Price). The Consideration Shares will be held by a custodian for a period of at least 30 months from their issue date.

<sup>1</sup> Subsequent references to Macmahon or the Company refer to the Macmahon Group including subsidiaries and affiliated entities.

<sup>2</sup> Subsequent references to AMNT relate to the AMNT Group including subsidiaries and affiliated entities.

<sup>3</sup> The order book is the estimated future value of revenue potentially receivable by Macmahon for work or services to be performed by Macmahon.

<sup>4</sup> Including loading equipment, trucks, ancillary and support assets.

<sup>5</sup> AMC is owned 65% by AMNT and 35% by PT AP Investments. PT AP Investments also owns 50% of PT Amman Mineral International, which in turn owns 82.2% of AMNT.

<sup>6</sup> For the purposes of determining the value of the Sale Assets in Australian dollars an exchange rate of A\$1.00 = US\$0.7518 was used.

- 2 The AMNT Transaction is subject to a range of conditions, including the approval of Macmahon's shareholders in a general meeting.
- 3 Macmahon is an international contract mining services company which specialises in providing the full suite of surface and underground mining services, as well as related engineering design and fabrication and maintenance services. Customers serviced by the Company include AngloGold Ashanti, Independence Group, BHP Billiton, Newcrest Mining, and Rio Tinto. Macmahon is headquartered in Perth, with operations currently in Australia, Indonesia and Malaysia.
- 4 AMNT is an Indonesian mining company which operates the Batu Hijau project, which is one of several projects / prospects in the copper-gold concession held by AMNT on the island of Sumbawa, Nusa Tenggara, Indonesia. Batu Hijau is the second largest operating copper-gold mine in Indonesia and commenced production in 2000.

### Scope

- 5 Section 606 of the *Corporations Act 2001 (Cth)* (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies<sup>7</sup>. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.
- 6 If the AMNT Transaction is approved and all conditions are satisfied, the proposed issue of Consideration Shares will result in AMNT and certain other entities including AMC, PT AP Investments, the custodian who will hold the Consideration Shares and their respective related bodies corporate acquiring voting power in Macmahon of more than 20%. Accordingly, there is a regulatory requirement for Macmahon to commission an independent expert's report (IER) to approve the issue of the Consideration Shares.
- 7 Consequently, the Directors of Macmahon have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER setting out our opinion on whether the AMNT Transaction (including the acquisition by AMC of the Consideration Shares) is fair and reasonable to Macmahon shareholders (Macmahon Shareholders).
- 8 LEA is independent of Macmahon and AMNT and has no involvement with or interest in the outcome of the AMNT Transaction other than the preparation of this report. Macmahon Shareholders will be aware that LEA prepared the IER dated 27 February 2017 in relation to the takeover offer for Macmahon by a subsidiary of CIMIC Group Limited (CIMIC), which closed on 9 March 2017.

### Summary of opinion

- 9 LEA has concluded that the AMNT Transaction is fair and reasonable to Macmahon Shareholders. We have arrived at this conclusion for the reasons set out below.

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<sup>7</sup> Subject to the 3% every six months "creep provisions".

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

### Assessment of fairness

- 10 Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) requires that the fairness of the AMNT Transaction be assessed by comparing the controlling interest value of Macmahon shares prior to implementation of the AMNT Transaction with the portfolio interest value of Macmahon shares following implementation (being the deemed “consideration” delivered to Macmahon Shareholders). In order for the AMNT Transaction to be “fair” under RG 111, the portfolio interest value of Macmahon shares following implementation of the AMNT Transaction must be equal to, or greater than the controlling interest value of Macmahon shares before implementation.
- 11 This comparison is set out below:

	Low cents per share	High cents per share	Mid-point cents per share
Portfolio interest value of Macmahon shares following implementation of the AMNT Transaction	18.7	20.8	19.75
Controlling interest value of Macmahon shares prior to implementation of the AMNT Transaction	18.0	20.2	19.10
Extent to which portfolio interest value post implementation exceeds (or is less than) the controlling interest value of Macmahon shares before implementation	0.7	0.6	0.65

- 12 Based on the above we have concluded that the AMNT Transaction is fair to Macmahon Shareholders.

### Reasonableness

- 13 Under RG 111 the AMNT Transaction is reasonable if it is fair. Consequently, in our opinion, the AMNT Transaction is both fair and reasonable to Macmahon Shareholders.

### Summary of advantages and disadvantages

- 14 We summarise below the advantages and disadvantages of the AMNT Transaction from the perspective of Macmahon Shareholders:

#### Advantages

- (a) we consider that the AMNT Transaction is fair and reasonable when assessed based on the guidelines set out in ASIC RG 111
- (b) the Issue Price is:
  - (i) at the high end of our controlling interest valuation range for Macmahon shares prior to implementation of the AMNT Transaction of \$0.18 to \$0.202 per share
  - (ii) approximately 26.9% above the volume weighted average listed market price (VWAP) of Macmahon shares in the 1 month period prior to the ASX announcement on 8 May 2017 of the AMNT Transaction (which was A\$0.16 per share)
  - (iii) 40% higher than the price offered by CIMIC in its recent takeover offer for Macmahon of \$0.145 per share (which closed on 9 March 2017)



- (c) in our view the AMNT Transaction is significantly value accretive for Macmahon Shareholders

**Disadvantages**

- (d) the interests of Macmahon Shareholders not associated with AMNT will be diluted if the AMNT Transaction is approved
  - (e) if the AMNT Transaction is approved AMC will have a significant voting interest of 44.3% in Macmahon, and will potentially have a significant influence over Macmahon's affairs
  - (f) if the AMNT Transaction is approved the likelihood of receiving a takeover offer from another party in the future is potentially diminished as any potential bidder would need to persuade AMC to accept its offer in order to obtain control of Macmahon.
- 15 As indicated above there are a number of advantages and disadvantages associated with the AMNT Transaction. However, in our view, the advantages of the AMNT Transaction significantly outweigh the disadvantages.

**Escrow restrictions**

- 16 A technical, legal effect of the AMNT Transaction is that Macmahon will also acquire a relevant interest in the Consideration Shares (Macmahon Relevant Interest) because:
- (a) for the 30 month period commencing upon issue of the Consideration Shares, Macmahon is proposed to be party to an Escrow Deed under which AMC will be prohibited from dealing in the Consideration Shares (except in certain specified circumstances); and
  - (b) for the duration of an Alliance Agreement to be entered into by Macmahon and AMC, AMC will agree to certain orderly sale arrangements that restrict AMC from disposing of the Consideration Shares other than in accordance with the provisions of the Alliance Agreement.
- 17 Consequently, we have also been asked to provide a separate opinion as to whether the deemed acquisition by Macmahon of the Macmahon Relevant Interest is fair and reasonable to Macmahon Shareholders.
- 18 In our opinion, the deemed acquisition by Macmahon of the Macmahon Relevant Interest is fair and reasonable to Macmahon Shareholders. This is because the sale restrictions set out in the Escrow Deed and Alliance Agreement simply restrict AMC's ability to trade in the Consideration Shares, but have no adverse impact on Macmahon or Macmahon Shareholders.

**General**

- 19 In preparing this report we have considered the interests of Macmahon Shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 20 The ultimate decision whether to approve the AMNT Transaction should be based on each Macmahon Shareholder's assessment of their own circumstances. If Macmahon Shareholders are in doubt about the action they should take in relation to the AMNT Transaction or matters

Annexure A. Independent Expert's Report  
(incorporating Independent Valuer's Report) *continued*

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dealt with in this report, Macmahon Shareholders should seek independent professional advice.

- 21 For our full opinion on the AMNT Transaction, and the reasoning behind our opinion, we recommend that Macmahon Shareholders read the remainder of our report.

Yours faithfully



Craig Edwards  
Authorised Representative



Martin Holt  
Authorised Representative

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## I The AMNT Transaction

### Key terms

- 22 On 8 May 2017, Macmahon announced that it had entered into an agreement with PT Amman Mineral Nusa Tenggara and affiliated entities (AMNT<sup>8</sup>), subject to certain conditions including Macmahon shareholder approval (the AMNT Transaction). Pursuant to the AMNT Transaction:
- (a) Macmahon will be awarded a life of mine, alliance style mining contract for the Batu Hijau copper-gold mine in Indonesia owned by AMNT (the Mining Contract). The initial scope of work has an order book value<sup>9</sup> of approximately US\$2.9 billion over the life of the Batu Hijau operations, which may be extended to include the development of the Elang deposit and the Nangka prospect which are also controlled by AMNT
  - (b) Macmahon will acquire certain existing equipment<sup>10</sup> (the Sale Assets) at Batu Hijau from AMNT in order to undertake the mining contract. These Sale Assets have been independently valued at US\$145.6 million
  - (c) In consideration for the acquisition of the Sale Assets, Macmahon will issue 954,064,924 new Macmahon shares (Consideration Shares) to AMNT's subsidiary, Amman Mineral Contractors (Singapore) Pte. Ltd (AMC<sup>11</sup>), equivalent to 44.3% of Macmahon's expanded share capital post completion. The number of Consideration Shares was determined by dividing the independent valuation of the Sale Assets<sup>12</sup> by the agreed subscription price of A\$0.203 per Macmahon share (Issue Price). The Consideration Shares will be held by a custodian for a period of at least 30 months from the issue date of the Consideration Shares.
- 23 If the Mining Contract is terminated for any reason, AMNT must pay a cessation payment at a pre-agreed value (which reduces to nil over a five year period).
- 24 In addition, AMC's shares in Macmahon will be held by a custodian, in escrow, for 30 months and may be subject to being bought-back (and cancelled) in certain circumstances if Macmahon does not receive payment of the pre-agreed value of Mobile Equipment to be re-purchased by AMNT following any termination of the Mining Contract during that 30 month period.

<sup>8</sup> Subsequent references to AMNT relate to the AMNT Group including subsidiaries and affiliated entities.

<sup>9</sup> The order book is the estimated future value of revenue potentially receivable by Macmahon for work or services to be performed by Macmahon.

<sup>10</sup> Including loading equipment, trucks, ancillary and support assets.

<sup>11</sup> AMC is owned 65% by AMNT and 35% by PT AP Investments. PT AP Investments also owns 50% of PT Amman Mineral International, which in turn owns 82.2% of AMNT.

<sup>12</sup> For the purposes of determining the value of the Sale Assets in Australian dollars an exchange rate of A\$1.00 = US\$0.7518 was used.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Conditions

- 25 The AMNT Transaction is subject to the following conditions:
- (a) an independent expert concluding that the AMNT Transaction is either fair and reasonable, or not fair but reasonable, to Macmahon Shareholders and maintaining that conclusion until the date of the shareholders meeting
  - (b) AMNT confirms in writing to Macmahon that it has fulfilled regulatory requirements for the award of the Mining Contract
  - (c) Macmahon receiving an Indonesian legal opinion (in a form acceptable to it) confirming certain aspects of the AMNT Transaction
  - (d) AMNT obtaining all consents required from existing senior lenders to transfer unencumbered title to the Sale Assets to Macmahon pursuant to the Transaction Implementation Deed
  - (e) AMNT acquiring title to any parts of the Sale Assets that are currently held by the existing maintenance provider
  - (f) Macmahon obtaining an amendment to its existing Indonesian in-principle business licence to the extent necessary to permit the acquisition of the Sale Assets and performance of its obligations under the Mining Contract
  - (g) no change of control occurring in Macmahon (whereby any person acquires voting power of more than 35% in Macmahon)
  - (h) the parties, and the professional custodian, agreeing the escrow arrangements and entering into related documentation
  - (i) Macmahon receiving shareholder approval at a meeting expected to be held in July 2017.
- 26 More detail on the above conditions is set out in the Explanatory Statement.

## II Scope of our report

### Purpose

- 27 Section 606 of the *Corporations Act 2001 (Cth)* (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies<sup>13</sup>. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.
- 28 Section 611(7) of the Corporations Act and ASIC Regulatory Guide 74 - *Acquisitions approved by members* (RG 74) prescribe certain requirements for the information to be provided to shareholders in relation to such resolutions. These requirements include the provision of an independent expert's report (IER).
- 29 If the AMNT Transaction is approved and all conditions are satisfied, the proposed issue of Consideration Shares will result in AMNT and certain other entities including AMC, PT AP Investments, the custodian who will hold the Consideration Shares and their respective related bodies corporate acquiring voting power in Macmahon of more than 20%. Accordingly, there is a regulatory requirement for Macmahon to commission an independent expert's report (IER) to approve the issue of the Consideration Shares.
- 30 Consequently, the Directors of Macmahon have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER setting out our opinion on whether the AMNT Transaction (including the acquisition by AMC of the Consideration Shares) is fair and reasonable to Macmahon Shareholders.
- 31 This report has been prepared to assist the Directors of Macmahon in making their recommendation to Macmahon Shareholders, and to assist these shareholders in assessing the merits of the AMNT Transaction.
- 32 A technical, legal effect of the AMNT Transaction is that Macmahon will also acquire a relevant interest in the Consideration Shares (Macmahon Relevant Interest) because:
- (a) for the 30 month period commencing upon issue of the Consideration Shares, Macmahon is proposed to be party to a Escrow Deed under which AMC will be prohibited from dealing in the Consideration Shares (except in certain specified circumstances); and
  - (b) for the duration of an Alliance Agreement to be entered into by Macmahon and AMC, AMC will agree to certain orderly sale arrangements that restrict AMC from disposing of the Consideration Shares other than in accordance with the provisions of the Alliance Agreement.

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<sup>13</sup> Subject to the 3% every six months "creep provisions".

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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- 33 Consequently, we have also been asked to provide a separate opinion as to whether the deemed acquisition by Macmahon of the Macmahon Relevant Interest is fair and reasonable to Macmahon Shareholders.
- 34 Our report should not be used for any other purpose or by any other party. The ultimate decision whether to approve the AMNT Transaction should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the AMNT Transaction or matters dealt with in this report, Macmahon Shareholders should seek independent professional advice.

### **Basis of assessment**

- 35 In preparing our report, we have had regard to the ASX Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111. RG 111 sets out (inter alia) the view of ASIC on the content of expert reports prepared for the purpose of seeking approval under s611(7) of the Corporations Act.
- 36 Under RG 111 the AMNT Transaction is deemed a "change of control" transaction because AMNT will acquire a greater than 20% voting interest in Macmahon. As a consequence, RG 111 states that the AMNT Transaction must be analysed as if it were a takeover bid under Chapter 6 of the Corporations Act. Accordingly, the expert is required to assess the transaction in terms of the convention established for takeovers pursuant to s640 of the Corporations Act.
- 37 As the AMNT Transaction does not involve any takeover offer being made to Macmahon Shareholders, RG 111 requires that the fairness of the AMNT Transaction be assessed by comparing the controlling interest value of Macmahon shares prior to implementation of the AMNT Transaction with the portfolio value of Macmahon shares following implementation (being the deemed "consideration" delivered to Macmahon Shareholders). In order for the AMNT Transaction to be "fair" under RG 111, the portfolio value of Macmahon shares following implementation of the AMNT Transaction must be equal to, or greater than the controlling interest value of Macmahon shares before implementation.
- 38 The AMNT Transaction will be "reasonable" if it is "fair". In addition, the AMNT Transaction will be "reasonable" even if it is not "fair" if the advantages of the AMNT Transaction outweigh the disadvantages from the perspective of Macmahon Shareholders.
- 39 Our report has therefore considered a range of both qualitative and quantitative factors including:
- (a) the controlling interest value of 100% of Macmahon shares prior to implementing the AMNT Transaction
  - (b) the portfolio value of Macmahon shares following implementation of the AMNT Transaction
  - (c) the difference between (a) and (b) in order to assess whether the AMNT Transaction is fair to Macmahon Shareholders pursuant to RG 111
  - (d) the extent to which AMNT is being issued shares at a premium to the listed market price of Macmahon shares prior to the announcement of the AMNT Transaction
  - (e) the impact of the AMNT Transaction on the ownership and control of Macmahon

- (f) the relevant position of Macmahon Shareholders before and after implementation of the AMNT Transaction assessed on a consistent basis (i.e. by comparing the portfolio value before implementation with the portfolio value afterwards)
- (g) Macmahon's current financial position and the need for additional equity capital
- (h) the implications for Macmahon Shareholders if the AMNT Transaction is not approved and implemented; and
- (i) other qualitative and strategic issues associated with the AMNT Transaction and the extent to which, on balance, they may advantage or disadvantage existing Macmahon Shareholders if the AMNT Transaction proceeds or is rejected.

### **Limitations and reliance on information**

- 40 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 41 Our report is also based upon financial and other information provided by, or on behalf of Macmahon, including an independent technical report on the valuation of the Sale Assets prepared by Staffe Pty Ltd (Staffe). Staffe's valuation report is set out in Appendix F. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 42 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the AMNT Transaction from the perspective of Macmahon securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 43 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 44 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

Annexure A. Independent Expert's Report  
(incorporating Independent Valuer's Report) *continued*



- 45 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 46 In forming our opinion, we have also assumed that:
- (a) the information set out in the Explanatory Statement is complete, accurate and fairly presented in all material respects
  - (b) if the AMNT Transaction becomes legally effective, it will be implemented in accordance with the terms set out in this report.

### III Profile of Macmahon

#### Overview

47 Macmahon is an international contract mining services company which specialises in providing the full suite of surface and underground mining services, as well as related engineering design and fabrication and maintenance services. Customers serviced by the Company include AngloGold Ashanti, Independence Group, BHP Billiton, Newcrest Mining, and Rio Tinto. Macmahon is headquartered in Perth, with operations currently in Australia, Indonesia and Malaysia.

#### History

48 Macmahon was established in 1963 by Brian Macmahon as a construction company delivering civil works projects, and it was listed on the Australian Securities Exchange (ASX) on 1 December 1983.

49 Macmahon entered the mining services sector in 1967 after winning an excavation works contract at Tennant Creek in the Northern Territory. Since that date, the Company has significantly expanded its mining services capabilities, both organically and from several key acquisitions as follows:

- (a) in 1987, the Company acquired FK Kanny & Sons, an open-cut mining contractor based in Western Australia. The acquisition provided Macmahon with proven open-cut mining expertise and enabled the expansion into similar mining ventures in other parts of Australia
- (b) in 1995, Macmahon expanded its underground mining capabilities with the acquisition of National Mine Management Pty Ltd, an underground mining and consultancy services group based in Kalgoorlie
- (c) in 2006, Macmahon acquired Australian Raise Drilling (ARD) and Combined Resource Engineering (CRE). At the time of the acquisitions, ARD specialised in vertical and horizontal raise drilling whilst CRE was engaged in the provision of engineering design, manufacture and installation of underground mine infrastructure.

50 On 12 December 2012, Macmahon announced that following an operational and strategic review, it would divest its construction projects and refocus its strategy solely on contract mining services. Macmahon signed a memorandum of understanding with Leighton Holdings Limited<sup>14</sup> (Leighton) to transfer the majority of its then current construction projects to Leighton for a net consideration of approximately \$14 million, including equipment and employees associated with the projects. This transaction was finalised in early 2013. In conjunction with the exit from the construction business, Macmahon undertook an \$81 million equity capital raising to strengthen its financial position, fund capital expenditure requirements and support the future growth of the contract mining business.

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<sup>14</sup> Leighton was subsequently renamed CIMIC.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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51 In recent years, Macmahon has reduced its international presence with the sale of its operations in Mongolia in June 2015 for US\$65 million<sup>15</sup>, and the termination of its contract at the Calabar mine in Nigeria in October 2016<sup>16</sup>. In addition, Macmahon completed its contract with LafargeHolcim at the Ewekoro mine in Nigeria in April 2016 and is no longer providing services in Nigeria.

### Current operations

52 Macmahon provides a complete suite of end-to-end mining services for surface and underground mining operations, from the design phase through to project completion. Macmahon has considerable expertise across a broad range of commodities including (but not limited to) coal, iron ore, gold, copper, nickel, uranium and manganese.

53 Macmahon is currently active in most states and territories in Australia, and is also delivering mining services operations in Malaysia and Indonesia. The Company operates from a Perth head office, with additional offices in Adelaide, Brisbane, Malaysia and Indonesia. It employs approximately 1,400 staff<sup>17</sup>.

54 A summary of Macmahon's service offerings and capabilities is provided below:

- (a) **surface mining** – Macmahon offers a full range of surface mining services including mine planning, drill and blast, bulk and selective mining, crushing and screening, materials handling, resource infrastructure development and plant operation and maintenance
- (b) **underground mining** – delivery of underground mine development and production services which includes the provision of a variety of specialised services including ground support services (rock bolting, cable bolting and shotcreting) and ventilation and access services (shaft sinking, raise drilling and shaft lining)
- (c) **engineering** – the Company has engineering capabilities covering design and fabrication services, on-site infrastructure construction, mechanical services and electrical services
- (d) **plant and maintenance** – provision of associated plant and maintenance services such as commissioning, shutdown and maintenance management as well as operation and maintenance of customer-owned plant and infrastructure. Macmahon's domestic and international operations are supported by its world-class workshop in Perth.

