

# 20 18

ANNUAL  
REPORT



Ω MACMAHON



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# ABOUT

# MACMAHON

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**MACMAHON IS AN ASX LISTED COMPANY THAT HAS BEEN OFFERING MINING AND CONSTRUCTION SERVICES TO CLIENTS FOR MORE THAN 50 YEARS.**

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We seek to develop strong relationships with our clients in which both parties can work together in an open, flexible and transparent way.

Our approach to doing business, together with our capabilities in surface and underground mining, civil design and construction, and mine site maintenance and rehabilitation services, has established Macmahon as a trusted partner on resources projects throughout Australia and Southeast Asia.





**MAP LEGEND**

**Offices**

- 1 Perth
- 2 Brisbane
- 3 Jakarta

**TMM**

- 24 Peak Downs
- 25 Norwich Park
- 26 South Walker
- 27 Rolleston
- 28 Saraji

**Workshops**

- 1 Perth
- 29 Lonsdale

**Surface Mining**

- 4 Kanthan
- 5 Lhoknga
- 6 Martabe
- 7 Batu Hijau
- 8 Telfer
- 9 Tropicana
- 10 Mt Morgans
- 11 Byerwen
- 12 Argyle

**Underground Mining**

- 13 Tujuh Bukit
- 14 Ranger 3 Deeps
- 15 Mt Wright
- 16 Nifty
- 17 Granny Smith
- 18 Cadia
- 19 Ballarat
- 20 Olympic Dam
- 21 Pajingo
- 22 Leinster
- 23 Endeavor

# MACMAHON CAPABILITIES



## **SURFACE MINING**

Our surface mining division operates in Australia and overseas, offering a full suite of services including:

- Mine planning and analysis
- Mine management
- Drill and blast
- Bulk and selective mining
- Crushing and screening
- Fixed plant maintenance
- Water management
- Equipment operation and maintenance

## **UNDERGROUND MINING**

Macmahon has a well-established and highly experienced underground division which specialises in high quality underground mining and engineering services. These services include:

- Mine development
- Mine production
- Raise drilling
- Cablebolting
- Shotcreting
- Remote shaft lining
- Production drilling
- Shaft sinking

## **MINING INFRASTRUCTURE**

Macmahon, via its wholly-owned subsidiary TMM Group, offers a wide range of civil design and construction services to mine owners including:

- Topsoil and overburden stripping
- Bulk earthworks
- Road design and construction
- Train loading facilities
- Water infrastructure - dams, creek diversions, flood levies, and drainage structures.

## **REHABILITATION**

TMM Group offers a range of mine rehabilitation and closure services including:

- Design
- Bulk earthworks
- Revegetation
- Monitoring
- Maintenance

## **EQUIPMENT MAINTENANCE & MANAGEMENT**

Macmahon offers a complete equipment maintenance and management support service for a wide range of modern mining equipment. Our facilities in Perth, Adelaide and the Bowen Basin provide Macmahon with the ability to:

- Service and maintain equipment, rebuild components and complete repairs in-house and on demand
- Rapidly and efficiently deploy supplies to customer locations
- Train and employ a range of experienced tradespeople for rapid deployment to remote sites

# CHAIRMAN'S & CHIEF

# EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

We are delighted to report that Macmahon performed strongly during the 2018 Financial Year, generating revenue of \$710.3 million and earnings before interest and tax (EBIT) from continuing operations of \$41.2 million. Total reported EBIT for the year was \$43.2 million.

This performance is a significant turnaround on recent years and positions Macmahon to continue delivering on its substantial order book of existing contracts, and to capture new opportunities in a resurgent mining sector in Australia and Southeast Asia.

Key achievements during the year included:

- the completion in August 2017 of our transformational AMNT Transaction, and the subsequent ramp up of operations at the Batu Hijau mine in Indonesia;
- the commencement of new open cut mining operations at the Byerwen Coal Mine in Queensland and the Mount Morgans Gold Mine in Western Australia;
- the commencement of an underground development project at the Endeavor lead zinc mine in New South Wales, and an exploration decline at the Tujuh Bukit copper gold deposit in Indonesia;
- the acquisition of TMM Group, which provides a range of civil construction, maintenance, consulting and rehabilitation services to mine sites in Queensland; and
- an order book of approximately \$5 billion.

Consistent with this performance, Macmahon's balance sheet remains robust, with net assets at 30 June 2018 of \$409.8 million and net cash of \$3.4 million.

It is very satisfying to see Macmahon return to such a healthy position, and we would like to thank all employees for their work over a long period to help achieve these results.

## PEOPLE

During the year, our employee base increased to 3,913 employees and 1,137 contractors working under Macmahon's supervision or management, with these figures set to increase further during the 2019 Financial Year.

This increased need for people, together with the higher demand for mining personnel in many of our markets, has required Macmahon to reinvigorate its recruitment, training and retention efforts. We are very proud of the initiatives that have now been implemented or expanded in these areas including our apprentice and graduate programs, an industry leading mental and physical health initiative, and a new trainee program to provide entry level equipment operator jobs for new entrants to the mining industry. We are also working to place ex Australian Defence Force personnel in operator roles across our operations.

Among our senior team, we were disappointed to announce the resignation of José Martins as Chief Financial Officer in October 2017. During his time with us, José played a key role in responding to many of the issues then facing the business. However, we were also fortunate that Giles Everist, who at the time was one of our non-executive directors, was willing to step down from the board and take on the CFO role. Mr Everist's experience and knowledge of Macmahon made him the ideal candidate for the role, and he is now helping to steer the future growth of Macmahon in that capacity.

The attraction and retention of personnel is emerging as a key risk for our business as the industry continues to recover, so we expect to continue our efforts in this area in the 2019 Financial Year.





## CAPITAL MANAGEMENT

Despite the company's return to profitability, there are many opportunities to make further investments in the continued growth of the business. These opportunities include using earnings to fund the equipment and working capital needed for the expansion of our existing projects, the start-up of new projects, investments in new technology and software systems, and potentially acquisitions of other companies. Given these opportunities, the Board has decided not to pay a dividend for the year ending 30 June 2018. However, the Board remains absolutely committed to delivering shareholder value and continues to assess all capital management options against this objective.

## GOVERNANCE AND THE BOARD

During the year, the Board appointed Mr Kim Horne as an independent non-executive director to fill the vacancy created by Mr Everist's move to an executive role.

Mr Horne has had extensive executive experience with Alcoa, where he was involved in mine development and management, human resources, corporate affairs, strategy and government relations. Mr Horne's appointment will help ensure the Board retains an appropriate mix of skills and experience to fulfil its very important governance function.

We believe that good corporate governance is critical to the long term sustainability of any organisation. With this in mind we have continued to monitor our governance and reporting practices to ensure they remain appropriate. Our corporate governance statement for the year can be found on our website, and we encourage all shareholders to read it.

## OUTLOOK

For the 2019 Financial Year, we expect to see continued growth in our revenue and earnings, and we will provide detailed guidance to the market on these metrics in our investor presentations throughout the year.

Our optimism is supported by both the general improvement in the mining industry and the company's significant order book of existing contracts. These contracts put Macmahon in the fortunate position of having a relatively high base load of work over the medium term, which should allow the business to maintain a disciplined approach to tendering, and provide a platform from which to invest in people, new technologies, and continual improvement.

## SHAREHOLDERS, CLIENTS & SUPPLIERS

On behalf of the Board and senior management we would like to thank our shareholders, clients and suppliers for their ongoing support. Returning Macmahon to profitability has been a long journey involving contributions from many people, but we acknowledge that success will always depend greatly upon continued backing from our investors and other business partners.

With the opportunities now ahead of us it is a very exciting time to be a part of Macmahon and we look forward to rewarding the support that has been extended to us by our shareholders and others as we continue to build on our turnaround.

**JIM WALKER**

Chairman

**MICHAEL FINNEGAN**

Chief Executive Officer



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# OPERATIONAL & FINANCIAL REVIEW

Macmahon provides mining and infrastructure services to miners throughout Australia and in Southeast Asia.

Headquartered in Perth, Western Australia, the company derives revenue from activities including surface and underground mining, civil design and construction (primarily on mine sites), equipment repair and maintenance, consulting, design and fabrication of mining infrastructure, and mine site maintenance and rehabilitation services.



**OPERATIONAL**

**REVIEW**



## SURFACE MINING

Macmahon's surface mining division offers a broad range of services including mine planning, drill and blast, bulk and selective mining, crushing and screening, water management, as well as equipment operation and maintenance.

### Project activity

During the year, Macmahon provided services to the following projects:

- **Tropicana Gold Mine** – Macmahon is currently fulfilling a life of mine contract at the Tropicana project in Western Australia for Anglo Gold Ashanti and Independence Group. In December 2017, the project owners approved phase 1 of the Long Island program of works, which will likely extend the life of the mine for several years.
- **Telfer Gold Mine** – Macmahon is also fulfilling a life of mine contract at the Telfer project in Western Australia for Newcrest. As previously disclosed, this has been a very challenging project that has resulted in Macmahon incurring significant losses. The project is now producing small monthly operating profits however risks and difficulties remain.
- **Byerwen Coal Mine** – In November 2017, Macmahon executed a contract for the establishment and operation of the new Byerwen Coal Mine near Glenden in Queensland's Bowen Basin. The three-year contract is worth approximately \$350 million in revenue to Macmahon and includes the provision of all open cut mining and bulk earthworks.
- **Mt Morgans Gold Mine** – In December 2017, Macmahon was awarded a five-year mining services contract by a subsidiary of Dacian Gold Limited. The contract includes the provision of open pit mining services including drilling and blasting, loading, hauling and technical services at the Mt Morgans Mine which is located 37km west southwest of Laverton in Western Australia.
- **Argyle Diamond Mine** – Through its Indigenous employment subsidiary, Doorn-Djil Yoordaning, Macmahon is currently operating at the Argyle Diamond Mine in Western Australia, where it provides tailings dam earthworks, hauling of coarse tailings to TSF, and associated services.
- **St Ives Gold Mine** – In May 2018, Macmahon completed its contract at the St Ives project in Western Australia, where it was supplying equipment and labour to Goldfields.
- **Batu Hijau** – Since August 2017, Macmahon has been performing its life of mine contract to provide all mining services at the Batu Hijau mine in Indonesia for PT Amman Mineral Nusa Tenggara ("AMNT"). Batu Hijau is a well-established, world class copper gold deposit, and one of the largest mines of its kind in the world. In April 2018, Macmahon commenced Phase 2 of the Batu Hijau contract.
- **Martabe Gold Mine** – Macmahon is part of a 50:50 joint venture which is contracted by PT Agincourt Resources to provide mining services at the Martabe Gold Mine, in the North Sumatra province of Indonesia.
- **Kanthan and Lhoknga Quarries** – Macmahon is currently undertaking a range of mining activities for Lafarge Holcim in Malaysia and Indonesia. Macmahon has been operating at these sites for several years and has been successful in securing a number of contract extensions over this time.

### UNDERGROUND MINING

Macmahon's underground mining division offers underground development and production services, the full suite of ground support services (rock bolting, cable bolting and shotcreting), as well as services to facilitate ventilation and access to underground mines including shaft sinking, raise drilling and shaft lining.

#### Project activity

During the year, Macmahon provided a range of ground support and production drilling services to several mines including:

- **Mount Wright Gold Mine** – Macmahon provides production drilling services at the Mount Wright Gold Mine in Queensland for Carpentaria Gold. Macmahon has now been working at this project for several years.
- **Ballarat Gold Mine** – Macmahon provides production drilling and cable bolting at this mine in Victoria for Castlemaine Gold Fields. Macmahon expects its current works at this project will extend until April 2019.
- **Cadia-Ridgeway Mine** – Macmahon has been providing cable bolting services at this mine for Newcrest. Macmahon's work at this mine is likely to conclude early in the 2019 Financial Year.
- **Nifty Mine** – Macmahon provides production drilling, cable bolting and shotcreting to Metals X at this mine in Western Australia.
- **Pajingo Mine** – Macmahon provided box hole drilling to Minjar Gold at this mine in Queensland.
- **Granny Smith Gold Mine** – Macmahon provided cable bolting services to Goldfields at this mine near Laverton in Western Australia.

Macmahon is also continuing to perform its contract with Energy Resources of Australia to provide care and maintenance services at the **Ranger Mine** in the Northern Territory, and is assisting several clients with short to medium term equipment hire.

During the year, Macmahon continued to pursue opportunities to grow its underground mine development work. This effort resulted in two new contracts during the period. In January 2018, Macmahon's joint venture entity in Indonesia with NKE commenced work to develop an exploration decline at the **Tujuh Bukit** copper gold project in east Java, and in March 2018, Macmahon commenced a decline extension project for CBH Resources at the **Endeavor Mine** near Cobar in New South Wales.

Macmahon continues to provide raise drilling services at the **Leinster Mine** in Western Australia as a subcontractor to Thiess and at the **Olympic Dam Mine** in South Australia for BHP. Macmahon has been active at Olympic Dam for more than 10 years, and is contracted to continue with underground raise drilling work at this site until June 2023. In addition, a number of raise drilling contracts were completed including at the **Cockeyed Bob Mine** for Silverlake Resources and the **Halls Creek Mine** for Pantoro Limited.





OPERATIONAL REVIEW CONTINUED





## CIVIL CONSTRUCTION, MINING INFRASTRUCTURE & REHABILITATION

In February 2018, Macmahon purchased TMM Group, a Brisbane based business which provides consulting, design, civil construction, equipment hire, maintenance and site rehabilitation services to coal mines in Queensland. This acquisition provided Macmahon with additional capabilities that are being offered to existing clients, and which should assist in the identification of new core mining opportunities.

### Project activity

Current TMM projects include:

- **Peak Downs** – TMM has been operating at BMA's Peak Downs mine in the Bowen Basin for many years. In 2018 TMM was contracted to perform rehabilitation and haul road construction works. The crews performing this work are expected to be utilised to perform future projects on site including dam wall raises.
- **Saraji** – TMM is hiring several items of equipment to the Saraji mine, also operated by BMA, including D11 dozers, 24M graders, scrapers, excavators and water carts. This contract is expected to run until 2020. TMM provides a workshop and fitters on site to service the equipment.
- **Rolleston** – TMM commenced work at Glencore's Rolleston mine in March 2018. The scope of works includes a creek diversion, and the construction of a new flood levee and water storage facility.
- **Poitrel Levee** – TMM's scope of work at the Poitrel Coal Mine, operated by BHP Mitsui Coal, includes the construction of a flood protection levee for a pit expansion. This will eventually involve multiple scrapers and associated compaction equipment.

## EQUIPMENT MAINTENANCE & MANAGEMENT

Macmahon owns and operates world-class equipment maintenance facilities, giving it a unique ability to support frontline contracting services with plant maintenance services. Macmahon's primary workshop, located in Perth, Western Australia, is a key operational asset with the ability to rebuild components and complete maintenance activities in-house.

This facility also provides Macmahon with the ability to rapidly and efficiently deploy supplies to key customer locations, conduct essential maintenance work and allow for fleet and personnel flexibility depending on customer demand.

### Key Plant and Equipment

Macmahon's Surface Mining fleet currently includes a broad range of excavators, dump trucks, front end loaders, dozers, and drill rigs. Additional fleet is also utilised by way of client provision or short-term hire. Macmahon's fleet is sourced from a range of providers including Caterpillar (approximately 90% of all fleet), Hitachi, Liebherr and Atlas Copco.

Macmahon's Underground Mining fleet is comprised of trucks, loaders, and drills. This equipment is predominantly sourced from Sandvik, Atlas Copco, and Caterpillar. Additional fleet is also utilised by way of client provision or short-term hire.

## OPERATIONAL REVIEW CONTINUED

### SAFETY PERFORMANCE

With multiple project start-ups during the year, Macmahon committed significant resources to protecting the health and safety of its workforce. Despite these efforts, injury frequency rates increased compared to the prior year.

For the 2018 Financial Year, Macmahon's Total Recordable Injury Frequency Rate (TRIFR) was 6.17, and the Lost Time Injury Frequency Rate (LTIFR) was 0.46.

A total of four Lost Time Injuries (LTI) were recorded in the year, with none of these being permanent or disabling injuries. Overall, there was a reduction in the severity of incidents recorded, and most importantly, there were no fatalities across the company's operations.

Examples of good safety outcomes during the year included:

- the Martabe, Tujuh Bukit and Mt Morgans projects remained LTI free since commencement;
- the Kanthan project passed the point of more than 5,000 days LTI free;
- 85% of the company's projects were LTI free; and
- 67% of the company's projects were Recordable Injury Free.

Key safety initiatives and achievements for the period included:

- the implementation of a mental health program, Strong Minds Strong Mines across the company's Australian operations. The program includes a series of mental health videos that are presented

- at return to work and safety tool box meetings, and a complementary physical health program;
- improvement plans have been developed as part of the FY19 HSEQT Strategic Plan, which if executed as intended, will see the TRIFR drop below industry average;
- successful transition to the 2015 Quality standard with no major non-conformances raised during the transition and recertification assessments;
- internal audits conducted in line with the FY18 audit schedule;
- internal HSEQ systems audits were completed across all domestic and international operations;
- quality audits were completed across business functions including Procurement, Human Resources, Tendering, Payroll, Training, Workers Compensation and Injury Management; and
- improvements in environmental performance, including:
  - extended tyre life leading to a reduction in the number of tyres for disposal through the introduction of a dedicated tyre manager and tyre program;
  - reduction in the incidence fuel spillage from plant refuelling activities through dedicated servicing vehicles;
  - a drill consumables bit resharpening program to maximise the life of consumable products; and
  - topsoil stockpiling programs on green fields projects such as Mt Morgans to ensure successful rehabilitation and restoration can be achieved on project completion.





## OPERATIONAL REVIEW CONTINUED

### PEOPLE

At 30 June 2018, Macmahon's employee base consisted of 3,913 employees (includes full-time equivalent contractors) with a further 1,137 contractors working under Macmahon's supervision or management. These numbers are a significant increase from 30 June 2017, and reflect the new work won in Australia and Indonesia, as well as the acquisition of TMM Group.

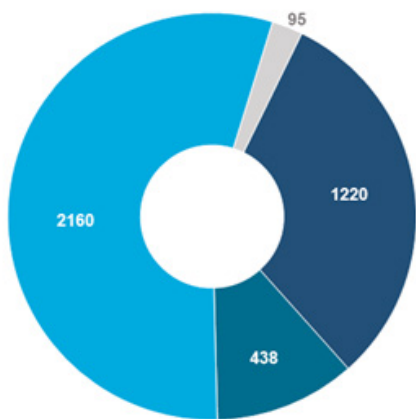
With Macmahon's increased need for people and a tightening labour market in the mining industry, employee recruitment and retention remains a significant challenge for the business.

During the year Macmahon's activities to attract, recruit and retain people included:

- the introduction of the Macmahon Talent Community, an online system for people to register their interest in potential employment with Macmahon. More than 17,000 people are now registered with this system;
- a recruitment campaign in Australia, the Philippines, Indonesia and New Zealand under the branding "We're Growing. Grow with Us". This campaign utilises digital advertising and online media to maximise reach;
- the development and rollout of a trainee program to provide entry level equipment operator jobs for new entrants to the mining industry. This program has now placed more than 50 people in our projects, including Indigenous candidates and Defence Force veterans;
- the roll out of a short-term incentive plan for all Australian based staff employees, and a long-term incentive plan for key leaders within the business;
- initiatives to raise Macmahon's profile as an employer in the Indonesian mining sector, including cross cultural exchange programs and offering several of our Indonesian employees opportunities to visit Australia to undertake training and development;
- the continuation of the Macmahon Traineeship Program, which offers site-based employees the opportunity to gain the nationally recognised RII30113 Certificate III in Surface Extraction Operations; and
- the expansion of the Macmahon Apprenticeship Program to include an entry level intake of apprentices into a four-year program, and a mid-year intake of apprentices into an accelerated two-year program.

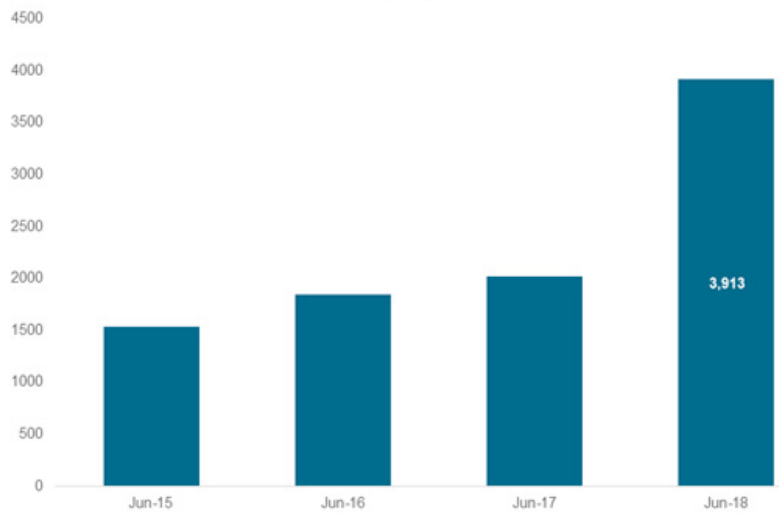


### EMPLOYEES BY BUSINESS UNIT



■ Surface ■ Underground ■ International ■ Corporate

### GROUP EMPLOYEE NUMBERS



# FINANCIAL

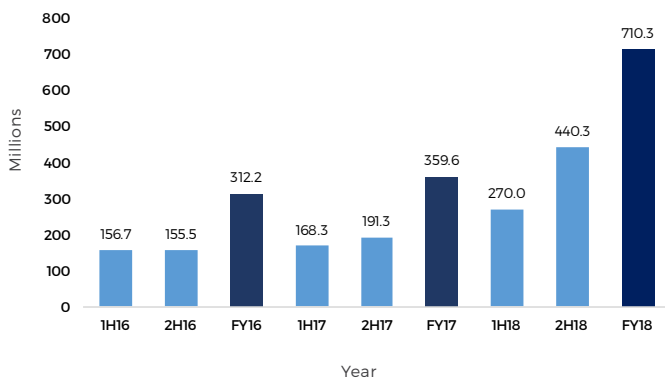
# REVIEW

## FINANCIAL PERFORMANCE

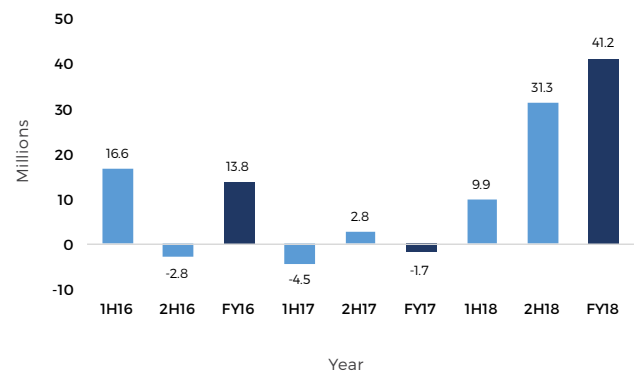
From continuing operations before significant items

	1H16	2H16	2016	1H17	2H17	2017	1H18	2H18	2018
Revenue	156.7	155.5	312.2	168.3	191.3	359.6	270.0	440.3	710.3
EBITDA	29.4	13.1	42.5	10.4	21.4	31.8	46.1	72.8	118.9
EBIT	16.6	-2.8	13.8	-4.5	2.8	-1.7	9.9	31.3	41.2
EBIT Margin	10.6%	-1.89%	4.4%	-2.7%	1.5%	-0.5%	3.7%	7.1%	5.8%

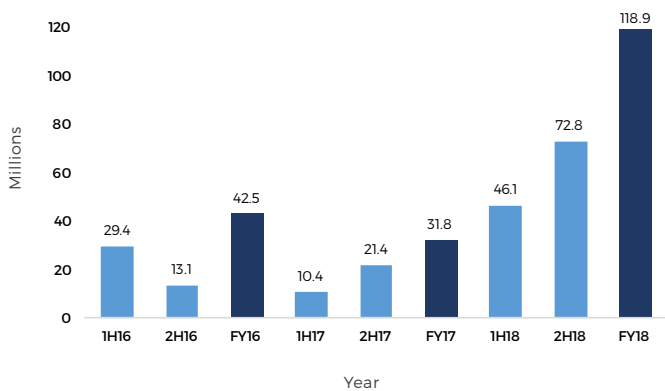
### REVENUE \$M



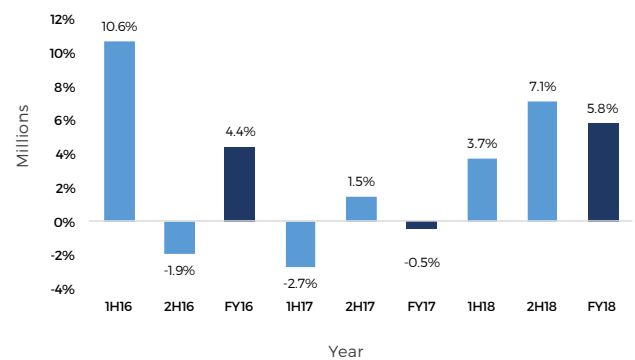
### UNDERLYING EBIT \$M



### UNDERLYING EBITDA \$M



### EBIT MARGIN



## PROFIT AND LOSS

Total revenue for the group increased by 97.5% from the prior period to \$710.3 million. This growth was driven by the award and commencement of five new projects including Batu Hijau, Byerwen, Mount Morgans, Endeavor and Tujuh Bukit.

Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations increased from \$31.8 million to \$118.9 million (EBITDA margin of 16.7%), while earnings before interest and tax (EBIT) from continuing operations increased to \$41.2 million (EBIT margin of 5.8%). This result was a significant improvement on the FY17 EBIT loss.

Similarly, net profit after tax (NPAT) from continuing operations increased to \$31.3 million, which was a significant improvement on the FY17 net loss.

The increase in earnings was a result of the income from new projects as noted above, and improved performance at the Telfer project.

### Depreciation

Depreciation of property, plant and equipment from continuing operations increased from \$33.5 million to \$77.7 million primarily as a result of the acquisition of Batu Hijau equipment which is being fully depreciated over 5 years. The vast majority of remaining equipment is depreciated on cumulative hours worked.

### Finance Costs

The increased use of finance leases to fund growth capital expenditure resulted in increased finance costs.

### Tax

The Group reported a tax expense of \$7.5 million for continuing operations. The effective tax rate for continuing operations is 19.4% due to the recognition of previously unrecognised deferred tax assets. Excluding these items the effective tax rate would have been 28.2%.

## BALANCE SHEET

Macmahon's net assets increased to \$409.8 million at 30 June 2018 (2017: \$185.0 million), resulting in net tangible assets increasing from 15 cents per share to 19 cents per share. The increase was largely due to the addition of US\$146 million of plant and equipment at Batu Hijau following the AMNT Transaction.

## Financing

The company had cash of \$109.6 million at year end against total debt of \$106.2 million. This resulted in a net cash position of \$3.4 million. The increase in debt to \$106.2 million is attributable solely to increased finance leases relating to plant and equipment secured by the Group for the new projects which commenced as noted above.

In addition Macmahon has a general purpose corporate debt facility of \$25 million with the Commonwealth Bank of Australia which expires in October 2018. This facility is currently drawn for bank guarantees for \$7.5 million.

Commonwealth Bank of Australia has provided Macmahon with a credit approved term sheet to extend this facility for a further term of two years with an increased facility limit of \$50M. The documentation of this extension is currently being finalised.

## Working Capital

Current trade and other receivables were \$152.3 million at 30 June 2018 (\$53.4 million in 2017) while current trade and other payables were \$174.3 million at 30 June 2018 (\$74.0 million in 2017). Inventory increased from \$32.1 million in 2017 to \$42.0 million. Working capital has increased during the financial year primarily due to the commencement of new projects named above.

## CASH FLOW

Net operating cash flow (excluding interest and tax) increased to \$101.9 million (FY17: \$30.3 million), representing a conversion rate from EBITDA of 85.7%. Operating cash flow improved significantly commensurate with our earnings growth, but cash flow conversion was impacted due to build-up in working capital for the new contracts won.

## CAPITAL EXPENDITURE

Capital expenditure for the year totalled \$312.3 million, comprising \$182.5 million for equipment acquired as part of the AMNT transaction which was paid for in scrip. Excluding this, capital expenditure was \$129.8m, of which \$85.7m was equipment finance leased and \$44.1m was funded in cash.

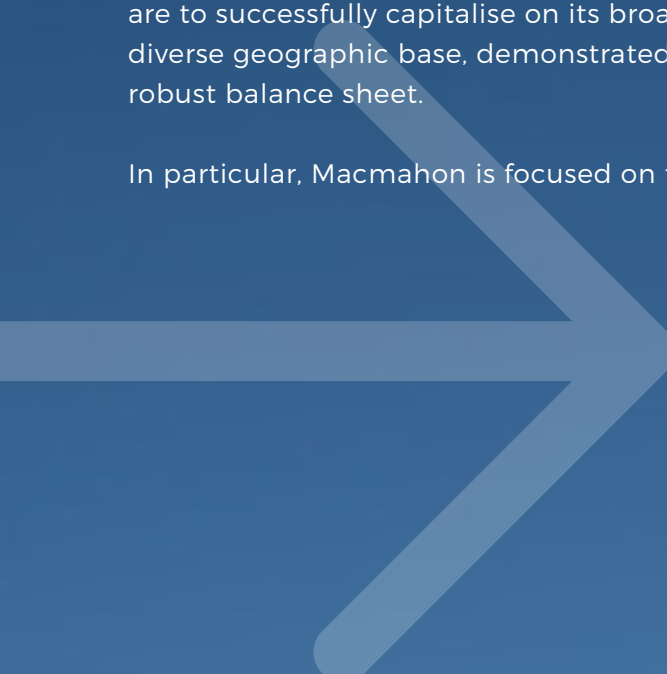
## DIVIDEND & CAPITAL MANAGEMENT

The Board has determined that a dividend will not be declared for the year ended 30 June 2018.

# STRATEGY

Macmahon's vision is to become the leading multi-disciplinary mining services contractor in Australia and Southeast Asia. The company's goals are to successfully capitalise on its broad expertise, world class facilities, diverse geographic base, demonstrated relationship approach and robust balance sheet.

In particular, Macmahon is focused on the following strategic priorities:





# 01

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## **SAFETY**

Improving safety performance across all operations remains a core priority.

# 02

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## **EXECUTION & RELATIONSHIPS**

Macmahon is focused on ensuring all its current projects perform on or above expectations. Macmahon is also committed to fostering strong relationships with its customers, including leveraging off its strategic relationship with AMNT.

# 03

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## **TECHNOLOGY**

Macmahon is increasing its investment in innovation and technology to differentiate its services and ensure they are delivered in the most efficient and productive manner.

# 04

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## **PEOPLE & CULTURE**

Macmahon aims to instil a proactive, positive culture where people are empowered to make decisions, are accountable for their actions and rewarded appropriately if successful.

# 05

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## **NEW WORK**

Macmahon remains focused on securing new work across a diverse spread of commodities, clients and geographies.

# 06

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## **DIVERSIFICATION**

Macmahon is committed to growing its core mining business (in particular its underground development business), however it is also exploring M&A opportunities to grow and expand its offering.

# RISK

# MANAGEMENT

Macmahon defines risk management as the identification, assessment and management of risks that have the potential to materially impact on its operations, people, reputation, and financial results.

Given the breadth of operations and the geographies and markets in which the company operates, a wide range of risk factors have the potential to impact on Macmahon. While Macmahon attempts to mitigate and manage risks where it is efficient and practicable to do so, there is no guarantee these efforts will be successful.

Set out below is an overview of a number of material risks facing Macmahon. These risks are not set out in any particular order and do not comprise every risk that Macmahon could encounter when conducting its business. Rather, they are the most significant risks that, in the opinion of the Board, should be considered and monitored by both existing shareholders and potential shareholders in the company.

## PERFORMANCE OF THE BATU HIJAU PROJECT

- The future financial performance of Macmahon, including during FY19, is heavily dependent on outcomes at the Batu Hijau project.
- Any underperformance at the Batu Hijau Mine will be particularly material to Macmahon.
- The mining services contract for the Batu Hijau project requires agreements to be reached about certain matters on a regular basis, including annual performance targets. There is no guarantee this will occur.
- The Batu Hijau mine is located in Indonesia, where the risk of earthquake, volcanic eruption and tsunami is higher than many other parts of the world. Macmahon notes there has been recent volcanic activity and earthquakes on the nearby island of Lombok, which may impact on Batu Hijau.

## PERFORMANCE OF THE TELFER PROJECT

- As previously disclosed, Macmahon has been working to resolve several issues on the Telfer project that have resulted in it incurring significant losses. There is no guarantee that the predictions or forecasts made by Macmahon about the future financial performance of the Telfer project will be realised and there is a heightened prospect of dispute with the client if this occurs.
- Performance at the Telfer mine is subject to various operational and contractual risks. While some of these risks apply to all projects, performance at Telfer may be particularly material to Macmahon.

## GUIDANCE

- Macmahon provides forecasts and predictions about its future performance ("Guidance") on the basis of several assumptions which may subsequently prove to be incorrect.
- Guidance is not a guarantee of future performance, and is subject to known and unknown risks, many of which are beyond the control of Macmahon.
- Key identified risks that may result in Macmahon not meeting its Guidance include, but are not limited to, termination of key contracts, variability in cost and productivity assumptions, and inability to recover claims and variations from clients.
- Macmahon's actual results may differ materially from its Guidance and the assumptions on which the Guidance is based.

## CONTINGENT LIABILITIES

- Macmahon is exposed to a number of contingent liabilities, including the shareholder class action described in the notes to this Annual Report.
- The Guidance provided by Macmahon will be negatively impacted if those contingent liabilities that are currently unquantified, including the shareholder class action, crystallise into actual liabilities.

## RELIANCE ON KEY CUSTOMERS

- 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.

## INDUSTRY AND COMMODITY CYCLES

- 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:
  - 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 and Indonesian mining operations;
  - government policy on infrastructure spending;
  - the policies of mine owners including their decisions to undertake their own mining operations or to outsource these functions; and
  - the availability and cost of key resources including people, large earth moving equipment and critical consumables.
- Macmahon is indirectly exposed to movements in commodity prices, which are volatile and beyond Macmahon's control.
- 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.

## FAILURE TO WIN NEW CONTRACTS

- 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.
- Macmahon expects to continue to have a broad range of competitors across all of its operations, which impacts the 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.

## EARLY CONTRACT TERMINATION AND CONTRACT VARIATIONS

- 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.

- 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.
- 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.
- 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.

## PROJECT DELIVERY RISK

- 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.

## MARGINS, OPERATIONS, SAFETY AND ENVIRONMENT

- 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.
- 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.
- 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.

## RISK MANAGEMENT CONTINUED



### CONTRACT PRICING RISK

- 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.

### COMMODITY PRICE EXPOSURE

- Gold and copper are the two most important commodities contributing to Macmahon's order book and tender pipeline. If the gold and copper industries were to suffer, it would have a material adverse effect on Macmahon revenues and profitability.

### EQUIPMENT AND CONSUMABLE AVAILABILITY

- 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.

### KEY PERSONNEL

- 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.

### CURRENCY FLUCTUATION

- Macmahon is exposed to fluctuations in the value of the Australian dollar versus other currencies due to international operations and as Macmahon's consolidated results are reported in Australian dollars. Consolidated financial results are reported in Australian dollars, if Macmahon generates sales or earnings or has assets and liabilities in other currencies, 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.

### 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.
- Following the completion of the AMNT transaction, AMC (which is a related party of AMNT) has become the largest shareholder of Macmahon with a 44.3% shareholding, giving AMC 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 has significant operations in Australia, its largest project is in Indonesia and it 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, terrorism, 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.

### **OTHER MATERIAL RISKS THAT COULD AFFECT MACMAHON INCLUDE:**

- A major operational failure or disruption at key facilities or to communication systems which interrupt Macmahon's business;
- Changing government regulation including tax, occupational health and safety, and changes in policy and spending;
- Loss of reputation through poor project outcomes, unsafe work practices, unethical business practices, and not meeting the market's expectation of our financial performance;
- Foreign exchange rates and interest rates in the ordinary course of business; and
- Loss of key Board, management or operational personnel.

# BOARD



## JIM WALKER

INDEPENDENT,  
NON-EXECUTIVE CHAIRMAN

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Mr Walker has over 40 years of experience in the resources sector. Until 2013 he was the Managing Director and Chief Executive Officer of WesTrac Group, where he led the rapid development of that business in industrial and mining services locally and in China.

Mr Walker has been a Director of Macmahon since 2013.



## EVA SKIRA

INDEPENDENT,  
NON-EXECUTIVE DIRECTOR

---

Ms Skira has a background in banking, capital markets, stockbroking and financial markets, previously holding executive positions at Commonwealth Bank in the Corporate Banking/Capital Markets divisions and later with stockbroker Barclays de Zoete Wedd.

Ms Skira has served on a number of boards in business, government and the not-for-profit sectors across a range of industries.



## VYRIL VELLA

INDEPENDENT,  
NON-EXECUTIVE DIRECTOR

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Mr Vella has over 40 years' experience in the civil engineering, building, property and construction industries. During Mr Vella's 34 years with the Leighton Group (now CIMIC) he held various positions including General Manager NSW, Director of Leighton Contractors Pty Ltd, Founding Director of Welded Mesh Pty Ltd, Managing Director of Leighton Properties and Associate Director of Leighton Holdings. Mr Vella was also a consultant to Leighton Holdings, where he advised on investment in the residential market, general property issues and major construction and infrastructure projects.



## KIM HORNE

INDEPENDENT,  
NON-EXECUTIVE DIRECTOR

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Mr Horne joined the Board as a Non-executive Director in March 2018. Mr Horne has close to 45 years' experience as a senior executive in the mining industry working for Alcoa in Australia and overseas. During Mr Horne's career, he has also held non-executive roles for industry groups, not-for-profit and government organisations. Mr Horne is a graduate of the University of Western Australia's management education program and was appointed Member of the Order of Australia in January 2014 for his services to the mining industry.



## ALEX RAMLIE

NON-INDEPENDENT,  
NON-EXECUTIVE DIRECTOR

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Mr Ramlie is a Director of AMNT. Prior to joining AMNT, he was the President Director and Chief Executive Officer of PT Borneo Lumbung Energi & Metal Tbk, which operated a hard coking coal mine in Central Kalimantan.

Between 2012 and 2015, Mr Ramlie 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.

Before entering the mining industry in 2011, Mr Ramlie was a private equity professional and was Managing Director of Ancora Capital Management Pte. Ltd., an Indonesia-focused private equity fund.



## ARIEF SIDARTO

NON-EXECUTIVE  
DIRECTOR

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Mr Sidarto is the Chief Financial Officer of AMNT. His 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.

Prior to joining AMNT in April 2017, Mr Sidarto held the position of Managing Director and Member of the Board of PT Rajawali Corpora. He was also Managing Partner of Samuel Group from 2009 to 2015 and Managing Director of Wellspring Capital Partners from 2010 to 2014.

Mr Sidarto was previously with Goldman Sachs New York in 1991 in its Structured Finance Division; before relocating to Hong Kong and then Singapore to run investment banking and corporate finance as Chief Operating Officer.

# EXECUTIVE

# MANAGEMENT TEAM



**MICHAEL  
FINNEGAN**

CHIEF  
EXECUTIVE OFFICER

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Mr Finnegan holds a Bachelor of Science (Mining) with 20 years' experience in the mining industry. The last 15 years have primarily been spent in senior line management positions. Mr Finnegan has a strong commercial and technical background and has spent time in operations on the east and west coast of Australia as well as a number of countries throughout Asia.



**GILES  
EVERIST**

CHIEF  
FINANCIAL OFFICER

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Mr Everist was appointed as Chief Financial Officer in December 2017. He has more than 30 years' finance experience primarily within the resources sector. He has a Bachelor of Sciences (Honours) in Mechanical Engineering from the University of Edinburgh and is also a Chartered Accountant. Prior to joining Macmahon, Mr Everist held the position of Chief Financial Officer and Company Secretary at Monadelphous Group.



**GREG  
GETTINGBY**

GENERAL COUNSEL AND  
COMPANY SECRETARY

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Mr Gettingby joined Macmahon in 2002 and was appointed to the position of Group General Counsel/ Company Secretary in 2011. He previously held commercial management and legal roles with the Company across all divisions of its business. Prior to joining Macmahon, Mr Gettingby worked as a lawyer in private practice and holds a Bachelor of Arts and a Bachelor of Laws.



**CARL  
O'HEHIR**

GENERAL MANAGER,  
TMM GROUP

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Mr O'Hehir holds a Bachelor of Engineering (Mining) and is a Site Senior Executive under the Queensland Coal Mining Safety and Health Act. Mr O'Hehir has over 18 years' experience in open cut mining in Queensland and in Africa across technical, operational and managerial roles. Prior to joining TMM in July 2010, Mr O'Hehir held senior positions at Thiess and BHP.





## IAN CRAWFORD

GENERAL MANAGER,  
SURFACE MINING AUSTRALIA

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Mr Crawford is a Chartered Mining Engineer with over 30 years' mining industry experience in Australia, Southeast Asia and the United Kingdom. Prior to joining Macmahon in August 2017, Mr Crawford was the COO for Roy Hill. He has held several senior operational management positions with both mining contractors and owner operator mining companies.



## MICHAEL FISHER

PRESIDENT DIRECTOR,  
PT MACMAHON MINING SERVICES

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Mr Fisher has 19 years' experience in the mining industry and holds a Graduate Diploma of Mine Engineering. The last 8 years have primarily been spent in senior management positions. Mr Fisher has a strong commercial and operational background, with experience in mineral and coal operations in the Northern Territory, on the east coast of Australia and several provinces across Indonesia.



## MARK HATFIELD

GENERAL MANAGER,  
PLANT AND MAINTENANCE SERVICES

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Mr Hatfield has more than 16 years' experience within the mining and heavy equipment industry and has fulfilled numerous operational and senior leadership roles. Mr Hatfield has a strong technical background and has spent time in operations on the west coast of Australia as well as a number of countries throughout Asia.



## EXECUTIVE MANAGEMENT TEAM CONTINUED



### DAVID VAN DEN BERG

CHIEF TECHNOLOGY AND  
INNOVATION OFFICER

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Mr van den Berg was appointed as Chief Technology and Innovation Officer in August 2016. He brings an extensive technology and commercial background to Macmahon through his 23 years' experience across the mining, management consulting and technology sectors. Mr van den Berg commenced with Macmahon in 2008, as Chief Information Officer. Prior to Macmahon, Mr van den Berg held senior management and technology positions in both Australia and the UK, including BHP Billiton, PriceWaterhouseCoopers and CitiGroup.



### KATHERINE BLACKLOCK

MANAGER,  
HUMAN RESOURCES

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Ms Blacklock was appointed Manager – Human Resources in November 2016. She holds a Bachelor of Science (Psychology and Anatomy) and Grad. Dip. Bus (HRM) with 25 years in Human Resource management in the resources sectors. Prior to joining Macmahon, Mrs Blacklock was the Human Resources Manager – International Projects at Bis Industries and was the founding Director of HRwise, a HR consultancy providing hands-on HR support to resource sector clients both in Australia and internationally for 10 years.



### KALE ROSS

MANAGER,  
HSEQT

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Mr Ross has more than 16 years' experience working across construction, underground and surface mining operations in numerous operational and senior leadership roles. Mr Ross has a strong operational and technical, safety and training background and has worked across multiple jurisdictions within Australia and more recently in Nigeria and Southeast Asia.

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# DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the “Group” or the “consolidated entity”) consisting of Macmahon Holdings Limited (referred to hereafter as the “parent entity” or “the Company”) and the entities it controlled at the end of, or during, the year ended 30 June 2018.



# DIRECTORS'

# REPORT

## DIRECTORS

The following persons were Directors of Macmahon Holdings Limited during the financial year and up to the date of this report, unless otherwise stated:

### MR JIM WALKER

**Position:**

Independent Non-executive Chairman (since 14 July 2015)  
Executive Chairman (22 January 2015 to 13 July 2015)

**Qualifications:**

CAICD, FCA, FAIM

**Experience and expertise:**

Mr Walker joined the Board as a Non-executive Director in October 2013 and was appointed Chairman in March 2014. From January 2015 until July 2015 Mr Walker assumed the role of Executive Chairman while the Board sought a replacement Chief Executive Officer.

Mr Walker has over 40 years of experience in the resources sector. Until 2013 he was the Managing Director and Chief Executive Officer of WesTrac Pty Ltd, where he led that company's rapid development in industrial and mining services locally and in China. Prior to this, Mr Walker held various roles with other Australian Caterpillar dealers. Mr Walker is a graduate member of the Australian Institute of Company Directors (AICD) and a member of the Australian Institute of Management (AIM WA), holding the position of President WA (2008-2010) and National President - Australia (2010-2013).

**Other current directorships:**

Mr Walker is currently Chairman of Austin Engineering Limited (appointed November 2016), Deputy Chairman of Seeing Machines Limited (appointed May 2017), Chairman of Australian Potash Limited and Deputy Chair of RACWA Holdings (appointed April 2018). He also chairs the State Training Board WA and Wesley College WA, and is a trustee of the WA Motor Museum.

**Former directorships (last 3 years):**

Non-executive Director of Programmed Group Limited.

Mr Walker was a director of Seven Group Holdings Ltd, National Hire Group Limited, Skilled Group Limited, and Coates Group Holdings Pty Ltd.

**Special responsibilities:**

Mr Walker is currently a member of the Board's Audit & Risk Committee and the Board's Remuneration & Nomination Committee.

**Interests in shares:** 425,000

**Interests in options:** None

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### MS EVA SKIRA

**Position:**

Independent Non-executive Director

**Qualifications:**

BA (Hons), MBA, SF Fin (Life Member Fin),  
FAICD, FAID, FGIA, FCIS

**Experience and expertise:**

Ms Skira joined the Board as a Non-executive Director in September 2011. Ms Skira has a background in banking, capital markets, stockbroking and financial markets, previously holding executive positions at the Commonwealth Bank in the Corporate Banking/Capital Markets divisions and later with stockbroker Barclays de Zoete Wedd.

Ms Skira has served on a number of boards in business, government and the not-for-profit sectors across a range of industries. Ms Skira completed her BA (1st Class Honors, Economic History) at the University of New South Wales, and obtained her Masters of Business Administration (Dux and Distinction) at the IMD business school, Switzerland.

**Other current directorships:**

Ms Skira is currently a Non-executive Director of RCR Tomlinson and Western Power.

**Former directorships (last 3 years):** No listed entities

**Special responsibilities:**

Ms Skira is currently the Chair of the Board's Audit & Risk Committee and a member of the Board's Remuneration & Nomination Committee.

**Interests in shares:** None

**Interests in options:** None

## MR VYRIL VELLA

### Position:

Independent Non-executive Director

### Qualifications:

BSc, BE (Hons), M.Eng.Sc, FIEAust, FAICD

### Experience and expertise:

Mr Vella joined the Board as a Non-independent Non-executive Director in November 2007. Mr Vella has over 40 years' experience in the civil engineering, building, property and construction industries. During Mr Vella's 34 years with the Leighton Group he held various positions including General Manager NSW, Director of Leighton Contractors Pty Ltd, Founding Director of Welded Mesh Pty Ltd, Managing Director of Leighton Properties and Associate Director of Leighton Holdings. Mr Vella was a consultant to Leighton Holdings, where he advised on investment in the residential market, general property issues and major construction and infrastructure projects.

**Other current directorships:** No listed entities

**Former directorships (last 3 years):** No listed entities

### Special responsibilities:

Mr Vella is currently Chair of the Board's Remuneration & Nomination Committee and a member of the Board's Audit & Risk Committee.

**Interests in shares:** 1,857,842

**Interests in options:** None

## MR KIM HORNE

### Position:

Independent Non-executive Director

### Qualifications:

Mr Horne holds a Diploma in Frontline Supervision, a WA Restricted Quarry Managers Certificate, and is a graduate of the University of WA Management Education Programme.

He has completed the Australian Institute of Company Directors Training Course and is a graduate of the Alcoa Executive programme.

### Experience and expertise:

Mr Horne joined the Board as a Non-executive Director in March 2018. Mr Horne has had extensive executive experience with Alcoa, where he was involved in mine development and management, human resources, corporate affairs, strategy and government relations. His most recent roles were as Executive Director of Alcoa Australia and President of Alcoa's Global Mining Centre.

Mr Horne is currently the Deputy Chair of Synergy (the State electricity generator and retailer in Western Australia), a non-executive director of the Fremantle Port Authority and Rainbow Bee Eater (a private company specialising in low cost renewable energy from biomass) and a life member of the Chamber of Minerals and Energy.

In 2014, Mr Horne was appointed as a Member of the Order of Australia for his services to the mining industry.

**Other current directorships:** No listed entities

**Former directorships (last 3 years):** Alcoa Australia

### Special responsibilities:

Mr Horne is currently a member of the Board's Remuneration & Nomination Committee.

**Interests in shares:** None

**Interests in options:** None

## DIRECTORS CONTINUED



### MR ALEXANDER RAMLIE

#### Position:

(AMNT Nominee) Non-independent, Non-executive Director (appointed 8 August 2017)

#### Qualifications:

Bachelor of Arts and a Master of Arts in Economics from Boston University.

#### Experience and expertise:

Mr Ramlie joined the Board as a Non-executive Director and nominee of AMNT in August 2017 after the successful completion of the AMNT Transaction. Prior to becoming a director of AMNT, Mr Ramlie was the President Director and Chief Executive Officer of PT Borneo Lumbung Energi & 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.

Between 2012 and 2015, Mr Ramlie 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.

Before entering the mining industry in 2011, Mr Ramlie was a private equity professional and was Managing Director of Ancora Capital Management Pte. Ltd, an Indonesia focused private equity fund.

Mr Ramlie began his career as an investment banker at Lazard Frères & Co and has a Bachelor of Arts and a Master of Arts in Economics from Boston University.

#### Other current directorships:

Mr Ramlie is currently President Director of PT Cakrawala Langit Sejahtera (an Indonesian entity) and a director of PT Amman Mineral Nusa Tenggara (an Indonesian entity), Amman Mineral Contractors (Singapore) Pte Ltd (a Singapore entity), Shwegen Asia Pte Ltd (a Singapore entity), Nusa Tenggara Mining Services Contractors Pte. Ltd (a Singapore entity), Amman Mineral Singapore Pte. Ltd. (a Singapore entity), Phase Seven Contractors Pte. Ltd. (a Singapore entity), Benete Mining Pte. Ltd. (a Singapore entity) and Benete International Trading FZE (a Dubai, UAE entity).

#### Former directorships (last 3 years):

- President Director PT Borneo Lumbung Energi & Metal Tbk from 2011 to 2015
- Director Bumi PLC, a Vice-President Commissioner/ Vice-Chairman of PT Berau Coal Energy Tbk and its subsidiary, PT Berau Coal between 2012 and 2015

**Special responsibilities:** None

**Interests in shares:** None

**Interests in options:** None



## MR ARIEF WIDYAWAN SIDARTO

### Position:

(AMNT Nominee) Non-independent, Non-executive Director (appointed 8 August 2017)

### Qualifications:

Mr Sidarto 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.

### Experience and expertise:

Prior to joining AMNT in April 2017, Mr Sidarto has had the following roles:

Managing Director and Member of the Board of PT Rajawali Corporation, 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 & Risk Management Committee. Managing Partner of Samuel Group from 2009 to 2015. Concurrently, Managing Director of Wellspring Capital Partners from 2010 to 2014.

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&As, LBOs, restructuring, debt and equity capital raisings), select client relationships and cross selling (commodities, asset-liability management products). Member of Goldman Sachs' Commitments Committee.

### Other current directorships:

Mr Sidarto is currently Director of Amman Mineral Contractors (Singapore) Pte Ltd (a Singapore entity), Amman Mineral Singapore Pte. Ltd. (a Singapore entity), Medco Pacific Resources Pte. Ltd. (a Singapore entity), Medco Resource International Pte. Ltd. (a Singapore entity), Nusa Tenggara Mining Services Contractors Pte. Ltd. (a Singapore entity), Phase Seven Contractors Pte. Ltd. (a Singapore entity), Benete Mining Pte. Ltd. (a Singapore entity), Slate Alt (a Singapore Entity) and PT Amman Mineral Nusa Tenggara (an Indonesian entity).

### Former directorships (last 3 years):

Director of In-Sing Minerals Pte. Ltd. (a Singapore entity) and Goodearth Universal Pte. Ltd. (a Singapore entity) and Managing Director and Member of the Board of PT Rajawali Corporation

**Special responsibilities:** None

**Interests in shares:** None

**Interests in options:** None



## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ("the Board") and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	FULL BOARD MEETINGS		SPECIAL BOARD MEETINGS (C)		AUDIT & RISK COMMITTEE MEETINGS		REMUNERATION & NOMINATION COMMITTEE MEETINGS		OTHER COMMITTEE MEETINGS (D)	
	Eligible to Attend (A)	Attended (B)	Eligible to Attend (A)	Attended (B)	Eligible to Attend (A)	Attended (B)	Eligible to Attend (A)	Attended (B)	Eligible to Attend (A)	Attended (B)
J A Walker	11	11	2	1	4	4	3	3	*	*
C R G Everist	4	4	2	2	2	2	1	1	1	1
E Skira	11	10	2	2	4	3	3	2	1	1
V A Vella	11	11	2	1	4	4	3	3	*	*
A Ramlie	11	10	2	1	*	*	*	*	*	*
A W Sidarto	11	10	2	1	*	*	*	*	*	*
K A Horne	4	4	*	*	*	*	1	1	*	*

A. Number of meetings held during the time the director held office or was a member of the committee during the year.

B. Number of meetings attended.

C. Special Board meetings, unscheduled meetings called at short notice.

D. Other committees include sub-committees of the board.

\* Not a member of the relevant committee or board.

## COMPANY SECRETARY

Mr Gettingby holds a Bachelor of Arts and a Bachelor of Laws.

Mr Gettingby joined Macmahon in 2002 and was appointed to the position of Group General Counsel/ Company Secretary in 2011. He previously held commercial management and legal roles with the Company.

Prior to joining Macmahon, Mr Gettingby worked as a lawyer in private practice.

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity consisted of providing mining services to mining companies throughout Australia and Southeast Asia.

Apart from the above, or as noted elsewhere in this report, there were no significant changes in the nature of the activities of the consolidated entity during the financial year under review.

## DIVIDENDS

There were no dividends paid, recommended or declared during the current or previous financial year.

## REVIEW OF OPERATIONS

For the 12 months ended 30 June 2018, the Group reported increases in total revenue, earnings before interest and tax (EBIT) and net profit after tax from continuing operations which was driven by the commencement of new contracts including scope modifications on existing contracts.

A review of and information about the operations of the consolidated entity during the financial year and of the results of those operations is contained on pages 10 to 29, that forms part of this Director's report.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Significant changes in the state of affairs of the Group during the financial year were as follows:

### **Significant asset acquisition - AMNT**

Macmahon shareholders approved its transaction with PT Amman Mineral Nusa Tenggara ("AMNT") at a General Meeting on 12 July 2017. Completion of the Transaction occurred on 8 August 2017.

The transaction resulted in:

- Macmahon Indonesia acquiring US\$145.6m mobile mining equipment in exchange for the issue of 954,064,924 new Macmahon shares to related parties of AMNT;
- the life of mine mining services contract with AMNT becoming effective; and
- two new Directors joining the Macmahon Board, Mr Alex Ramlie and Mr Arief Sidarto.

Following completion of the transaction AMNT's related party has an interest in 44.3% of Macmahon's total shares on issue.

For details of the AMNT Transaction please refer to the Notice of Meeting for the AMNT Transaction published on the ASX website on 13 June 2017, and the company's ASX announcement dated 19 April 2018.

### **Acquisition of a 100% subsidiary - TMM Group**

In February 2018, Macmahon signed an agreement to purchase TMM Group, a Brisbane-based group of companies which provide civil construction and operations and maintenance services to the Queensland coal mining industry.

The acquisition of TMM will provide Macmahon with additional civil capability that is expected to be an enabler to core mining work through contracts for initial site earthworks.

For details of the acquisition please refer to ASX announcement dated 13 February 2018.

## **MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

Subsequent to year end the Board put in place a new Non-executive Director salary sacrifice plan. For details refer to the ASX announcement dated 5 July 2018.

## **LIKELY DEVELOPMENTS & EXPECTED RESULTS OF OPERATIONS**

Likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations have been included generally within the financial report.

## **ENVIRONMENTAL REGULATION**

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## REMUNERATION REPORT (AUDITED)

The audited remuneration report is set out on pages 47 to 59 and forms part of this Directors' report.

## INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the Directors and Executives of the Company for costs incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## PROCEEDINGS ON BEHALF OF THE PARENT ENTITY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the parent entity, or to intervene in any proceedings to which the parent entity is a party for the purpose of taking responsibility on behalf of the parent entity for all or part of those proceedings.

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 28 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence

requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the parent entity, acting as advocate for the parent entity or jointly sharing economic risks and rewards.

## ROUNDING OF AMOUNTS

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to "rounding-off". Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.


## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 45.

## AUDITOR

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.



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## JA WALKER

Director  
24 August 2018  
Perth

## AUDITOR'S INDEPENDENCE DECLARATION

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Macmahon Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Macmahon Holdings Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Trevor Hart  
Partner

Perth

24 August 2018

# REMUNERATION

## REPORT

### INTRODUCTION FROM THE CHAIR OF THE REMUNERATION AND NOMINATION COMMITTEE

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the financial year ended 30 June 2018 ("FY18").

FY18 saw a significant turnaround in the profitability of Macmahon, with the completion of the transformational AMNT Transaction and the commencement of substantial new work in both Indonesia and Australia. As a result, the size of the company's business and its need for employees has grown significantly.

This turnaround by Macmahon has coincided with increased activity in many sectors of the mining industry. Macmahon has observed a distinct tightening of demand in key labour markets and experienced upward pressure on employee turnover. These competitive forces have required the company to remain closely focused on the attraction, retention and engagement of its workforce, with remuneration practices being an important component of this effort.

#### FY18 Remuneration Settings

During FY18 a primary objective of Macmahon's remuneration strategy was to focus staff on delivering positive returns for shareholders over the short and medium term, while also minimizing increases to the company's fixed cost base. To this end:

1. the salaries of existing Australian based staff employees were not subject to a general inflationary increase in FY18. However, the company did implement a simplified, short term incentive plan for the year by which those staff members, and key managers overseas, were provided with the opportunity to receive a cash bonus based on Macmahon's overall EBIT performance. Given the company's actual EBIT result for FY18, an amount will become payable under this plan in the near future; and
2. as foreshadowed in last year's Report, Macmahon issued performance rights to senior managers in

FY18 which will vest into shares after three years<sup>1</sup> if the company achieves significant increases in total shareholder returns over this time period.

The Board also took steps to increase the alignment between the interests of directors and shareholders by adopting a Share Ownership Policy and Salary Sacrifice Plan. The Policy requests that non-executive directors maintain a shareholding in the company that meets or exceeds certain minimum values that increase over time, while the Plan enables directors to salary sacrifice part or all of their remuneration into rights to acquire shares in Macmahon. These arrangements are a cost effective way to increase directors' personal financial stake in the performance of Macmahon.

#### Outlook

For FY18, the Board considered that the remuneration settings described above were appropriate to strike the right balance between cost control, incentivising employees to outperform, and aligning employee and shareholder interests. However, the Board also recognises that the increased size and complexity of Macmahon, together with the increased competition for employees (particularly skilled and experienced personnel), are changes to which the company must adapt. In short, the Board believes Macmahon is now at the point where it is prudent to implement additional measures to attract and retain the people needed for the future of the business.

In this context, Macmahon has recently made changes to the remuneration settings that will apply during FY19, including general adjustments to staff salaries, and the introduction of a new long term incentive plan to retain and incentivise key senior staff. Detailed information about these changes will be provided in the company's Remuneration Report for FY19, or where a new initiative involves shareholder approval (as the new long term incentive plan does), full details will be provided in advance of a shareholder meeting.

In closing, I would like to thank the company's employees for their work during FY18, and trust that shareholders will find the remuneration outcomes described in this Report to be appropriate for the strong performance of Macmahon during that period.

#### VYRIL VELLA

Chairman of the Remuneration & Nomination Committee

<sup>1</sup> A grant of performance rights was made to one employee during FY18 which had a 2.5 year performance period.

## REMUNERATION REPORT - AUDITED

This Remuneration Report forms part of the Directors' Report for FY18 and has been audited by the company's external auditor.

### 1. EXECUTIVE REMUNERATION

#### 1.1 Overview

The company's approach to remuneration is to compensate employees in a way that is cost effective and appropriate for current industry conditions, but also sufficient to attract, retain and incentivise the calibre of personnel needed to effectively manage the company's business. To this end the remuneration packages offered to senior executives have three components:

- market competitive fixed remuneration;
- a short term incentive opportunity, or the opportunity to earn a cash bonus dependent on performance over an annual period; and
- a long term incentive opportunity, or the opportunity to earn Macmahon shares dependent on performance over multiple years.

The table below represents the mix of these remuneration components during FY18 for those members of current KMP (or key management personnel as defined by the Corporations Act 2001) who hold executive positions. The short term incentive is provided at the amount payable at the "Target" performance level<sup>2</sup>, and the long term incentive amount is provided based on the value granted in the current year (where the value of the performance rights issued under the long term incentive plan is assumed to be the same as the volume weighted average share price at the start of the performance period):

	FIXED REMUNERATION	AT RISK	
		SHORT TERM INCENTIVE	LONG TERM INCENTIVE
Michael Finnegan	33.3%	33.3%	33.3%
Giles Everist	50%	25%	25%
Greg Gettingby	50%	25%	25%

#### 1.2 Fixed remuneration

The fixed remuneration paid to senior executives is based on the size and scope of their role, knowledge and experience, market benchmarks for that role, and to some extent the company's financial circumstances. Fixed remuneration comprises base salary, any applicable role specific allowances, and superannuation.

Macmahon regularly reviews and benchmarks fixed remuneration to monitor how that remuneration compares to the market and industry peers. Benchmarking was completed during FY18 using industry surveys and reports, however, as it did last year, the Board determined that there should not be a general, inflationary increase to the fixed remuneration of Australian based staff employees during that period.

<sup>2</sup> During FY18 this performance level required 125% achievement of the company's EBIT target.

## REMUNERATION REPORT CONTINUED

### 1.3 Short term incentive

In previous years, the short term incentive opportunity provided to senior executives has been linked to a range of performance criteria set each year according to the company's priorities at the start of each annual period.

For FY18 the company took a different approach and implemented simplified short term incentive plan (**STI Plan**) under which a much wider group of employees than in prior years were provided with the opportunity to receive a cash bonus based on Macmahon's overall EBIT performance.

This bonus was structured to commence upon achievement of the annual EBIT target, and then increase in line with any EBIT outperformance, up to a cap. This performance condition was chosen to simplify administration of the plan, to ensure unity of purpose for all staff, to make the plan easier for employees to understand and monitor, and to focus staff attention on a key metric for investors in the company.

Further details of the FY18 STI plan are set out below.

#### *Participants*

The participants in the plan were all Australian based staff employees and key managers overseas who are not already covered by a project-specific incentive program, provided such individuals have been employed for more than 6 months during the plan period.

#### *Deferral and clawback*

The FY18 STI Plan included a deferral arrangement for Executive Team members. Under this arrangement, the payment of 25% of any bonus due to an Executive Team member will be deferred for two years. If one of these individuals ceases to be an employee during this period, payment will be at the Board's discretion. The Plan also includes a 'clawback' provision by which up to 30% of any bonus awarded to an Executive Team member may be claimed back by the company at any time up to two years after the award if there is a restatement of the company's financial results (other than a restatement caused by a change in applicable accounting rules or interpretations), the result of which is that any bonus awarded would have been a lower amount had it been calculated based on such restated results.

#### *Potential bonus amounts*

The table below shows the potential bonus amounts (as a percentage of total fixed remuneration) available to the executive members of KMP under the FY18 STI Plan.

EMPLOYEE	PERFORMANCE LEVEL		
	THRESHOLD (100% achievement of EBIT target)	TARGET (125% achievement of EBIT target)	STRETCH (144% achievement of EBIT target)
M Finnegan	35% of TFR	100% of TFR	150% of TFR
G Everist	17.5% of TFR	50% of TFR	75% of TFR
G Gettingby	17.5% of TFR	50% of TFR	75% of TFR



#### 1.4 Long term incentive

During FY18 the long term incentive opportunity provided to senior executives involved the grant of performance rights which can vest into fully paid ordinary shares in Macmahon after three years for no consideration, dependent on performance over that three year period<sup>3</sup>.

The only performance condition that applies to the company's long term incentive plan (**LTI Plan**) is absolute shareholder returns. The reasons for selecting this performance condition include that (a) it provides a straightforward measure of company performance that is simple to communicate to employees and for them to continuously monitor; and (b) it is an important metric for investors in a company of Macmahon's size and risk profile, many of whom have indicated that they seek absolute returns, rather than returns relative to an index.

Further details of the FY18 LTI Plan framework are set out below.

##### *Performance condition - targets*

The vesting of performance rights is dependent on the company's absolute level of total shareholder returns (TSR) over the performance period (generally three years). The portion of performance rights eligible to vest at various levels of increase in the company's TSR (expressed as a compound annual growth rate or CAGR) is:

<b>Macmahon's TSR performance over the performance period</b>	<b>Proportion of performance rights that are eligible to vest at the end of the performance period</b>
Less than 17 % CAGR TSR growth	0%
17% CAGR TSR growth	50%
Between 17% and < 25% CAGR TSR growth	50% plus a straight line increase in % award until 25% TSR is achieved
At 25% CAGR TSR growth and above	100%

##### *Continued employment condition*

Performance rights are immediately cancelled if a holder ceases employment before the rights vest, unless the Board in its absolute discretion determines otherwise. There is no vesting of performance rights based solely on continued employment.

##### *Change of control*

If a change of control occurs or if the company is wound up or delisted, the Board may (in its absolute discretion) determine that all or a portion of the performance rights then on issue will vest, notwithstanding that time restrictions or performance conditions applicable to the performance rights have not been satisfied.

##### *Testing of the performance condition*

Performance rights are tested for vesting only once, at the end of the performance period. That is, there is no re-testing of performance rights.

##### *Dividends and voting rights*

Performance rights do not have dividend or voting rights. However, the shares allocated upon vesting of performance rights rank equally with other ordinary shares on issue.

##### *Restriction on disposal of shares*

The shares allocated to performance rights holders upon the vesting of those rights are initially held in a trust, and are subject to disposal restrictions in line with the company's Trading in Shares Policy.

<sup>3</sup> A grant of performance rights was made to one employee during FY18 which had a 2.5 year performance period.

## REMUNERATION REPORT CONTINUED

### *Number of performance rights granted to Plan participants*

The number of performance rights granted to participants in the LTI Plan is sometimes specified by an individual's employment contract, but is generally at the discretion of the Board.

For FY18 the executive members of KMP were awarded the number of performance rights needed to provide a value consistent with their target remuneration mix for that period, where the value of each performance right was assumed to be the same as the 30 day volume weighted average share price at the start of the performance period.

### **1.5 Relationship between remuneration policy and company performance**

As required by the Corporations Act 2001, the company's financial performance across various indices over the past five years is set out below:

	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>
Profit/(loss) after income tax expense from continuing operations (\$m)	31.3	(5.5)	10.8	(220.6)	28.9
Reported basic earnings per share from continuing operations (EPS) (cents)	1.53	(0.47)	0.87	(17.55)	2.30
Dividends paid (cents)	-	-	-	-	-
Share price at 30 June (cents)	21.5	16.5	8.8	6.6	10.0
Total Shareholder Return (TSR) (%)	30.3	87.5	33.3	(34.0)	(20.6)

Given the company's profit performance in recent years the FY18 STI Plan was designed to incentivise the achievement of a much improved EBIT target in that year. Similarly, the FY18 LTI Plan is intended to drive growth in TSR, which will benefit shareholders through increases in the price of their shares and / or the payment of dividends.

## 1.6 Employment contracts

The company's senior executives are engaged under employment contracts that are ongoing and have no fixed end date. However, these contracts may be terminated by notice from either party.