### Key contracts / projects

55 Macmahon is currently delivering a variety of contract mining services that range from short-term equipment hire agreements through to complete mine operations encompassing a full range of mining services. A brief description of the Company's key contracts is provided below.

<sup>15</sup> Macmahon had been providing mining services to the coal mining operations of the Tavan Tolgoi project in Mongolia since January 2012.

<sup>16</sup> The Company announced on 12 October 2016 that the contract had been underperforming due to low mining volumes and high rental and maintenance costs. A fatal shooting and abduction of local employees also occurred in June 2016.

<sup>17</sup> As at 31 December 2016.

## Surface mining

### *Tropicana Gold Project (Western Australia)*

- 56 Macmahon is providing a full range of mining services at the Tropicana Gold Project under a life of mine contract. The project is owned by a joint venture (JV) consisting of AngloGold Ashanti Australia Ltd (70% interest and manager) and Independence Group NL (30% interest), and is located some 300 kilometres from Kalgoorlie. Macmahon has been active at the project since early 2012.
- 57 On 25 January 2017, the Company announced an increase in mining volumes at the project, with gold production expected to increase to an annualised rate of between 450,000 and 490,000 ounces per annum<sup>18</sup> from the second half of calendar 2017. The production increase is expected to result in a 25%<sup>19</sup> increase in Macmahon's revenue from the Tropicana Gold Project in the 12 months ending 31 December 2017 compared to the 12 months ended 31 December 2016.
- 58 In addition, further production increases are anticipated, depending on the outcome of the Long Island Study which is due to be completed in mid-2017. The Long Island Study is investigating mining methods that will greatly reduce waste mining costs and improve the resource to reserve conversion, which in addition to further studies on Havana South and Boston Shaker could result in a potential extension to the life of the mining operations to 2027-2030<sup>20</sup>.

### *Telfer Gold Mine (Western Australia)*

- 59 In November 2015, Macmahon was awarded a contract by a subsidiary of Newcrest Mining to provide contract mining services at its Telfer operation in the East Pilbara region of Western Australia to 2022. Services provided under the contract include drill and blast, mining of waste materials, equipment hire and subcontractor management.
- 60 As indicated in subsequent announcements, Macmahon has been incurring losses on the contract since it commenced operations in February 2016 due to larger than expected start-up costs, difficult operating conditions and additional maintenance rectification costs for the equipment. However, Macmahon expects the Telfer contract to be reporting a monthly profit during the latter part of the calendar year 2017.

### *St Ives Gold Mine (Western Australia)*

- 61 Macmahon provides fleet hire of large scale open-cut mining equipment and associated services to the St Ives Gold Mine near Kambalda, Western Australia. In May 2016, Macmahon announced that the contract had been extended for an additional 24 months and that revenue from the contract extension was expected to be approximately \$2.5 million per month.

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<sup>18</sup> We note that on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) and a further 4.2 million ounces of gold resources as at 31 December 2016. Source: Independence Group NL company presentation, *Tropicana – value enhancement update*, 15 December 2016.

<sup>19</sup> Based on the actual revenues for the calendar year ended 31 December 2016.

<sup>20</sup> Source: Independence Group NL company presentation, *Tropicana – value enhancement update*, 15 December 2016.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### ***Argyle Diamond Mine (Western Australia)***

62 The Company is contracted by a subsidiary of Rio Tinto to manage its tailings dam operations at the Argyle Diamond Mine in Western Australia. The current contract was awarded in January 2015 and has a term of three years.

### **Underground mining**

63 Underground mining services being delivered by Macmahon include the following:

- (a) raise drilling services at BHP Billiton's Olympic Dam mine in South Australia
- (b) cablebolting activities at Newcrest Mining's Cadia project in New South Wales
- (c) care and maintenance services at the Ranger Mine in the Northern Territory.

### **International operations**

#### ***Martabe Gold Mine (Indonesia)***

64 In November 2015, Macmahon was awarded a five year contract to deliver mining services at the open pit Martabe Gold Mine in the North Sumatran province of Indonesia. The contract was awarded by PT Agincourt Resources for work to commence in January 2016, and was valued at approximately US\$170 million.

65 The contract is being delivered by Macmahon in a 50:50 JV with a leading Indonesian contractor. Under the contract, the JV is providing a full scope of mining and bulk earthworks related services. In addition, further services are being supplied in relation to the tailings storage facility embankments and access to new mining areas.

#### ***Other international projects***

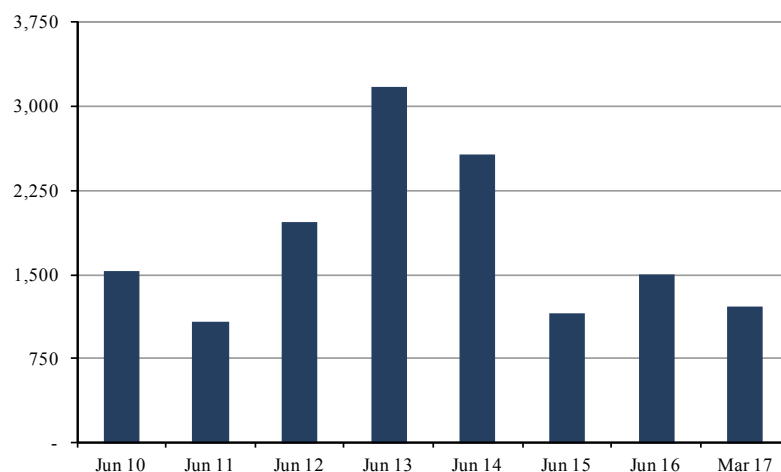
66 The Company is also delivering two quarrying contracts overseas for Lafarge, which include drill, blast and mining of limestone at the Lhoknga cement manufacturing plant in Aceh, Indonesia (expected to continue until June 2020), as well as the provision of a wide range of mining services to the Kanthan limestone project and cement manufacturing plant in Perak, Malaysia. This project is contracted to run until February 2020.

### **Order book**

67 Macmahon's order book (the value of work contracted) over recent periods to 31 March 2017 is shown below:

### Macmahon – order book

\$m



- 68 As indicated above, Macmahon's order book has historically exhibited a significant degree of volatility due to the cyclical nature of the global mining industry and the size of particular contracts.
- 69 As at 31 March 2017, the Company's order book stood at \$1,213 million, reflecting a slight decrease from 31 December 2016 (which was \$1,295 million). The majority of contracted work relates to surface mining projects.
- 70 It should be noted that the order book at 31 March 2017 includes only the original value of contracted work at Tropicana (and assumes production ceases in FY20). This materially understates the level of work expected to be undertaken by Macmahon under its life of mine contract at Tropicana due to the size of existing reserves<sup>21</sup>. The order book value has not changed as the Long Island expansion plans are not yet approved by AngloGold Ashanti and Independence Group. An update to the order book is expected once the Long Island Study is completed in mid-2017 for the Tropicana project.
- 71 In addition, on 13 February 2017 Macmahon announced that it had signed a three year memorandum of understanding (MOU) with Indonesian-based AMNT, making Macmahon the preferred contractor for AMNT's Batu Hijau copper and gold mine. As noted above, this MOU has advanced to the stage of the AMNT Transaction, which is the subject of this report.

<sup>21</sup> As stated above, on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) as at 31 December 2016. As gold production is expected to increase to between 450,000 and 490,000 ounces per annum from the second half of calendar 2017, the expected mine life (based on reserves alone) is some eight years.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Financial performance

72 The financial performance of Macmahon for the four years ended 30 June 2016 (FY16), as well as the six months ended 31 December 2016 (1HY17), is set out below:

Macmahon – statement of financial performance <sup>(1)</sup>					
	FY13 Audited \$m	FY14 Audited \$m	FY15 Audited \$m	FY16 Audited \$m	1HY17 Unaudited \$m
Total revenue	1,165.5	1,015.9	660.2	347.4	168.3
<b>EBITDA<sup>(3)</sup></b>	188.6	179.5	71.3	29.7	8.2
Depreciation and amortisation <sup>(2)</sup>	(85.6)	(101.7)	(59.6)	(33.1)	(14.9)
<b>EBIT<sup>(3)</sup></b>	103.0	77.8	11.7	(3.4)	(6.7)
Net finance costs	(18.3)	(18.8)	(23.7)	(2.4) <sup>(7)</sup>	(0.1)
Equity JV profits (net of tax)	1.0	0.1	0.1	0.6	1.6
Significant items <sup>(4)</sup>	(19.4)	(10.6)	(208.1)	6.7	0.6
<b>Profit before tax<sup>(5)</sup></b>	66.3	48.5	(220.1)	1.5	(4.6)
Tax expense	(22.7)	(19.6)	(0.5)	(0.4)	(0.4)
<b>Net profit after tax<sup>(5)</sup></b>	43.6	28.9	(220.6)	1.1	(5.0)
Profit / (loss) after tax from discontinued operations	(73.1)	1.5	2.6	0.6	(18.3) <sup>(6)</sup>
<b>Statutory net profit after tax</b>	(29.5)	30.4	(217.9)	1.7	(23.3)
<i>EBITDA margin</i>	16.2%	17.7%	10.8%	8.5%	4.9%
<i>EBIT margin</i>	8.8%	7.7%	1.8%	(1.0%)	(4.0%)
<i>Order book (at period end)</i>	3,167	2,572	1,150	1,507	1,295

#### Note:

- 1 Rounding differences exist.
- 2 Amortisation primarily relates to software development costs.
- 3 EBITDA – earnings before interest, tax, depreciation and amortisation. EBIT – earnings before interest and tax.
- 4 Significant items comprise the following:

Impairment of plant and equipment and goodwill	(1.8)	(2.0)	(202.0)	-	-
Writedowns of inventory	-	-	(27.3)	-	-
Onerous lease provision	-	-	(4.5)	(2.1)	-
Net foreign exchange gain	5.4	(2.2)	11.9	2.5	(0.1)
Net gain / (loss) on disposal of plant and equipment	0.3	1.3	(13.0)	6.3	0.7
Bad debts written off and subsequent gain on sale of Mongolian operations	(7.2)	(7.7)	10.5	-	-
Provision and subsequent gain on settlement of dispute	(16.1)	-	16.3	-	-
	(19.4)	(10.6)	(208.1)	6.7	0.6

- 5 From continuing operations.
- 6 Comprises operating losses, closure costs and asset writedowns in connection with the Nigerian operations (\$8.3 million), transfer of foreign exchange translation reserve to profit and loss (\$9.7 million), and losses on legacy construction contracts (\$0.3 million).
- 7 This relates to finance costs incurred prior to the settlement of Macmahon's main debt facility (which was repaid from the sale of the Mongolian operations).

- 73 As previously discussed, on 12 December 2012, Macmahon announced the sale of its construction business. The results from continuing operations shown above have been restated to exclude any contribution from this business. The results from discontinued operations in 1HY17 also includes losses and asset writedowns in connection with the closure of Macmahon's Nigerian operations. However, the earlier results have not been adjusted to reflect the Nigerian operations as a discontinued operation<sup>22</sup>.
- 74 The key factors that have impacted the reported financial performance of Macmahon in the above financial periods are summarised below:

**Year to 30 June 2013 (FY13)**

- revenue increased 33% due to (inter-alia) the award of a number of large contracts, including the Christmas Creek Mine expansion project for Fortescue Metals Group
- the award of the five-year Christmas Creek Mine expansion project during FY13 added \$1.8 billion to work on hand, increasing work on hand to \$3.2 billion as at 30 June 2013
- Macmahon was awarded its sixth contract extension (since the project commenced in 2004) at the Olympic Dam Mine in South Australia
- the Company opened an office in Ghana to pursue project opportunities in Africa

**Year to 30 June 2014 (FY14)**

- revenue declined around 13%, reflecting difficult trading conditions in the mining sector and the completion of some contracts
- Macmahon's surface mining operations (which included work on the Tropicana Gold Project and the Christmas Creek Mine expansion) improved steadily over the year. However:
  - operations were reduced at Peabody Energy's Eaglefield / Lenton mine as the mine was nearing the end of its life<sup>23</sup>
  - works at BHP Billiton's Orebody 18 were completed in June 2014 following the decision by BHP to take operations in-house
  - Yancoal also decided to take operations at its Cameby Downs mine in-house following the completion of Macmahon's contract (resulting in demobilisation from site in December 2013)
- in Macmahon's underground mining operations, contracts were completed at Glencore Xstrata's George Fisher Mine in Queensland
- operations at BHP Billiton's Olympic Dam Mine performed well, with a further four-year extension granted during the period to provide raise drilling services
- in Mongolia, operations at the Tavan Tolgoi mine were impacted by payment delays for work completed

<sup>22</sup> Further information on the profitability of the Nigerian operations is set out in Section VI.

<sup>23</sup> The project was expected to be completed in November 2014.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
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### Year to 30 June 2015 (FY15)

- revenue declined around 35% due to continued difficult trading conditions in the mining sector and the completion of a number of contracts during the prior year
- to mitigate the impact of the prevailing difficult trading conditions, the Company entered into a number of short term equipment hire agreements with a range of customers across Australia
- in January 2015, the Company was awarded a three-year contract extension by a subsidiary of Rio Tinto to continue its tailings dam management operations at the Argyle Diamond Mine
- a five-year contract extension was also awarded at the Lafarge Kanthan Quarry in Malaysia. However, quarrying activities at Lafarge's Rawang cement project were completed
- in addition:
  - in February 2015 Fortescue Metals Group consolidated its two Christmas Creek Mines in Western Australia. As a result, Macmahon's mining services contract at the Christmas Creek Expansion project concluded in May 2015
  - in May 2015, Macmahon was advised that the operations at Waihi Gold Mine in New Zealand would be concluding ahead of schedule. Macmahon demobilised from the site shortly after year end
  - Macmahon's project at Peabody Energy's Eaglefield / Lenton mine was completed in November 2014
  - underground development works at Rio Tinto's Argyle Diamond Mine were completed in August 2014<sup>24</sup>
  - in August 2014, operations at the Tavan Tolgoi coal project in Mongolia were suspended by the client following a dispute regarding payment delays. Subsequently, in June 2015, Macmahon announced the sale of its Mongolian business for US\$65 million
- as a result of the above, work on hand as at 30 June 2015 fell to \$1.15 billion (from \$2.6 billion as at 30 June 2014)
- non-recurring items (net expense of \$205.6 million) comprised significant asset writedowns and onerous lease provisions, partly offset by an accounting gain on the settlement of a contract dispute

### Year to 30 June 2016 (FY16)

- Macmahon's main surface mining operation (Tropicana) continued to perform well. However:
  - losses of \$13.5 million were incurred on the Telfer project (which commenced in February 2016) due to a number of issues including start-up costs, complicated site conditions and additional maintenance rectification costs for client supplied equipment

<sup>24</sup> This was a separate contract to the tailings dam project mentioned above.

- significant losses were incurred from the Company's Nigerian projects due to low volumes, increased maintenance costs, industrial action and project closure costs at Ewekoro
- revenue fell significantly to \$347.4 million due to the difficult mining conditions and the transition to new projects
- whilst the Olympic Dam projects (with the exception of the raise drilling contract) and a number of other projects were completed during the period, \$624 million in new work was awarded in 2016. New contracts included:
  - the provision of contract mining services at the Telfer gold mine for Newcrest Mining Limited (as noted above)
  - the provision of plant and personnel at the St Ives Gold Mine near Kambalda in Western Australia
  - the provision of mining services (under a joint venture arrangement) at the Martabe Gold Mine in Indonesia

#### **Six months to 31 December 2016 (1HY17)**

- the results in 1HY17 continued to be adversely impacted by losses in the Nigerian business and at the Telfer project. However, the Tropicana contract continued to perform well

#### **Year to 30 June 2017 (FY17) and outlook<sup>25</sup>**

- Macmahon expects the Telfer contract to operate profitably on a monthly basis during the latter part of the calendar year 2017. Whilst losses on this contract are expected in the six months to 30 June 2017 (2HY17), Macmahon expects the business overall to achieve a positive EBITA<sup>26</sup> in that period, before returning to significant profitability in FY18 due to:
  - the elimination of recent losses at Telfer and in Nigeria
  - increases in revenue at the Tropicana project (as discussed above); and
  - revenue and profit from new work opportunities
- in the Target's Statement in response to the CIMIC Offer, Macmahon provided guidance that Macmahon expects to generate \$30 million to \$35 million in EBITA in FY18. In providing this guidance, Macmahon stated that profitability in FY18 assumes an improved performance at Telfer as well as an assumption that there will be three new contracts from its current tender pipeline of 16 opportunities, which are assumed to commence from 1 January 2018<sup>27</sup>. In the event that no new contracts are awarded to Macmahon, the FY18 EBITA guidance was \$23.8 million to \$27.7 million. Based on subsequent discussions with Macmahon for the purpose of this report, we advise that

<sup>25</sup> The outlook set out in this Section excludes any earnings contribution from the AMNT Mining Contract. The impact of the Mining Contract on Macmahon is set out in Section VII.

<sup>26</sup> Earnings before interest, tax and amortisation of acquired intangibles (EBITA).

<sup>27</sup> In this regard, on 3 April 2017 Macmahon announced that it had been selected by the project proponent QCoal Pty Ltd as the preferred mining contractor for the establishment and operation of the new Byerwen Coal Mine in Queensland's Bowen Basin.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

### LONERGAN EDWARDS & ASSOCIATES LIMITED

Macmahon continues to adopt this guidance prior to incorporating any profit contribution from the proposed AMNT Mining Contract.

#### Financial position

75 The financial position of Macmahon as at 30 June 2016 and 31 December 2016 is set out below:

Macmahon – statement of financial position		
	30 Jun 16 Audited \$m	31 Dec 16 Reviewed \$m
Debtors and prepayments	59.6	46.0
Income tax receivable (net)	12.6	13.2
Inventories	37.3	35.4
Creditors, accruals and provisions	(86.5)	(83.3)
<b>Net working capital</b>	<b>23.0</b>	<b>11.3</b>
Assets held for sale	9.2	4.2
Property, plant and equipment	117.7	123.3
Investments accounted for using the equity method	6.3	6.2
Deferred tax assets (non-current)	0.6	0.6
Employee benefits (non-current)	(0.4)	(0.4)
Other provisions (non-current)	(5.4)	(6.9)
<b>Total funds employed</b>	<b>150.9</b>	<b>138.4</b>
Cash and cash equivalents	56.7	59.6
Interest bearing liabilities	(0.2)	(9.8)
<b>Net cash / (borrowings)</b>	<b>56.5</b>	<b>49.8</b>
<b>Net assets attributable to Macmahon Shareholders</b>	<b>207.4</b>	<b>188.2</b>

Rounding differences exist.

#### Net working capital

76 The Company's net working capital levels vary depending on (inter-alia) the stage of a project and the number of projects underway at any point in time. As a result working capital levels can fluctuate materially between reporting periods.

#### Property, plant and equipment

77 Given the capital intensive nature of Macmahon's operations, the majority of the Company's property, plant and equipment relates to mining plant and equipment deployed at various project sites. Plant and equipment that is in use is carried at historical cost less accumulated depreciation, and is predominantly depreciated on a cumulative hours worked basis. Idle plant and equipment is predominantly carried at orderly liquidation value. A significant impairment charge was recognised in FY15 reflecting prevailing market conditions at the time.

### Net cash

78 The composition of Macmahon's net cash position is set out below:

Macmahon – net cash		
	30 Jun 16	31 Dec 16
	\$m	\$m
Cash and cash equivalents	56.7	59.6
Finance leases	(0.2)	(9.8)
<b>Net cash</b>	<b>56.5</b>	<b>49.8</b>

79 Macmahon has maintained a substantial net cash position which is in excess of the working capital needs of the Company. The cash holdings of the Company assist in securing contracts as they provide a (perceived) level of security to clients as to the financial capacity of Macmahon to meet its contractual obligations.

### Assets held for sale

80 As at 31 December 2016, Macmahon had \$4.2 million in assets classified as held for sale. This relates to idle plant which is considered surplus to requirements (and is therefore held for sale). The carrying value reflects estimated net realisable value, based on an independent assessment of the orderly liquidation value of the plant.

### Deferred tax assets

81 As at 31 December 2016, Macmahon had unrecognised Australian deferred tax assets (DTA) of \$51.1 million. These have principally arisen due to the impairment of plant and equipment in FY15, and reflect future tax deductions<sup>28</sup> which can be used to reduce future taxable income.

82 Macmahon also has unrecognised international DTAs of A\$18.1 million. However, these primarily relate to Nigeria, where Macmahon no longer has any operations. Consequently, no benefit is expected to arise from the international DTAs.