Key details of the employment contracts of the current executive members of KMP are set out below

	<b>ANNUAL FIXED REMUNERATION</b>	<b>OTHER REMUNERATION</b>	<b>NOTICE PERIODS TO TERMINATE</b>	<b>TERMINATION PAYMENTS</b>
<b>Michael Finnegan</b>	\$530,000 (including superannuation)	<p>Short term and long term incentive opportunities as described above.</p> <p>In addition, a one off retention bonus of 20% of the executive's annual fixed remuneration is due on 15 October 2018 provided the individual has not resigned from employment with Macmahon prior to that time.</p>	3 months' notice by either party or payment in lieu, except in certain circumstances such as misconduct where no notice period applies	<p>Statutory entitlements; plus if the executive is made redundant prior to 15 October 2018, or resigns prior to this time in certain circumstances following a change of control or delisting of Macmahon, payment of the retention bonus;</p> <p>plus if the executive is terminated or resigns in certain circumstances following a change of control or delisting of Macmahon, a payment equal to 6 months of annual fixed remuneration.</p>
<b>Greg Gettingby</b>	\$383,250 (including superannuation)			
<b>Giles Everist</b>	\$458,000 (including superannuation)	<p>Short term and long term incentive opportunities as described above.</p> <p>In addition, the company provided Mr Everist a relocation allowance of \$20,000 for his relocation from London to Perth.</p>	3 months' notice by either party or payment in lieu, except in certain circumstances such as misconduct where no notice period applies	<p>Statutory entitlements; plus if the executive is terminated or resigns in certain circumstances following a change of control or delisting of Macmahon, a payment equal to 6 months of annual fixed remuneration.</p>

## REMUNERATION REPORT CONTINUED

### 2. NON-EXECUTIVE DIRECTOR REMUNERATION

The structure of the remuneration provided to non-executive directors is distinct from that applicable to executives. Non-executive directors receive only fixed remuneration which is not linked to the financial performance of the company.

The remuneration provided to non-executive directors in FY18 is set out below:

	Remuneration during FY18
Chairman (full year)	178,200
Vyiril Vella (full year)	97,605
Eva Skira (full year)	97,605
Giles Everist (part year)	48,249
Alexander Ramlie (part year)	79,335
Arief Sidarto (part year)	79,335
Kim Horne (part year)	21,685

The maximum aggregate amount that can be paid to non-executive directors (the fee pool) is currently \$1,100,000 per annum, including superannuation. There has been no increase in the fee pool amount since its approval by shareholders at the 2008 Annual General Meeting.

### 3. REMUNERATION GOVERNANCE

The Board oversees the remuneration arrangements of the company. In performing this function the Board is assisted by input and recommendations from the Remuneration & Nomination Committee (**Committee**), external consultants and internal advice. The Committee is responsible for the overview, and recommendation to the full Board, of remuneration arrangements for Directors, the CEO, and Executive Team members. The CEO, in consultation with the Board, sets remuneration arrangements for other executives. No employee is directly involved in deciding their own remuneration (including the CEO).

Further details of the role and function of the Committee are set out in the Charter for the Remuneration & Nomination Committee on the company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

The Committee obtains advice and market remuneration data from external remuneration advisors as required. When advice and market remuneration data is obtained, the Committee follows protocols regarding the engagement and use of external remuneration consultants to ensure ongoing compliance with executive

remuneration legislation. These protocols ensure that any remuneration recommendation from an external consultant is free from undue influence by any member of the company's KMP to whom it relates.

The protocols for any external consultant providing remuneration recommendations prohibit them from providing advice or recommendations to employees or directors before recommendations are given to the Committee. These arrangements were implemented to ensure that any external party will be able to carry out its work, including information capture and formation of its recommendations, free from undue influence by the individuals to whom they relate.

During FY18, the Committee engaged Godfrey Remuneration Group Pty Ltd (GRG) as a remuneration consultant to provide data and recommendations about non-executive director remuneration arising from a benchmarking of Macmahon's director remuneration arrangements against the practices of a selected group of comparable ASX listed companies.

In addition to the remuneration recommendations, GRG provided information and commentary to the company during FY18 about potential long term incentive plan structures.

GRG was paid \$13,200 for the remuneration recommendations in relation to non-executive director remuneration. GRG was paid \$13,200 for all other services.

The Board is satisfied that the remuneration recommendations made by GRG were free from undue influence by members of the KMP about whom the recommendations related. The circumstances relied upon by the Board to reach this view include that GRG's engagement was managed by an executive of the company, and there was no direct contact with any members of the KMP about whom the recommendations related until the final report was provided to the Committee. GRG also provided a declaration for the purposes of section 206M of the Corporations Act 2001 that to the best of its knowledge and belief, its recommendations were made free from undue influence by any KMP about whom the recommendations related.



## REMUNERATION REPORT CONTINUED

### 4. VALUE PROVIDED TO KMP

Details of the nature and value of each major element of remuneration provided to KMP of the company during FY18 are set out in the table below. In this table the value of share based payments has been calculated in accordance with accounting standards.

#### SHORT-TERM

DIRECTORS NON-EXECUTIVE	YEAR	SALARY	COMMITTEE FEES	ONE OFF DISCRETIONARY PAYMENTS	STI BONUS	NON-MONETARY BENEFITS	TOTAL SHORT-TERM	LEAVE PAYOUT PAYMENTS
		\$	\$	\$	\$	\$	\$	\$
J A Walker (Chairman)	2018	162,740	-	-	-	-	162,740	-
	2017	162,740	-	-	-	-	162,740	-
C R G Everist <sup>1</sup>	2018	40,145	3,938	-	-	268	44,351	-
	2017	84,196	8,505	-	-	-	92,701	-
K A Horne	2018	21,685	-	-	-	-	21,685	-
	2017	-	-	-	-	-	-	-
A Ramlie	2018	72,452	-	-	-	-	72,452	-
	2017	-	-	-	-	-	-	-
A W Sidarto	2018	72,452	-	-	-	-	72,452	-
	2017	-	-	-	-	-	-	-
E D R Skira	2018	80,632	8,505	-	-	-	89,137	-
	2017	80,632	8,505	-	-	-	89,137	-
V A Vella	2018	72,605	-	-	-	-	72,605	-
	2017	80,632	8,505	-	-	-	89,137	-
Total compensation for Non-executive directors	2018	522,711	12,443	-	-	268	535,422	-
	2017	408,200	25,515	-	-	-	433,715	-

#### SHORT-TERM

DIRECTORS NON-EXECUTIVE	YEAR	SALARY	COMMITTEE FEES	ONE OFF DISCRETIONARY PAYMENTS <sup>3</sup>	STI BONUS	NON-MONETARY BENEFITS	TOTAL SHORT-TERM	LEAVE PAYOUT PAYMENTS
		\$	\$	\$	\$	\$	\$	\$
M J Finnegan Chief Executive Officer	2018	509,949	-	150,000	248,252	2,097	910,298	-
	2017	340,837	-	-	-	1,946	342,783	-
C R G Everist <sup>1</sup> Chief Financial Officer	2018	244,182	-	-	53,632	311	298,125	-
	2017	-	-	-	-	-	-	-
J E Martins <sup>2</sup> Chief Financial Officer	2018	233,000	-	100,000	-	-	333,000	3,949
	2017	417,803	-	-	-	5,296	423,099	-
G P Gettingby Chief Counsel and Company Secretary	2018	350,000	-	91,324	89,757	-	531,081	-
	2017	-	-	-	-	-	-	-
Total compensation executive personnel	2018	1,337,131	-	341,324	391,641	2,408	2,072,504	3,949
	2017	758,640	-	-	-	7,242	765,882	-
Total compensation: Directors and Executives	2018	1,859,842	12,443	341,324	391,641	2,676	2,607,926	3,949
	2017	1,166,840	25,515	-	-	7,242	1,199,597	-

<sup>1</sup> Mr. Everist resigned as a director of Macmahon and commenced in an executive role as CFO in December 2017

<sup>2</sup> Mr. Martins ceased as the CFO of the company in December 2017

<sup>3</sup> One-off discretionary payments made subsequent to the successful defence of a hostile takeover bid in March 2017

OTHER LONG-TERM BENEFITS	POST EMPLOYMENT		SHARE- BASED PAYMENT	PERFORMANCE RELATED	NON- PERFORMANCE RELATED	COMPENSATION CONSISTING OF OPTIONS AND RIGHTS	TOTAL COMPENSATION
	SUPER- ANNUATION	TERMINATION PAYMENTS	OPTIONS AND RIGHTS				
	\$	\$	\$				
-	15,460	-	-	-	100	-	178,200
-	15,460	-	-	-	100	-	178,200
-	3,898	-	-	-	100	-	48,249
-	4,904	-	-	-	100	-	97,605
-	2,060	-	-	-	100	-	23,745
-	-	-	-	-	-	-	-
-	6,883	-	-	-	100	-	79,335
-	-	-	-	-	-	-	-
-	6,883	-	-	-	100	-	79,335
-	-	-	-	-	-	-	-
-	8,468	-	-	-	100	-	97,605
-	8,468	-	-	-	100	-	97,605
-	25,000	-	-	-	100	-	97,605
-	8,468	-	-	-	100	-	97,605
-	68,652	-	-	-	100	-	604,074
-	37,300	-	-	-	100	-	471,015

OTHER LONG-TERM BENEFITS	POST EMPLOYMENT		SHARE- BASED PAYMENT	PERFORMANCE RELATED	NON- PERFORMANCE RELATED	COMPENSATION CONSISTING OF OPTIONS AND RIGHTS	TOTAL COMPENSATION
	SUPER- ANNUATION	TERMINATION PAYMENTS	OPTIONS AND RIGHTS				
	\$	\$	\$				
33,287	20,049	-	155,863	36	64	14	1,119,497
20,096	13,113	-	54,611	13	87	13	430,603
8,601	21,444	-	26,752	23	77	8	354,922
-	-	-	-	-	-	-	-
-	13,225	-	(61,165)	(21)	121	(21)	289,009
36,907	25,000	-	61,165	11	89	11	546,171
28,943	41,926	-	74,618	24	76	11	676,568
-	-	-	-	-	-	-	-
70,831	96,644	-	196,068	62	338	11	2,439,996
57,003	38,113	-	115,776	24	176	24	976,774
70,831	165,296	-	196,068	19	69	6	3,044,070
57,003	75,413	-	115,776	8	92	8	1,447,789

## REMUNERATION REPORT CONTINUED

### 5. ANALYSIS OF STI BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the company, and other key management personnel are detailed below.

	Included in remuneration	% VESTED IN YEAR	% FORFEITED IN YEAR
M Finnegan	248,252	46.84%	53.16%
G Everist	53,632	46.84%	53.16%
G Gettingby	89,757	46.84%	53.16%

The amounts forfeited are due to performance criteria not being met in relation to the current financial year.

### 6. EQUITY INSTRUMENTS

#### 6.1 Rights over equity instruments granted as compensation

Details of the rights over ordinary shares in the company that were granted as compensation to KMP during the reporting period are as follows:

	Number of rights granted during FY18	VESTING CONDITION	GRANT DATE	FAIR VALUE AT GRANT DATE	EXPIRY DATE
M Finnegan	3,333,333	Absolute TSR	25 Aug 17	283,333	See explanation below
J Martins	1,440,252	Absolute TSR	25 Aug 17	122,421	See explanation below
G Gettingby	1,205,189	Absolute TSR	25 Aug 17	102,441	See explanation below
G Everist	1,070,093	Absolute TSR	02 Mar 18	133,672	See explanation below

Rights will expire on the earlier of the termination of the individual's employment, or the date after 1 July 2020 that they are tested by the Board against the vesting condition and found not to satisfy that condition. Rights are eligible to vest on 1 July 2020. In addition to a continuing performance condition, vesting is conditional on the extent to which the company achieves increases in absolute TSR, as described on page 49.



## 6.2 Details of equity incentives affecting current and future remuneration

Details of the vesting profiles of the rights over ordinary shares in the company held by KMP during FY18 are detailed below:

	Grant Date	NUMBER GRANTED	NUMBER VESTED IN FY18	NUMBER FORFEITED IN FY18	HELD AT 30 JUNE 2018	FINANCIAL YEAR IN WHICH THE GRANT VESTS, SUBJECT TO PERFORMANCE
<b>M Finnegan</b>						
	07 Aug 14	700,000	254,100	445,900	-	FY18
	12 Aug 16	2,456,731	-	-	2,456,731	FY20
	25 Aug 17	3,333,333	-	-	3,333,333	FY21
<b>J Martins</b>						
	12 Aug 16	2,446,581	-	2,446,581	-	FY20
	25 Aug 17	1,440,252	-	1,440,252	-	FY21
<b>C Gettingby</b>						
	07 Aug 14	500,000	181,500	318,500	-	FY18
	12 Aug 16	1,618,822	-	-	1,618,822	FY20
	25 Aug 17	1,205,189	-	-	1,205,189	FY21
<b>G Everist</b>						
	02 Mar 18	1,070,093	-	-	1,070,093	FY21

All performance rights held at 30 June 2018 have not vested and are neither exercisable or unexercisable.

## REMUNERATION REPORT CONTINUED

### 6.3 Analysis of movements in equity instruments

The value of rights over ordinary shares in the company granted and exercised by KMP during FY18 is detailed below:

	Value granted in year	VALUE OF RIGHTS EXERCISED IN YEAR
M Finnegan	283,333	23,187
J Martins	122,421	-
G Gettingby	102,441	16,562
G Everist	133,672	-

The value of rights granted in the year is the fair value of the rights calculated at grant date. The total value of rights granted is included in the table above. This amount is allocated to remuneration over the performance period (i.e. in years 1 July 2017 to 1 July 2020).

The movement during the reporting period, by number of rights over ordinary shares in the company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 1 July 2017	GRANTED AS COMPENSATION	EXERCISED	LAPSED	FORFEITED	HELD AT 30 JUNE 2018	VESTED DURING THE YEAR
M Finnegan	3,156,731	3,333,333	254,100	445,900	-	5,790,064	254,100
J Martins	2,446,581	1,440,252	-	-	3,886,833	-	-
G Gettingby	2,118,822	1,205,189	181,500	318,500	-	2,824,011	181,500
G Everist	-	1,070,093	-	-	-	1,070,093	-

## 6.4 Movements in shareholdings

The movement during the reporting period in the number of ordinary shares in the company held directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

	BALANCE AT THE START OF THE YEAR	PURCHASES	SOLD	VESTED PERFORMANCE RIGHTS	BALANCE AT END OF THE YEAR
<b>Directors</b>					
J Walker	425,000	-	-	-	425,000
E Skira	-	-	-	-	-
V Vella	1,857,842	-	-	-	1,857,842
A Sidarto	-	-	-	-	-
A Ramlie	-	-	-	-	-
K Horne	-	-	-	-	-
<b>Executives</b>					
M Finnegan	300,000	-	-	254,100	554,100
J Martins <sup>2</sup>	-	-	-	-	-
C Gettingby	484,827	-	-	181,500	666,327
G Everist <sup>3</sup>	100,000	-	50,000 (sold 16/10/2017)	-	50,000
<b>TOTAL</b>	<b>3,042,669</b>	<b>125,000</b>	<b>50,000</b>	<b>435,600</b>	<b>3,553,269</b>

<sup>1</sup> Mr. Everist resigned from the board of Macmahon in December 2017

<sup>2</sup> Mr. Martins ceased as the CFO of Macmahon in December 2017

<sup>3</sup> Mr. Everist was appointed as CFO of Macmahon in December 2017. He was previously a director of the company.

# FINANCIAL STATEMENTS



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## GENERAL INFORMATION

The financial statements cover Macmahon Holdings Limited ("the company") as a consolidated entity (referred to hereafter as "the Group" or "the consolidated entity" consisting of Macmahon Holdings Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Macmahon Holdings Limited's functional and presentation currency.

Macmahon Holdings Limited is a listed public company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity.

### Registered office & Principal place of business

15 Hudswell Road  
PERTH AIRPORT  
Western Australia, 6105

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 August 2018.

An accounting policy, critical accounting estimate, assumption or judgement specific to a note is disclosed within the note itself.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	2018 \$'000	2017 \$'000
<b>Revenue from continuing operations</b>		710,263	359,645
Other income	2	4,621	6,845
<b>Expenses</b>			
Materials and consumables used		(332,011)	(174,795)
Employee benefits expense		(205,042)	(134,212)
Subcontractor costs		(29,917)	(5,866)
Depreciation and amortisation expense	3	(77,728)	(33,476)
Equipment and office expenses under operating leases	3	(15,102)	(14,266)
Takeover defence costs		-	(3,408)
Other expenses		(16,045)	(8,061)
Net finance costs		(2,426)	(150)
Share of profit of equity-accounted investees, net of tax	24	2,207	2,524
<b>Profit / (Loss) before income tax expense from continuing operations</b>		38,820	(5,220)
Income tax expense	4a	(7,519)	(322)
Profit / (Loss) after income tax expense from continuing operations		31,301	(5,542)
Profit / (Loss) after income tax expense from discontinued operations		1,930	(17,264)
<b>Profit / (Loss) after income tax expense for the year</b>		33,231	(22,806)
<b>Other comprehensive income / (loss)</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		13,028	(5,212)
Reclassification of foreign currency reserve on closure of foreign operation		-	6,982
Other comprehensive (loss) / income for the year, net of tax		13,028	1,770
<b>Total comprehensive profit / (loss) for the year</b>		46,259	(21,036)
Total comprehensive profit / (loss) for the year is attributable to:			
Continuing operations		44,329	(3,772)
Discontinued operations		1,930	(17,264)
		46,259	(21,036)

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	2018 CENTS	2017 CENTS
<b>Earnings per share for profit / (loss) from continuing operations attributable to the owners of Macmahon Holdings Limited</b>			
Basic earnings / (loss) per share	5	1.53	(0.47)
Diluted earnings / (loss) per share	5	1.52	(0.47)
<b>Earnings per share for profit / (loss) from discontinued operations attributable to the owners of Macmahon Holdings Limited</b>			
Basic earnings / (loss) per share	5	0.09	(1.45)
Diluted earnings / (loss) per share	5	0.09	(1.45)
<b>Earnings per share for profit / (loss) attributable to the owners of Macmahon Holdings Limited</b>			
Basic earnings / (loss) per share	5	1.62	(1.92)
Diluted earnings / (loss) per share	5	1.61	(1.92)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## STATEMENT OF FINANCIAL POSITION

	NOTE	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	109,622	62,925
Trade and other receivables	8a	152,263	53,423
Inventories	9	41,984	32,086
Lease receivable	10	700	-
Income tax	4b	4,157	12,963
		308,726	161,397
Assets classified as held for sale	14	2,868	3,079
<b>Total current assets</b>		<b>311,594</b>	<b>164,476</b>
<b>Non current assets</b>			
Investments accounted for using the equity method	24	9,273	6,891
Trade and other receivables	8b	4,628	-
Property, plant and equipment	14	380,140	122,679
Intangible assets and goodwill	15	5,808	-
Lease receivable	10	9,792	-
Deferred tax	4c	2,114	917
<b>Total non current assets</b>		<b>411,755</b>	<b>130,487</b>
<b>Total assets</b>		<b>723,349</b>	<b>294,963</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11a	174,293	73,990
Borrowings	17	21,212	1,939
Income tax	4b	2,007	-
Employee benefits	12a	18,209	12,111
Provisions	13	11,572	14,582
<b>Total current liabilities</b>		<b>227,293</b>	<b>102,622</b>
<b>Non current liabilities</b>			
Trade and other payables	11b	745	-
Borrowings	17	85,060	6,909
Employee benefits	12b	417	441
<b>Total non current liabilities</b>		<b>86,222</b>	<b>7,350</b>
<b>Total liabilities</b>		<b>313,515</b>	<b>109,972</b>
<b>NET ASSETS</b>		<b>409,834</b>	<b>184,991</b>
<b>Equity</b>			
Issued capital	18	563,118	384,794
Reserves	19	3,842	(9,873)
Net accumulated losses		(157,126)	(189,930)
<b>TOTAL EQUITY</b>		<b>409,834</b>	<b>184,991</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

<b>Consolidated</b>	<b>ISSUED CAPITAL \$'000</b>	<b>RESERVES \$'000</b>	<b>ACCUMULATED LOSSES \$'000</b>	<b>RETAINED PROFITS \$'000</b>	<b>TOTAL EQUITY \$'000</b>
Balance at 1 July 2017	384,794	(9,873)	(189,930)	-	184,991
Profit / (loss) after income tax expense for the year	-	-	-	33,231	33,231
Other comprehensive income for the year, net of tax	-	13,028	-	-	13,028
Total comprehensive income / (loss) for the year	-	13,028	-	33,231	46,259
<i>Transactions with owners in their capacity as owners:</i>					
Transfer of expired performance rights	-	(168)	-	168	-
Treasury shares allocated on vesting of performance rights	-	595	-	(595)	-
Shares issued (note 18)	178,324	-	-	-	178,324
Share-based payments (note 27)	-	260	-	-	260
<b>Balance at 30 June 2018</b>	<b>563,118</b>	<b>3,842</b>	<b>(189,930)</b>	<b>32,804</b>	<b>409,834</b>

<b>Consolidated</b>	<b>ISSUED CAPITAL \$'000</b>	<b>RESERVES \$'000</b>	<b>ACCUMULATED LOSSES \$'000</b>	<b>RETAINED PROFITS \$'000</b>	<b>TOTAL EQUITY \$'000</b>
Balance at 1 July 2016	385,957	(11,914)	(166,668)	-	207,375
Profit / (loss) after income tax expense for the year	-	-	(22,806)	-	(22,806)
Other comprehensive income for the year, net of tax	-	1,770	-	-	1,770
Total comprehensive income / (loss) for the year	-	1,770	(22,806)	-	(21,036)
<i>Transactions with owners in their capacity as owners:</i>					
Transfer of expired performance rights	-	(286)	286	-	-
Treasury shares allocated on vesting of performance rights	-	742	(742)	-	-
Share-based payments (note 27)	-	(185)	-	-	(185)
Share buy-back (note 18)	(1,163)	-	-	-	(1,163)
<b>Balance at 30 June 2017</b>	<b>384,794</b>	<b>(9,873)</b>	<b>(189,930)</b>	<b>-</b>	<b>184,991</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.



## STATEMENT OF OF CASH FLOWS

	NOTE	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		689,464	402,438
Payments to suppliers		(590,950)	(376,422)
Net receipts from joint venture entities		3,390	4,319
Interest received		545	402
Interest and other finance costs paid		(2,969)	(480)
Income taxes received / (paid)		6,274	(42)
Net cash from operating activities	6	105,754	30,215
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(44,100)	(34,917)
Proceeds from disposal of property, plant and equipment		3,095	12,579
Acquisition of subsidiary (net of cash acquired)		(1,571)	-
Investment in joint venture		-	1,859
Net cash used in investing activities		(42,576)	(20,479)
<b>Cash flows from financing activities</b>			
Purchase of own shares		-	(1,163)
AMNT Transaction costs		(4,207)	-
Repayment of borrowings		(4,581)	-
Repayment of hire purchase and finance lease liabilities		(7,762)	(1,432)
Net cash used in financing activities		(16,550)	(2,595)
Net increase / (decrease) in cash and cash equivalents		46,628	7,141
Cash and cash equivalents at the beginning of the financial year		62,925	56,699
Effects of exchange rate changes on cash and cash equivalents		69	(915)
Cash and cash equivalents at the end of the financial year	7	109,622	62,925

The above statement of cash flows should be read in conjunction with the accompanying notes.