### Other provisions

83 Other provisions as at 31 December 2016 comprise:

Macmahon – provisions		
	30 Jun 16	31 Dec 16
	\$m	\$m
Residual liabilities relating to Nigerian operations	-	3.6
Residual liabilities relating to construction business	1.8	0.6
Onerous contracts	3.6	2.7
<b>Total other provisions</b>	<b>5.4</b>	<b>6.9</b>

<sup>28</sup> Primarily due to tax depreciation being higher than accounting depreciation (due to the impairment charges).

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

**LONERGAN EDWARDS**  
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### Share capital and performance

- 84 As at the date of this report, Macmahon had 1,200.9 million fully paid ordinary shares on issue. In addition the company had 12.1 million performance rights granted under the Company's previous and current long-term incentive plans, which vest subject to the achievement of specific performance hurdles.
- 85 We note that the Company currently holds approximately 13.0 million Macmahon shares on trust to satisfy the vesting of all Macmahon performance rights on issue (i.e. a surplus of 0.9 million shares).
- 86 For valuation purposes, we have treated this surplus trust holding as treasury shares, and have therefore adopted fully diluted shares on issue of 1,200.0 million.

### Significant shareholders

- 87 As at 20 March 2017, the substantial shareholders of Macmahon shares were:

Macmahon – substantial shareholders		
Shareholder	Shares held	
	Million	% interest
CIMIC	283.94	23.64
Forager Funds Management Pty Limited	116.76	9.71
Schroder Investment Management Australia Limited	62.55	5.21

- 88 CIMIC primarily acquired its shareholding in Macmahon in 2007 and through participation in various capital raisings. As noted above, at the close of the CIMIC Offer on 9 March 2017, CIMIC had modestly increased its shareholding in Macmahon to 23.64%.

### Dividend and capital management policy

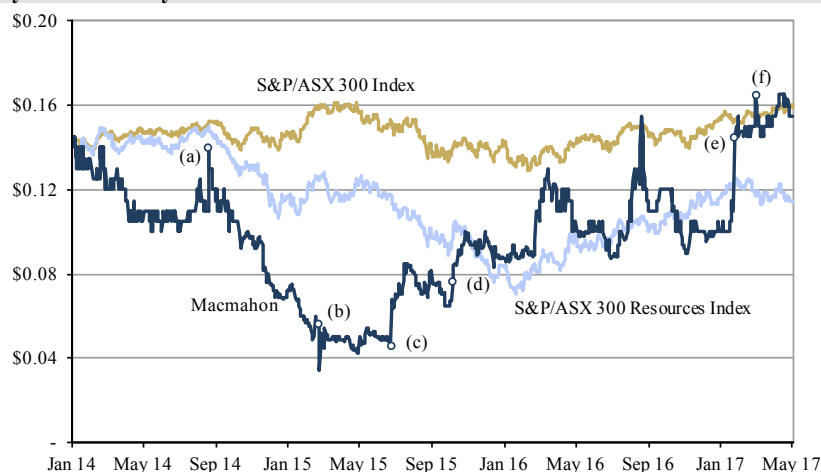
- 89 Macmahon has not declared or paid a dividend since 17 October 2012. However, following the sale of its Mongolian operations for US\$65 million in June 2015, Macmahon announced an on-market share buy-back for up to 10% of its shares (which was completed in October 2016) as it believed this was the most effective way to return capital to shareholders. 60.8 million shares were bought back and subsequently cancelled at an average price of \$0.108 per share.

### Share price performance

- 90 The following chart illustrates the movement in the share price of Macmahon from 1 January 2014 to 3 May 2017 (being the last trading day prior to the announcement on 8 May 2017 that binding documentation relating to the AMNT Transaction had been entered into):

### Macmahon – share price history<sup>(1)</sup>

1 January 2014 to 3 May 2017



**Note:**

<sup>1</sup> Based on closing prices. The S&P/ASX 300 Index and the S&P/ASX 300 A-REIT Index have been rebased to Macmahon's last traded price on 1 January 2014, being \$0.145.

**Source:** Bloomberg (sourced throughout the report without specific consent in relation to this report) and Macmahon ASX announcements.

- 91 The material decline in the share price of Macmahon over the period to mid-2015 coincided with the general deterioration in market conditions in the mining services industry. We also note the following market sensitive announcements with respect to the material movements in the share price of Macmahon above:
- (a) **20 August 2014** – announced the suspension of its operations in Mongolia due to disagreements with the customer, with US\$22 million in progress payments being overdue
  - (b) **20 February 2015** – advised that operations under its Christmas Creek Mine expansion contract would cease in April 2015 due to a consolidation of the two Christmas Creek mines, whereby mine operations would be managed by a single contractor. The contract was initially awarded to Macmahon in January 2013, and had a value at that time of \$1.8 billion (being the largest mining contract Macmahon had ever been awarded), and was intended to last for five years to 2018
  - (c) **25 June 2015** – advised that it had significantly reduced overhead and operating costs following an organisational restructure, and that it was tendering for a greater number of smaller opportunities to diversify its order book. In addition, Macmahon announced that it had sold its Mongolian operations to a private company for US\$65 million, which resulted in the Company being in a net cash position
  - (d) **6 October 2015** – announced an on-market share buy-back of up to 10% of the fully paid ordinary shares in Macmahon over a 12 month period as part of an ongoing capital management plan
  - (e) **24 January 2017** – announcement of the CIMIC Offer at \$0.145 cash per share (which closed on 9 March 2017)

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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- (f) **1 March 2017** – announcement of Heads of Agreement with AMNT in relation to the AMNT Transaction.

### Liquidity in Macmahon shares

- 92 The liquidity in Macmahon shares based on trading on the ASX over the 12 month period to 3 May 2017 is set out below:

Macmahon – liquidity in shares						
Period	Start date	End date	No of shares	WANOS <sup>(1)</sup>	Implied level of liquidity	
			traded	outstanding	Period <sup>(2)</sup>	Annual <sup>(3)</sup>
			000	000	%	%
1 month	04 Apr 17	03 May 17	19,088	1,200,921	1.6	19.1
3 months	04 Feb 17	03 May 17	301,636	1,201,884	25.1	100.4
6 months	04 Nov 16	03 May 17	435,462	1,202,284	36.2	72.4
1 year	04 May 16	03 May 17	812,987	1,206,240	67.4	67.4

**Note:**

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 93 As shown above, turnover in Macmahon shares over the three months to 3 May 2017 was extremely high as indicated by the implied level of liquidity exceeding 100%. We note that this period reflects on-market buying of Macmahon shares in connection with the CIMIC Offer. Turnover in Macmahon shares has since reduced as indicated by a lower level of liquidity over the month to 3 May 2017.

## IV Industry overview

### Introduction

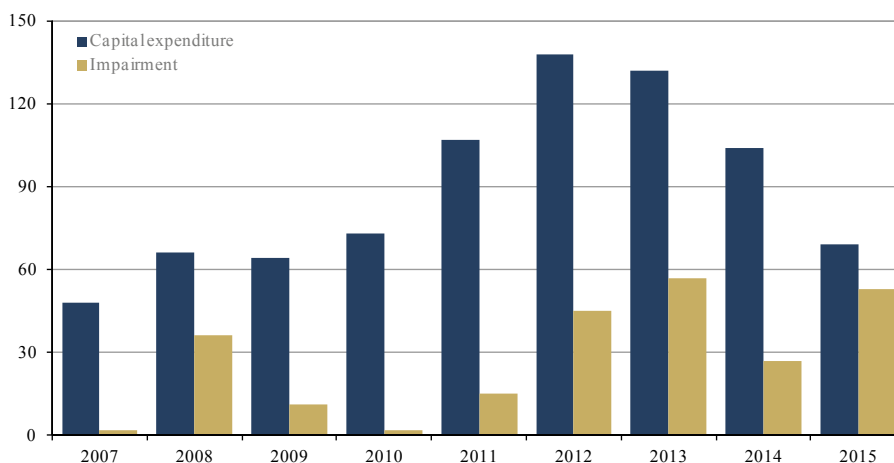
94 Macmahon is an Australian company that provides a diverse and comprehensive package of mining services to clients in Australia and internationally. The Company has surface and underground contract mining expertise, ranging from mine development to materials delivery, across a range of commodities. This section therefore focuses on the Australian and global mining and mining-related services markets (i.e. the key determinants of demand for Macmahon).

### Global mining industry

95 Over the 10 years to 2012, the industrialisation of a number of developing economies (most notably China) increased demand for bulk and base metal commodities and generated robust investment in the mining sector. Over this period capital expenditure on mining projects reached record levels, peaking in 2012, with the world's 40 largest mining companies by market capitalisation spending \$138 billion in that year alone<sup>29</sup>. By 2015, capital spending by the world's 40 largest mining companies had reduced to \$69 billion<sup>30</sup> (approximately half peak levels), as projects moved from the construction to the development and completion stages.

**World's 40 largest mining companies – capital expenditure and impairment**

US\$bn



Source: PwC Mine 2016, Mine 2010 and Mine 2009.

96 As shown above, mining capital expenditure increased from US\$48 billion in 2007 to a peak of US\$138 billion in 2012 (the modest decrease in spending in 2009 was largely related to the impact of the global financial crisis (GFC), which materially reduced the level of available financing for mining projects). During this period, in an effort to increase production, mining companies undertook expansion strategies that included unrestrained capital spending programs, and with the benefit of hindsight, high-priced mergers and acquisitions. This

<sup>29</sup> Refers to payments for property, plant and equipment and exploration expenditure.

<sup>30</sup> The latest available year.

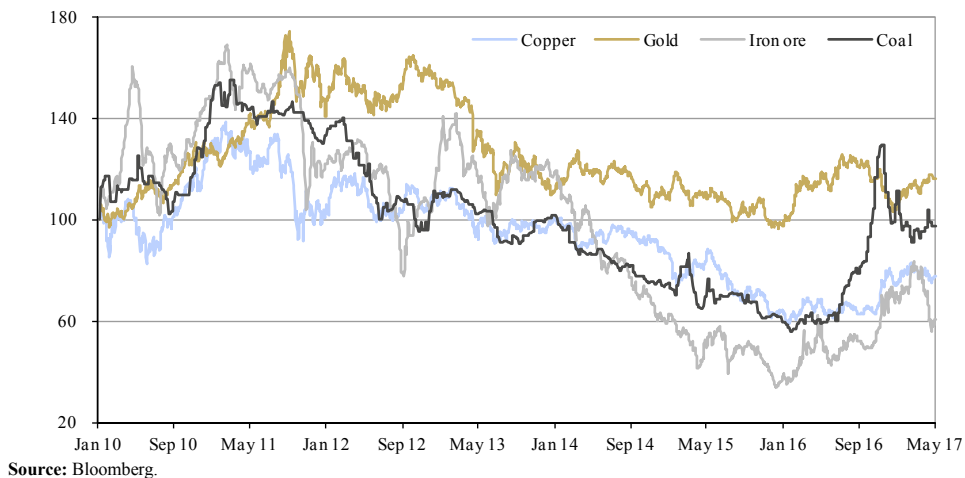
## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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resulted in significant asset write-downs in the subsequent 2012 to 2015 period when commodity prices subsided from their historic highs.

- 97 The combination of a slowing Chinese economy<sup>31</sup> (in relative terms) and the additional supply from new mines constructed and commissioned during the period of higher commodity prices resulted in bulk mineral commodity prices declining materially over the 2011 to 2015 period. In response, mining companies cut costs, improved productivity and reduced capital expenditure, with global investment in new projects falling over the period from 2012 to 2015 (noting that this should be considered in the context of the record levels of expenditure by mining companies in prior years).
- 98 During 2016 however commodity prices first stabilised and then generally moved upwards. This was led by the bulk mineral commodities such as coal and iron ore, prices for which reflected the most significant declines. Base metal commodity prices such as copper and zinc also improved.

**Commodity price movements 2010 to date**  
**Rebased from 1 January 2010 (US\$)**



Source: Bloomberg.

- 99 The 2016 increases in bulk commodity prices such as iron ore and coal were attributable to a number of factors. These include:
- a rebound in Chinese property investment
  - increased infrastructure investment initiated by Chinese authorities in 2015 to address a noticeable slowdown in Chinese economic activity
  - a more proactive response from Chinese authorities to the unsustainably high pollution issues prevalent in the majority of manufacturing regions.

<sup>31</sup> China's GDP growth peaked at over 14% in 2007 and has since fallen to below 7.0% in 2016.

- 100 Iron ore prices were also favourably impacted by a number of specific factors, including:
- (a) the removal of some 30 million tonnes of higher cost iron ore supply, which proved uneconomic in a lower price environment
  - (b) the introduction of production caps on scrap metal plants totalling 60 million tonnes in 2016. Chinese authorities are also targeting the removal of another 140 tonnes of scrap metal production by 2020; and
  - (c) higher coking coal prices, given that this encourages steel producers to focus on higher blast furnace utilisation, which requires better quality iron ore typically sourced from the seaborne market.
- 101 In respect of coal, in February 2016, the State Council (China's premier legislative body) issued plans to reduce coal production capacity by around 1 billion tonnes over the next three to five years. The State Council also issued a direction in April 2016 that the number of working days for coal mines be reduced from 330 days to 276 days per year. In combination with disruptions to supply from major exporting countries, the price of both thermal and coking coal increased significantly in the second half of 2016, peaking in November 2016. Following the sharp rise in coal prices, the National Development and Reform Commission signalled that the 276 working day policy would be amended for selected coal producers to allow them to temporarily increase their days of operation as a means of relieving supply shortages. Coal prices subsequently reduced to levels comparable to those in 2014<sup>32</sup>.
- 102 More recently, the expectation of higher levels of infrastructure investment in the US under a Trump presidency has also added to the more positive outlook for commodities, with copper prices in particular (at least in the short term) also favourably impacted by expectations of reduced production from two of the world's largest copper mines (due to differing significant mine specific issues).

### **Australian mining industry**

- 103 Consistent with the global experience, strong demand for commodities since the early 2000s generated robust investment in the Australian mining sector. This was particularly evident in the bulk commodities sector, which has seen unprecedented levels of investment in recent periods (noting precious and base metals spending levels were also high). However, given the difficult industry conditions that have recently prevailed and the increase of mining stock added during higher commodity prices, Australian mining companies have been more reluctant to commit to new projects and have generally shifted their focus from expansion to operational efficiency. This is illustrated in the following chart, which shows the significant decline in the level of committed mining projects<sup>33</sup> in Australia as at October 2016 compared to the levels reported as at October 2012<sup>34</sup>:

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<sup>32</sup> Coal prices recently "spiked" significantly in response to adverse weather conditions in Queensland in March 2017.

<sup>33</sup> As reported by the Australian Department of Industry Innovation and Science. Projects at the committed stage of the development cycle have completed all commercial, engineering and environmental studies, received all required regulatory approvals and finalised the financing for the project. Such projects are considered to have received a positive final investment decision from the owner (or owners) and are either under construction or preparing to commence construction.

<sup>34</sup> Being the date of commencement of this data source.

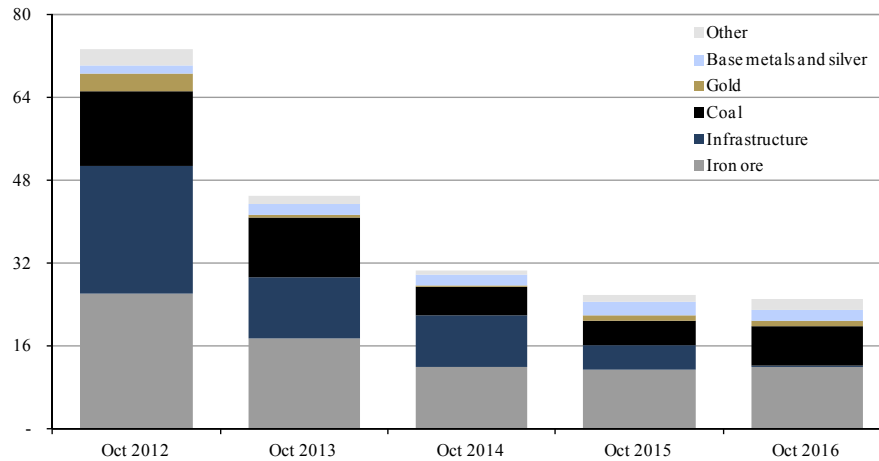


## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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**Value of Australian mining projects at the committed stage<sup>(1)</sup>**

**\$bn**



**Note:**

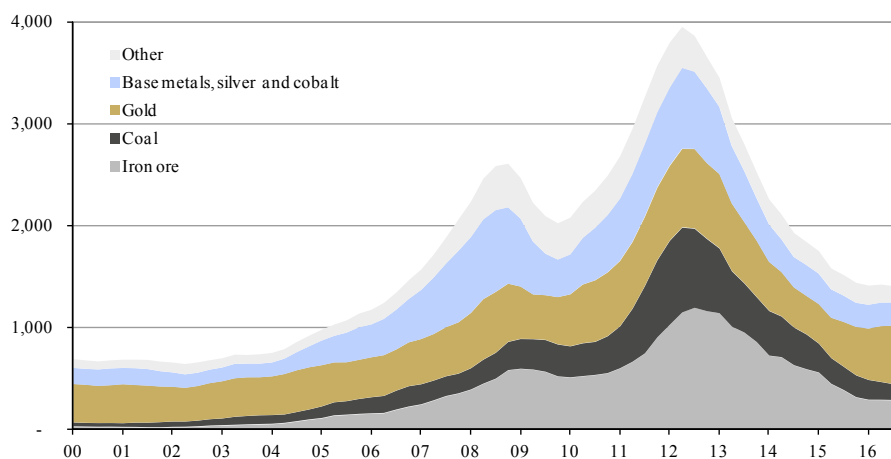
1 Base metals and silver includes copper, lead, zinc and nickel. Other includes uranium, aluminium, bauxite and alumina.

Source: Department of Industry, Innovation and Science (2012-2016) *Resources and Energy Major Projects* and *Resources and Energy Quarterly*.

- 104 Given that exploration activities precede mining project development, the level of mining exploration provides an indication of future mining investment. Exploration expenditure in Australia for the year to 30 September 2012 peaked at \$3.9 billion, and has since declined to an annual spend of \$1.4 billion (for the year to 30 September 2016)<sup>35</sup>. In the most recent annual period exploration expenditure declined for most commodities, with the exception of gold (which increased 31%) and copper (which increased 4%). The composition of Australian exploration expenditure from 2000 to 2016 is set out in the chart below:

<sup>35</sup> Source: ABS 8412.0 *Mineral and petroleum exploration, Australia*.

**Mineral exploration expenditure – January 2000 to December 2016<sup>(1)</sup>**  
**\$m (rolling annual total based on quarterly data)**



**Note:**

<sup>1</sup> Base metals, silver and cobalt includes copper, nickel, lead and zinc. Other includes uranium, diamonds and mineral sands.

Source: ABS 8412.0 *Mineral and Petroleum Exploration, Australia*.

- 105 Consistent with commodity price movements, exploration expenditure for bulk mineral commodities (coal and iron ore) has shown the largest reductions in exploration expenditure since peak levels in the year to 30 September 2012. Given recent price increases for coal and iron ore, the potential therefore exists for increased exploration expenditure for these commodities.
- 106 Whilst base metals exploration expenditure has also reduced significantly, it is important to note that although US\$ prices for base commodities have reduced significantly over the past five years, due to a decreasing Australian dollar (A\$) relative to the US\$, base metal prices in A\$ terms have not reduced to the same extent. As a result base metal prices in A\$ terms remain relatively high, with a corresponding potential for renewed interest in base metals exploration.
- 107 The standout commodity for exploration expenditure has been gold, where exploration levels have been relatively consistent over the above period. Gold prices increased substantially from 2000 and peaked in 2011 (in US\$ terms), which provided impetus for significant investment in exploration. Since 2011, US\$ gold prices have generally reduced, however the impact of a declining A\$:US\$ exchange rate has meant that the A\$ gold price has not been as adversely impacted (and has actually been increasing since October 2014). As a result, Australian gold mining exploration expenditure has increased materially in the most recent yearly period.

## Mining services

### Services

- 108 The mining services industry consists of companies that provide specialist services to mining companies across all stages of the mining project lifecycle. These services range from undertaking feasibility studies, the subsequent development and construction of a mining

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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project and undertaking ongoing mining operations. Mining services companies are generally employed by mining companies for a number of reasons, including but not limited to:

- (a) providing a specialist technical service
- (b) reducing project capital requirements (i.e. capital expenditure is avoided in lieu of increased operational expenditure)
- (c) providing operational expertise for new projects
- (d) increasing productivity and efficiency; and
- (e) reducing operating costs.