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## CONTENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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## NOTES TO THE FINANCIAL STATEMENTS

### PART A: RESULTS

#### Note 1. Operating segments

##### Identification of reportable operating segments

The consolidated entity has identified its reportable segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

Management have identified three operating segments; Surface Mining, Underground Mining and International Mining. These segments have been aggregated into "Mining" due to all segments exhibiting similar economic characteristics in terms of the nature of the products and services, production processes, type or class of customers, methods used to provide their services and regulatory environments which these services are provided in.

The following describes the operations of each reportable segment.

##### Mining

Provides a complete set of mining services for surface and underground operations - from mine development to materials delivery, including the full range of engineering services which include design, construction and on site services to deliver on client needs from the design phase right through to completion.

##### Civil

Provides consulting, design, civil construction, equipment hire, maintenance and site rehabilitation services.

##### Joint Ventures

Revenue from joint venture entities is not recognised in the financial statements as these entities are equity accounted. For such entities, in accordance with Accounting Standards, the share of net profits is recognised.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the consolidated entity's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

For clarity and reconciliation to the statement of profit and loss, discontinued operations are separately disclosed.

CONSOLIDATED - 2018	MINING \$'000	CIVIL \$'000	DISCONTINUED OPERATIONS \$'000	UNALLOCATED \$'000	TOTAL \$'000
<b>Revenue</b>					
External revenues	684,244	26,019	-	-	710,263
<b>Total revenue</b>	684,244	26,019	-	-	710,263
<b>Earnings before interest, tax, depreciation and amortisation (and other significant items)</b>					
	113,260	2,187	1,928	3,527	120,902
Interest income	288	4	2	251	545
Finance costs	(2,713)	(256)	-	-	(2,969)
Depreciation and amortisation	(76,820)	(908)	-	-	(77,728)
<b>Profit/(loss) before income tax expense</b>	34,015	1,027	1,930	3,778	40,750
Income tax expense					(7,519)
<b>Loss after income tax expense</b>					33,231
<b>Assets</b>					
Segment assets	571,788	26,893	132	124,536	723,349
<b>Total assets</b>					723,349
<b>Liabilities</b>					
Segment liabilities	292,449	15,380	116	5,570	313,515
<b>Total liabilities</b>					313,515
<b>CAPITAL EXPENDITURE</b>	315,083	-	-	-	315,083

CONSOLIDATED - 2017	MINING \$'000	DISCONTINUED OPERATIONS \$'000	UNALLOCATED \$'000	TOTAL \$'000
<b>Revenue</b>				
External revenues	359,645	6,595	303	366,543
<b>Total revenue</b>	359,645	6,595	303	366,543
<b>Earnings before interest, tax, depreciation and amortisation (and other significant items)</b>				
	35,199	(16,459)	(1,461)	17,279
Interest income	51	68	297	416
Finance costs	(494)	-	-	(494)
Depreciation and amortisation	(33,476)	(740)	-	(34,216)
Impairment of property, plant and equipment	-	(1,683)	-	(1,683)
Takeover defence costs	-	-	(3,408)	(3,408)
<b>Profit/(loss) before income tax expense</b>	1,280	(18,814)	(4,572)	(22,106)
Income tax expense				(700)
<b>Loss after income tax expense</b>				(22,806)
<b>Assets</b>				
Segment assets	217,774	150	77,039	294,963
<b>Total assets</b>				294,963
<b>Liabilities</b>				
Segment liabilities	101,713	1,368	6,891	109,972
<b>Total liabilities</b>				109,972
<b>CAPITAL EXPENDITURE</b>	44,993	-	-	44,993

	SALES TO EXTERNAL CUSTOMERS		GEOGRAPHICAL NON-CURRENT ASSETS	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	545,439	348,458	236,918	120,248
Indonesia	160,175	7,333	172,715	8,378
Nigeria	-	6,595	-	-
Other	4,649	4,157	2,122	1,861
	710,263	366,543	411,755	130,487

The Mining segment operates in two principal geographical areas - Australia and Indonesia. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

#### Major customer

Approximately 31% (2017: 55%) of the consolidated entity's revenue is attributable to sale transactions with its largest customer.

#### Operating segments

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

## NOTES TO THE FINANCIAL STATEMENTS

### PART A: RESULTS

#### Note 2. Other income

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Net gain on disposal of property, plant and equipment	171	2,268
Net foreign exchange gain	2,576	892
Other	1,874	3,685
Other income	4,621	6,845

#### Other income

Other income includes management fees from joint venture partners of \$0.8 million (June 2017: \$3.4 million). Refer to note 25. Gain / loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised within other income / other expenses in profit or loss.

#### Note 3. Expenses

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Profit / (Loss) before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation from continuing operations</i>		
Leasehold improvements	26	80
Plant and equipment	77,702	33,396
Total depreciation from continuing operations	77,728	33,476
<i>Depreciation included in discontinued operations</i>		
Plant and equipment	-	740
Total depreciation from discontinued operations	-	740
Total depreciation expense	77,728	34,216
<i>Finance (income) and costs</i>		
Interest income on financial assets (bank deposits)	(543)	(344)
Interest expense on financial liabilities carried at amortised cost	2,969	494
	2,426	150

### Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on finance leases

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<i>Rental expense relating to operating leases</i>		
Equipment and office expenses under operating leases	15,102	14,266
Total rental expense	15,102	14,266
<i>Superannuation expense</i>		
Defined contribution superannuation expense	12,400	9,248
Defined benefit superannuation expense	35	17
Total superannuation expense	12,435	9,265
<i>Share-based payments (reversal) / expense</i>		
Share-based payments (reversal) / expense	260	(185)

## NOTES TO THE FINANCIAL STATEMENTS

### PART A: RESULTS

#### Note 4. Tax

a) Income tax expense	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<i>Income tax expense</i>		
Current tax	8,780	923
Adjustment recognised for prior periods	(65)	77
Deferred tax - origination and reversal of temporary differences	(1,196)	(300)
Aggregate income tax expense	7,519	700
<i>Income tax expense/(benefit) is attributable to:</i>		
Profit / (Loss) from continuing operations	7,519	322
Profit / (Loss) from discontinued operations	-	378
Aggregate income tax expense	7,519	700
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit / (Loss) before income tax expense from continuing operations	38,820	(5,220)
Profit / (Loss) before income tax expense from discontinued operations	1,929	(16,886)
	40,749	(22,106)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>	40,749	(22,106)
Tax at the statutory tax rate of 30%	12,225	(6,632)
Tax effect amounts which are not deductible / (taxable) in calculating taxable income:		
Share-based payments	78	(55)
(Non-assessable income) / Non-deductible expenses	(219)	2,557
Foreign tax rate differential	(838)	(450)
Utilisation of foreign and domestic income tax losses not previously recognised	(949)	(21)
Other	301	(13)
Current year temporary differences for which no deferred tax asset was recognised	400	2,886
Net temporary difference previously unrecognised	(3,418)	-
Current year losses for which no deferred tax asset was recognised	4	2,351
	7,584	623
Adjustment recognised for prior periods	(65)	77
Income tax expense	7,519	700

#### b) Current assets and liabilities - income tax

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Income tax refund due - Australian Operations	4,157	12,963
Income tax payable - overseas	2,007	-



### c) Non-current assets - deferred tax

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Inventories	(458)	(301)
Property, plant and equipment	(17,919)	(19,288)
Unbilled work	(17,017)	(10,760)
Employee benefits	16,439	10,101
Other creditors and accruals	14,950	6,439
Other items	846	76
Tax loss carry forward	5,273	14,650
	2,114	917
Amount recognised in equity during the year:		
Treasury shares expense / (benefit)	-	-
Amount recognised in profit or loss during the year	-	(300)
Unrecognised deferred tax asset		
Australian impairment and other deductible differences (excluding inventory)	45,056	43,855
Allowances for inventory	-	8,198
Foreign deductible differences (excluding inventory)	-	6,189
Unrecognised differences	45,056	58,242
Foreign tax losses	-	8,206
	45,056	66,448

### Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

### PART A: RESULTS

#### Note 4. Tax continued

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The consolidated entity does not distribute non-cash assets as dividends to its Shareholders.

#### **Tax consolidation**

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Macmahon Holdings Limited. Current income tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to/(receivable from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the consolidated entity as an equity contribution or distribution.

The consolidated entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the unused tax losses can be utilised. Any subsequent period adjustments to deferred

tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### **Nature of tax funding arrangements and tax sharing arrangements**

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/(from) the head entity equal to the current tax asset/(liability) assumed by the head entity and any deferred tax loss asset assumed by the head entity, resulting in the head entity recognising an inter-entity payable/(receivable) equal in amount to the tax asset/(liability) assumed. The inter-entity payables/(receivables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

#### **Income tax**

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

## NOTES TO THE FINANCIAL STATEMENTS

### PART A: RESULTS

#### Note 5. Earnings per share

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<i>Earnings per share for profit / (loss) from continuing operations</i>		
Profit / (loss) after income tax from continuing operations attributable to the owners of Macmahon Holdings Limited	31,301	(5,542)
	<b>NUMBER</b>	<b>NUMBER</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	2,041,341,507	1,189,689,643
Adjustments for calculation of diluted earnings per share:		
Effect of performance rights on issue <sup>1</sup>	17,699,922	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,059,041,428	1,189,689,643
	<b>CENTS</b>	<b>CENTS</b>
Basic earnings / (loss) per share	1.53	(0.47)
Diluted earnings / (loss) per share	1.52	(0.47)

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<i>Earnings per share for loss from discontinued operations</i>		
Profit / (loss) after income tax from discontinued operations attributable to the owners of Macmahon Holdings Limited	1,930	(17,264)
	<b>NUMBER</b>	<b>NUMBER</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	2,041,341,507	1,189,689,643
Adjustments for calculation of diluted earnings per share:		
Effect of performance rights on issue <sup>1</sup>	17,699,922	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,059,041,428	1,189,689,643
	<b>CENTS</b>	<b>CENTS</b>
Basic earnings / (loss) per share	0.09	(1.45)
Diluted earnings / (loss) per share	0.09	(1.45)

<sup>1</sup> At 30 June 2017, performance rights were excluded from the calculation as their effect would have been anti-dilutive.

## NOTES TO THE FINANCIAL STATEMENTS

### PART A: RESULTS

#### Note 5. Earnings per share continued

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<i>Earnings per share for profit / (loss)</i>		
Profit / (Loss) after income tax attributable to the owners of Macmahon Holdings Limited	33,231	(22,806)
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	2,041,341,507	1,189,689,643
Adjustments for calculation of diluted earnings per share:		
Effect of performance rights on issue <sup>1</sup>	17,699,922	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,059,041,428	1,189,689,643
	CENTS	CENTS
Basic earnings / (loss) per share	1.63	(1.92)
Diluted earnings / (loss) per share	1.61	(1.92)

1. At 30 June 2017, performance rights were excluded from the diluted earnings per share calculation as their effect would have been antidilutive.

#### Earnings per share

##### Basic earnings per share

Basic earnings per share is calculated by dividing the profit / (loss) attributable to the owners of Macmahon Holdings Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

##### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares (if any) and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS

### PART B: CASH FLOW INFORMATION

#### Note 6. Reconciliation of profit / (loss) after income tax to net cash from operating activities

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Profit / (Loss) after income tax expense for the year from continuing operations	<b>31,301</b>	<b>(5,542)</b>
Adjustments for:		
Depreciation and amortisation	77,728	33,476
Net gain on disposal of property, plant and equipment and other	(171)	(2,268)
Share of profit - joint ventures	(2,207)	(2,524)
Share-based payments	260	(185)
Foreign exchange gains	(2,576)	(1,239)
Income tax expense / (benefit)	7,519	322
Change in operating assets and liabilities:		
Net cash received from jointly controlled entities	3,390	-
Decrease / (increase) in trade and other receivables	(93,765)	(5,302)
Decrease / (increase) in inventories	(9,898)	850
Increase / (decrease) in trade and other payables	85,400	15,487
Increase / (decrease) in income tax balances	6,274	(3)
Increase / (decrease) in employee benefits	2,630	(2,062)
Net cash from operating activities - continuing operations	105,885	31,010
Net cash from operating activities - discontinued operations	(131)	(795)
Net cash from operating activities	105,754	30,215

## NOTES TO THE FINANCIAL STATEMENTS

### PART C: WORKING CAPITAL

#### Note 7. Cash and cash equivalents

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Cash on hand	16	8
Cash at bank	109,606	62,917
	109,622	62,925

#### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Note 8. Trade and other receivables

##### a) Current trade and other receivables

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Trade receivables	42,362	8,506
Less: allowance for doubtful debts	(126)	(216)
	42,236	8,290
Other receivables and prepayments <sup>1</sup>	29,433	9,163
Accrued revenue	80,594	35,970
	152,263	53,423

<sup>1</sup> Other receivables includes VAT receivable of \$18.2 million relating to the AMNT asset acquisition.

#### Allowance for doubtful debts

The ageing of the doubtful receivables allowance are as follows:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Over 3 months overdue	126	216
	126	216

Movements in the allowance for doubtful debts is as follows:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Opening balance	216	1,260
Additional allowances (released) / recognised	(90)	(935)
Allowances recovered through sale of subsidiaries and settlement of dispute	-	(109)
	126	216

#### Past due but not doubtful

There are 12 customers with balances past due but without any allowance for doubtful debts as at 30 June 2018 (2017: 5).

## NOTES TO THE FINANCIAL STATEMENTS

### PART C: WORKING CAPITAL

#### Note 8. Trade and other receivables continued

The ageing of the past due but not doubtful debts are as follows:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Past due 0-30 days	3,688	658
Past due 31+ days	1,982	-
	5,670	658

After reviewing credit terms of customers based on recent collection practices, the consolidated entity did not consider a credit risk on the aggregate balances.

\*\* For information on credit risk refer to note 16

#### b) Non-current trade and other receivables

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Other receivables	4,628	-

#### Trade and other receivables

##### *Trade and other receivables*

Trade and other receivables are stated at cost less impairment losses. Due to the short-term nature of trade and other receivables, their carrying value is assumed to approximate their fair value.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for doubtful trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be doubtful. The amount of the doubtful allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

##### *Accrued revenue*

Accrued revenue represents the unbilled amount at year end in respect of mining services provided.

##### *Provision for doubtful receivables*

The provision for doubtful receivables assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

## NOTES TO THE FINANCIAL STATEMENTS

### PART C: WORKING CAPITAL

#### Note 9. Inventories

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Operating inventory at cost	43,883	30,630
Less: Allowance for obsolescence	(2,454)	(3,925)
	41,429	26,705
Inventory at Net Realisable Value	555	5,381
	41,984	32,086

#### Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Allowance for obsolescence

The provision for impairment of inventories assessment requires a degree of estimation and judgment. The level of the provision is assessed by taking into account the recent sales experience, current market conditions, the ageing of inventories and other factors that affect inventory obsolescence.

#### Note 10. Lease receivable

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Lease receivable - current	700	-
Lease receivable - non-current	9,792	-
	10,492	-

During the year, the Group acquired new mining plant and equipment for the Byerwen project which is subject to a put and call option with the client. The put and call feature results in the plant and equipment being recognised as a lease receivable rather than plant and equipment.

The lease receivable is initially recognised at the amount equal to the net investment in the lease which equals the present value of the minimum lease payments and any unguaranteed residual value. When payments are received, the principal portion is recognised against the lease receivable and the interest portion is recognised in profit or loss as lease income.

Minimum lease payments receivable at 30 June 2018 are:

	MINIMUM LEASE PAYMENTS		INTEREST		PRINCIPAL	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Not later than one year	1,512	-	812	-	700	-
Later than one year not later than 5 years	10,906	-	1,114	-	9,792	-
	12,418	-	1,926	-	10,492	-

The finance lease receivable is neither past due or impaired.



## NOTES TO THE FINANCIAL STATEMENTS

### PART C: WORKING CAPITAL

#### Note 11. Trade and other payables

##### a) Current trade and other payables

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Trade payables	68,260	28,313
Accrued expenses	97,452	40,306
Other payables	8,581	5,371
	174,293	73,990

Accrued wages and salaries between the last pay date and 30 June 2018 of \$2.3 million (2017: \$2.0 million) are included within the accrued expenses balance.

Refer to note 16 for further information on financial instruments.

##### b) Non-current trade and other payables

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Contingent consideration (refer to note 31)	745	-

##### Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

## NOTES TO THE FINANCIAL STATEMENTS

### PART C: WORKING CAPITAL

#### Note 12. Employee benefits

##### a) Current liabilities - employee benefits

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Annual leave	11,466	8,885
Long service leave	3,632	3,226
Other employee benefits	3,111	-
	18,209	12,111

##### b) Non-current liabilities - employee benefits

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Long service leave	417	441
	417	441

##### c) Non-current liabilities - retirement benefit obligations

###### Superannuation plan

The Trust Company Ltd is the Trustee of the Macmahon Employees Superannuation Fund ("the Fund") and is responsible for all areas of compliance with regard to the Fund. All members of the now closed defined benefit section were previously invited to transfer their entitlement to the accumulation section of the Fund. At 30 June 2018, 1 member (2017: 1 member) remained in the defined benefit section.

###### Employee benefits

###### Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating sick leave is expensed to profit or loss when incurred.

###### Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields on national government bonds at the reporting date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Defined contribution superannuation expense*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available. Contributions to a defined contribution plan which are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

#### *Defined benefit plans*

The consolidated entity's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed every three years and in intervening periods calculated on actuarial estimates using the projected unit credit method. When the calculation results in a potential asset for the consolidated entity, the recognised asset is limited to the present value of the economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

#### *Termination benefits*

Termination benefits are recognised as an expense when the consolidated entity is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the consolidated entity has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

#### *Long service leave provision*

The liability for employee benefits expected to be settled more than 12 months from the reporting date is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

## NOTES TO THE FINANCIAL STATEMENTS

### PART C: WORKING CAPITAL

#### Note 13. Provisions

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Project closure	6,561	6,916
Warranties	450	429
Project bonus	236	141
Client plant maintenance	225	1,206
Onerous Contracts	650	1,018
Other	3,450	4,872
	11,572	14,582

#### Movements in provisions

Movements in each class of provision during the current financial year, are set out below:

	PROJECT CLOSURE \$'000	WARRANTIES \$'000	PROJECT BONUS \$'000	CLIENT PLANT MAINTENANCE \$'000	ONEROUS CONTRACTS \$'000	OTHER \$'000	TOTAL \$'000
Carrying amount at the start of the year	6,916	429	141	1,206	1,018	4,872	14,582
Additional provisions recognised	3,721	131	463	2,629	-	414	7,358
Provisions released during the year	(2,753)	-	-	-	(292)	-	(3,045)
Provisions utilised during the year	(1,323)	(110)	(368)	(3,610)	(76)	(1,836)	(7,323)
Carrying amount at the end of the year	6,561	450	236	225	650	3,450	11,572

#### Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

The consolidated entity accrues for its contracted obligation to replace major components and tyres for client owned equipment, which it operates under its mining service contracts. The provision represents the wear and tear of components and tyres up to the balance date. As components and tyres are replaced, these items are charged against that provision. The provision is utilised completely by the end of the contract term.

#### *Provision for project closure*

The provision for project closure requires a degree of estimation and judgement around contractual term, expected redundancy and demobilisation costs, and reimbursement from customers. The provision is assessed by taking into account past history of contract closures and likelihood of contract extensions.

#### *Client plant maintenance provision*

The provision for client plant maintenance requires a degree of estimation and judgement. The level of provision is assessed by taking into account actual and forecast utilisation of the fleet and current consumption rate and maintenance cost.

#### *Other*

Other provisions reflect miscellaneous contract related claim provisions and require a degree of estimation and judgement.

### **Onerous Contracts**

#### *Leases*

In 2015 the Group exited premises for which they have a non-cancellable lease. The lease will expire in 2019. The facilities have been sub-let at rates lower than the lease rate. The obligation for the discounted future payments, net of expected rental income as been provided for.

#### *Other Operating Contracts*

The Telfer Mining Services contract has incurred significant losses to date.

At 30 June 2018 the Group has determined the contract is not considered onerous based on a positive cash flow forecast over the remaining contract term.



## NOTES TO THE FINANCIAL STATEMENTS

### PART D: FIXED ASSETS

#### Note 14. Property, plant & equipment

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Leasehold improvements - at cost	3,183	3,183
Less: Accumulated depreciation	(3,170)	(3,144)
	13	39
Plant and equipment - at cost	778,833	453,309
Less: Accumulated depreciation and impairment losses	(398,706)	(330,669)
	380,127	122,640
	380,140	122,679

#### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

CONSOLIDATED	LEASEHOLD IMPROVEMENTS \$'000	PLANT & EQUIPMENT \$'000	TOTAL \$'000
<b>Balance at 30 June 2016</b>	298	117,355	117,653
Additions	-	44,993	44,993
Disposals	-	(3,356)	(3,356)
Exchange differences	(661)	(3,341)	(4,002)
Reclassification to and from assets classified as held for sale and transfers	618	2,672	3,290
Impairment of assets (discontinued operations)	(106)	(1,577)	(1,683)
Depreciation expense*	(110)	(34,106)	(34,216)
<b>Balance at 30 June 2017</b>	39	122,640	122,679
Additions	-	312,300	312,300
Acquisition through a business combination	-	10,675	10,675
Classified as held for sale	-	(801)	(801)
Disposals	-	(603)	(603)
Exchange differences	-	13,075	13,075
Reclassification to and from assets classified as held for sale and transfers	-	543	543
Depreciation expense	(26)	(77,702)	(77,728)
<b>Balance at 30 June 2018</b>	13	380,127	380,140

\*Includes no depreciation from discontinued operations during 2018 (2017: \$0.7 million).

Profit on disposal of property, plant and equipment from continuing operations was \$0.2 million (2017: \$2.3 million) There was no impairment of assets in discontinued operations during the current financial year (2017: \$1.7 million) Included above is non-operating plant and equipment of \$10.3 million (2017: \$16.7 million) which is not allocated to operating sites or contracts at 30 June 2018.

Included above is \$48.7 million (2017: \$8.1 million) of work in progress and \$106.3 million (2017: \$8.8 million) of assets under finance lease.

### Significant Asset Acquisition

Macmahon shareholders approved its transaction with PT Amman Mineral Nusa Tenggara ("AMNT") at a General Meeting on 12 July 2017. Completion of the Transaction occurred on 8 August 2017.

The transaction resulted in:

- Macmahon Indonesia acquiring US\$145.6m mobile mining equipment in exchange for the issue of 954,064,924 new Macmahon shares ("the Consideration Shares") to a related party of AMNT;
  - the life of mine mining services contract with AMNT becoming effective; and
  - two new Directors joining the Macmahon Board, Mr Alex Ramlie and Mr Arief Sidarto.
- If the Mining Services Contract is terminated for any reason then AMNT will be required to pay a Cessation Amount to Macmahon Indonesia. This Cessation Amount is the sum of:

i) a fixed amount equivalent to approximately US\$145.6m, with this amount reducing 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 period 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. If Macmahon Indonesia does not receive the Cessation Amount in cash following a termination of the Mining Services Contract, then in certain circumstances, this could lead to a selective buyback of the Consideration Shares. These circumstances were described on page 24 of the Notice of Meeting issued by Macmahon in relation to the AMNT Transaction.

Following completion of the transaction AMNT's related party has an interest in 44.3% of Macmahon's total shares on issue.

For details of the AMNT Transaction please refer to the Notice of Meeting for the AMNT Transaction published on the ASX website on 13 June 2017, and the company's ASX announcement dated 19 April 2018.

### *Property, plant and equipment secured under finance leases*

Refer to note 17 for further information on property, plant and equipment secured under finance leases.

### *Security*

Freehold land, buildings, leasehold improvements and plant and equipment are subject to a registered charge to secure banking facilities (refer to note 17).

### *Assets classified as held for sale*

Assets classified as held for sale include surplus mining plant and equipment which the company is actively marketing for sale amounting to \$2.9 million (2017: \$3.1 million).

### **Property, plant and equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges from foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged, on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

### *Depreciation and amortisation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation on buildings, leasehold improvements and minor plant and equipment is calculated on a straight-line basis. Depreciation on major plant and equipment and components is calculated on machine hours worked or straight-line over their estimated useful life. Leased assets

## NOTES TO THE FINANCIAL STATEMENTS

### PART D: FIXED ASSETS

#### Note 14. Property, plant & equipment continued

are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the consolidated entity will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed on regular basis with annual reassessments for major items and adjusted if appropriate.

The expected useful lives for the current and comparative years are as follows:

- Leasehold improvements: period of the lease
- Plant and equipment: 3-12 years

The carrying amounts of the consolidated entity's assets, other than inventories (see inventory accounting policy) and deferred tax assets (see income tax accounting policy), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see impairment of non-financial assets below).

For goodwill, the recoverable amount is estimated annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

#### **Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the consolidated entity, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### **Non-current assets or disposal groups classified as held for sale**

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised. Non-current assets classified as held for sale are not depreciated. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately on the face of the statement of financial position, in current assets.

#### *Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down. Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

#### *Impairment of non-financial assets other than goodwill and indefinite life intangible asset*

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions; including the continued performance of contracted work, growth rates of the estimated future cash flows and discount rates based on the current cost of capital.



## NOTES TO THE FINANCIAL STATEMENTS

### PART D: FIXED ASSETS

#### Note 15. Intangible assets and goodwill

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Goodwill - at cost	3,025	-
Impairment of goodwill	-	-
	3,025	-
Software - at cost (in progress)	2,783	-
Less: Accumulated amortisation	-	-
	2,783	-
	5,808	-

#### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>CONSOLIDATED</b>	<b>LEASEHOLD IMPROVEMENTS \$'000</b>	<b>PLANT &amp; EQUIPMENT \$'000</b>	<b>TOTAL \$'000</b>
<b>Balance at 1 July 2017</b>	-	-	-
Acquisition through a business combination	3,025	-	3,025
Additions	-	2,783	2,783
<b>Balance at 30 June 2018</b>	3,025	2,783	5,808

Goodwill arose as a result of the acquisition of TMM Group. Refer to note 31 for further information.

## NOTES TO THE FINANCIAL STATEMENTS

### PART D: FIXED ASSETS

#### Note 15. Intangible assets and goodwill continued

##### **Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

##### *Goodwill*

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

##### *Software*

Development expenditure is capitalised only if development costs can be measured reliably or the process is technically and commercially feasible, future economic benefits are probable, and the consolidated entity intends to and has sufficient resources to complete development and to use the asset. The software expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

The expected useful life of software is 5 years.

##### **Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS

### PART E: RISK

#### Note 16. Financial Risk Management

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<i>Financial Assets</i>		
Cash and cash equivalents	109,622	62,925
Trade and other receivables <sup>1</sup>	134,576	46,762
Lease receivables	10,492	-
<b>Total financial assets</b>	<b>254,690</b>	<b>109,687</b>
<i>Financial liabilities</i>		
Trade and other payables <sup>2</sup>	172,904	71,901
Borrowings	106,272	8,848
<b>Total financial liabilities</b>	<b>279,176</b>	<b>80,749</b>

<sup>1</sup> Trade and other receivables excludes prepayments of \$3.2 million (2017: \$3.8 million), contract closure reimbursement \$3.4 million (2017: \$2.9 million) and GST receivable of \$15.7 million (2017: nil).

<sup>2</sup> Trade and other payables excludes GST payable of \$1.4 million (2017: \$2.1 million).

Financial assets and liabilities are at amortised cost.

#### Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using market comparison technique. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

CONSOLIDATED	2018		2017	
	CARRYING AMOUNT \$'000	FAIR VALUE \$'000	CARRYING AMOUNT \$'000	FAIR VALUE \$'000
<i>Financial Assets</i>				
Lease receivables	10,492	10,496	-	-
<i>Financial liabilities</i>				
Lease liability	(106,272)	(106,088)	(8,848)	(8,968)

All other assets and liabilities carrying amount is the same as the fair value.

#### Financial instruments not measured at fair value

Fair value of cash and cash equivalents, receivables and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value of lease receivables, loans from banks and other financial liabilities, obligations under finance and hire purchase leases are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## NOTES TO THE FINANCIAL STATEMENTS

### PART E: RISK

#### Note 16. Financial Risk Management continued

##### **Financial risk management objectives**

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. This framework is designed to identify, monitor and manage the material risks throughout the consolidated entity, to ensure risks remain within appropriate limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities. The consolidated entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity. The Board of Directors is assisted in its oversight role by the Audit and Risk Committee, to which internal audit reports. Internal audit undertakes reviews of controls and procedures, the results of which are reported to the Audit and Risk Committee.

The consolidated entity has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

This note presents qualitative and quantitative information about the consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

##### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

##### *Currency risk*

The consolidated entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than respective functional currencies of entities within the consolidated Group, which are primarily the Australian Dollar (AUD), but also the US Dollar (USD), New Zealand Dollar (NZD), Malaysian Ringgit (MYR), Nigerian Naira (NGN), Ghanaian Cedi (GHS), Indonesian Rupiah (IDR), Great British Pounds (GBP) and Mongolian Tugrik (MNT). The consolidated entity is also exposed to foreign currency risk on plant and equipment purchases that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily US Dollar (USD) and European Euro (EUR).

The consolidated entity uses foreign exchange forward contracts to hedge its purchases of major items of plant and equipment that are denominated in a foreign currency when a firm commitment is made. As at 30 June 2018 there are no foreign exchange forward contracts in place.

In respect of other monetary assets and liabilities held in currencies other than the AUD, the consolidated entity ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The average exchange rates and reporting date exchange rates applied were as follows:

AUSTRALIAN DOLLARS	AVERAGE EXCHANGE RATES		REPORTING DATE EXCHANGE RATES	
	2018	2017	2018	2017
USD	0.7749	0.7531	0.7391	0.7692
NZD	1.0866	1.0573	1.0903	1.0500
MYR	3.1589	3.2308	2.9837	3.3029
NGN	282.40	288.94	267.55	281.91
MNT	1,879.84	1,775.21	1,819.53	1,801.49
IDR	10,540.17	9,999.25	10,612.00	10,252.00
GHS	3.4294	3.1237	3.3446	3.3576
GBP	0.5748	0.5930	0.5634	0.5913
SGD	1.0396	1.0505	1.0078	1.0598

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

CONSOLIDATED	ASSETS		LIABILITIES	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
USD	3,241	7,104	-	-
SGD	59	48	-	-
MYR	2,463	1,365	-	-
IDR <sup>1</sup>	46,626	3,728	(36,902)	(685)
NGN	-	113	-	-
GBP	-	4,935	-	-
MNT	-	-	-	-
GHS	154	162	-	-
NZD	117	120	-	-
	52,660	17,575	(36,902)	(685)

<sup>1</sup> Macmahon is paid in IDR for services performed in Indonesia, however the amount of these IDR payments adjusted according to movements in the IDR: USD exchange rate.

## NOTES TO THE FINANCIAL STATEMENTS

### PART E: RISK

#### Note 16. Financial Risk Management continued

The following analysis demonstrates the increase / (decrease) to profit or loss and equity at the reporting date, assuming a 10 percent strengthening and a 10 percent weakening of the Australian dollar against the following currencies. This analysis also assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

CONSOLIDATED - 2018	AUD STRENGTHENED			AUD WEAKENED		
	% CHANGE	EFFECT ON PROFIT BEFORE TAX \$'000	EFFECT ON EQUITY \$'000	% CHANGE	EFFECT ON PROFIT BEFORE TAX \$'000	EFFECT ON EQUITY \$'000
USD	10%	(295)	-	10%	360	-
SGD	10%	(5)	-	10%	7	-
MYR	10%	(224)	-	10%	274	-
IDR	10%	(884)	-	10%	1,080	-
NGN	10%	-	-	10%	-	-
GBP	10%	-	-	10%	-	-
MNT	10%	-	-	10%	-	-
GHS	10%	(14)	-	10%	17	-
NZD	10%	(11)	-	10%	13	-
		(1,433)	-		1,751	-

CONSOLIDATED - 2017	AUD STRENGTHENED			AUD WEAKENED		
	% CHANGE	EFFECT ON PROFIT BEFORE TAX \$'000	EFFECT ON EQUITY \$'000	% CHANGE	EFFECT ON PROFIT BEFORE TAX \$'000	EFFECT ON EQUITY \$'000
USD	10%	(646)	-	10%	789	-
SGD	10%	(4)	-	10%	5	-
MYR	10%	(124)	-	10%	152	-
IDR	10%	(277)	-	10%	338	-
NGN	10%	(10)	-	10%	13	-
GBP	10%	(449)	-	10%	548	-
MNT	10%	-	-	10%	-	-
GHS	10%	(15)	-	10%	18	-
NZD	10%	(11)	-	10%	13	-
		(1,536)	-		1,876	-

#### Price risk

The consolidated entity is not exposed to any significant price risk.

*Interest rate risk*

Interest rate risk on variable rate borrowings is managed under the consolidated entity's approved Financial Risk Management Policy. Under this policy, interest rate exposures on committed capital finance borrowings can be hedged up to 75% (by volume). The hedging instruments approved by the Board of Directors for this purpose, are interest rate swaps and interest rate caps and floors.

As at the reporting date, the consolidated entity had the following variable rate exposed financial assets and liabilities:

<b>CONSOLIDATED</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Variable financial assets	109,622	62,925
Net exposure to cash flow interest rate risk (before hedging)	109,622	62,925

An analysis by remaining contractual maturities is shown in the 'liquidity risk' section.

*Fair value sensitivity analysis for fixed rate instruments*

There are no fixed rate instruments at 30 June 2018.

*Cash flow sensitivity analysis for variable rate instruments*

The following analysis demonstrates the increase / (decrease) to profit or loss and equity at the reporting date, assuming a change in interest rates of 100 basis points. This analysis also assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

<b>CONSOLIDATED - 2018</b>	<b>BASIS POINTS INCREASE</b>			<b>BASIS POINTS DECREASE</b>		
	<b>BASIS POINTS CHANGE</b>	<b>EFFECT ON PROFIT BEFORE TAX \$'000</b>	<b>EFFECT ON EQUITY \$'000</b>	<b>BASIS POINTS CHANGE</b>	<b>EFFECT ON PROFIT BEFORE TAX \$'000</b>	<b>EFFECT ON EQUITY \$'000</b>
Variable rate instruments	100	1,096	-	100	(1,096)	-
		1,096	-		(1,096)	-

<b>CONSOLIDATED - 2017</b>	<b>BASIS POINTS INCREASE</b>			<b>BASIS POINTS DECREASE</b>		
	<b>BASIS POINTS CHANGE</b>	<b>EFFECT ON PROFIT BEFORE TAX \$'000</b>	<b>EFFECT ON EQUITY \$'000</b>	<b>BASIS POINTS CHANGE</b>	<b>EFFECT ON PROFIT BEFORE TAX \$'000</b>	<b>EFFECT ON EQUITY \$'000</b>
Variable rate instruments	100	629	-	100	(629)	-
		629	-		(629)	-

## NOTES TO THE FINANCIAL STATEMENTS

### PART E: RISK

#### Note 16. Financial Risk Management continued

##### Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's receivables from customers and cash and cash equivalents.

##### Cash and cash equivalents

The consolidated entity limits its exposure to credit risk for cash and cash equivalents by only investing in liquid securities and with counterparties that have an acceptable credit rating where possible.

##### Trade and other receivables

The consolidated entity's exposure to credit risk is influenced mainly by the characteristics of each individual customer. The demographics of the consolidated entity's customer base, including the default risk of the industries and countries in which customers operate, has less influence on credit risk. Approximately 31% (2017: 55%) of the consolidated entity's revenue is attributable to sale transactions with a single customer. Geographically, the concentration of credit risk is in Australia.

Under the consolidated entity's systems and procedures, each new customer is analysed individually for creditworthiness before the consolidated entity's standard payment and delivery terms and conditions are offered. The exposure to credit risk is monitored on an ongoing basis. The consolidated entity's analysis includes external ratings, when available, and in some cases bank references. Credit risk is minimised by managing payment terms, receiving advance payments, receiving the benefit of a bank guarantee or by entering into credit insurance for customers considered to be at risk.

More than 29% (2017: 61%) of the consolidated entity's trade receivables exposed to credit risk are from customers who have been transacting with the consolidated entity for over three years.

The consolidated entity establishes an allowance for impairment that represents its estimate of expected / incurred losses in respect of trade and other receivables. At 30 June 2018 the consolidated entity's collective impairment on its trade receivables was \$0.1 million (2017:\$0.2 million).

##### Lease receivables

The credit risk associated with lease receivables is mitigated because the lease receivables are secured over the lease plant and equipment.

##### Guarantees

The consolidated entity's policy is to provide financial guarantees only to or for subsidiaries. Details of outstanding guarantees are provided in note 20.

##### Exposure to credit risk

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

The consolidated entity's maximum exposure to credit risk at the reporting date was:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Cash and cash equivalents	109,622	62,925
Receivables and accrued revenue*	133,958	44,260
Total credit risk exposure	243,580	107,185

\* Receivables are shown excluding prepayments and GST receivable.



The consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Mining customers	128,073	44,092
Other	5,885	168
<b>Total credit risk exposure by customer</b>	<b>133,958</b>	<b>44,260</b>

The consolidated entity's most significant trade receivable, a mining customer, accounts for \$25.9 million of the trade receivables carrying amount at 30 June 2018 (2017: \$20.8 million).

### Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Information about changes in term facilities during the year is disclosed in note 17. As at 30 June 2018, the undrawn amount on the term facility was \$17.5 million (2017: \$5.9 million). The facility was utilised for bank guarantees of \$7.5 million (2017: \$3.8 million). Outstanding individual lease agreements drawn under past facilities remain in place until their expiry date. In addition, the consolidated entity has a \$20.0 million (2017: \$20.0 million) insurance bond facility with \$5.6 million (2017: \$11.8 million) available at year end.

### *Remaining contractual maturities*

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS

### PART E: RISK

#### Note 16. Financial Risk Management continued

<b>CONSOLIDATED - 2018</b>	<b>1 YEAR OR LESS \$'000</b>	<b>BETWEEN 1 AND 2 YEARS \$'000</b>	<b>BETWEEN 2 AND 5 YEARS \$'000</b>	<b>OVER 5 YEARS \$'000</b>	<b>REMAINING CONTRACTUAL MATURITIES \$'000</b>
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables and accrued expenses	(165,712)	-	-	-	(165,712)
Other payables	(8,581)	-	-	-	(8,581)
<i>Interest-bearing - variable</i>					
Lease liability	(27,421)	(20,543)	(60,242)	(19,614)	(127,820)
<b>Total non-derivatives</b>	<b>(201,714)</b>	<b>(20,543)</b>	<b>(60,242)</b>	<b>(19,614)</b>	<b>(302,113)</b>

<b>CONSOLIDATED - 2017</b>	<b>1 YEAR OR LESS \$'000</b>	<b>BETWEEN 1 AND 2 YEARS \$'000</b>	<b>BETWEEN 2 AND 5 YEARS \$'000</b>	<b>OVER 5 YEARS \$'000</b>	<b>REMAINING CONTRACTUAL MATURITIES \$'000</b>
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables and accrued expenses	(68,619)	-	-	-	(68,619)
Other payables	(5,371)	-	-	-	(5,371)
<i>Interest-bearing - variable</i>					
Lease liability	(2,365)	(7,135)	-	-	(9,500)
<b>Total non-derivatives</b>	<b>(76,355)</b>	<b>(7,135)</b>	<b>-</b>	<b>-</b>	<b>(83,490)</b>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the consolidated entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from the unexpected termination of contracts by customers, legal and regulatory requirements and generally accepted standards of corporate behaviour. This risk includes loss of major contract or non extension of current contracts. Operational risks arise from all of the consolidated entity's operations.

The consolidated entity's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the consolidated entity's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit (operating segments). This responsibility is supported by the development of overall consolidated entity's standards for the management of operational risk.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

*Impairment of financial assets*

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

**Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

## NOTES TO THE FINANCIAL STATEMENTS

### PART F: DEBIT & EQUITY

#### Note 17. Borrowings

##### a) Current borrowings

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Lease liability	21,212	1,939
	21,212	1,939

##### b) Non-current liabilities - borrowings

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Lease liability	85,060	6,909
	85,060	6,909

Details of currency, interest rate and year of maturity of borrowing are:

	CURRENCY	INTEREST RATE RANGE	CALENDAR YEAR OF MATURITY	2018 \$'000	2017 \$'000
Finance lease liabilities	AUD	4.3% - 7.6%	2019 - 2023	106,272	8,848
				106,272	8,848

Refer to note 16 for further information on financial instruments.

#### Term facilities

In October 2017, the Company entered into a \$25 million multi-option financing facility, (including a \$0.4 million credit card facility) which can be used for general corporate purposes. The facility is drawn to \$7.5 million at 30 June 2018 for bank guarantees.

#### Operating lease facility

As at 30 June 2018, the domestic operating lease facility was drawn to \$26.7 million (2017: \$39.9 million).

#### Assets pledged as security

The consolidated entity's hire purchase / finance lease liabilities are secured by the leased assets and in the event of default, the leased assets revert to the lessor. All remaining assets of the Group are pledged as security under the multi-option financing facility.

Finance lease liabilities are payable as follows:

	MINIMUM LEASE PAYMENTS		INTEREST		PRINCIPAL	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>FINANCE LEASE LIABILITIES</b>						
Less than one year	27,421	2,365	6,209	426	21,212	1,939
Between one and 5 years	80,786	7,135	15,098	226	65,688	6,909
More than 5 years	19,613	-	241	-	19,372	-
	127,820	9,500	21,548	652	106,272	8,848

#### Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

## NOTES TO THE FINANCIAL STATEMENTS

### PART F: DEBT & EQUITY

#### Note 18. Equity - issued capital

	CONSOLIDATED			
	2018 SHARES	2017 SHARES	2018 \$'000	2017 \$'000
Ordinary shares - fully paid	2,154,985,818	1,200,920,894	568,304	390,575
Less: treasury shares	(11,699,448)	(13,042,548)	(5,186)	(5,781)
Ordinary shares	2,143,286,370	1,187,878,346	563,118	384,794

	THE COMPANY NO. ORDINARY SHARES	
	2018	2017
On issue at 1 July	1,200,920,894	1,210,487,874
Issued *	954,064,924	-
Repurchased and cancelled	-	(9,566,980)
On issue 30 June	2,154,985,818	1,200,920,894

\* refer to note 14 for information on shares issued on acquisition of assets

#### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the parent entity in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the parent entity does not have authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The consolidated entity monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total equity. Net debt is calculated as 'total borrowings' less 'cash and cash equivalents' as shown in the statement of financial position. Total equity is as shown in the statement of financial position. At 30 June 2018 the consolidated entity was in a net cash position (Gearing ratio: nil).

#### Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares purchased on market by the consolidated entity are recognised at fair value, less transaction costs and reduce issued capital.

## NOTES TO THE FINANCIAL STATEMENTS

### PART F: DEBT & EQUITY

#### Note 19. Equity - Reserves

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Reserve for own shares (net of tax)	(5,186)	(5,781)
Foreign currency reserve (net of tax)	8,388	(4,640)
Share based payments	640	548
	3,842	(9,873)

#### Reserve for own shares

The reserve for the Company's own shares comprises the cost (net of tax) of the Company's shares held by the trustee of the consolidated entity's equity compensation plans which were purchased on-market in anticipation of vesting of share-based payment awards under the equity compensation plans. During the year no shares were purchased (2017: nil). As at 30 June 2018, there are 11,699,448 (2017: 13,042,548) unallocated Macmahon shares held in trust.

#### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on the net investments in foreign operations. The foreign currency translation reserve is reclassified to the profit and loss either on sale or cessation of the underlying foreign operation.

In 2018 nil (2017: \$6,982,000) was reclassified to the profit and loss from the foreign currency translation reserve.

#### Share based payments reserve

The share based payments reserve is used to record the value of share-based payments and performance rights to employees, including KMP, as part of their remuneration, as well as non-employees.

#### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

CONSOLIDATED	RESERVE FOR OWN SHARES \$'000	FOREIGN CURRENCY \$'000	SHARE BASED PAYMENTS \$'000	TOTAL \$'000
Balance at 30 June 2016	(6,523)	(6,410)	1,019	(11,914)
Foreign currency translation	-	1,770	-	1,770
Treasury shares allocated on vesting of performance rights	742	-	-	742
Share based payments expense	-	-	(185)	(185)
Transfer of expired performance rights	-	-	(286)	(286)
Balance at 30 June 2017	(5,781)	(4,640)	548	(9,873)
Foreign currency translation	-	13,028	-	13,028
Treasury shares allocated on vesting of performance rights	595	-	-	595
Share based payments expense	-	-	260	260
Transfer of expired performance rights	-	-	(168)	(168)
Balance at 30 June 2018	(5,186)	8,388	640	3,842

#### Dividends

There were no dividends paid, recommended or declared during the current or previous financial year (2017: nil).

Dividends are recognised when declared during the financial year and are no longer at the discretion of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

### PART G: UNRECOGNISED ITEMS

#### Note 20. Contingent liabilities

The following identifiable contingencies exist at 30 June 2018:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Bank guarantees	7,545	3,794
Insurance performance bonds	14,355	8,150
	21,900	11,944

Bank guarantees and insurance bonds are issued to contract counterparties in the normal course of business as security for the performance by Macmahon of various contractual obligations.

#### *Other contingent liabilities*

Bank guarantees and insurance bonds are issued to contract counterparties in the normal course of business as security for the performance by Macmahon of various contractual obligations. Macmahon is also called upon to give guarantees and indemnities direct to contract counterparties in relation to the performance of contractual and financial obligations. The value of these guarantees and indemnities is indeterminable.