### Recent trends

109 Demand for mining services is driven by the level of mining activity and investment. In line with reducing mining capital expenditure over recent years, demand for mining construction and associated services fell. During this period, mining companies elected to internalise some previously outsourced operations (or renegotiate at lower rates) and offset the effect of lower prices by reducing capital expenditure and operating costs. This created difficult industry conditions for mining service companies.

110 However, mining is a cyclical industry and recent price action for metal and mineral commodities, as well as sentiment towards mining companies generally, suggests that the cycle has turned upwards (or is at least in the early stages of doing so). Some of the factors that lend support to this observation include:

- (a) mining companies have commenced a long overdue reinvestment in their mining operations (in particular, mining plant and equipment) after years of working assets for efficiency and with minimised maintenance
- (b) following a prolonged period of consolidation of operations, mining service companies are looking at expansion and growth options
- (c) the level of bank financing available to mining service companies for requisite working capital has increased as commodity prices have risen
- (d) reflective of the more optimistic conditions, recent share prices of both mining companies and mining services companies have generally increased substantially.

111 Recent commentary from a number of Australian mining services companies also supports a more positive industry outlook:

- (a) *"...Throughout the mining downturn experienced over the last five years, RPM's shareholders have continued to support the Group's cost cutting efforts and strategy of increased software development expenditure. ... If commodity prices stabilize at current levels we would expect to see our Advisory and GeoGAS businesses start to grow again and profitability start to return to the industry."*<sup>36</sup>
- (b) *"... With an improvement in both mining activity and investor sentiment towards the sector MACA believes it is well placed to benefit from the continuation of this recovery"*

<sup>36</sup> RungePincockMinarco Limited *Half year financial report* released 21 February 2017.

*and funding of projects. The Civil and Infrastructure markets remain challenging with ongoing margin pressure, however, there are significant revenue opportunities within the sector.”<sup>37</sup>*

- (c) *“... The recent resurgence in coal prices has resulted in a significant increase in tender activity, in particular roadway development contracts. Workforce numbers are increasing from January 2017, based on new work already secured, and will continue to increase through to March / April this year. This will increase the Mining division revenue and profits for the second half of FY17. Development equipment demand has also increased on the back of a number of roadway development tenders ...”<sup>38</sup>*
- (d) *“... Market conditions in the Australian resources and energy sector continue to be challenging though the market environment is stabilising. Solid levels of capital expenditure required to sustain the massive increases in production levels are expected to provide construction opportunities, particularly in iron ore and upstream coal seam gas. Prospects for maintenance services are positive as new LNG projects are commissioned and production ramps up. The aging of assets in the resources sector will also drive higher volumes of maintenance and support services.”<sup>39</sup>*
- (e) *“From an international perspective, we are seeing strong demand for quality Australian resources, including metallurgical and thermal coal, in a strengthened price environment. This is good news for our customers, for the industry and for Aurizon, and could present future volume and growth opportunities.”<sup>40</sup>*

## Outlook

- 112 Since mid-2016 commodity prices have increased, although they remain substantially lower than at peak levels in the years past. At present the mining industry is cautiously optimistic about the future prospects, however there is the potential for certain commodity prices to pull back to some extent, e.g. iron ore, as additional supply comes to the market. Further, it is unlikely that commodity prices will exhibit the strength shown in the last boom period cycle, given expectations that China’s rate of growth (i.e. the key driver of most commodity prices) will normalise at a lower level in the future<sup>41</sup>.
- 113 Whilst capital spending on new mines is not expected to increase materially in the short to medium term (in part due to the increased investment in mining capacity over recent years), the value of Australia’s mining stock has increased significantly over the last decade. As a result, the opportunities for mining contractors offering efficient mining services have potentially increased. Further, new mining project development will continue to be necessary to replace depleted resources.

<sup>37</sup> MACA Limited *Half year financial report* released 20 February 2017.

<sup>38</sup> Mastermyne Group Limited *Half year financial report* released 21 February 2017.

<sup>39</sup> Monadelphous Group Limited *Half year financial report* released 21 February 2017.

<sup>40</sup> Aurizon Holdings Limited *Half year financial results release* dated 13 February 2017.

<sup>41</sup> Whilst annual growth rates in China are expected to gradually decline, we note the base from which growth is measured is substantially higher.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### V Valuation methodology

#### Valuation approaches

- 114 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 115 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 116 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 117 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, EBITA, EBIT or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 118 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets.

### Methodology selected

- 119 The market value of Macmahon has been assessed by aggregating the market value of the business operations together with the realisable value of surplus net assets.
- 120 The value of the business operations has been made on the basis of market value as a going concern. The following valuation methodologies have been adopted to determine value:

Valuation methodologies	
Method	Key reasons
DCF analysis	<ul style="list-style-type: none"> <li>Whilst Macmahon reported losses at the EBITA level in both FY16 and 1HY17, the Company is expected to return to significant profitability in FY18</li> <li>The DCF method is therefore the most appropriate valuation methodology as it allows the quantum and timing of the future earnings recovery to be explicitly modelled</li> </ul>
EBITA method	<ul style="list-style-type: none"> <li>As stated above, the Company is projected to return to significant profitability in FY18</li> <li>EBITA multiple evidence is available from "comparable" listed companies and transactions in the mining services sector</li> <li>EBITA rather than EBITDA has been adopted as Macmahon's contract mining business is capital intensive</li> </ul>
Share price adjusted for a (takeover) control premium	<ul style="list-style-type: none"> <li>As a cross-check on the above methods, we have also considered the reasonableness of the control premium implied by our valuation range compared to the VWAP of Macmahon shares.</li> </ul>

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### VI Controlling interest value of Macmahon before the AMNT Transaction

121 As discussed in Section V, we have assessed the value of Macmahon using the DCF and capitalisation of EBITA<sup>42</sup> approaches.

#### DCF valuation

122 As set out in Section III, Macmahon reported losses at the EBITA line in both the year ended 30 June 2016 (FY16) and the six months ended 31 December 2016 (1HY17). These losses were principally due to:

- (a) operating losses of \$8.4 million in FY16 and \$4.0 million in 1HY17 at its Nigerian operations (which have since been closed)
- (b) operating losses of \$13.5 million in FY16 and \$18.7 million in 1HY17 on the Telfer contract (which commenced in February 2016). These losses were due to a number of issues including greater than expected start-up costs, complicated site conditions and additional maintenance rectification costs for client supplied equipment.

123 Macmahon expects the Telfer contract to report a monthly profit commencing in the latter part of the calendar year 2017. Whilst an overall loss on this contract is expected in the six months to 30 June 2017 (2HY17), Macmahon expects the business overall to achieve a positive EBITA in 2HY17, before returning to significant profitability in FY18 (excluding any profit contribution from the AMNT Mining Contract) due to (inter-alia):

- (a) the elimination of recent losses at Telfer and in Nigeria
- (b) increases in revenue at the Tropicana Gold project. As discussed in Section III, Macmahon recently announced a production increase at the mine which is expected to increase Macmahon's revenues at the project by approximately 25% in the 12 months ending 31 December 2017 compared to the preceding 12 month period; and
- (c) anticipated revenue and profit from new work opportunities.

124 Given the above, in our opinion, the DCF method is the most appropriate valuation methodology. As the value of the business is largely dependent on the quantum and timing of an expected recovery in earnings we set out below:

- (a) the historical level of revenue, EBITA and EBITA margins generated by Macmahon's mining services business
- (b) the outlook for revenue and profit in the short to medium term based on the current level of contracted work on hand.

<sup>42</sup> In the case of Macmahon, EBITA is equal to EBIT as Macmahon does not have any amortisation of acquired intangibles.

### Historical profitability

- 125 As noted in Section III, Macmahon sold its construction business in FY12 and now focuses entirely on its contract mining business. Macmahon has also recently closed its Nigerian operations.
- 126 Accordingly, we set out below the revenue and EBITA of the continuing contract mining business<sup>43</sup>. In order to derive the underlying EBITA margins (as a percentage of revenue) we have adjusted reported revenue and EBITA to include Macmahon's pro-rata share of revenue and EBITA from joint ventures (JVs)<sup>44</sup>.

Macmahon – underlying EBITA from continuing operations <sup>(1)</sup>								
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	1HY17
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Reported revenue	465.6	674.4	876.1	1,165.5	1,015.9	660.2	347.4	168.3
JV share of revenue	-	13.8	4.0	7.9	1.5	1.1	13.3	12.0
Less Nigeria revenue	(4.0)	(10.7)	(24.8)	(34.9)	(39.5)	(41.8)	(34.2)	-
<b>Underlying revenue</b>	<b>461.6</b>	<b>677.5</b>	<b>855.3</b>	<b>1,138.5</b>	<b>977.9</b>	<b>619.5</b>	<b>326.5</b>	<b>180.3</b>
EBITA <sup>(2)</sup>	23.8	43.7	61.3	103.0	77.8	11.7	(3.4)	(6.7)
JV share of EBITA	-	2.9	0.9	1.4	0.2	0.1	1.2	2.4
Less Nigeria EBITA	(0.6)	-	(5.2)	(4.9)	(0.2)	1.5	8.4	-
<b>Underlying EBITA</b>	<b>23.2</b>	<b>46.5</b>	<b>57.0</b>	<b>99.5</b>	<b>77.7</b>	<b>13.2</b>	<b>6.1</b>	<b>(4.3)</b>
<i>EBITA margin</i>	<i>5.0%</i>	<i>6.9%</i>	<i>6.7%</i>	<i>8.7%</i>	<i>8.0%</i>	<i>2.1%</i>	<i>1.9%</i>	<i>(2.4%)</i>
Average revenue								698.3
Average revenue (excluding FY13 and FY14)								567.4
Average EBITA								42.5
Average EBITA (excluding FY13 and FY14)								25.8
<i>Weighted average EBITA margin</i>								<i>6.1%</i>
<i>Weighted average EBITA margin (excluding FY13 and FY14)</i>								<i>4.5%</i>

**Note:**

- 1 Underlying EBITA before significant items.
- 2 Before significant items.
- 3 Rounding differences exist.

127 In relation to the above historical results, we note that:

- (a) revenues from the Tropicana Gold project have steadily increased over the period (commencing in FY12), and accounted for some 50% of total revenue in 1HY17. As stated above, Macmahon's revenue from the Tropicana Gold project is expected to increase by around 25% in the 2017 calendar year due to increased production<sup>45</sup>. In

<sup>43</sup> The underlying revenue and EBITA shown in the table excludes any contribution from the construction business (which was sold in FY12) and the Nigerian operations (closed in FY17).

<sup>44</sup> For example, Martabe.

<sup>45</sup> Source: Macmahon ASX announcement dated 25 January 2017.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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addition, further significant production increases may occur at this project (subject to the outcome of the Long Island feasibility study currently underway)

- (b) Macmahon was awarded its biggest ever contract (the Christmas Creek Mine expansion project for Fortescue Metals Group) in January 2013. This project generated revenue for Macmahon of approximately \$700 million over the FY13 to FY15 period, and concluded in May 2015
- (c) during FY15 a number of other contracts were also completed, including Peabody Energy's Eaglefield / Lenton mine (November 2014), Rio Tinto's Argyle Diamond Mine (August 2014<sup>46</sup>) and the Waihi Gold Mine in New Zealand (which completed shortly after FY15)
- (d) in August 2014 operations at the Tavan Tolgoi coal project in Mongolia were suspended by the client following a dispute regarding payment delays. Subsequently, in June 2015, Macmahon announced the sale of its Mongolian business for US\$65 million
- (e) due to the difficult trading conditions in the mining sector over recent years, Macmahon has restructured its operating cost base and reduced annual overhead costs by around \$50 million since FY14
- (f) as stated above, significant losses were incurred on the Telfer project (which commenced in February 2016) due to a number of issues including greater than expected start-up costs, complicated site conditions and additional maintenance rectification costs for client supplied equipment. In the absence of these losses<sup>47</sup> Macmahon would have generated a positive EBITA in both FY16 and 1HY17, as shown below:

Underlying EBITA after adding back Telfer losses	FY16	1HY17
	\$m	\$m
Underlying EBITA <sup>(1)</sup>	6.1	(4.3)
Loss on Telfer contract	13.5	18.7
Underlying EBITA before Telfer losses	19.6	14.4

**Note:**

- 1 Includes Macmahon's pro-rata share of EBITA from joint ventures and excludes losses from the Nigerian operations.

- (g) the weighted average EBITA margin over the period was around 6.1% of sales revenue. This increases to 6.7% if the losses (and revenue) from Telfer are excluded.

### Order book

128 We have also undertaken a detailed review of profitability by major contract, and have considered the outlook for revenue and profit in the short to medium term based on the current level of contracted work on hand.

<sup>46</sup> A separate contract for tailings dam management at the Argyle Diamond Mine was extended for a further three years in January 2015.

<sup>47</sup> Macmahon expects the Telfer contract to achieve a monthly profit in the latter part of the calendar year 2017.

- 129 The level of contracted work on hand as at 31 March 2017, and the expected timing of that work, is shown below:

Contracted work on hand as at 31 March 2016 <sup>(1)</sup>	
Period	\$m
3 months to 30 June 2017	97.2
FY18	400.0
FY19	349.6
FY20+	366.2
Total contracted work on hand	<u>1,213.0</u>

**Note:**

- 1 Includes pro-rata share of contracted work on hand undertaken at the Martabe project (which is operated through a joint venture).

- 130 It should be noted that the order book at 31 March 2017 includes only the original value of contracted work at Tropicana (and assumes production ceases in FY20). This materially understates the level of work expected to be undertaken by Macmahon under its life of mine contract at Tropicana due to the size of existing reserves<sup>48</sup>. The order book value has not changed as the Long Island expansion plans are not yet approved by AngloGold Ashanti and Independence Group. An update to the order book is expected once the Long Island Study is completed for the Tropicana project.
- 131 In addition to the contracted work on hand, Macmahon also generates annual revenues from the provision of ad hoc mining services (e.g. drilling, shotcrete, vertical development and plant maintenance and hire). In 1HY17 these revenues were approximately \$20 million (\$40 million on an annualised basis), with average annual revenues in FY14 to FY16 being \$77 million.
- 132 Based on the level of contracted work on hand as at 31 March 2017 and the historic annual level of other ad hoc revenues, in our opinion, it is reasonable to assume that annual revenue over the next few years will be around \$425 million. This could increase further should Macmahon be successful in winning new work<sup>49</sup>. In this respect we note that Macmahon announced on 3 April 2017 that it had been selected as preferred mining contractor to develop the Byerwen Coal Mine in Queensland.
- 133 In this regard we note that Macmahon has identified a large potential pipeline<sup>50</sup> and has outstanding tenders and tender opportunities totalling \$6.5 billion. This pipeline includes potential increases in the mine life at the Tropicana Gold project (dependent on the outcome of the Long Island feasibility study currently underway), which may lead to more work for

<sup>48</sup> As stated in Section III, on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) as at 31 December 2016. As gold production is expected to increase to between 450,000 and 490,000 ounces per annum from the second half of calendar 2017, the expected mine life (based on reserves alone) is some eight years.

<sup>49</sup> Including new work (but excluding the AMNT Mining Contract), Macmahon's guidance for FY18 is for revenue between \$470 million and \$510 million. Excluding new work, Macmahon's guidance for FY18 is for revenue of between \$396.7 million and \$430.5 million.

<sup>50</sup> The large majority of these projects are not expected to commence in the short term (even if Macmahon is successful).

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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Macmahon under its life of mine contract. However, work under the AMNT Mining Contract is not included in this pipeline.

#### DCF assumptions

134 Given the above, we have adopted the following key assumptions in our Base Case DCF valuation:

- (a) Macmahon achieves a small positive EBITA in 2HY17
- (b) from FY18, Macmahon achieves annual revenue of \$425 million (growing at 2.5% per annum, consistent with inflation). This assumption is considered reasonable given the level of contracted work on hand, but is well below the average revenue achieved over the FY10 to 1HY17 period (as shown above)<sup>51</sup>
- (c) EBITA margins increase to 6.0% of revenue by FY19<sup>52</sup>, consistent with:
  - (i) the weighted average margins achieved by Macmahon over the FY10 to 1HY17 period (set out above); and
  - (ii) the observed EBITA margins generated by the Mining Services division of Downer EDI Limited (which is a larger competitor):

Downer EDI – Mining Services EBITA margins <sup>(1)</sup>		
	Revenue \$m	EBITA margin %
FY10	913	5.4
FY11	1,392	7.3
FY12	2,389	5.7
FY13	2,472	5.7
FY14	1,924	7.9
FY15	1,532	7.4
FY16	1,549	7.0
Weighted average		<u>6.6</u>

#### Note:

- 1 Calculated after allocating corporate costs across the group based on sales revenue. Excludes revenue and profit from joint ventures.
- 2 As shown above, in the more recent reporting periods (FY14 to FY16) Downer EDI has been able to increase EBITA margins to 7% and above.

135 The other key assumptions adopted are summarised below:

- (a) a discount rate of 13.0% per annum (after tax) has been applied, for the reasons set out in Appendix C

<sup>51</sup> In this regard, we have been advised that following the recent restructure of the operating cost base, Macmahon considers annual revenues of up to \$600 million to be within the existing capacity of the Company (subject to additional capital expenditure if fleet requirements differ to existing assets held).

<sup>52</sup> This EBITA margin implicitly allows for the capital cost of mining equipment, which can either be funded by outright purchase (resulting in depreciation charges), finance leases (resulting in depreciation charges) or operating leases (treated as an operating expense).

- (b) we have projected annual cash flows to the end of FY25. A terminal value (TV) multiple of 6.5 times EBIT has been applied at the end of FY25. This TV multiple is consistent with the multiple implied from the use of the growth in perpetuity model (based on a discount rate of 13.0% and a growth rate of 2.5%)
- (c) no Australian tax payments are projected to be paid until FY25, due to the existence of \$51 million in unrecognised deferred tax assets (which have largely arisen due to the impairment of plant and equipment in FY15)<sup>53</sup>
- (d) tax is payable on profits on Indonesian and Malaysian projects at the applicable tax rate in each jurisdiction
- (e) net working capital levels are assumed to increase with the level of work undertaken.

### Sensitivity analysis

- 136 The assumptions set out above reflect the Base Case assumptions adopted in the financial model on which our valuation is based. However, there are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.
- 137 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.
- 138 In assessing the appropriate valuation range for the contract mining operations of Macmahon we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

DCF value – sensitivity table (\$m)				
EBITA margin (% of revenue)	Sustainable revenue (in real terms)			
	\$400m	\$425m	\$450m	\$475m
5.5	177	187	197	207
6.0	190	201	212	222
6.5	204	215	226	238

**Note:**

- 1 The above values are based on a discount rate of 13% per annum (after tax). A 0.5% change in the discount rate has an impact of around \$5 million on the resulting net present value (NPV).

- 139 Having regard to the above, we have adopted a DCF value for the business of \$190 million to \$215 million.

### Capitalisation of EBITA approach

- 140 Under the capitalisation of EBITA method the value of Macmahon's business (before surplus assets and liabilities) is derived by multiplying the maintainable EBITA of the business at an appropriate EBITA multiple.

<sup>53</sup> Further detail in respect of these future tax benefits is set out in paragraphs 156 and 157.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### **EBITA**

141 As indicated above, in our Base Case DCF valuation we have assessed the sustainable EBITA (in real terms) of Macmahon at approximately \$25.0 million. This reflects sustainable revenue (in real terms) of \$425 million at an EBITA margin of 6%.

### **EBITA multiple**

142 The selection of the appropriate EBITA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

<ul style="list-style-type: none"> <li>• The stability and quality of earnings</li> <li>• The quality of the management and the likely continuity of management</li> <li>• The nature and size of the business</li> <li>• The spread and financial standing of customers</li> <li>• The financial structure of the company and gearing level</li> <li>• The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors</li> <li>• The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors</li> </ul>	<ul style="list-style-type: none"> <li>• The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc</li> <li>• The cyclical nature of the industry</li> <li>• Expected changes in interest rates</li> <li>• The asset backing of the underlying business of the company and the quality of the assets</li> <li>• The extent to which a premium for control is appropriate</li> <li>• Whether the assessment is consistent with historical and prospective earnings</li> </ul>
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143 We discuss below specific factors taken into consideration when assessing the appropriate EBITA multiple range for Macmahon.