Macmahon has the normal contractor's liability in relation to its current and completed mining and construction projects (for example, liability relating to design, workmanship and damage), as well as liability for personal injury and property damage during a project. Potential liability may arise from claims, disputes and/or litigation against Group companies and/or joint venture arrangements in which the Group has an interest. Macmahon is currently managing a number of claims, disputes and litigation processes in relation to its contracts, as well as in relation to personal injury and property damage arising from project delivery.

On 9 November 2015, Macmahon was served with a shareholder class action filed in the Federal Court of Australia by ACA Lawyers. The action, as amended in April 2018, is filed on behalf of shareholders who acquired Macmahon securities between 10 April 2012 and 19 September 2012 and relates to disclosures by Macmahon in 2012 regarding the now completed Hope Downs 4 contract. Macmahon denies any wrong doing and is defending the proceeding. Macmahon does not consider there is a reasonable basis on which to assess or estimate any potential liability and, therefore, continues to treat the proceeding as an unquantified contingent liability.



## NOTES TO THE FINANCIAL STATEMENTS

### PART G: UNRECOGNISED ITEMS

#### Note 21. Commitments

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	174,945	47,021
	174,945	47,021
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	12,515	15,086
One to five years	3,680	14,984
	16,195	30,070

#### *Operating lease facility*

The consolidated entity leases a number of offices and industrial workshop facilities. The leases typically run for a period of 10 years, with an option to renew the lease after that date. Some leases provide for additional payments that are based on changes in a local price index or CPI. The consolidated entity does not have an option to purchase the leased assets at the expiry of their lease period.

#### *Operating leases - equipment*

On 31 July 2013, the consolidated entity entered into a Master Operating Lease Agreement for plant and equipment. The leases typically run for a term of 3 to 5 years with the ability to extend for up to 3 years after that date. The consolidated entity has an option to purchase the assets at the expiry of their lease period. As at 30 June 2018, the total value of outstanding operating leases was \$26.7 million (2017: \$39.9 million)

#### *Finance leases - equipment*

Finance lease commitments in Note 17 include contracted amounts for various plant and equipment with a written down value of \$106.3 million (2017: \$8.8 million) under finance leases expiring within 1 year. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

## NOTES TO THE FINANCIAL STATEMENTS

### PART G: UNRECOGNISED ITEMS

#### Note 21. Commitments continued

##### **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability. Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Major component expenditure on operating leased equipment is capitalised to plant and equipment and amortised over the shorter of the remaining lease term or the useful life of the component.

#### Note 22. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 23. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy:

NAME	PRINCIPAL PLACE OF BUSINESS / COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		2018 %	2017 %
<b>Incorporated subsidiaries</b>			
Macmahon Contractors Pty Ltd	Australia	100.00%	100.00%
Macmahon Mining Services Pty Ltd	Australia	100.00%	100.00%
Doorn-Djil Yoordaning Mining and Construction Pty Ltd	Australia	100.00%	100.00%
Macmahon Underground Pty Ltd	Australia	100.00%	100.00%
Macmahon Contracting International Pte Ltd	Singapore	100.00%	100.00%
PT Macmahon Indonesia	Indonesia	100.00%	100.00%
PT Macmahon Mining Services	Indonesia	50.00%	50.00%
Macmahon Constructors Sdn Bhd	Malaysia	100.00%	100.00%
TMM Group Pty Ltd**	Australia	100.00%	0.00%
TMM Group (Consult) Pty Ltd**	Australia	100.00%	0.00%
TMM Group (IP) Pty Ltd**	Australia	100.00%	0.00%
TMM Group (Operations) Pty Ltd**	Australia	100.00%	0.00%
Windsor Earthmoving Contractors Pty Ltd**	Australia	100.00%	0.00%
Lycullin Equipment Hire Pty Ltd**	Australia	100.00%	0.00%
Macmahon Contractors (WA) Pty Ltd*	Australia	100.00%	100.00%
Macmahon (Southern) Pty Ltd*	Australia	100.00%	100.00%
Macmahon Africa Pty Ltd*	Australia	100.00%	100.00%
Macmahon Malaysia Pty Ltd*	Australia	100.00%	100.00%
Macmahon Contractors (NZ) Ltd*	New Zealand	100.00%	100.00%
Macmahon Sdn Bhd*	Malaysia	100.00%	100.00%
PT Macmahon Contractors Indonesia*	Indonesia	100.00%	0.00%
Macmahon Singapore Pte Ltd*	Singapore	100.00%	0.00%
Macmahon Mongolia Holdings Pte Ltd*	Singapore	100.00%	100.00%
Macmahon Mongolia LLC*	Mongolia	100.00%	100.00%
Macmahon Contractors Nigeria Ltd*	Nigeria	100.00%	100.00%
Macmahon Contracting Ghana Limited*	Ghana	100.00%	100.00%
Macmahon Botswana (Pty) Ltd*	Botswana	100.00%	100.00%
Macmahon Rail Pty Ltd*	Australia	0.00%	100.00%
Macmahon Rail Holdings Pty Ltd*	Australia	0.00%	100.00%
Macmahon Rail Investments Pty Ltd*	Australia	0.00%	100.00%
Macmahon Rail Operations Pty Ltd*	Australia	0.00%	100.00%
Thomco (No. 2020) Pty Ltd*	Australia	0.00%	100.00%
Thomco (No. 2021) Pty Ltd*	Australia	0.00%	100.00%
Thomco (No. 2022) Pty Ltd*	Australia	0.00%	100.00%
<b>Interest in trusts</b>			
Macmahon Holdings Limited Employee Share Ownership Plans Trust	Australia	100.00%	100.00%
Macmahon Underground Unit Trust	Australia	100.00%	100.00%

\*Entities were deregistered or inactive during the year.

\*\*Entities were acquired during the year, refer to note 31.

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 24. Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the consolidated entity are set out below:

NAME	PRINCIPAL ACTIVITIES	OWNERSHIP INTEREST	
		2018 %	2017 %
PT Macmahon Mining Services	Mining services	50.00%	50.00%
Macmahon / Adasa JV*	Non-active	0.00%	50.00%
Goorong Jimbila Contracting JV*	Non-active	0.00%	50.00%
Malana JV*	Non-active	0.00%	50.00%
Marapikurrinya JV*	Non-active	0.00%	45.00%
Karara Yamatji JV*	Non-active	0.00%	50.00%
Tonkin Highway JV*	Non-active	0.00%	50.00%
Roe Highway JV*	Non-active	0.00%	50.00%
Hale Street Link JV*	Non-active	0.00%	33.33%
Ross River Dam JV*	Non-active	0.00%	50.00%
Bell Bay Alliance JV*	Non-active	0.00%	20.00%
Rail Link JV*	Non-active	0.00%	25.00%
Eyre Peninsula JV*	Non-active	0.00%	50.00%

\* Joint Ventures that were deregistered or inactive during the year.

#### Investments accounted for using the equity method

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Net investment in PT Macmahon Mining Services (quasi-equity loan)	3,531	3,662
Other investments	-	96
Share of profit of equity-accounted investees, net of tax	5,742	3,133
	9,273	6,891

PT Macmahon Mining Services is a joint venture in which the Group has joint control and a 50% ownership interest. The Company is involved in contract mining services in Indonesia and is not publicly listed.

PT Macmahon Mining Services is structured as a separate vehicle and the Group has a residual interest in the net assets of the entity. Accordingly, the Group has classified its interest in PT Macmahon Mining Services as a joint venture. In accordance with the agreement between the shareholders of PT Macmahon Mining Services, the Group and the other investor in the joint venture have agreed to ensure the joint venture has sufficient funds to perform its contract to provide mining services at the Martabe project. The commitment has not been recognised in these consolidated financial statements.

The following table summarises the financial information of the Group's joint ventures as included in their own financial statements, adjusted for fair value adjustments and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in joint ventures. The Group does not eliminate realised profit or loss transactions with equity investees.

Summary financial information for equity accounted investees, unadjusted for percentage ownership held by the consolidated entity (100%)

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<i>Summarised statement of financial position</i>		
Cash	6,628	4,680
Other current assets (excluding cash)	20,142	19,173
<b>Total current assets</b>	<b>26,770</b>	<b>23,853</b>
<b>Total non-current assets</b>	<b>13,621</b>	<b>15,228</b>
<b>Total assets</b>	<b>40,391</b>	<b>39,081</b>
<b>Current payables</b>	<b>(11,574)</b>	<b>(11,165)</b>
<b>Current borrowings - external</b>	<b>(1,431)</b>	<b>(1,268)</b>
<b>Total current liabilities</b>	<b>(13,005)</b>	<b>(12,433)</b>
<b>Non-current borrowings - external</b>	<b>(7,480)</b>	<b>(10,801)</b>
<b>Other non-current financial liabilities</b>	<b>(1,361)</b>	<b>(2,066)</b>
<b>Total non-current liabilities</b>	<b>(8,841)</b>	<b>(12,867)</b>
<b>Total liabilities</b>	<b>(21,846)</b>	<b>(25,300)</b>
<b>Net assets (100%)</b>	<b>18,545</b>	<b>13,781</b>
<b>Group's share of net assets (50%)</b>	<b>9,273</b>	<b>6,891</b>
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	59,079	57,387
Finance Costs	(901)	(740)
Depreciation	(4,997)	(3,493)
Other Expenses	(47,782)	(46,844)
<b>Profit before income tax</b>	<b>5,399</b>	<b>6,310</b>
<b>Tax</b>	<b>(986)</b>	<b>(1,262)</b>
<b>Net profit after tax (100%)</b>	<b>4,413</b>	<b>5,048</b>
<b>Share of profit of equity-accounted investees, net of tax (50%)</b>	<b>2,207</b>	<b>2,524</b>
<b>Dividends received by the group</b>	<b>-</b>	<b>-</b>

To support the activities of the joint venture, the consolidated entity and the other investors in the joint venture have agreed to make additional contribution in proportion to the interest to make up any losses, if required. The jointly controlled entities do not have any capital commitments.

#### **Joint ventures**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 25. Related party transactions

##### Parent entity

Macmahon Holdings Limited is the parent entity.

##### Subsidiaries

Interests in subsidiaries are set out in note 23.

##### Joint ventures

Interests in joint ventures are set out in note 24.

##### Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the Directors' report.

##### Transactions with related parties - Joint Venture

The following transactions occurred with related parties:

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Recharges to Joint Venture	1,359	713
Management fee charged to Joint Venture	846	3,381

##### Receivable from and payable to related parties

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Receivable from Joint Venture	196	1,381

##### Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Revenue recognised from shareholder	153,529	-
Purchases made from shareholder	(70,622)	-

##### Receivable from and payable to shareholder (AMNT)

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Receivable from shareholder	25,637	-
Payable to shareholder	(11,106)	-

Refer to note 14 for details of the AMNT transaction.

During the year the 50% equity accounted PT Macmahon Mining Services Joint Venture received revenue of \$1.0 million from AMNT. There was no amount owing from AMNT to the Joint Venture as at 30 June 2018.

**NOTES TO THE FINANCIAL STATEMENTS**  
**PART H: OTHER INFORMATION/GROUP STRUCTURE**  
**Note 26. Key management personnel disclosures**

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.  
 The transactions with a shareholder relate to the mining services at the Batu Hijau mine owned by AMNT.  
 AMNT (including its related entities) is a significant shareholder in Macmahon.

*Compensation*

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	<b>CONSOLIDATED</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,607,926	1,404,747
Long-term employee benefits	70,831	5,310
Post-employment benefits	165,296	88,274
Leave benefits	3,949	59,582
Share-based payments	196,068	(36,307)
	3,044,070	1,521,606

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 27. Share-based payments

The consolidated entity has the following equity compensation plans in place to remunerate executives and employees of the Group:

- Macmahon Executive Equity Plan ("EEP" or "LTI Plan")

##### Macmahon EEP or LTI Plan

The LTI Plan provides Executives (including the CEO) and other senior personnel with the opportunity to receive fully paid shares in Macmahon for no consideration, subject to specified time restrictions, continuous employment and performance conditions being met. Each performance right will entitle participants to receive one fully paid ordinary share at the time of vesting. The LTI Plan is designed to assist with employee retention, and to incentivise employees to maximise returns and earnings for shareholders.

Participants are granted Performance Rights, which are contractual rights to receive fully paid shares in Macmahon, subject to the LTI Plan conditions being satisfied. The Board determines which Executives are eligible to participate and the number of rights granted. Each right will entitle the participant to receive one fully paid ordinary Macmahon share on vesting.

PERFORMANCE RIGHTS EFFECTIVE ON 1 JULY 2014 (GRANTED 7 AUGUST 2014)	PERFORMANCE PERIOD	
	3 YEARS ENDING 1/07/2017	3 YEARS ENDING 1/07/2017
	<i>Tranche 1</i>	<i>Tranche 2</i>
Tranche and number of Performance Rights	10,550,000	10,550,000
Fair value on grant date	\$0.091	\$0.091
<b>Vesting performance condition</b>		
At or above 12% EPS CAGR	10,550,000	
EPS Between 5% EPS CAGR and 12% EPS CAGR	5,275,000 plus 7.14% for each additional EPS CAGR % above 5% CAGR	
Less than 5% EPS CAGR and 12% EPS CAGR	Nil	
TSR Ranking 75% or higher of the TSR of two peer groups		10,550,000
TSR Ranking 50%-75% or higher of the TSR of two peer groups (50% weighting to each peer group)		5,275,000 plus 2% for each percentile above 50%
TSR Ranking below 50% or higher of the TSR of two peer groups (50% weighting to each peer group)		Nil

On 1 July 2017, 1,343,100 performance rights vested. There were no remaining 2014 performance rights at 30 June 2018.



<b>PERFORMANCE RIGHTS EFFECTIVE ON 1 JULY 2016 (GRANTED 12 AUGUST 2016)</b>	<b>PERFORMANCE PERIOD</b>
	<b>3 YEARS ENDING 1/07/2019</b>
Tranche and number of Performance Rights	12,659,501
Fair value on grant date	\$0.075
<b>Vesting performance condition</b>	
Less than 17% CAGR in TSR	0%
17% CAGR in TSR	50%
25% or more CAGR in TSR	100%
Between 17% and 25% CAGR in TSR	Pro-rata between 50% and 100%

At 30 June 2018 the number of performance rights decreased to 5,971,921 as a result of redundancies and resignations.

<b>PERFORMANCE RIGHTS EFFECTIVE ON 1 JULY 2017 (GRANTED FROM 1 JULY 2017)</b>	<b>PERFORMANCE RIGHTS GRANTED ON 18 AUGUST 2017</b>	<b>PERFORMANCE RIGHTS GRANTED ON 29 NOVEMBER 2017</b>	<b>PERFORMANCE* RIGHTS GRANTED ON 3 MARCH 2018</b>
	<b>3 YEARS ENDING 1/07/2020</b>	<b>3 YEARS ENDING 1/07/2020</b>	<b>2.5 YEARS ENDING 1/07/2020</b>
Grant date	1/07/2017	1/07/2017	1/01/2018
Tranche and number of Performance Rights	13,669,315	482,075	1,070,093
Fair value on grant date	\$0.085	\$0.130	\$0.125
<b>Vesting performance condition</b>			
Less than 17% CAGR in TSR	0%	0%	0%
17% CAGR in TSR	50%	50%	50%
25% or more CAGR in TSR	100%	100%	100%
Between 17% and 25% CAGR in TSR	Pro-rata between 50% and 100%	Pro-rata between 50% and 100%	Pro-rata between 50% and 100%

\* Performance rights effective 1 January

At 30 June 2018 the number of performance rights decreased to 11,908,218 as a result of redundancies and resignations.

**NOTES TO THE FINANCIAL STATEMENTS**  
**PART H: OTHER INFORMATION/GROUP STRUCTURE**  
**Note 27. Share-based payments continued**

*Information about performance rights and share options outstanding at year end*

The following unvested unlisted Executive performance rights were outstanding at year end under the Macmahon EEP LTI Plan:

	<b>EXECUTIVE PERFORMANCE RIGHTS</b>	
	<b>2018</b>	<b>2017</b>
Balance at start of the year	12,118,502	17,505,741
Granted during the year	15,221,483	12,659,501
Vested during the year	(1,343,100)	(1,674,400)
Expired during the year	(2,356,900)	(4,481,341)
Forfeited during the year	(5,759,846)	(11,890,999)
<b>Balance at the end of year</b>	<b>17,880,139</b>	<b>12,118,502</b>

*Share-based payments recognised in employee benefits expense*

The following amounts were recognised as employee benefits expense in profit or loss, in connection with the Company's equity compensation plans:

	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Performance rights	260	(185)
<b>Total (income) / expense recognised in employee benefits expense</b>	<b>260</b>	<b>(185)</b>

*Measurement of grant date fair values*

The following inputs were used in the measurement of the fair values at grant date of the 2018 share-based payment plans:

	<b>PERFORMANCE RIGHTS</b>		
Fair value at grant date	\$0.085	\$0.130	\$0.125
Share price at grant date	\$0.175	\$0.220	\$0.245
Expected volatility (weighted average volatility)	50.00%	50.00%	50.00%
Option life (expected weighted average life)	2.9 years	2.6 years	2.3 years
Expected dividends	0%	0%	0%
Risk-free interest rate (based on government bonds)	1.90%	1.81%	1.99%

Expected volatility is estimated taking into account historic average share price volatility.

#### *Share-based payment transactions*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial, Black-Scholes or Monte Carlo model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### *Share-based payments*

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial, Monte Carlo or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

If any performance rights have been forfeited for failure to complete a service period, the costs of the performance rights costs are trued up i.e., amounts previously expensed are no longer incurred and accordingly reversed in the current year. This policy is applied irrespective of whether the employee resigns voluntarily or is dismissed by the Company.

**NOTES TO THE FINANCIAL STATEMENTS**  
**PART H: OTHER INFORMATION/GROUP STRUCTURE**

**Note 28. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the parent entity, and its international network firms:

	<b>CONSOLIDATED</b>	
	<b>2018</b> \$	<b>2017</b> \$
<b>GROUP AUDITORS</b>		
<i>Audit services - KPMG</i>		
Audit or review of the financial statements - Australia	264,300	294,000
Audit or review of the financial statements - Network firms	48,335	110,494
	312,635	404,494
<i>Other services - KPMG</i>		
Tax services - Australia	48,555	29,875
Tax services - Network firms	89,133	55,202
Other assurance services	76,839	151,523
	214,527	236,600
	527,162	641,094
<b>SUBSIDIARY AUDITORS</b>		
<i>Audit services</i>		
Audit of the financial statements - PWC Indonesia	76,904	-
<i>Other services</i>		
Tax services - PWC Indonesia	70,751	-
	147,655	-
	674,817	641,094

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 29. Deed of cross guarantee

Pursuant to ASIC Corporation Instrument 2016/785 dated 27 June 2018, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial statements, and Directors' report.

It is a condition of the Instrument that Macmahon Holdings Limited ("the Company") and each of the subsidiaries ("Extended Closed Group") below enter into a Deed of Cross Guarantee ("Deed"). The effect of the Deed is that the Company guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The following entities are party to a Deed of Cross Guarantee under which each company guarantees the debts of the others:

Macmahon Contractors Pty Ltd  
Macmahon Underground Pty Ltd  
Macmahon Mining Services Pty Ltd  
TMM Group Pty Ltd

TMM Group Pty Ltd became a party to the deed on 28 June 2018. Macmahon Southern Pty Ltd and Macmahon Rail Pty Ltd were released from their obligations under the deed by executing Revocation deeds on 28 June 2018.

**NOTES TO THE FINANCIAL STATEMENTS**  
**PART H: OTHER INFORMATION/GROUP STRUCTURE**  
**Note 29. Deed of cross guarantee continued**

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position, comprising the Company and its controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at the end of the financial year.

<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Revenue	514,112	328,078
Other income	10,198	4,343
Materials and consumables used	(239,654)	(159,288)
Employee benefits expense	(176,569)	(125,327)
Subcontractor costs	(24,986)	(5,888)
Depreciation and amortisation expense	(41,846)	(31,944)
Equipment and office expenses under operating leases	(14,885)	(14,178)
Net finance costs	1,364	(639)
Other expenses	(66,098)	(21,775)
(Loss)/profit before income tax expense	(38,364)	(26,618)
Income tax benefit	25,745	159
(Loss)/profit after income tax expense	(12,619)	(26,459)

<b>OTHER COMPREHENSIVE INCOME</b>	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Foreign currency translation	-	(930)
Other comprehensive income for the year, net of tax	-	(930)
Total comprehensive loss for the year	(12,619)	(27,389)

<b>EQUITY - RETAINED PROFITS</b>	<b>CONSOLIDATED</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Accumulated losses at the beginning of the financial year	(316,945)	(290,030)
Loss after income tax expense	(12,619)	(26,459)
Treasury shares purchased for compensation plans	(595)	(742)
Transfer of expired performance rights	168	286
Effect of removing Macmahon Rail Pty Ltd	12,098	-
Effect of removing Macmahon Southern Pty Ltd	11,034	-
Effect of adding Macmahon Underground Pty Ltd	73,191	-
Effect of adding TMM Group Pty Ltd	8,373	-
Accumulated losses at the end of the financial year	(225,295)	(316,945)

**CONSOLIDATED**

<b>STATEMENT OF FINANCIAL POSITION</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	83,207	57,452
Trade and other receivables	91,441	45,647
Inventories	41,861	25,672
Lease receivable	700	-
Income tax	6,682	12,876
Assets of disposal groups classified as held for sale	2,868	3,079
	<b>226,759</b>	<b>144,726</b>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	41,390	31,663
Other financial assets	93,176	34,139
Property, plant and equipment	208,659	112,348
Intangibles	-	-
Lease receivable	9,792	-
Deferred tax	-	164
	<b>353,017</b>	<b>178,314</b>
<b>TOTAL ASSETS</b>	<b>579,776</b>	<b>323,040</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	117,568	69,037
Borrowings	18,581	1,939
Income tax	-	-
Employee benefits	14,052	7,807
Provisions	11,237	11,171
	<b>161,438</b>	<b>89,954</b>
<b>NON-CURRENT LIABILITIES</b>		
Payables	-	160,040
Borrowings	83,490	6,909
Deferred tax liabilities	1,038	-
Employee benefits	408	3,396
	<b>84,936</b>	<b>170,345</b>
<b>TOTAL LIABILITIES</b>	<b>246,374</b>	<b>260,299</b>
<b>NET ASSETS</b>	<b>333,402</b>	<b>62,741</b>
<b>EQUITY</b>		
Issued capital	563,118	384,794
Reserves	(4,421)	(5,108)
Accumulated losses	(225,295)	(316,945)
<b>TOTAL EQUITY</b>	<b>333,402</b>	<b>62,741</b>

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

	<b>PARENT</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Forgiveness of historic inter-group loans	(249,517)	-
Reversal of investment impairment provision	235,768	-
Other income / (expenses)	(6,840)	8,110
Profit/(Loss) after income tax	(20,589)	8,110
Total comprehensive profit/(loss)	(20,589)	8,110

*Statement of financial position*

	<b>PARENT</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Total current assets	2,373	13,302
Total assets	251,110	149,021
Total current liabilities	(1,418)	2,047
Total liabilities	(2,569)	58,307
Equity		
Issued capital	563,118	384,794
Share-based payments reserve	640	548
Reserve for own shares	(5,186)	(5,781)
Accumulated losses	(310,031)	(288,847)
Total equity	248,541	90,714

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of some of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note 29.