### **Listed company multiples**

144 The EBITA multiples for Australian listed companies providing contract mining services and mining services generally are shown below:

Listed company multiples <sup>(1)</sup>			
	Enterprise value <sup>(2)</sup> \$m	EBITA multiples	
		Forecast <sup>(3)</sup> FY17 x	Forecast <sup>(3)</sup> FY18 x
<b>Contract mining services</b>			
MACA	342	7.0	6.8
NRW Holdings	216	7.3	7.8
Decmil Group	135	13.4	10.2
Mastermyne Group	38	na	na
Delta SBD	13	na	na
<b>Mining equipment and services</b>			
RCR Tomlinson	526	11.7	8.6
Imdex	217	10.0	7.4
Austin Engineering	132	nm	16.8
<b>Mineral processing services and others</b>			
Downer EDI	2,877	10.4	7.9
Mineral Resources	1,675	4.6	6.2
Monadelphous Group	969	11.9	12.5
Ausdrill	616	9.3	7.2
Swick Mining Services	72	nm	10.3

**Note:**

- 1 Enterprise value and earnings multiples calculated as at 10 May 2017.
- 2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), net derivative liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and excludes surplus assets.
- 3 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
- 4 Brief descriptions of the listed companies are set out in Appendix D.

**Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

na – not available. nm – not meaningful.

- 145 In relation to the above, we note that:
- (a) the above multiples are based on the listed market price of each company's shares, and therefore exclude a (takeover) premium for control
  - (b) empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.
- 146 As stated above, the level of EBITA adopted for valuation purposes is consistent with Macmahon guidance for FY18 excluding any material new contract wins, and the level of sustainable EBITA adopted by us in our DCF valuation. Accordingly, the EBITA multiples for the listed companies based on FY18 forecast earnings (shown above) are more relevant than the EBITA multiples based on FY16 actual or FY17 forecast earnings.

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- 147 However, as noted above, the EBITA multiples for the listed companies vary widely, which reflects differences in (inter-alia):
- (a) the size and nature of their operations
  - (b) the level of contracted work on hand (relative to the size of the business) and prospective future work opportunities (e.g. outstanding tenders and other identified work opportunities); and
  - (c) the timing and quantum of their expected earnings recovery.
- 148 The FY18 EBITA multiples for the listed companies are therefore not necessarily reflective of the EBITA multiple which would be derived from an assessment of each company's "maintainable" earnings. Accordingly, in our view, the listed company multiples should be considered a broad indicator of value only.

### **Transaction evidence**

- 149 There have been a number of transactions in the Australian mining services and equipment sector in recent years. The related implied EBITA multiples (where available) are set out in Appendix E. A summary of the EBITA multiples implied by recent transactions is set out below:

<b>Transaction multiples</b>				
<b>Date<sup>(1)</sup></b>	<b>Target</b>	<b>Acquirer</b>	<b>EV<sup>(2)</sup> A\$m</b>	<b>EBITA multiple x</b>
Oct 16	Bradken	Hitachi Construction Machinery	993	12.4F <sup>(3)</sup>
May 16	Ausenco	Resource Capital Fund IV	153	9.1F <sup>(3)</sup>
Jan 16	Sedgman	CIMIC Group	179	6.1F <sup>(3)</sup>
Jul 15	Ausenco (9.5% placement)	Duro Felguera	156	10.4F
Dec 14	Resource Equipment	Pump Services	141	8.8F <sup>(3)</sup>
May 12	Industrea	General Electric Company	701	8.5F
Jan 12	Ludowici	FLSmith & Co	389	14.9F
May 10	Ammtec Ltd	Campbell Brothers	152	8.3F

**Note:**

1 Date of announcement.

2 Enterprise value (EV) on a 100% basis.

3 Based on maintainable EBITA as assessed by the independent expert.

F – forecast.

**Source:** LEA analysis using data from ASX announcements, analyst reports and company annual reports.

- 150 In relation to the transaction evidence it should be noted that:
- (a) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control
  - (b) none of the above businesses are directly comparable to Macmahon
  - (c) the companies acquired differ materially in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transactions

are not necessarily representative of the multiples which should be applied to Macmahon

- (d) the transaction multiples are generally calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The transaction multiples therefore reflect (inter-alia) the outlook for the mining services sector at the date of the transaction and are therefore not necessarily reflective of:
  - (i) the current outlook for the sector; or
  - (ii) the multiple which would be derived from an assessment of each target company's "maintainable" earnings.

***Other factors***

- 151 In assessing the appropriate EBITA multiple for Macmahon we have also considered (inter-alia):
- (a) the level of contracted work on hand as at 31 March 2017 (\$1.2 billion), which represents 2.85 times the level of sustainable revenue adopted by us for valuation purposes
  - (b) the fact that the order book as at 31 March 2017 only includes the original value of contracted work at Tropicana (and assumes production ceases in FY20)<sup>54</sup>. Accordingly, the order book materially understates the level of work expected to be undertaken by Macmahon under its life of mine contract at Tropicana due to the size of existing reserves<sup>55</sup>
  - (c) the level of prospective work (based on identified opportunities in respect of which Macmahon has been invited to tender or is expected to tender) as at 31 March 2017 (\$6.5 billion), which is some 141% above the corresponding figure at 30 June 2016 (\$2.7 billion)
  - (d) the number and extent of contractual difficulties encountered by Macmahon in recent periods
  - (e) the risks associated with contract mining operations generally, including the inherent potential for contract losses from time to time
  - (f) the capital intensive nature of contract mining businesses.

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<sup>54</sup> The order book value has not changed as the Long Island expansion plans are not yet approved by AngloGold Ashanti and Independence Group. An update to the order book is expected once the Long Island Study is completed for the Tropicana project.

<sup>55</sup> As stated above, on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) as at 31 December 2016. As gold production is expected to increase to between 450,000 and 490,000 ounces per annum from the second half of calendar 2017, the expected mine life (based on reserves alone) is some eight years.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### **Conclusion on EBITA multiple**

152 Based on the above, and the reputation of Macmahon in the industry, in our opinion an EBITA multiple of 6.5 to 7.0 is appropriate for Macmahon (inclusive of an appropriate premium for control).

### **Present value of future tax benefits**

153 As stated in Section III, as at 31 December 2016, Macmahon had unrecognised Australian deferred tax assets (DTA) of \$51.1 million. These have principally arisen due to the impairment of plant and equipment in FY15, and reflect future tax deductions<sup>56</sup> which can be used to reduce future taxable income.

154 As a result of these DTA's Macmahon is not expected to pay Australian income tax for some time. Having regard to the expected timing of utilisation of these future tax benefits we have assessed their present value (PV) at between \$29 million to \$30 million (using a discount rate of 13% per annum (after tax)).

### **Capitalisation of EBITA value**

155 Given the above, we have assessed the value of the Macmahon business (before net cash and surplus assets) under the capitalisation of EBITA method as follows:

<b>Capitalisation of EBITA value</b>		
	<b>Low</b>	<b>High</b>
	<b>\$m</b>	<b>\$m</b>
EBITA	25.0	25.0
EBITA multiple	6.5	7.0
	<hr/>	<hr/>
PV of future tax benefits	29.0	30.0
Enterprise value	<hr/>	<hr/>
	191.5	205.0

### **Enterprise value**

156 Based on the above, we set out below a summary of our valuation ranges under both methodologies, and our assessed valuation range for the Macmahon business (before net cash and surplus assets):

<b>Macmahon – Assessed business value</b>		
	<b>Low</b>	<b>High</b>
	<b>\$m</b>	<b>\$m</b>
DCF method	190.0	215.0
Capitalisation of EBITA method	191.5	205.0
Adopted valuation range	<hr/>	<hr/>
	190.0	210.0

<sup>56</sup> Primarily due to tax depreciation being higher than accounting depreciation (due to the impairment charges).

### Surplus net cash

- 157 Macmahon held cash net of finance lease liabilities of \$51.8 million as at 31 March 2017. However, the net cash position can vary significantly from month to month (and within each month) depending on the Company's working capital requirements.
- 158 Based on our review of Macmahon's working capital levels and the extent to which cash balances fluctuate during each month, we have concluded that a proportion of the net cash on hand as at 31 December 2016 is required to be retained in the business for working capital and other purposes. Based on this analysis we have concluded that only \$25 million to \$30 million of the net cash could be considered surplus to requirements.

### Other assets / (liabilities)

- 159 Macmahon has a number of surplus assets / (liabilities) that are not reflected in our valuation of the business and for which an appropriate allowance should be made:
- (a) **idle plant** – Macmahon has approximately \$20 million<sup>57</sup> in idle plant of which \$4 million is surplus to requirements and is held for sale<sup>58</sup>. The written down value of this surplus plant (\$4 million) is carried at its orderly liquidation value (based on an independent valuation)
  - (b) **Nigerian plant** – while the Nigerian assets have been written down to nil in Macmahon's financial statements, the Company has received third party (non-binding) offers of around US\$2.0 million for these assets
  - (c) **residual liabilities of former Nigerian operation** – as at 31 March 2017, Macmahon had residual liabilities and provisions relating to its Nigerian operations of approximately A\$1.8 million
  - (d) **residual liabilities of construction business** – provisions relating to legacy construction contracts totalled \$0.8 million as at 31 March 2017
  - (e) **onerous lease provisions** – the present value of future payments under onerous lease contracts (relating to former office space) was \$1.0 million as at 31 March 2017.
- 160 On this basis we have allowed for the following other assets (liabilities):

Other assets / (liabilities)	Low A\$m	High A\$m
Realisable value of idle plant	3.0	4.0
Realisable value of Nigerian plant	2.0	2.5
Residual liabilities of Nigerian operations	(1.8)	(1.8)
Residual liabilities of construction business	(0.8)	(0.8)
Onerous lease liability	(1.0)	(1.0)
<b>Total</b>	<b>1.4</b>	<b>2.9</b>

<sup>57</sup> Written down value.

<sup>58</sup> The remaining idle plant (\$16 million) is being retained for use in future projects.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Share capital

- 161 As at the date of this report, Macmahon had 1,200.9 million fully paid ordinary shares on issue. In addition the company had 12.1 million performance rights granted under the Company's previous and current long-term incentive plans, which vest subject to the achievement of specific performance hurdles<sup>59</sup>.
- 162 We note that the Company currently holds approximately 13.0 million Macmahon shares on trust to satisfy the vesting of all Macmahon performance rights on issue (i.e. a surplus of 0.9 million shares).
- 163 For valuation purposes, we have treated this surplus trust holding as treasury shares, and have therefore adopted fully diluted shares on issue of 1,200.0 million.

### Valuation summary

- 164 Based upon the above, the value of 100% of Macmahon on a controlling interest basis is as follows:

Value of Macmahon	Low \$m	High \$m
Enterprise value	190.0	210.0
Surplus net cash	25.0	30.0
Other assets (net of liabilities)	1.4	2.9
Equity value	216.4	242.9
Fully diluted shares on issue	1,200.0	1,200.0
Value per share	\$0.180	\$0.202

<sup>59</sup> Being either the Company's total shareholder return or compound annual growth rate in earnings per share.

## VII Portfolio interest value of Macmahon after the AMNT Transaction

### Introduction

165 As set out in Section II, RG 111 requires that the fairness of the AMNT Transaction be assessed by comparing:

- (a) the controlling interest value of Macmahon shares prior to implementation of the AMNT Transaction (which is set out in Section VI); and
- (b) the portfolio interest value of Macmahon shares following implementation of the AMNT Transaction (which is set out below).

### Valuation post implementation of the AMNT Transaction

166 Pursuant to the AMNT Transaction:

- (a) Macmahon will be awarded a life of mine, alliance style mining contract for the Batu Hijau copper-gold mine in Indonesia owned by AMNT (the Mining Contract). The initial scope of work has an order book value<sup>60</sup> of approximately US\$2.9 billion over the life of the Batu Hijau operations, which may be extended to include the development of the Elang deposit and the Nangka prospect which are also controlled by AMNT
- (b) Macmahon will acquire certain existing equipment<sup>61</sup> (the Sale Assets) at Batu Hijau from AMNT in order to undertake the mining contract. The Sale Assets have been independently valued by Staffe Pty Limited (Staffe) at US\$145.6 million
- (c) in consideration for the acquisition of the Sale Assets, Macmahon will issue AMC 954,064,924 new Macmahon shares (Consideration Shares), equivalent to 44.3% of Macmahon's expanded share capital post completion. The number of Consideration Shares was determined by dividing the independent valuation of the Sale Assets<sup>62</sup> by the agreed subscription price of A\$0.203 per Macmahon share (Issue Price).

167 Given the above, the value of Macmahon post implementation of the AMNT Transaction will comprise:

- (a) the existing value of Macmahon (being the value of the equity in Macmahon prior to implementation of the AMNT Transaction); plus
- (b) the value of the Sale Assets being acquired; plus
- (c) the NPV of the future free cash flows expected to be derived by Macmahon under the Mining Contract (calculated assuming the Sale Assets were acquired for cash<sup>63</sup>).

<sup>60</sup> The order book is the estimated future value of revenue potentially receivable by Macmahon for work or services to be performed by Macmahon.

<sup>61</sup> Including loading equipment, trucks, ancillary and support assets.

<sup>62</sup> For the purposes of determining the value of the Sale Assets in Australian dollars an exchange rate of A\$1.00 = US\$0.7518 was used.

<sup>63</sup> As the Sale Assets have been allowed for separately in (b) above, it is appropriate to calculate the NPV of the Mining Contract on the assumption that the Sale Assets are acquired for cash to ensure the value of the Sale Assets acquired is not double counted in the valuation.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Existing value of Macmahon

168 As set out in Section VI, we have assessed the controlling interest value of Macmahon shares prior to taking into account the effect of the AMNT Transaction at between A\$216.4 million and A\$242.9 million.

### Value of Sale Assets

169 As indicated above, Staffe have independently determined the market value of the Sale Assets on a "continued use" basis at US\$145.6 million. To allow for the inherent subjectivity in valuations we have adopted a reasonable range of value for the Sale Assets of between US\$140 million and US\$150 million, with a mid-point value of US\$145 million. A summary of the Staffe valuation is set out in Appendix F (Staffe Report).

170 The market value in continued use basis of valuation is defined in the Staffe Report as follows:

*"The price at which machinery and equipment could change hands between a willing buyer and a willing seller, neither being under any duress to buy or sell and both having reasonable knowledge of relevant facts. It is assumed that the machinery & equipment being sold is to remain in place and in operation, taking advantage of all leasehold and site improvements designed to facilitate its operation, with the seller accurately and completely representing the existing condition and operability of the machinery & equipment to the buyer. This definition does not take into consideration the past, present, or forecasted income-generating performance of the product lines produced. It is, however, assumed that all specially designed and built machinery & equipment will continue to be used in the manner for which it was originally intended.*

*In establishing the value of machinery factors such as remoteness of location, modifications to machinery to meet local requirements to support the operation are also considered."*

171 We consider that the above valuation basis is appropriate given that the Sale Assets are located at the Batu Hijau copper-gold mine in Indonesia, and will be used to provide the mining services outlined in the Mining Contract.

172 As set out in the Staffe Report, Staffe determined the value of the Sale Assets based on:

- (a) a physical inspection of 92% of the Sale Assets by number (having physically inspected 169 out of the 183 assets) and 91.3% of the Sale Assets by value. This physical inspection confirmed the existence of the assets and the accuracy of the data provided including asset identification numbers, and enabled Staffe to assess each asset's condition and operational capability
- (b) a desktop appraisal of 14 assets (seven cranes and seven dewatering pumps) which were sighted (but not inspected). These desktop appraisals were based on the following documents:
  - (i) detailed inventory of the cranes and dewatering pumps
  - (ii) asset use records
  - (iii) build and specification data
  - (iv) photographs of all cranes and dewatering pumps.

- 173 The primary valuation method used to value the Sale Assets was the Sales Comparison Approach, as market data on the sale prices for similar assets were available for the large majority of assets. Where market data was not readily available, a Cost Approach was used whereby the current cost to reproduce or replace the assets is estimated, and an allowance is made for accumulated depreciation (based on the remaining economic life of the assets as a percentage of the economic life of a new asset).
- 174 For the purposes of determining the value of the Sale Assets, Staffe also conducted research on sale values and held conversations with equipment manufacturers, manufacturers' representatives, used machinery and equipment dealers, auctioneers and liquidators and other knowledgeable industry sources.
- 175 In establishing the value of the Sale Assets factors such as remoteness of location, modifications to machinery to meet local requirements to support the operation were also considered.
- 176 For the purposes of our report we have relied upon the Staffe valuation, and have adopted the following valuation range for the Sale Assets:

Valuation of Sale Assets		
	Low	High
Staffe valuation range (US\$m)	140	150
AUD:USD exchange rate <sup>(1)</sup>	0.75	0.75
Australian dollar value (A\$m)	187	200

**Note:**

1 Consistent with the agreed AUD:USD exchange rate of 0.7518.

### NPV of Mining Contract

- 177 The key terms of the Mining Contract are highly confidential, and accordingly we are unable to provide a detailed summary of the expected profitability and related cash flows of the Mining Contract.
- 178 However, the Mining Contract is an alliance style contract and is similar to Macmahon's contract for the Tropicana project. The contract is for the life of mine of Batu Hijau, and includes any expansion projects and the potential development of the Elang deposit and Nangka prospect.
- 179 The revenue under the Mining Contract is currently estimated at approximately US\$2.9 billion over a 14 year period (with approximately US\$2.1 billion of that amount expected to be generated over the first seven years from 1 August 2017<sup>64</sup>). These estimates exclude any revenue from potential expansion projects and exclude the development of the Elang deposit and Nangka prospect. Expected revenues and total material moved by year (based on the mine plan for Bitu Hijau provided by AMNT) is shown below:

<sup>64</sup> It should be noted that relatively modest revenues (of around US\$3 million per month) are generated in the transition phase of the Mining Contract up to 1 March 2018.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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Summary of revenue and material moved by calendar year		
Calendar year	Revenue US\$m	Total material moved (m tonnes)
2018	297.7	220.1
2019	419.3	248.1
2020	414.1	215.5
2021	384.2	186.8
2022	301.2	111.9
2023	217.4	78.3
2024	125.2	37.2
2025	107.3	32.7
2026	107.3	34.6
2027	107.3	33.1
2028	107.3	31.7
2029	107.3	32.2
2030	107.3	32.0
2031	107.3	27.5
<b>Total</b>	<b>2,910.3</b>	<b>1,321.7</b>

- 180 Under the terms of the Mining Contract, annualised costs and performance targets will be agreed at the start of each year and Macmahon will be paid the higher of an agreed profit margin or an agreed return on capital employed, subject to meeting agreed performance thresholds. To the extent that Macmahon exceeds the annualised performance and costs targets, any cost savings will be shared between Macmahon and AMNT.
- 181 To the extent that Macmahon fails to achieve the annualised performance and cost targets, any cost overruns will be borne by Macmahon until its margin is reduced to nil. However AMNT will bear the risk of any losses thereafter. Further:
- (a) to the extent that it is reasonably demonstrated or determined that the cost overrun is solely or predominantly attributable to matters outside of Macmahon's control, the cost overrun will be excluded from the performance and cost calculations
  - (b) as the cost and performance targets are reset annually, Macmahon is not locked into unrealistic annual cost targets for the term of the contract.
- 182 Due to the finite life of the mine, we have valued the Mining Contract using the DCF methodology. Our base case DCF calculations reflect the following assumptions:
- (a) we have estimated the revenue under the Mining Contract based on the current order book of US\$2.9 billion (in real terms). Whilst this is generated over a 14 year period from 1 August 2017, US\$2.1 billion of this revenue is expected to be generated over the first seven years
  - (b) profit margins (prior to incremental head office / corporate costs) are equal to the agreed margin on costs set out in the Mining Contract<sup>65</sup>. Accordingly, no allowance has been made in the cash flow projections for either:
    - (i) any potential profit share payment to Macmahon due to cost savings achieved relative to the annual cost targets

<sup>65</sup> The agreed margin on costs is confidential.

- (ii) lower margins arising from the possibility of cost overruns due to Macmahon's performance. In our view this potential risk is adequately allowed for in our discount rate
  - (c) upfront capital expenditure is equal to the value of the Sale Assets plus a further US\$5 million (to allow for additional capital costs on the acquired assets)
  - (d) on-going repairs and maintenance expenditure to maintain the production capacity of the Sale Assets (of around US\$694 million over the 14 year cash flow period), is allowed for in operating costs. As a result further capital costs are relatively modest (around US\$1 million per annum in real terms)
  - (e) incremental head office / corporate costs are estimated at A\$1.5 million per annum
  - (f) a discount rate of 10.2% per annum in real terms<sup>66</sup> (after corporate tax) has been applied. This is consistent with the discount rate used to value Macmahon prior to the AMNT Transaction (refer Appendix C)
  - (g) an AUD:USD exchange rate of 0.75 (consistent with the average exchange rate over the 15 business days to 2 May 2017)
  - (h) allowance for applicable tax on earnings.
- 183 We have also considered the sensitivity of value to changes in the profit margin and discount rate, as shown below:

Sensitivity table – DCF value of Mining Contract (A\$m)		Discount rate (real)		
		9.2%	10.2%	11.2%
Profit margin	Base Case – 1%	124	114	105
	Base Case	139	128	118
	Base Case + 1%	153	141	131

- 184 Based on the above we have assessed the NPV of the Mining Contract at between A\$115 million to A\$135 million. The mid-point of this range<sup>67</sup> implies an EBIT multiple of around 6.5 based on the first full year of projected EBIT.

### Shares on issue

- 185 As stated above, AMC will be issued with 954.1 million new Macmahon shares following implementation of the AMNT Transaction. The number of Macmahon shares on issue will therefore be as follows:

Shares on issue	(millions)
Existing shares on issue	1,200.0
Number of shares to be issued to AMC	954.1
Shares on issue post AMNT Transaction	<u>2,154.1</u>

<sup>66</sup> This is consistent with the 13.0% nominal discount rate set out in Appendix C and a long-term inflation rate of 2.5% per annum.

<sup>67</sup> Adjusted to include upfront capital expenditure.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Minority interest discount

186 Consistent with RG 111, we are required to assess the value of Macmahon shares post the implementation of the AMNT Transaction on a minority (or portfolio) interest basis. Minority interest discounts are generally in the order of 20% to 25% of the controlling interest value<sup>68</sup>. Consequently, we have applied a minority interest discount of 22.5%.

### Valuation post AMNT Transaction

187 Based on the above, our assessed portfolio (minority) interest value of Macmahon shares following the implementation of the AMNT Transaction is as follows:

Value of Macmahon post AMNT Transaction		
	Low	High
	\$m	\$m
Value of equity before AMNT Transaction	216.4	242.9
Value of Sale Assets	187.0	200.0
NPV of Mining Contract	115.0	135.0
Total	518.4	577.9
Fully diluted shares on issue	2,154.1	2,154.1
<b>Controlling interest value per share</b>	<b>\$0.241</b>	<b>\$0.268</b>
Minority interest discount (22.5%)	(\$0.054)	(\$0.060)
<b>Portfolio interest value per share</b>	<b>\$0.187</b>	<b>\$0.208</b>

### Comparison with recent listed market price

188 Whilst Macmahon only announced that it had entered into binding documentation in relation to the AMNT Transaction on 8 May 2017, the key terms of the proposed AMNT Transaction were initially announced on 1 March 2017.

189 We note that the volume weighted average price (VWAP) of Macmahon shares was \$0.16 in the period from 1 March 2017 to 5 June 2017. Whilst this VWAP is lower than our assessed portfolio value of Macmahon shares post implementation of the AMNT Transaction we note that:

- (a) historically there has been a relatively low level of trading in Macmahon shares (as noted in Section III)
- (b) information on the financial impact of the AMNT Transaction (and the related Mining Contract) on Macmahon was only disclosed on 8 May 2017 (at which time Macmahon upgraded its earnings guidance for FY18 to incorporate the earnings contribution from the AMNT Transaction and Mining Contract)
- (c) Macmahon shares have consistently traded on the ASX below the underlying value of the company, as evidenced by the fact that the CIMIC Offer resulted in only a small number of acceptances notwithstanding that it represented a premium of some 38% above the VWAP of Macmahon shares in the three months prior to the announcement of the CIMIC Offer.

<sup>68</sup> The minority interest discount is equal to the inverse of the control premium (refer paragraph 145(b)).

## VIII Evaluation of the AMNT Transaction

### Assessment of fairness

190 RG 111 requires that the fairness of the AMNT Transaction be assessed by comparing the controlling interest value of Macmahon shares prior to implementation of the AMNT Transaction with the portfolio interest value of Macmahon shares following implementation (being the deemed “consideration” delivered to Macmahon Shareholders). In order for the AMNT Transaction to be “fair” under RG 111, the portfolio interest value of Macmahon shares following implementation of the AMNT Transaction must be equal to, or greater than the controlling interest value of Macmahon shares before implementation.

191 This comparison is set out below:

	Low cents per share	High cents per share	Mid-point cents per share
Portfolio interest value of Macmahon shares following implementation of the AMNT Transaction	18.7	20.8	19.75
Controlling interest value of Macmahon shares prior to implementation of the AMNT Transaction	18.0	20.2	19.10
Extent to which portfolio interest value post implementation exceeds (or is less than) the controlling interest value of Macmahon shares before implementation	0.7	0.6	0.65

192 Based on the above we have concluded that the AMNT Transaction is fair to Macmahon Shareholders.

### Assessment of reasonableness

193 Under RG 111 the AMNT Transaction is reasonable if it is fair. Consequently, in our opinion, the AMNT Transaction is both fair and reasonable to Macmahon Shareholders.

194 In forming our opinion that the AMNT Transaction is reasonable we also had regard to the following matters.

#### Proposed issue price

195 As stated above, if the AMNT Transaction is approved and implemented, AMC will be issued with 954.1 million new shares in Macmahon at a price of A\$0.203 per Macmahon share (Issue Price).

196 We note that the Issue Price is:

- (a) consistent with the high end of our controlling interest valuation range for Macmahon shares prior to implementation of the AMNT Transaction of \$0.18 to \$0.202 per share. Thus, in our opinion, shares are being issued to AMC at a price which is consistent with the full underlying value of Macmahon shares prior to implementation of the AMNT Transaction

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- (b) approximately 26.9% above the volume weighted average listed market price (VWAP) of Macmahon shares in the one month period prior to the ASX announcement on 8 May 2017 of the AMNT Transaction<sup>69</sup> (which was A\$0.16 per share)
- (c) 40% higher than the price offered by CIMIC in its recent takeover offer for Macmahon of \$0.145 per share (which closed on 9 March 2017).

### Position of Macmahon shareholders

- 197 In considering whether the AMNT Transaction is reasonable, we have also considered whether Macmahon Shareholders are likely to be better off from a value perspective if they approve the AMNT Transaction by comparing the value of Macmahon shares pre and post the AMNT Transaction on a consistent portfolio basis.
- 198 Accordingly, we have reduced our controlling interest value prior to the AMNT Transaction by 22.5% (being the mid-point of the range of minority interest discounts generally applied) in order to estimate the corresponding portfolio interest value of Macmahon shares.
- 199 On this basis, we note that the AMNT Transaction is significantly value accretive for Macmahon Shareholders:

	Low cents per share	High cents per share	Mid-point cents per share
Portfolio interest value of Macmahon shares before the AMNT Transaction <sup>(1)</sup>	14.0	15.7	14.85
Portfolio interest value of Macmahon shares after the AMNT Transaction	18.7	20.8	19.75
Increase in portfolio interest value of Macmahon shares due to the AMNT Transaction	4.7	5.1	4.9
% increase	33.6%	32.5%	33.0%

**Note:**

1 Being \$0.18 to \$0.202 per share less a minority interest discount of 22.5%.

### Impact on control

- 200 If the AMNT Transaction is approved there will be an impact on the voting power and ownership of Macmahon. AMC (which currently has no relevant interest in Macmahon shares) will acquire a relevant interest in Macmahon of 44.3% as follows:

<sup>69</sup> The key details of the AMNT Transaction set out in this announcement were consistent with the details set out in the initial announcement of the (proposed) AMNT Transaction dated 1 March 2017.



	Macmahon shares on issue million	Shares held by AMC million	%
Existing shares on issue	1,200.0	-	-
AMNT Transaction	954.1	954.1	-
Shares on issue post AMNT Transaction	2,154.1	954.1	44.3

Rounding differences may exist.

- 201 Therefore if the AMNT Transaction is approved AMC will have a significant voting interest in Macmahon. In addition AMC has the right to appoint two representatives onto Macmahon's Board. Whilst it has been agreed that the majority of the Board of Macmahon must be independent, AMC will therefore have the ability to exert significant influence over Macmahon's affairs if the AMNT Transaction is approved.
- 202 The effect of the Escrow Deed is that AMC has agreed with Macmahon that it will not dispose of its Macmahon shares for a period of 30 months from completion. We also note that there are no restrictions preventing AMC from acquiring further Macmahon shares. As a result, AMC could potentially acquire more than 50% of Macmahon shares on issue within one year under the "creep" provisions of the Corporations Act without needing to make a full takeover bid.

#### Dilution of existing shareholder interests

- 203 If the AMNT Transaction is approved the interests of non-associated Macmahon Shareholders will be diluted as they will collectively hold only 55.7% of Macmahon shares after the share issue to AMC. However, as noted above, in our opinion, the value of Macmahon shares will also significantly increase, which (other things being equal) we would reasonably expect to be reflected in share market trading in Macmahon.

#### Likelihood of receiving a future takeover offer

- 204 If the AMNT Transaction is approved the likelihood of receiving a takeover offer from another party in future is potentially diminished as any potential bidder would need to persuade AMC to accept its offer in order to obtain control of Macmahon<sup>70</sup>.
- 205 However, CIMIC currently owns approximately 23.6% of Macmahon<sup>71</sup>, which is sufficient to block a full takeover by another party in any event if the AMNT Transaction does not proceed.
- 206 Further, AMC could also make a takeover offer for Macmahon at a later date.

<sup>70</sup> However, should AMC decide to sell or receive an attractive offer for its interest, it is possible that the non-associated Macmahon Shareholders will have the opportunity to participate in any takeover premium being offered.

<sup>71</sup> The ownership interest of CIMIC in Macmahon shares will be diluted to approximately 13.2% pursuant to the AMNT Transaction.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*



### **Conclusion**

207 Based on the above we summarise below the advantages and disadvantages of the AMNT Transaction from the perspective of Macmahon Shareholders:

#### **Advantages**

- (a) we consider that the AMNT Transaction is fair and reasonable when assessed based on the guidelines set out in ASIC RG 111
- (b) the Issue Price is:
  - (i) at the high end of our controlling interest valuation range for Macmahon shares prior to implementation of the AMNT Transaction of \$0.18 to \$0.202 per share
  - (ii) approximately 26.9% above the volume weighted average listed market price (VWAP) of Macmahon shares in the 1 month period prior to the ASX announcement on 8 May 2017 of the AMNT Transaction (which was A\$0.16 per share)
  - (iii) 40% higher than the price offered by CIMIC in its recent takeover offer for Macmahon of \$0.145 per share (which closed on 9 March 2017)
- (c) in our view, the AMNT Transaction is significantly value accretive for Macmahon Shareholders

#### **Disadvantages**

- (d) the interests of Macmahon Shareholders not associated with AMNT will be diluted if the AMNT Transaction is approved
- (e) if the AMNT Transaction is approved AMC will have a significant voting interest of 44.3% in Macmahon, and will potentially have a significant influence over Macmahon's affairs
- (f) if the AMNT Transaction is approved the likelihood of receiving a takeover offer from another party in the future is potentially diminished as any potential bidder would need to persuade AMC to accept its offer in order to obtain control of Macmahon.

208 As indicated above there are a number of advantages and disadvantages associated with the AMNT Transaction. However, in our view, the advantages of the AMNT Transaction significantly outweigh the disadvantages.

209 For the reasons set out above, in our opinion, the AMNT Transaction is therefore fair and reasonable to Macmahon Shareholders.

## Appendix A

### Financial Services Guide

#### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

#### Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Statement to be sent to Macmahon Shareholders in connection with the AMNT Transaction.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

#### Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

#### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$80,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*



### Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

#### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

#### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 20 years and 30 years experience respectively in the provision of valuation advice (and related advisory services).

#### Declarations

- 3 This report has been prepared at the request of the Directors of Macmahon to accompany the Explanatory Statement to be sent to Macmahon Shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the AMNT Transaction is fair and reasonable to Macmahon Shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the AMNT Transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement. On 27 February 2017 we prepared the IER on the CIMIC Offer for Macmahon. Both IERs were prepared in an independent capacity.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Macmahon agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Macmahon which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in Macmahon's Explanatory Statement.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Appendix C

#### Assessment of appropriate discount rate

- 1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.
- 2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.
- 3 Businesses are normally funded by a mix of debt and equity. The weighted average cost of capital (WACC) is a widely used and accepted basis to calculate the "representative" rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.
- 4 As Macmahon is entirely funded by equity<sup>72</sup>, we set out below an explanation of:
  - (a) the CAPM, its elements and its application in determining the cost of equity
  - (b) our assessment of the appropriate parameters to be used in determining the discount rate to apply.

#### CAPM and the cost of equity

- 5 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, rational investors are risk adverse and demand higher returns for accepting higher levels of risk.
- 6 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

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<sup>72</sup> Whilst it has recently maintained a net cash position, consistent with the funding mix of contractors generally, Macmahon has available bank guarantee facilities provided in respect of its contractual obligations and has acquired certain mining equipment under finance lease arrangements.

## Appendix C

### Cost of equity calculation

$$R_e = R_f + \beta_e [E(R_m) - R_f]$$

where:

- $R_e$  = expected equity investment return or cost of equity in nominal terms
- $R_f$  = risk-free rate of return
- $E(R_m)$  = expected market return
- $E(R_m) - R_f$  = market risk premium (MRP)
- $\beta_e$  = equity beta

- 7 The individual components of the CAPM are discussed below.

### Risk-free rate

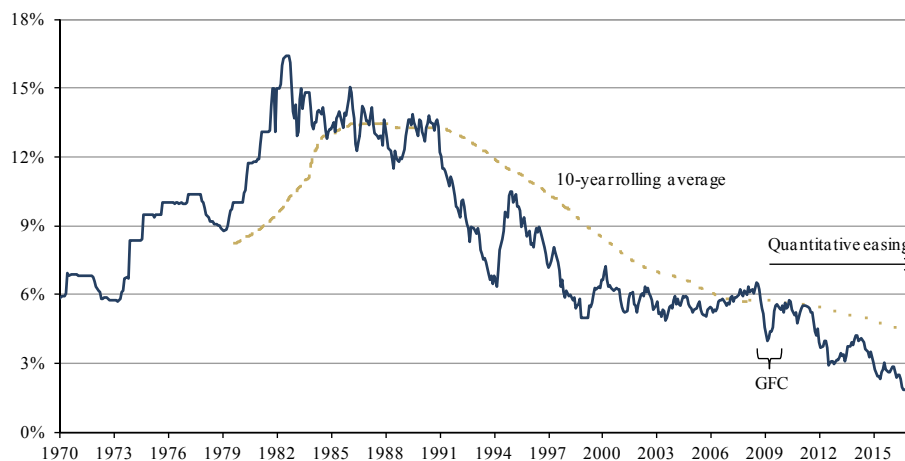
- 8 The risk-free rate is the theoretical rate of return on an investment with no risk of financial loss. It represents the interest that an investor would expect to receive from a completely risk-free investment over a given period of time.
- 9 The risk-free rate is normally approximated by reference to a long-term government bond with a maturity equivalent to the timeframe over which the returns from the assets being valued are expected to be received. Typically in the Australian context, the yields on long-term Commonwealth Government bonds (CGBs) are used as a proxy for the long-term risk-free rate.
- 10 However, when assessing the appropriate long-term risk-free rate for the purposes of calculating the cost of equity capital it should be noted that the yields currently prevailing on long-term CGBs are well below historical levels (as shown in the chart below) due to, inter-alia, the weak outlook for global economic growth (and its impact on the outlook for the Australian economy) and the effect of quantitative easing measures by major overseas central banks, which has reduced interest rates on overseas government bonds to, in our view, unsustainably low levels.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Appendix C

#### Australian 10 year government bond yield – nominal January 1970 to April 2017



Source: Bloomberg.

- 11 Our view that current capital market yields are abnormally low is consistent with debt markets where credit spreads have generally increased to offset the impact of the lower risk-free rate.
- 12 Accordingly, in our view, the risk-free rate and the MRP should be assessed in conjunction with each other and the application of the current (very low) Commonwealth Government Bond (CGB) yields and long-term average MRP is inappropriate in the context of determining long-term required equity rates of return (discount rates).
- 13 Two approaches that are commonly considered in regulatory pricing and commercial valuations are:
  - (a) calculate WACC using the current CGB yield and an implied MRP that is higher than that derived from the long-term average of historical excess returns (i.e. the rate of return over and above the risk-free rate estimated by the CGB yields<sup>73</sup>)
  - (b) calculate WACC using a “normalised” risk-free rate based on a long-term historical average and an MRP that is based on the observed long-term average of historical excess returns.

<sup>73</sup> Given the very long-term nature of the measurement, the impact of quantitative easing and other post-GFC type government stimulus measures is significantly “averaged out”.

## Appendix C

- 14 The first approach recognises the fact that current abnormally low interest rates coincide with heightened economic uncertainties<sup>74</sup> and/or increased investor risk aversion. However, the approach is difficult to apply in practice because it is difficult to reliably measure short-term changes in the ex-ante MRP.
- 15 We have therefore adopted the second approach, and have adopted a long-term risk-free rate in Australia of 4.0% per annum.
- 16 Whilst our adopted rate is higher than the yield on 30-year CGBs of approximately 3.5% as at 28 April 2017, our adoption of a risk-free rate that is higher than the current historically low CGB yields in assessing the CAPM rate of return for long-lived assets is consistent with:
- (a) the approach recommended by Duff & Phelps of normalising the risk-free rate by reference to long-term average yields on government-issued bonds<sup>75</sup>
  - (b) the work of Pablo Fernandez and colleagues<sup>76</sup> who reviewed valuation reports by 156 analysts from 35 different companies published in 2015 about companies with headquarters in six countries (France, Germany, Italy, Spain, UK and USA) and found that most of the analysts used a risk-free rate higher than the yield on domestic 10-year government bonds.
- 17 Whilst regulatory bodies in Australia generally favour the use of current CGB yields for the risk-free rate (rather than longer term averages or adjusted risk-free rates), it should be noted that these regulatory bodies are not assessing the appropriate risk-free rate in the context of the long-term rate of return required by debt and equity investors (but rather the risk-free rate likely to prevail over a relatively short five-year period, which is then subject to change depending on market conditions at that time). As a result, the risk-free rates adopted by regulatory authorities in Australia are therefore not necessarily the appropriate risk-free rates to adopt when determining the appropriate discount rate for a business.

### Market risk premium

- 18 The MRP represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities (i.e. the equity market as a whole). Strictly speaking, the MRP is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the MRP is to average realised (ex-post) returns over a long period.

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<sup>74</sup> This is particularly the case in Australia at the present time given that Australia's economic growth is linked with China's growth as it has been the engine of growth for Australia and the world during the post-GFC period. As the expectation of economic growth in China tapers off and the associated mining boom in Australia ceases, there are uncertainties as to what will drive domestic growth in Australia going forward. The ongoing uncertainty in regard to the Australian economy and the global economy, and highly expansionary monetary policy adopted in other developed economies has contributed to both the RBA maintaining the cash rate at record lows and the observed low CGB yields.

<sup>75</sup> Source: Duff & Phelps (2016) *Valuation handbook: guide to cost of capital*.

<sup>76</sup> Fernandez, Pizarro and Acin (2015) *Huge dispersion of the risk-free rate and market risk premium used by analysts in USA and Europe in 2015*.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Appendix C

- 19 In assessing the MRP, it is necessary to recognise that the MRP is a forward-looking concept. It is an expectation, which cannot be directly observed and needs to be estimated. We have had regard to the MRP adopted by Australian Regulators, as discussed below.

#### MRP – Historic excess returns

- 20 Various academic studies put the historical MRP of the Australian equity market in a wide range from 4% to 7% depending on the historical period chosen, whether the MRP is measured relative to bills or bonds, and whether an arithmetic or geometric mean is used.
- 21 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or MRP. Consequently the MRP should be measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard error of the mean where a shorter period is used. This supports more reliance being placed on the average MRP calculated over the longer term. However, some authors have raised concerns regarding the poor quality of the data available for periods prior to 1958.
- 22 A recent study of the MRP in Australia by Brailsford, Handley and Maheswaran, analysed data for the period from 1883 to 2005 (inclusive). The following table reports the MRP in nominal terms as measured by this data set, for different time periods up to 2005:

Australia's MRP – Historical excess returns				
Time period <sup>(1)</sup>	Years	Arithmetic mean %	Geometric mean %	Standard deviation %
<b>Relative to bills<sup>(2)</sup></b>				
1883 – 2005	123	6.6	5.3	16.0
1937 – 2005	69	6.4	4.6	19.1
1958 – 2005	48	6.8	4.5	22.1
1980 – 2005	26	6.2	3.9	21.9
1988 – 2005	18	5.2	4.2	15.2
1883 – 1987	105	6.8	5.5	16.2
<b>Relative to bonds<sup>(3)</sup></b>				
1883 – 2005	123	6.2	4.9	16.0
1937 – 2005	69	5.8	4.0	19.1
1958 – 2005	48	6.3	4.0	22.0
1980 – 2005	26	6.0	3.8	21.7
1988 – 2005	18	5.1	4.0	15.0
1883 – 1987	105	6.4	5.1	16.2

#### Note:

- 1 The first four periods have increasing data quality but decreasing sample size. The fifth period begins from the introduction of the imputation tax system in Australia.
- 2 Various types of bill returns were used due to the lack of a continuous government bill issue covering the study period. The majority of the bill return data is the yield on three month CGBs.
- 3 Historical bond returns were also collected from a number of sources. Most of the bond returns are CGB yields with a maturity of 10 years or more.