*Contingent liabilities*

Refer to note 20 for information in relation to the shareholder class action.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity.



## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 31. Acquisition of subsidiary

On 1 January 2018, the Group acquired 100% of the shares and voting interests in TMM Group Pty Ltd and its wholly owned subsidiaries ("TMM").

The acquisition of TMM will provide the Group with additional civil capability that is expected to be an enabler to core mining work through contracts for initial site earthworks and construction services, as well as the ability to target site rehabilitation projects.

##### *Consideration transferred*

Total consideration on acquisition of \$2.7 million included a cash payment (\$1.0 million), cash provided to sellers for which shares were purchased on market (\$1.0 million) and potential contingent consideration (\$0.7 million).

##### *Contingent consideration*

The Group has agreed to pay the selling shareholders additional consideration up to a maximum of \$7.0 million over the next three years if TMM's EBITDA meets certain thresholds (after the consideration of changes in net debt) each financial year. The Group has included \$745,000 as contingent consideration related to the additional consideration, which represents its fair value at the date of acquisition.

##### *Acquisition related costs*

The Group incurred acquisition costs of \$0.2 million on legal fees and due diligence costs. These costs have been included in "Other expenses".

##### *Identifiable assets acquired and liabilities assumed*

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	<b>\$'000</b>
Cash and cash equivalents	416
Trade and other receivables	11,809
Property, plant and equipment	10,675
Trade and other payables	(11,275)
Borrowings	(11,001)
Income tax	154
Employee benefits	(1,034)
<b>Total identifiable net assets acquired</b>	<b>(256)</b>

The initial accounting for the acquisition of TMM Group has only been provisionally determined at the end of the reporting period.

##### *Goodwill*

Goodwill arising from the acquisition of \$3 million is attributable to the skills and talent of TMM's workforce and the synergies expected to arise after the acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill is not expected to be deductible for tax.

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 32. Other significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Application of new, revised or amending Accounting Standards and Interpretations**

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The accounting policies applied in these financial statements are the same as those applied in the consolidated entity's annual financial statements as at and for the year ended 30 June 2017, except for the new, revised or amended accounting standards below.

- Amendments to AASB 7 *Disclosure Initiative*
- Amendments to AASB 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

##### **New Accounting Standards and Interpretations not effective for the Group at 30 June 2018 or early adopted**

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

##### *AASB 15 Revenue from Contracts with Customers*

The Group is required to adopt AASB 15 Revenue from Contracts with Customers from 1 July 2018. AASB 15 establishes a single comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principles of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under AASB 15 an entity recognised revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or service underlying the performance obligation is transferred to the customer. The Group recognised revenue from the rendering of services.

Macmahon Group has operations primarily in mining services in Australia and Indonesia. Revenue for mining services is predominantly recognised on the basis of the work completed over time. These services have been determined to be one performance obligation as they are highly inter-related and performed over time with the customers receiving the benefit over time or as the service is performed.

Apart from providing more extensive disclosures, the Group does not anticipate that the application of AASB 15 will result in significant differences in the timing of revenue recognition for these services.

##### *Transition*

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

##### *AASB 9 Financial Instruments*

The Group is required to adopt AASB 9 Financial Instruments from 1 July 2018. This standard replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements.

##### • *Classification*

Financial assets - AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The standard contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL and eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for financial instruments.

- *Impairment*

AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables and finance lease receivables.

The Group has determined that the application of AASB 9's impairment requirements at 1 July 2018 will not have a material increase to the current impairment recognised for financial assets.

#### *AASB 16 Leases*

AASB 16 replaces existing leases guidance, including AASB 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 at or before the date of initial application of AASB 16. The Group has not early adopted AASB 16. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Group is in the process of completing its detailed assessment, however expect there to be an increase in "right to use assets" and lease liabilities.

#### *Other standards*

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle
- Amendments to IFRS 1 and IAS 28
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments

#### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, defined benefit plan assets and liabilities and derivative financial instruments which are stated at their fair value. Certain property, plant and equipment and inventory is recognised at fair value less costs to sell and net realisable value respectively.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are included in the respective notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### PART H: OTHER INFORMATION/GROUP STRUCTURE

#### Note 32. Other significant accounting policies continued

##### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 30.

##### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Macmahon Holdings Limited ('parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Macmahon Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

##### *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets/liabilities acquired. Any goodwill that arises is tested annually for impairment. Any gain or bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

##### *Subsidiaries*

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

##### *Interest in equity accounted investees*

The consolidated entity's interests in equity accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the consolidated entity has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the consolidated entity has joint control, whereby the consolidated entity has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and the joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the consolidated entity's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

##### *Transactions eliminated on consolidation*

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

##### **Foreign currency translation**

The financial statements are presented in Australian dollars, which is Macmahon Holdings Limited's functional and presentation currency.

##### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

##### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the

reporting date. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to the functional currency at the exchange rate at that date. The income and expenses of foreign operations are translated into Australian dollars at the average exchange rates for the period. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are recognised to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

### **Revenue recognition**

Revenue (including maintenance services) is recognised when the services are provided and is based on surveys of work performed where applicable. Revenues are based on volumes of work performed on a monthly basis and in certain contracts are performed throughout the first life of the underlying mine or continuously throughout the duration of the contract.

Revenue is recognised at the fair value of the consideration received or receivable, to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### **Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### **Discontinued operations**

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

### **Rounding of amounts**

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

# DIRECTORS'

# DECLARATION

In the Directors' opinion:

- the attached financial statements and notes, and the remuneration report on pages 47 to 59 in the Directors' report, are in accordance with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 33 and throughout the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date and comply with Australian Accounting Standards and the Corporations Regulations 2001 ;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee (pursuant to ASIC Class Order 98/1418) described in note 29 to the financial statements.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



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**JA WALKER**

Director  
24 August 2018  
Perth



# INDEPENDENT

# AUDITOR'S REPORT



## Independent Auditor's Report

To the shareholders of Macmahon Holdings Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of Macmahon Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

#### Key Audit Matters

The **Key Audit Matters** we identified are:

- Significant transaction – Batu Hijau Plant and Equipment acquisition;
- Recognition of Management fee revenue
- Assessment of potential onerous contract – Telfer.

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





Significant transaction – Batu Hijau Plant and Equipment acquisition (\$182.5 million)	
Refer to Note 14 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>On 8 August 2017 Macmahon Holdings Limited’s wholly owned subsidiary PT Macmahon Indonesia (“Macmahon Indonesia”) completed a transaction with PT Amman Mineral Nusa Tenggara (“AMNT”) in which Macmahon Indonesia acquired \$182.5 million of mining equipment. In consideration, 954 million shares were issued to an AMNT subsidiary, giving AMNT a 44.3% shareholding in Macmahon Holdings Limited.</p> <p>As part of the transaction, Macmahon Indonesia secured a Mining and Leasing Services contract to become the mining services contractor at AMNT’s Batu Hijau Mine in Indonesia.</p> <p>The transaction is considered a key audit matter due to its size and accounting complexity. Various aspects of the transaction needed to be considered such as the potential for the transaction to represent a lease, a business combination or an asset acquisition. The Group engaged an external expert to provide accounting advice on this transaction. Significant audit effort was required to assess the terms of the contract to evaluate the recognition and measurement of the transaction against the requirements of the accounting standards.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Reading the Transaction Implementation Deed and Mining and Leasing Services contract, together with associated transaction documents, to obtain a detailed understanding of the contractual terms and conditions of the transaction.</li> <li>• Reading the external expert accounting advice received by the Group, including understanding their scope and limitations, evaluating key considerations in the advice on the various aspects of the transaction against the terms of the above agreements. In addition we evaluated the competence, and objectivity of the external expert.</li> <li>• Working together with our technical accounting specialists, we critically assessed the Group’s accounting treatment for the above agreements against the recognition and measurement requirements of the accounting standards. The particular impacts we focused on were those relating to leases, business combinations, property, plant and equipment and share based payments.</li> <li>• Evaluating the Group’s disclosures regarding the transaction against the requirements of the accounting standards.</li> </ul>
Recognition of Management fee revenue	
Refer to Note 25 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>Included within Revenue is the Batu Hijau Project management fee recognised by a wholly owned subsidiary, PT Macmahon Indonesia. The management fee represents a significant proportion of the Group’s profit from continuing operations for FY 2018.</p> <p>The management fee is earned by achieving specified tonnage movement measures within the twelve months ended 31 December 2018 in line with the terms of the Mining and Leasing Services contract with AMNT.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Reading the Batu Hijau Mining and Leasing Services contract, together with approved variations to obtain a detailed understanding of the terms and conditions, including performance measures. We critically assessed the Group’s accounting treatment against the requirements of the accounting standards.</li> <li>• Assessing forecast tonnage movement through inquiries with the Group to understand the specific plans and risks to achieving future operating performance measures.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT CONTINUED



<p>Achieving the management fee is dependent on the Group implementing plans to achieve forecast tonnage movement.</p> <p>This is a key audit matter due to the increased audit effort in assessing estimation uncertainty and its significance to profit from continuing operations.</p>	<ul style="list-style-type: none"> <li>• Assessing plans and assumptions underpinning the forecast tonnage movement of the contract to 31 December 2018 by:             <ul style="list-style-type: none"> <li>– comparing actual tonnage movement since commencement of the contract, to management reports and customer confirmation;</li> <li>– challenging assumptions of forecast tonnage movement with actual tonnage movement to date together with incremental tonnage assumed through the deployment of additional equipment and resources.</li> <li>– reading the minutes of the Batu Hijau Project leadership meeting which comprises senior management of the Group and AMNT where actual and forecast tonnage performance is considered; and</li> <li>– checking the feasibility of the Group's plans with regards to this contract to the customer's mine plan.</li> </ul> </li> </ul>
<b>Assessment of potential onerous contract – Telfer</b>	
<p>Refer to Note 13 to the Financial Report</p>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The assessment of a potential onerous contract for the Telfer Mining Services Contract (contract) is considered a key audit matter due to the contract incurring significant losses to date and the estimation uncertainty in forecasting cash flows, leading to increased audit risk.</p> <p>The Group's assessment of the potential of the contract to be onerous is based on forecast cash flows over the remaining contract term.</p> <p>We focused on evaluating the Group's assessment of forecast cash flows, in particular the impact of various productivity initiatives including replacement and deployment of equipment.</p>	<p>Our procedures included:</p> <p>In relation to significant losses incurred to date we assessed the Group's analysis of the actual costs incurred, by:</p> <ul style="list-style-type: none"> <li>• Reading monthly management reports.</li> <li>• Obtaining and reading correspondence between the Group and customer for evidence of performance issues and concerns.</li> <li>• Inquiring with operational management on contract performance.</li> <li>• Testing a statistical sample of costs incurred on the contract to underlying documentation.</li> </ul> <p>In relation to the forecast cash flows over the remaining contract term we challenged the forecast for feasibility and consistency by:</p> <ul style="list-style-type: none"> <li>• Reading the terms of the contract including performance conditions, contract variations and comparing these to terms used in the forecast.</li> </ul>



	<ul style="list-style-type: none"> <li>• Comparing forecast cash flows to past events resulting in losses from our procedures outlined above.</li> <li>• Comparing forecast cash flows to recent actual performance.</li> <li>• Inspecting updated mine plans and production schedules to check for consistency against the forecast cash flows.</li> <li>• Reading the following for evidence of issues or concerns relevant to the forecast period:             <ul style="list-style-type: none"> <li>– Correspondence between the Group and customer.</li> <li>– Minutes of the quarterly management meetings between the Group and customer.</li> <li>– The Group’s monthly board minutes.</li> </ul> </li> </ul>
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#### Other Information

Other Information is financial and non-financial information in Macmahon Holdings Limited’s annual reporting which is provided in addition to the Financial Report and the Auditor’s Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor’s Report we have nothing to report.

#### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## INDEPENDENT AUDITOR'S REPORT CONTINUED



### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

### Report on the Remuneration Report

#### Opinion

In our opinion, the Remuneration Report of Macmahon Holdings Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

#### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

#### Our responsibilities

We have audited the Remuneration Report included in pages 47 to 59 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Trevor Hart  
Partner

Perth

24 August 2018



# SUMMARY OF

# CONSOLIDATED RESULTS

<b>PROFIT AND LOSS (\$M)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Revenue from continuing operations	710.3	359.6	312.2	660.2	1,015.9	1,165.5
Underlying EBITDA	118.9	31.8	42.5	97.0	171.0	172.0
Depreciation and amortisation	(77.7)	(33.5)	(28.8)	(59.6)	(101.7)	(85.6)
Underlying EBIT	41.2	(1.7)	13.8	37.4	69.3	86.4
Significant and non-recurring items and impairment	-	(3.4)	(2.1)	(233.8)	(2.0)	(1.8)
Reported EBIT	41.2	(5.1)	11.7	(196.4)	67.3	84.6
Net interest	(2.4)	(0.1)	(0.7)	(23.7)	(18.8)	(18.3)
Reported operating profit / (loss) before tax	38.8	(5.2)	11.0	(220.1)	48.5	66.3
Tax (expense) / benefit	(7.5)	(0.3)	(0.2)	(0.5)	(19.6)	(22.7)
Reported NPAT from continuing operations	31.3	(5.5)	10.8	(220.6)	28.9	43.6
Minority interest ("MI")	-	-	-	-	-	-
Reported NPAT attributable to Macmahon	31.3	(5.5)	10.8	(220.6)	28.9	43.6
Add: significant and non-recurring items (net of tax and MI) <sup>1</sup>	-	3.4	2.1	233.8	2.0	1.3
Underlying NPAT attributable to Macmahon	31.3	(2.1)	12.9	13.2	30.9	44.9
<b>BALANCE SHEET (\$M)</b>						
Plant and equipment	380.1	122.7	117.7	141.5	442.9	471.1
Total assets	723.3	295.0	300.1	524.3	823.7	944.5
Net assets	409.8	185.0	207.4	221.8	432.2	401.2
Equity attributable to Macmahon	409.8	185.0	207.4	221.8	432.2	401.2
Net debt / (net cash)	(3.4)	(54.1)	(56.5)	(74.2)	55.9	61.7
<b>CASH FLOW (\$M)</b>						
Underlying EBITDA	118.9	31.8	42.5	100.8	172.9	67.5
Net interest paid	(2.4)	(0.1)	(1.0)	(10.8)	(15.9)	(18.8)
Income tax (paid) / refund	6.3	-	(2.8)	(1.9)	(8.7)	(9.6)
Working capital, provisions and other non cash items decrease / (increase)	(17.0)	(1.5)	(29.7)	(34.3)	(70.4)	69.5
Net operating cash flow including JV	105.8	30.2	9.0	53.8	77.9	108.6
Investing and financing cash flows (net)	(59.1)	(23.1)	(188.6)	70.6	(122.3)	(91.6)
Effect of exchange rates on cash	0.0	(0.9)	(0.6)	3.1	0.3	1.5
Cash at beginning of financial year	62.9	56.7	236.9	109.4	153.5	134.9
<b>CLOSING CASH BALANCE</b>	109.6	62.9	56.7	236.9	109.4	153.4

<sup>1</sup> Significant and non-recurring items in:

- 2017 includes the takeover defence costs;

- 2016 relates to onerous lease provisions;

- 2015 relates to property, plant and equipment impairment, inventory write downs and onerous lease provisions; and

- 2013 includes the Construction Business represented as a discontinued operation.

<b>PEOPLE AND SAFETY</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Number of employees	3,913	1,659	1,529	1,295	2,467	3,495
LTIFR	0.5	0.4	1.1	0.9	0.9	0.9
TRIFR	6.2	5.7	4.5	5.4	8.5	7.7
<b>ORDER BOOK</b>						
Work in hand (\$m) <sup>1</sup>	5,437	4,973	1,507	1,150	2,573	3,230
New contracts and extension (\$m) <sup>2</sup>	1,174	3,889	624	68	387	1,846
Revenue growth (%)	97.5	15.2	(52.7)	(35.0)	(12.8)	(29.9)
Reported NPAT / Total revenue (%)	4.4	(1.5)	3.5	(33.4)	2.8	(3.7)
Underlying NPAT / Total revenue (%) <sup>3</sup>	4.4	(0.6)	4.1	2.0	3.0	(3.7)
EBIT interest cover (x)	17.1	(33.8)	18.0	(8.3)	3.6	(4.6)
Reported basic EPS from continuing operations (cents)	1.53	(0.47)	0.87	(17.5)	2.30	4.37
Underlying basic EPS from continuing operations (cents) <sup>3</sup>	1.53	(0.18)	1.03	1.05	2.46	4.50
<b>BALANCE SHEET RATIOS</b>						
Gearing (Net debt or (Net cash)) / Equity	(0.8)	(29.2)	(27.2)	(33.5)	12.9	15.4
Reported ROC (%)	10.8	(2.2)	3.5	(35.7)	9.3	11.9
Underlying ROC (%) <sup>3</sup>	10.8	(0.7)	4.1	6.8	9.6	12.2
Reported ROE (%)	10.5	(2.8)	5.0	(67.5)	6.9	11.5
Underlying ROE (%) <sup>3</sup>	10.5	(1.1)	6.0	4.0	7.4	11.8
Reported ROA (%)	6.1	(1.9)	2.6	(32.7)	3.3	4.5
Underlying ROA (%) <sup>3</sup>	6.1	(0.7)	3.1	2.0	3.5	4.6
NTA per share (\$)	0.19	0.15	0.17	0.18	0.34	0.32
<b>CASH FLOW RATIOS (\$M)</b>						
Net operating cash flow per share (cents)	4.9	2.5	0.7	4.3	6.2	8.6
<b>SHAREHOLDERS</b>						
Shares on issue (m) @ 30 June	2,155.0	1,200.9	1,210.5	1,261.7	1,261.7	1,261.7
Share price @ 30 June (cents)	21.5	16.5	8.8	6.6	10.0	13.0
Dividend declared (cents)	-	-	-	-	-	-
Percentage franked (%)	n/a	n/a	n/a	n/a	n/a	n/a
Market capitalisation (\$m)	463.3	198.2	106.5	83.3	126.2	164.0
Enterprise value (EV)	459.9	144.1	50.0	9.1	182.1	225.7
Price / NTA (x)	1.1	1.1	0.5	0.4	0.3	0.4

<sup>1</sup> The order book for 2017 includes the Batu Hijau contract. The order book for 2016 includes a proportional share of joint venture order books. Construction included in historical numbers.

<sup>2</sup> New contracts and extensions for 2017 includes the Batu Hijau contract.

<sup>3</sup> Adjusted for significant and non-recurring items:

- 2017 includes the takeover defence costs;

- 2016 relates to onerous lease provisions;

- 2015 relates to property, plant and equipment impairment, inventory write downs and onerous lease provisions; and

- 2013 includes the Construction Business represented as a discontinued operation.

# ASX ADDITIONAL INFORMATION

As at 21 August 2018

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

## SHAREHOLDING SUMMARY

The following details of Shareholders of Macmahon Holdings Limited have been taken from the share register on 20 August 2018.

a) The twenty largest Shareholders held 84.93% of the ordinary shares.

b) There were 7,189 ordinary Shareholders as follows:

1 - 1,000	664
1,001 - 5,000	2,016
5,001 - 10,000	1,012
10,001 - 100,000	2,655
100,001 Over	592
<b>TOTAL</b>	<b>6,939</b>

## Twenty largest Shareholders as at 20 August 2018

RANK	NAME	UNITS	% UNITS
1	Perpetual Corporate Trust Limited <Amman Mineral Contractors (Singapore) PTE LTD A/C>	954,064,924	44.27
2	JP Morgan Nominees Australia Limited	327,323,769	15.19
3	HSBC Custody Nominees <Australia> Limited	152,709,446	7.09
4	Citicorp Nominees Pty Limited	122,795,393	5.70
5	National Nominees Limited	55,484,494	2.57
6	Zero Nominees Pty Ltd	45,000,000	2.09
7	BNP Paribas Noms Pty Ltd <DRP>	34,306,266	1.59
8	CCs Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	20,958,140	0.97
9	CPU Share Plans Pty Ltd <MAH LTR unallocated A/C>	20,000,003	0.93
10	AMP Life Limited	13,915,816	0.65
11	BNP Paribas Noms (NZ) Ltd <DRP>	11,910,230	0.55
12	CPU Share Plans Pty Limited <MAH EEP Unallocated A/C>	11,679,683	0.54
13	Bond Street Custodians Limited <Forager Wholesale Value FD>	11,315,749	0.53
14	HSBC Custody Nominees <Australia> Limited-Gsco ECA	8,995,518	0.42
15	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	8,588,938	0.40
16	National Nominees Limited <DB A/C>	7,461,369	0.35
17	Bond Street Custodians Ltd <Macquarie Smaller CO'S A/C>	5,600,000	0.26
18	Mr Paulus Gerardus Brouwer + Mr Remy Paulus Brouwer <Windy Spur S/F Account>	4,910,050	0.23
19	BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	4,118,714	0.19
20	Alkat Pty Ltd <Bowen Welsh A/C>	4,000,000	0.19
20	BPM Capital Limited	4,000,000	0.19
20	Researched Investments Pty Ltd <Richard Cruickshank S/F A/C>	4,000,000	0.19
<b>TOTALS: TOP 22 HOLDERS OF ORDINARY SHARES (TOTAL)</b>		<b>1,833,138,502</b>	<b>85.06</b>
<b>TOTAL REMAINING HOLDERS BALANCE</b>		<b>321,847,316</b>	<b>14.94</b>



## SUBSTANTIAL SHAREHOLDERS

As at 21 August 2018, the register of substantial shareholders disclosed the following information:

<b>HOLDERS GIVING NOTICE</b>	Number of ordinary shares in which interest is held
1. PERPETUAL CORPORATE TRUST LIMITED <AMMAN MINERAL CONTRACTORS (SINGAPORE) PTE LTD A/C>	954,064,924

## VOTING RIGHTS

The voting rights attaching to ordinary shares are set out below:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## VOLUNTARY ESCROW SHARES

958,175,972 shares are held in voluntary escrow of which 954,064,924 are due to be released on 8 February 2020 (assuming the shares are not cancelled prior to this time) and 4,111,048 are due to be released on approximately 22 September 2021.

## FEEDBACK

Macmahon would appreciate your feedback on this report. Your input will assist us to improve as a business and develop our report to further suit your needs. To respond, please either email [investors@macmahon.com.au](mailto:investors@macmahon.com.au) or mail to: Investor Relations PO Box 198 Cannington WA 6987  
[www.macmahon.com.au](http://www.macmahon.com.au)

## CALENDAR OF EVENTS

ANNUAL GENERAL MEETING NOVEMBER 2018  
RELEASE OF HALF YEAR RESULTS FEBRUARY 2019  
RELEASE OF FULL YEAR RESULTS AUGUST 2019



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