**Source:** Brailsford et al. (2008) *Re-examination of the historical equity risk premium in Australia* Accounting and Finance 48:73-97, Table 4.

## Appendix C

- 23 Prior to the GFC, independent experts in Australia generally adopted an MRP of around 6.0%. Whilst the MRPs adopted by valuation practitioners (and regulatory bodies) generally increased for a relatively short period following the GFC, they have subsequently returned to long-term historical averages of around 6.0%.
- 24 In October 2015, the Australian Competition and Consumer Commission (ACCC) released their final decision regarding the prices that other operators pay to use Telstra's copper network to provide telecommunication services to consumers. In this final decision the ACCC adopted an MRP of 6.0%<sup>77</sup>, having regard to empirical evidence on long-term average of historical excess returns and survey evidence by market practitioners. The empirical evidence relied on by the ACCC was compiled by the Australian Energy Regulator (AER) and has since been updated to the end of the 2015 calendar year as shown below:

Australia's MRP – Historical excess returns		
Sampling period	Arithmetic average %	Geometric average %
1883 – 2015	6.1	4.8
1937 – 2015	5.7	3.9
1958 – 2015	6.2	3.8
1980 – 2015	5.9	3.5
1988 – 2015	5.2	3.6

**Source:** AER (May 2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214.

- 25 Although the AER provides both arithmetic and geometric averages they note that

*“... we consider there may be evidence of bias in the geometric averages. Therefore, our range for historical returns is based on arithmetic averages.”*

### MRP – Survey data

- 26 Survey estimates explore investor expectations about the MRP. They achieve this by directly asking investors and market practitioners what their expectations are and/or what they apply in practice. The AER in its 2013 *Rate of Return Guideline* report, reviewed evidence from relevant surveys and this review was updated in its 2015 final decision for Jemena Gas Networks<sup>78</sup>.
- 27 We have updated the AER's review of surveys to include those released in 2016. The mean and median MRP across a number of surveys is supportive of an MRP of 6.0% as indicated in the table below:

<sup>77</sup> Source: ACCC (October 2015) *Public inquiry into final access determinations for fixed line services - Final Decision* pages 75-76.

<sup>78</sup> Source: AER (2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* pages 3-214.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Appendix C

Australia's MRP – Survey results				
Survey	Survey date	Number of responses	Mean %	Median %
Fernandez et al. (2013)	May–Jun 12	73	5.9	6.0
Fernandez et al. (2013)	May–Jun 13	17	6.8	5.8
Asher and Hickling (2013)	Sep 13	46	4.8	5.0
Fernandez et al. (2014)	May–Jun 14	93	5.9	6.0
Asher and Hickling (2015)	Dec 14	27	4.4	4.6
Fernandez et al. (2015)	Mar–Apr 15	40	6.0	5.1
Asher and Carruthers (2016)	Dec 15	29	4.9	n/a
Fernandez et al. (2016)	Apr 16	87	6.0	6.0

**Source:** AER (2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214; Fernandez et al. (2016) *Market risk premium used in 71 countries in 2016*; Asher and Carruthers (May 2016) *Equity risk premium survey 2016* Actuaries pages 7-8.  
n/a – not applicable.

- 28 Having regard to all of the above and, in particular, the more stable equity market conditions and values currently prevailing in Australia, we have adopted a long-term MRP of 6.0%.

### Equity beta

#### Description

- 29 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1.0 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1.0 suggests that future returns will be less volatile and risky.
- 30 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.
- 31 In determining the appropriate equity beta for Macmahon we have considered:
- the risks faced by Australian mining services companies generally
  - the risks associated with the mining services business of Macmahon
  - the beta estimates for comparable companies and related industries; and
  - the beta estimates for Macmahon.

## Appendix C

### **Risk of mining services operations in Australia**

- 32 In assessing the appropriate beta attributable to companies with mining services operations in Australia the following risks and factors are relevant:
- (a) Australian and international economic outlooks, particularly China's forecast growth rate as a determinant of the global demand for steel and hence bulk commodities
  - (b) volatility of the international demand for Australian metals and minerals
  - (c) volatility in demand for mining services, especially as resources companies can scale back operations and internalise previously outsourced services during downturns
  - (d) volatility of non-rural commodity prices in general
  - (e) exchange rate movements, as Australia's non-rural commodity exports are usually valued in USD
  - (f) reliance on the level of demand within the Australian resources and mining industries, which can be cyclical
  - (g) reliance on the competencies of key personnel and the company's ability to attract / retain qualified personnel. The provision of mining services is dependent on the availability and cost of skilled labour. The mining sector saw 46,000 jobs shed in the first two years after the peak of the boom<sup>79</sup>. There is a risk that skilled workers will permanently exit the industry resulting in shortages during subsequent boom periods
  - (h) the importance of establishing and maintaining client relationships within the broader mining and resource industries, together with the size and diversity of the company's client base
  - (i) current and future potential competitors with substantially greater resources may adopt aggressive pricing policies to capture market share
  - (j) contractual risks such as:
    - (i) early termination may mean the full value of the contract is not realised
    - (ii) disputes with clients or other parties may impact profits and growth prospects
  - (k) operational risks including equipment availability and reliability, accidents and industrial action. In particular, severe and prolonged adverse weather can impact operations and financial performance.
- 33 In summary, considering the above factors, in our opinion, the level of systematic risk associated with mining services operations in Australia is higher than the level of systematic risk of the market as a whole.

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<sup>79</sup> Source: NAB (2016) *The evolution of mining employment*.



## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

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### Appendix C

- 34 In considering the risks associated with the mining services business of Macmahon, we note the following additional company risks:
- a small number of Macmahon's contracts account for a high proportion of current revenue. For example, the Tropicana contract accounted for around 50% of revenue in 1HY17. Any early termination of these contracts is likely to have a material adverse impact on profitability
  - in addition to its operations based in Australia, Macmahon provides mining services overseas and is therefore subject to potential sovereign risk, as evidenced by the problems encountered in Nigeria in 2016.

#### Betas of comparable companies

- 35 In order to assess the appropriate equity beta for Macmahon, we have also had regard to the equity betas of companies listed on the ASX that offer mining services, as well as the industry sectors to which most of these companies belong, as shown below:

Listed mining services company betas			
	Market Capitalisation <sup>(1)</sup>	Beta <sup>(2)</sup>	R-squared <sup>(3)</sup>
	\$m		
Macmahon	186	1.55	0.10
<b>Contract mining services</b>			
MACA	389	1.31	0.10
NRW Holdings	175	3.19	0.11
Decmil Group	144	0.50	0.10
Mastermyne Group	27	1.57	0.05
Delta SBD	8	1.23	0.03
<b>Mining equipment and services</b>			
Bradken	676	1.56	0.05
RCR Tomlinson	462	1.54	0.14
Imdex	220	1.29	0.05
Austin Engineering	96	1.30	0.05
<b>Mineral processing services and others</b>			
Downer EDI	3,741	1.82	0.36
Mineral Resources	1,816	1.59	0.16
Monadelphous Group	1,195	2.19	0.33
Ausdrill	429	2.16	0.07
Swick Mining Services	59	1.12	0.08
<b>Mean excluding outlier<sup>(4)</sup></b>		1.48	0.12
<b>Median excluding outlier<sup>(4)</sup></b>		1.55	0.09
<b>Industry betas<sup>(5)</sup></b>			
Capital Goods		0.99	0.25
Metals & Mining		1.12	0.28

## Appendix C

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**Note:**

- 1 As at 10 May 2017.
- 2 The OLS beta as at 31 December 2016, being the most current data available as at the date of this report, based on 48 monthly returns, except for Decmil Group for which the S-W beta is used due to the low liquidity of this stock.
- 3 Companies with an r-squared value close to 1.0 have a low level of company-specific risk, and companies with an r-squared value close to zero have a high level of company-specific risk. Therefore, companies with a low r-squared value are less indicative of the risk of the sector overall.
- 4 NRW Holdings is considered an outlier.
- 5 SIRCA Class classifications.

**Source:** Bloomberg and SIRCA.

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- 36 Variation in the above listed company betas reflects differences in size, leverage, stage of development and operational risks. None of the other listed companies are directly comparable to Macmahon. However, we note that most of the beta estimates are well above one, indicating a greater level of systematic risk for mining services operations generally.
- 37 The industries selected are those which include most of the comparable companies, however they also cover companies with a much broader range of operations than the selected comparable companies.
- 38 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long run. In addition, gearing ratios typically change over time. The practice of adjusting equity betas for the difference in financial leverage also gives a misleading impression that the process provides precise comparable beta estimates. Further, most of the above listed companies are entirely equity funded (consistent with Macmahon).

### **Historical betas of Macmahon relative to industry betas**

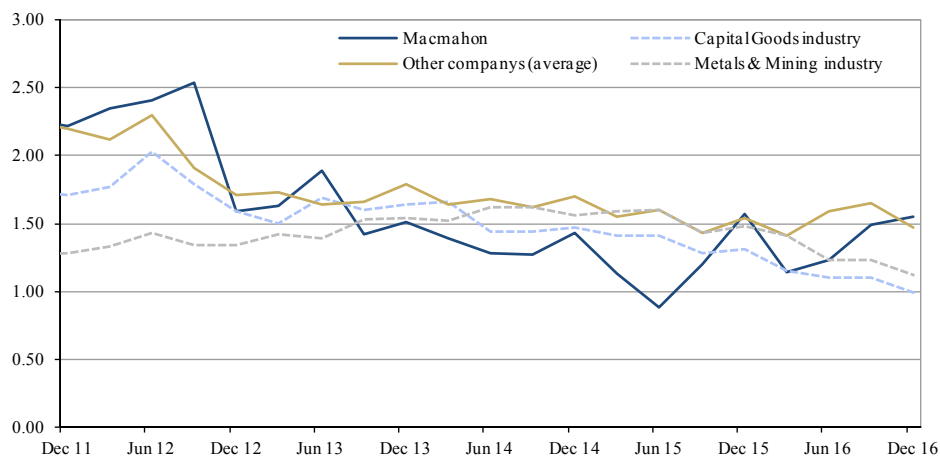
- 39 The chart below shows the historical beta estimates of Macmahon, other listed mining services companies (average) and the Capital Goods and Metals & Mining industries:

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

### Appendix C

#### Historical betas<sup>(1)</sup>



**Note:**

1 Other listed companies as per paragraph 35 excluding the outlier (NRW Holdings).

Source: SIRCA.

#### Conclusion

- 40 Having regard to the above, the long-term beta estimates of the relevant industries in which the companies operate and the relative risks of mining services generally, we have adopted an equity beta of 1.5 for Macmahon.

#### Calculation of the cost of equity

- 41 Based on the above we have adopted a discount rate of 13% per annum (after tax) for Macmahon:

Cost of equity	
Parameters	
Beta	1.50
MRP	6.0%
Risk-free rate	4.0%
Cost of equity	<u>13.0%</u>



## Appendix D

### Listed company multiples

1 The listed company multiples and other metrics for a range of Australian mining services companies are set out below, with a brief description of their activities following:

Listed multiples summary <sup>(1)</sup>												
	Most recent full year	Enterprise value <sup>(2)</sup> \$m	Market capitalisation \$m	Gearing %	EBITDA Multiple			EBITA Multiple				
					Historical <sup>(3)</sup> FY16	Forecast <sup>(4)</sup> FY17	Forecast <sup>(4)</sup> FY18	Historical <sup>(3)</sup> FY16	Forecast <sup>(4)</sup> FY17	Forecast <sup>(4)</sup> FY18		
<b>Contract mining services</b>												
MACA	30 Jun 16	342	389	(15.1%)	3.7	3.3	3.1	9.5	7.0	6.8		
NRW Holdings	30 Jun 16	216	175	18.8%	4.6	3.7	3.7	9.4	7.3	7.8		
Decmil Group	30 Jun 16	135	144	(7.0%)	7.7	7.0	6.1	12.4	13.4	10.2		
Mastermyne Group	30 Jun 16	38	27	27.5%	8.5	na	na	nm	na	na		
Delta SBD	30 Jun 16	13	8	35.0%	3.2	na	na	5.1	na	na		
<b>Mining equipment and services</b>												
RCR Tomlinson	30 Jun 16	526	462	12.1%	10.7	8.5	6.9	15.5	11.7	8.6		
Index	30 Jun 16	217	220	(1.6%)	10.7	6.9	5.5	18.9	10.0	7.4		
Austin Engineering	30 Jun 16	132	96	27.7%	18.5	9.9	7.7	nm	nm	16.8		
<b>Mineral processing services and others</b>												
Downer EDI	30 Jun 16	2,877	3,741	(30.0%)	5.4	5.8	4.9	10.2	10.4	7.9		
Mineral Resources	30 Jun 16	1,675	1,816	(9.6%)	5.9	3.2	4.0	10.5	4.6	6.2		
Monadelphous Group	30 Jun 16	969	1,195	(23.3%)	8.8	9.7	10.4	10.9	11.9	12.5		
Ausdrill	30 Jun 16	616	429	30.3%	5.2	4.5	3.6	12.0	9.3	7.2		
Swick Mining Services	30 Jun 16	72	59	15.1%	4.9	4.6	3.3	nm	nm	10.3		

#### Note:

- 1 Enterprise value and earnings multiples calculated as at 10 May 2017.
  - 2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), net derivative liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and excludes surplus assets.
  - 3 Historical earnings are based on latest statutory full year accounts and exclude non-recurring items, significant write downs, realised investment gains or losses, restructuring charges.
  - 4 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
  - 5 Gearing equals net debt (cash adjusted for the effect of share placements and buybacks, special dividends and option dilution) divided by enterprise value.
- Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.  
Na – not available. nm – not meaningful.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

### Appendix D

#### **Contract mining services**

##### **MACA Limited**

- 2 MACA is a mining and civil construction and road infrastructure company. It offers contract mining, civil earthworks, road asset management, crushing and screening and material haulage solutions primarily in Australia as well as Brazil. The company has two major divisions, Mining Contracting and Civil Contracting and employs over 1,000 staff. The Mining Contracting business offers mine to mill solutions and its services are structured as load and haul, drill and blast, crush and screen and materials handling.

##### **NRW Holdings Limited**

- 3 NRW Holdings is an Australian company providing diversified services to Australia's resource, energy and infrastructure sectors. It operates in Western Australia, the Northern Territory, Queensland and Guinea, West Africa. The company operates three business divisions being NRW Civil and Mining, Action Drill & Blast and AES Equipment Solutions (which focuses on equipment maintenance and repair). Mining related services comprise the majority of company revenues.

##### **Decmil Group Limited**

- 4 Decmil Group is a design, civil engineering and construction, accommodation services, manufacturing and maintenance company. The company has recently diversified its operations, both organically and through acquisition, into contraction and engineering services that are less reliant on the resources sector (e.g. transport infrastructure, renewable energy and fibre and wireless telecommunications). Its operational structure is now structured into Construction & Engineering, Accommodation and Renewables.

##### **Mastermyne Group Limited**

- 5 Mastermyne Group is a specialist provider of mining services to the Australian coal mining industry. The company provides an extensive range of outsourced services to existing and new coal mining operations. It also has a comprehensive range of underground mining equipment which complements its contracting operations. Mastermyne Group is structured into two key operating groups being Mastermyne Mining and Mastertec Products and Services. The Mastertec Products division provides a range of contracting services to the ports, resources, industrial and infrastructure sectors.

##### **Delta SBD Limited**

- 6 Delta SBD is a provider of contract mining services including labour, equipment and systems to the Australian underground coal mining industry. The company was formed through the merger of Delta Mining Pty Ltd and SBD Services Limited in 2007 and provides services in Queensland and New South Wales to blue-chip mining and resources companies. Delta SBD specialises in mine operation and maintenance, board and pillar extraction, secondary support installation, roadway development and ventilation device installation.

## Appendix D

### Mining equipment and services

#### RCR Tomlinson Limited

- 7 RCR is a multi-disciplinary engineering and infrastructure company offering integrated engineering solutions to the infrastructure, energy and resources sectors in Australia, New Zealand and Asia. The group operates under three business units including; RCR Infrastructure, a leading provider of rail, transport, renewable energy, telecommunication, water, electrical and instrumentation, property services and facilities management solutions; RCR Energy, a provider of turnkey solutions for utility, power and industrial energy projects; and RCR Resources, a structural, construction and maintenance provider for the resources, oil & gas and liquid natural gas industries.

#### Imdex Limited

- 8 Imdex is a provider of drilling fluid products, advance down hole instrumentation, data solutions and geo-analytics services to exploration, development and production companies in the mining, oil and gas, water wells and civil engineering industries worldwide. Imdex supports a diverse range of customers at all stages of the mining cycle, from junior explorers to major producers across a wide range of commodities. The company has operational centres in key mining regions of the world, including Asia-Pacific, Africa, Europe and the Americas.

#### Austin Engineering Limited

- 9 Austin Engineering is an engineering company focused on the mining and resources sector. The company has Australian manufacturing facilities in Brisbane, Perth, Mackay and Muswellbrook as well as overseas facilities in Wyoming (USA), Antofagasta (Chile), Colombia, Lima (Peru) and Batam Island (Indonesia). Each business division provides an array of manufacturing, repair and support services to the mining, oil and gas, aluminium and industrial sectors.

### Mineral processing services and others

#### Downer EDI Limited

- 10 Downer EDI provides engineering and infrastructure management services to customers in the minerals and metals, oil and gas, power, rail and transport, telecommunications, water and property industries. Its business is structured into six operating units, including Transport Services, Technology and Communications Services; Utilities Services; Rail; Engineering, Construction and Maintenance; and Mining. Its operations are primarily focused in Australia and New Zealand and extend to Asia-Pacific, South America and South Africa. Downer EDI also provides contract mining services and asset management solutions.

#### Mineral Resources Limited

- 11 Mineral Resources is an Australian based diversified mining service, contracting, processing and commodities production company. It has operations in building, mineral crushing, screening, processing and handling, commodity production and export and pipeline fabrication and installation. Mineral Resources has five brands within its portfolio including Crushing Services International, PIHA, Process Minerals International, Polaris Metals and Mesa Minerals (64% ownership).

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

### Appendix D

#### **Monadelphous Group Limited**

- 12 Monadelphous Group is an Australian based engineering construction company. The company services a broad range of industries with core markets in the resource industry and a particular focus on iron ore, coal and mineral processing. Its services cover engineering and construction, maintenance, industrial and infrastructure. The company operates primarily in Australia but also has operations in Papua New Guinea and China.

#### **Ausdrill Limited**

- 13 Ausdrill is a diversified mining and energy services company with key operations in Australia and Africa. The offered services include drill and blast, grade control, water well drilling and equipment sales, hire and parts. In addition, Ausdrill provides load and haul and crusher feed services as well as specialist underground mining services in Africa. The Australian operations are primarily based in Western Australia and the African operations are primarily located in Ghana.

#### **Swick Mining Services Limited**

- 14 Swick Mining Services is a mineral drilling contractor, providing both underground and surface drilling services to the Australian resource and mining industry. The company is the market leader in the development of innovative rig designs and drilling practises that improve productivity, safety and versatility. Swick Mining Services has three divisions which include Underground Diamond, Surface Reverse Circulation and Underground Production. The company also operates in Canada, USA, and Europe.



## Appendix E

### Transaction evidence

#### Mining services and equipment sector transactions

Date <sup>(1)</sup>	Target	Acquirer	EV <sup>(2)</sup> million	EBITDA multiple		EBITA multiple	
				Historical	Forecast	Historical	Forecast
Oct 16	Bradken	Hitachi Construction Machinery	A\$993	9.2	8.3 <sup>(3)</sup>	15.6	12.4 <sup>(3)</sup>
May 16	Ausenco	Resource Capital Fund IV	A\$153	na	5.9 <sup>(3)</sup>	na	9.1 <sup>(3)</sup>
Jan 16	Sedgman	CIMIC Group	A\$179	5.8	5.1 <sup>(3)</sup>	8.7	6.1 <sup>(3)</sup>
Jul 15	Ausenco <sup>(4)</sup> (9.5% placement)	Duro Felguera	A\$156	9.7	7.0	20.3	10.4
Dec 14	Resource Equipment	Pump Services	A\$141	na	5.6 <sup>(3)</sup>	na	8.8 <sup>(3)</sup>
Jun 13	Brinderson	Aegion	US\$150	6.3	na	na	na
Oct 12	G&S Engineering Services	Calibre Group	A\$94	na	5.5	na	na
Jun 12	Marshall Miller & Associates	Cardno	A\$30	na	5.6	na	na
May 12	Industrea	General Electric Company	A\$701	6.0	5.3	10.7	8.5
Jan 12	Ludowici	FLSmith & Co	A\$389	12.5	11.8	15.9	14.9
Jul 11	Norcast Wear Solutions / Australian & Oversea Alloys	Bradken	C\$222	na	7.9	na	na
Dec 10	Easternwell Group	Transfield Services	A\$570	11.4	7.5	na	na
Dec 10	Essa Australia Ltd	FLSmith	A\$30	8.5	na	11.3	na
May 10	Almac Machine Works	Bradken	C\$56	4.1	na	na	na
May 10	Ammtec Ltd	Campbell Brothers	A\$152	11.9	7.3	14.2	8.3
Mar 10	Coote Industrial (Engenco)	Elph	A\$168	5.7	5.7	na	na

#### Note:

- 1 Date of announcement.
  - 2 Enterprise value on a 100% basis.
  - 3 Based on maintainable EBITDA and EBITA as assessed by the independent expert.
  - 4 Based on private placement representing a 9.5% interest in Ausenco.
- na – not available.

**Source:** LEA analysis using data from ASX announcements, analyst reports and company annual reports.



Annexure A. Independent Expert's Report  
(incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

**Appendix F**

**Valuation of Sale Assets**

STAFFE PTY LTD

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**3 May 2017**

**Ref: Val 127/16**

The Board of Directors  
Macmahon Holdings Limited  
15 Hudswell Road  
Perth Airport, WA 6105

Dear Sirs,

**PT Amman Mineral Nusa Tenggara - Macmahon Holdings Limited  
Valuation of Selected Mobile Mining Plant and Equipment at Batu Hijau  
Independent Valuer's Report**

Acting under your instructions, we have conducted an appraisal to determine the collective Market Value in Continued Use of selected mobile mining plant and equipment identified as owned by PT Amman Mineral Nusa Tenggara.

The effective date of this valuation is 31 March 2017, this being the last date that the assets subject to this appraisal were inspected by the valuer. We note that of the total pool of 183 assets valued, 169 were subject to a detailed inspection. The remaining fourteen assets were sighted however a detailed inspection was not possible and our value assessment has been based on data and photographs provided by PT Amman Mineral Nusa Tenggara to assist in forming value conclusions.

**Assessed Value**

Subject to the assumptions and limiting conditions set forth in an addendum to this report, it is our professional judgment that the total value of the assets on a **Market Value in Continued Use** basis is **USD145,605,000** (One Hundred and Forty Five Million Six Hundred and Five Thousand United States Dollars) as detailed below.

## Appendix F

### STAFFE PTY LTD

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Asset Group	Quantity	Market Value in Continued Use USD
Dozers	11	1,735,000
Excavators	3	4,050,000
Graders	5	1,850,000
Haul Trucks	111	61,435,000
Wheel Loaders	4	2,600,000
Lube Trucks	4	800,000
Cranes	7	8,030,000
Wheel Dozers	8	1,270,000
Shovels Electric/Rope	7	51,250,000
Drills Blast hole	7	4,200,000
Tyre Handlers	4	290,000
Truck Low Boy	1	500,000
Pumps	7	4,595,000
Water Trucks	4	<u>3,000,000</u>
<b>Total</b>	<b>183</b>	<b><u>145,605,000</u></b>

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

### Appendix F

#### STAFFE PTY LTD

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##### **Purpose of the Appraisal and Definition(s) of Value**

The purpose of the appraisal is to gather data relevant to the assets and provide an evaluation that estimates the Market Value in Continued Use as at 31 March 2017. Market Value in Continued Use is defined as follows:

##### Market Value In Continued Use

"The price at which machinery and equipment could change hands between a willing buyer and a willing seller, neither being under any duress to buy or sell and both having reasonable knowledge of relevant facts. It is assumed that the machinery & equipment is being sold to remain in place and in operation, taking advantage of all leasehold and site improvements designed to facilitate its operation, with the seller accurately and completely representing the existing condition and operability of the machinery & equipment to the buyer." This definition does not take into consideration the past, present, or forecasted income-generating performance of the product lines produced. It is, however, assumed that all specially designed and built machinery & equipment will continue to be used in the manner for which is was originally intended.

In establishing the value of machinery factors such as remoteness of location, modifications to machinery to meet local requirements to support the operation are also considered."

##### **Approach Adopted**

This valuation is a combination of physical inspection of assets and a desktop appraisal for assets not physically inspected by the valuer. The total number of assets making up this valuation was 183. Only fourteen assets were not physically inspected, however, they were sighted and value conclusions were established based on a desktop appraisal.

A physical inspection appraisal involves the valuer physically sighting the subject assets. The physical inspection confirms the existence of the assets, confirms the accuracy of data provided including asset and identification numbers and finally enables the assessment of the assets condition and operational capability. The data gathered is then compared to asset information available and a value assessment is made.

A desktop appraisal is an evaluation that estimates the value of assets that are the subject of the report without the appraiser having had the benefit of conducting a physical inspection of those assets. By its very nature, a desktop appraisal requires a number of assumptions to be made by the valuer, which included:

1. The information provided for those assets not inspected is complete and accurate at the date of the desktop estimate; no allowance is made or could be made by us for errors or omissions in the information so supplied to us.
2. The assets not subject to inspection are operable, in certification and capable of being utilised to their maximum potential, unless otherwise stated.

## Appendix F

### STAFFE PTY LTD

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We have no reason to doubt the completeness and accuracy of the information supplied directly to us, or representations concerning the condition and operability of the equipment made by officers of PT Amman Mineral Nusa Tenggara.

For the purpose of establishing the value of the assets not inspected the following documents were provided:

1. Detailed inventory of the cranes and dewatering pumps
2. Asset use records
3. Build and specification data
4. Photographs of all cranes and dewatering pumps

#### Methodology

There are three basic valuation methods that are used to derive an indication of the value of the assets. These methods include the cost approach, sales comparison approach, and income approach to value.

##### Cost Approach

*"A set of procedures in which an appraiser derives a value indication by estimating the current cost to reproduce or replace the personal property, deducting for all accrued depreciation."*

##### Sales Comparison Approach

*"A set of procedures in which an appraiser derives a value indication by comparing the personal property being appraised to similar assets that have been sold recently, applying appropriate units of comparison, and making adjustments based on the elements of comparison to the sale prices of the comparable."*

##### Income Capitalization Approach

*"A set of procedures in which an appraiser derives a value indication for income-producing personal property by converting anticipated benefits into value. This conversion is accomplished either by: (1) capitalizing a single year's income expectancy or an annual average of several years' income expectancies at a market derived capitalization rate or capitalization rate that reflects a specified income pattern, return on investment, and change in value of the investment; or (2) discounting the annual cash flows for the holding period and the reversion at a specified yield rate."*

The Sales Comparison Approach was the primary basis upon which the assets were appraised as market data was in the majority of instances readily available. Where market data was not readily available the Cost Approach was the basis utilised.

## Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

### Appendix F

#### STAFFE PTY LTD

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The Income Capitalization Approach was not utilized. This approach gives consideration to income-generating criteria, and is very limited in its application to the appraisal of machinery & equipment. This is due to the difficulty in determining what portion of the total income and expense stream of a given plant would be attributable to a specific piece of equipment. This type of analysis is outside the scope of this appraisal.

Research included but was not limited to database information, conversations with equipment manufacturers, manufacturers' representatives, used machinery and equipment dealers, auctioneers and liquidators, and other knowledgeable industry sources.

In establishing the value of machinery factors such as remoteness of location, modifications to machinery to meet local requirements to support the operation are also considered.

In accordance with our standard practice this valuation and report is for the sole use of the party to whom it is addressed and no responsibility is accepted for any third party for the whole or any part of the contents.

The original signed copy of this report should be considered as the only reliable source of information. Soft or electronically transmitted copies may be subject to manipulation outside the control of Staffe Pty Ltd.

We thank you for entrusting this business to our Company, and should you require any further assistance please do not hesitate to contact the undersigned.

Yours faithfully,

**Staffe Pty Ltd**



Peter Berry  
**Managing Director**  
**Valuation No-127/16**

## Appendix F

### STAFFE PTY LTD

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#### Assumptions And Limiting Conditions

This appraisal report has been made with the following general assumptions and limiting conditions.

- The assets are appraised free and clear of any or all liens or encumbrances unless otherwise stated. Title to the property is assumed to be good and marketable unless otherwise indicated.
- It is assumed that all of the assets included in the appraisal are owned by the company appraised. Staffe Pty Ltd has relied upon management to identify any equipment that is owned by parties unrelated to the appraisal.
- The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy. Every reasonable attempt has been made to verify such information.
- It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
- The value estimates submitted are based upon the definition of value stated in the body of the report.
- Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of that party and, in any event, only with proper written qualification and only in its entirety.
- Staffe Pty Ltd reserves the right to recall all copies of this report to correct any error or omission.
- The appraiser, by reason of this appraisal, is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been made previously.
- Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.
- The maximum liability of Staffe Pty Ltd for the breach of any obligation in connection with this engagement or the Report, and for any and all damages of any type or nature (whether in contract or in tort, and whether compensatory, consequential or punitive in nature) sustained or claimed by The Company(ies) or any other person or entity in connection with this engagement or the Report, shall be limited to the fee actually received by Staffe Pty Ltd under the engagement letter. In no event or circumstance shall Staffe Pty Ltd have any liability to The Company(ies) or any other person or entity in excess of the fee actually paid to and received by Staffe Pty Ltd under the engagement letter.

# Annexure A. Independent Expert's Report (incorporating Independent Valuer's Report) *continued*

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

## Appendix G

### Glossary

Term	Meaning
1HY17	The six months ended 31 December 2016
2HY17	The six months ending 30 June 2017
AMC	Amman Mineral Contractors (Singapore) Pte. Ltd
AMNT	PT Amman Mineral Nusa Tenggara
AMNT Transaction	Proposed transaction between Macmahon and AMNT
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAPM	Capital asset pricing model
CGB	Commonwealth Government Bonds
CIMIC	CIMIC Group Limited
Consideration Shares	Macmahon will issue AMC 954,064,924 new Macmahon shares in consideration for the acquisition of the Sale Assets
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GFC	Global financial crisis
IER	Independent expert's report
Issue Price	A\$0.203 per Macmahon share
JV	Joint venture
LEA	LonerGAN Edwards & Associates Limited
Leighton	Leighton Holdings Ltd
Macmahon or the Company	Macmahon Holdings Limited
Macmahon Relevant Interest	A technical, legal effect of the AMNT Transaction whereby Macmahon itself would also acquire a relevant interest in the Consideration Shares
Mining Contract	A life of mine, alliance style mining contract for the Batu Hijau copper-gold mine in Indonesia owned by AMNT to be awarded to Macmahon under the AMNT Transaction
MRP	Market risk premium
NPV	Net present value
PV	Present value
RG 111	ASIC Regulatory Guideline 111 – <i>Content of expert reports</i>
Sale Assets	Certain existing equipment including loading equipment, trucks, ancillary and support assets that Macmahon will acquire under the AMNT Transaction
Staffe	Staffe Pty Limited, being the independent valuer of the Sale Assets
Staffe Report	The report prepared by Staffe dated 3 May 2017



## Appendix G

<b>Term</b>	<b>Meaning</b>
TV	Terminal value
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding

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# ANNEXURE B. INVESTIGATING ACCOUNTANT'S REPORT

**KPMG Transaction Services**

A division of KPMG Financial Advisory Services  
(Australia) Pty Ltd  
Australian Financial Services Licence No. 246901  
235 St Georges Terrace  
Perth WA 6000

GPO Box A29  
Perth WA 6837  
Australia

ABN: 43 007 363 215  
Telephone: +61 8 9263 7171  
Facsimile: +61 8 9263 7129  
www.kpmg.com.au

The Directors  
Macmahon Holdings Limited  
15 Hudswell Road  
Perth Airport  
WA 6105

9 June 2017

Dear Directors

## **Limited Assurance Investigating Accountant's Report and Financial Services Guide**

### **Investigating Accountant's Report**

#### **Introduction**

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by Macmahon Holdings Ltd ("Macmahon") to prepare this report for inclusion in the Shareholder Notice of Meeting to be dated 9 June 2017 ("Shareholder Notice of Meeting"), and to be issued by Macmahon, in respect of the proposed acquisition of certain existing equipment at Batu Hijau from PT Amman Mineral Nusa Tenggara ("AMNT") in exchange for the issuance of new Macmahon shares equivalent to 44.3% of Macmahon's expanded share capital post completion ("Transaction").

Expressions defined in the Shareholder Notice of Meeting have the same meaning in this report.

#### **Scope**

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical financial information of Macmahon being the pro forma historical statement of financial position as at 31 December 2016 ("the Pro Forma Historical Statement of Financial Position") described below and disclosed in the Shareholder Notice of Meeting.

The Pro Forma Historical Statement of Financial Position is presented in the Shareholder Notice of Meeting in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

**Macmahon Holdings Limited**  
*Limited Assurance Investigating Accountant's Report and  
Financial Services Guide  
9 June 2017*

### ***Pro Forma Historical Statement of Financial Position***

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the Pro Forma Historical Statement of Financial Position of Macmahon (the responsible party) included in section 5.2 of the Shareholder Notice of Meeting.

The Pro Forma Historical Statement of Financial Position has been derived from the historical financial information of Macmahon, after adjusting for the effects of pro forma adjustments described in section 5.2 of the Shareholder Notice of Meeting. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 5.1(b) of the Shareholder Notice of Meeting. Due to its nature, the Pro Forma Historical Statement of Financial Position does not represent the company's actual or prospective financial position.

The Pro Forma Historical Statement of Financial Position has been compiled by Macmahon to illustrate the impact of the event(s) or transaction(s) described in section 5.2 on Macmahon's financial position as at 31 December 2016. As part of this process, historical information about Macmahon's financial position, has been extracted by Macmahon from Macmahon's Interim Financial Report for the six months ended 31 December 2016.

The Interim Financial Report of Macmahon for the six months ended 31 December 2016 was reviewed by KPMG in accordance with Australian Auditing Standards. The review opinion issued to the members of Macmahon relating to the Interim Financial Report was unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to Pro Forma Historical Statement of Financial Position in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Statement of Financial Position is not prepared, in all material respects, by the directors in accordance with the stated basis of preparation. As stated in section 5.1(b) of the Shareholder Notice of Meeting, the stated basis of preparation is:

- the extraction of the historical statement of financial position of Macmahon as at 31 December 2016 ("Historical Financial Information") from the reviewed Interim Financial Report of Macmahon for the six months ended 31 December 2016;
- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and Macmahon's accounting policies, to the Historical Financial Information of Macmahon to illustrate the effects of the Transaction on Macmahon described in section 5.2 of the proposed Shareholder Notice of Meeting.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

## Annexure B. Investigating Accountant's Report *continued*

**Macmahon Holdings Limited**  
*Limited Assurance Investigating Accountant's Report and  
Financial Services Guide*  
9 June 2017

### *Historical Financial Information*

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Historical Financial Information of Macmahon from its reviewed Interim Financial Report for the six months ended 31 December 2016;

### *Pro forma adjustments:*

- consideration of the pro forma adjustments described in the Shareholder Notice of Meeting;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of accounting policies for consistency of application.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Statement of Financial Position is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

### **Directors' responsibilities**

The directors of Macmahon are responsible for the preparation of:

- the Historical Financial Information;
- the Pro Forma Historical Statement of Financial Position, including the selection and determination of the pro forma transactions and/or adjustments made to the Historical Financial Information and included in the Pro Forma Historical Statement of Financial Position;

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Conclusions**

#### ***Review statement on the Pro Forma Historical Statement of Financial Position***

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Statement of Financial Position at 31 December 2016, as set out in section 5.2 of the Shareholder Notice of Meeting is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in section 5.2 of the Shareholder Notice of Meeting, and in accordance with the

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recognition and measurement principles prescribed in Australian Accounting Standards, and Macmahon's accounting policies.

**Independence**

KPMG Transaction Services does not have any interest in the outcome of the proposed transaction, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Macmahon and from time to time, KPMG also provides Macmahon with certain other professional services for which normal professional fees are received.

**General advice warning**

This report has been prepared, and included in the Shareholder Notice of Meeting, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

**Restriction on use**

Without modifying our conclusions, we draw attention to section 5.2 of the Shareholder Notice of Meeting, which describes the purpose of the financial information, being for inclusion in the Shareholder Notice of Meeting. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Shareholder Notice of Meeting in the form and context in which it is so included, but has not authorised the issue of the Shareholder Notice of Meeting. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Shareholder Notice of Meeting.

Yours faithfully



Matthew Kelly  
Authorised Representative

## Annexure B. Investigating Accountant's Report *continued*



### **KPMG Transaction Services**

A division of KPMG Financial Advisory Services (Australia) Pty Ltd  
 Australian Financial Services Licence No. 246901  
 235 St Georges Terrace  
 Perth WA 6000

GPO Box A29  
 Perth WA 6837  
 Australia

ABN: 43 007 363 215  
 Telephone: +61 8 9263 7171  
 Facsimile: +61 8 9263 7129  
 www.kpmg.com.au

### **Financial Services Guide Dated 9 June 2017**

#### ***What is a Financial Services Guide (FSG)?***

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) ('**KPMG Transaction Services**'), and Matthew Kelly as an authorised representative of KPMG Transaction Services, authorised representative number 000404260 as an authorised representative of KPMG Transaction Services, authorised representative number (**Authorised Representative**).

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Services Guide  
9 June 2017*

**Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide**

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

**KPMG Transaction Services and the Authorised Representative's responsibility to you**

KPMG Transaction Services has been engaged by Macmahon (Client) to provide general financial product advice in the form of a Report to be included in Shareholder Notice of Meeting (Document) prepared by Macmahon in relation to proposed acquisition of certain existing equipment at Batu Hijau from PT Amman Mineral Nusa Tenggara ("AMNT") in exchange for the issuance of new Macmahon shares equivalent to between 44.3% of Macmahon's expanded share capital post completion (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

**General Advice**

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

**Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives**

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services \$30,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

**Referrals**

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

## Annexure B. Investigating Accountant's Report *continued*

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 Services Guide*  
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### **Associations and relationships**

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees of \$453,513 and \$1,211,363 have been received from the Client. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

### **Complaints resolution**

#### Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

#### External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1800 367 287

Facsimile: (03) 9613 6399

Email: [info@fos.org.au](mailto:info@fos.org.au).

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

#### **Compensation arrangements**

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

#### **Contact Details**

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services  
 A division of KPMG Financial Advisory  
 Services (Australia) Pty Ltd  
 10 Shelley St  
 Sydney NSW 2000  
 PO Box H67  
 Australia Square  
 NSW 1213  
 Telephone: (02) 9335 7000  
 Facsimile: (02) 9335 7200

Matthew Kelly  
 C/O KPMG  
 PO Box H67  
 Australia Square  
 NSW 1213  
 Telephone: (02) 9335 7000  
 Facsimile: (02) 9335 7200

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# CORPORATE DIRECTORY

## **DIRECTORS**

J A Walker (Chairman, Non-executive)

C R G Everist (Non-executive)

E Skira (Non-executive)

V A Vella (Non-executive)

## **COMPANY SECRETARY**

G Gettingby

## **PRINCIPAL REGISTERED OFFICE**

15 Hudswell Road

Perth Airport, Western Australia 6105

Telephone: +61 (08) 9232 1000

Facsimile: +61 (08) 9232 1001

## **LOCATION OF SHARE REGISTRIES**

Computershare Investor Services Pty Ltd

Level 11, 172 St Georges Terrace

Perth WA 6000

## **SECURITIES EXCHANGE**

Macmahon is listed on the Australian Securities Exchange with an ASX code of 'MAH'

## **AUDITOR**

KPMG

235 St Georges Terrace

Perth Western Australia, 6000

## **OTHER INFORMATION**

Macmahon Holdings Limited ACN 007 634 406, incorporated and domiciled in Australia, is a publicly listed company limited by shares.



**MACMAHON**



**MACMAHON**

ABN: 93 007 634 406

**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**

**XX**



**Vote online**

- Go to [www.investorvote.com.au](http://www.investorvote.com.au) or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.



**Your access information that you will need to vote:**

**Control Number: 999999**

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 9.30am (WST) Monday, 10 July 2017**

**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 each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). 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](http://www.investorcentre.com) under the help tab, "Printable 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** ➔

**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.

# 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, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Macmahon Holdings Limited to be held at 15 Hudswell Road, Perth Airport, Western Australia on Wednesday, 12 July 2017 at 9.30am (WST) and at any adjournment or postponement of that meeting.

## STEP 2 Item of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, 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.

	For	Against	Abstain
Resolution Approval of the AMNT Transaction and the Acquisition of Shares in Macmahon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on the resolution, in which case an ASX announcement will be made.

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name \_\_\_\_\_ Contact Daytime Telephone \_\_\_\_\_ Date / /