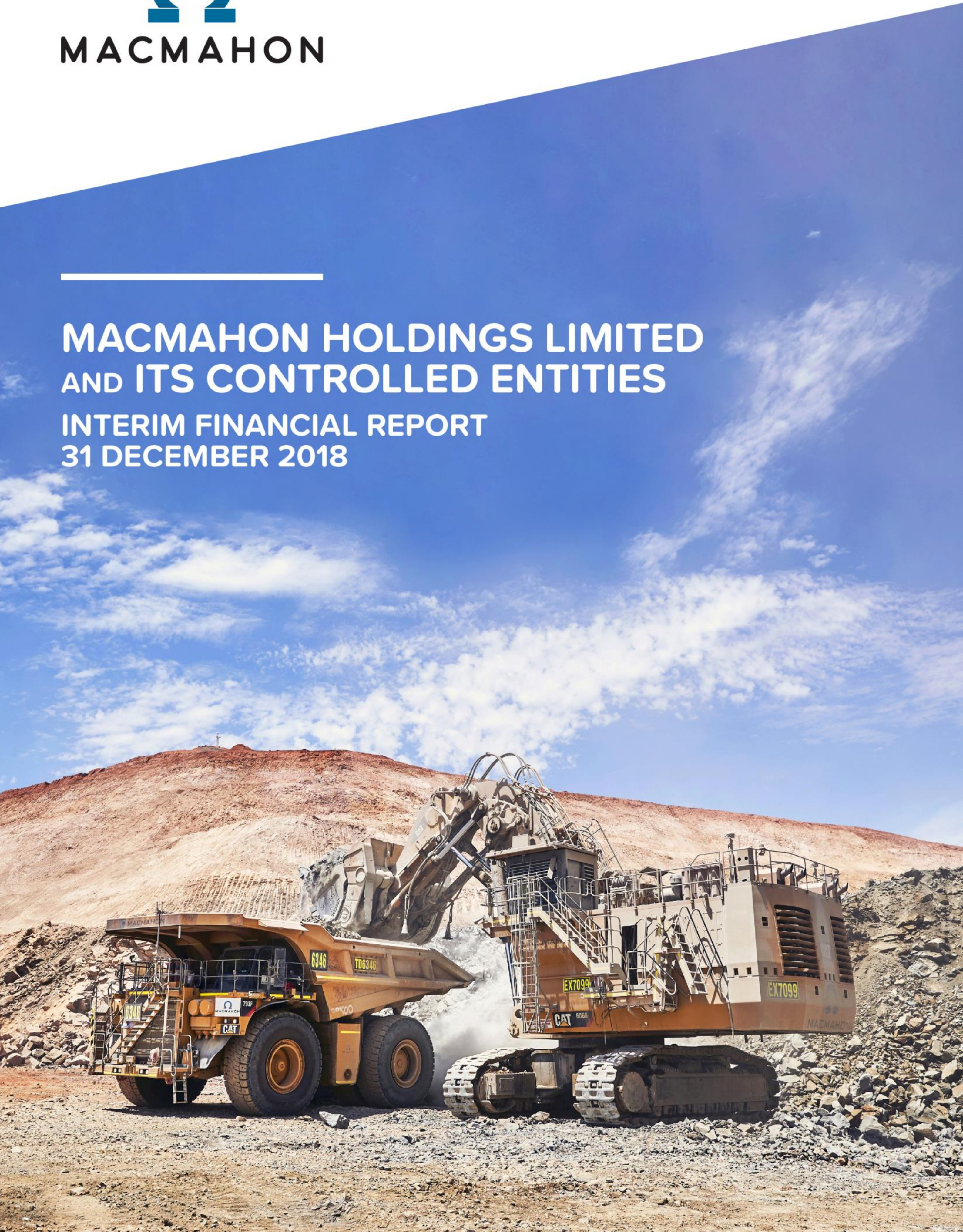
MACMAHON

MACMAHON HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT 31 DECEMBER 2018



Condensed consolidated interim financial report
For the six months ended 31 December 2018

Contents

DIRECTORS' REPORT

The Directors present their report together with the condensed consolidated interim financial statements of Macmahon Holdings Limited and its controlled entities ("consolidated entity" or "Macmahon") for the six months ended 31 December 2018 including the review report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the interim period are:

J A Walker	(Chairman, Non-executive)
E D R Skira	(Non-executive)
A Ramlie	(Non-executive)
A W Sidarto	(Non-executive)
K A Horne	(Non-executive)
V A Vella	(Non-executive resigned 31 October 2018)

PRINCIPAL ACTIVITIES

Macmahon is an ASX listed company offering mining and construction services to miners throughout Australia and South East Asia. With more than 50 years' experience in both surface and underground mining, Macmahon has established itself as a contractor of choice for resources projects across a range of locations and commodity sectors. Macmahon is focused on developing strong relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.

OPERATIONAL OVERVIEW

Macmahon's operational activities include Surface Mining, Underground Mining, Civil Construction (including rehabilitation) and Equipment Maintenance and Management.

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. Surface Mining contracts range from 3 years to life of mine.

Life of mine contracts

Macmahon is currently fulfilling life of mine contracts at:

- Tropicana Gold Mine (joint venture between Anglo Gold Ashanti and the Independence Group)
- Telfer Gold Mine (owned by Newcrest)
- Batu Hijau (owned by PT Amman Mineral Nusa Tenggara)

Term contracts

Macmahon continues with the following surface mining contracts:

- Byerwen Coal Mine (owned by the QCoal Group) – three year contract executed in November 2017 and includes the provision of all open cut mining and bulk earthworks.
- Mount Morgans Gold Mine (owned by Dacian Gold Limited) – a five year mining services contract awarded in December 2017 and includes the provision of open pit mining services including drilling and blasting, loading and hauling.
- Argyle Diamond Mine – Under its indigenous subsidiary, Doorn Djil, Macmahon is currently operating at Argyle where it is undertaking tailings work for Rio Tinto.
- Martabe Gold Mine (controlled by PT Agincourt Resources) – 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 (owned by Lafarge Holcim) and Lhoknga (owned by Pt Semen Indonesia) Quarries - a range of mining activities in Malaysia and Indonesia over several years.
- In January 2019 Macmahon commenced surface mining services at the Langkawi Quarry (owned by Lafarge Holcim)

Underground Mining

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

Development

Macmahon's joint venture entity in Indonesia continued with the development of an exploration decline at the Tujuh Bukit copper gold project in east Java.

Production services and ground support

Ground support and production drilling services continue to be provided to Mount Wright Gold Mine (production drilling), Ballarat Gold Mine (production drilling and cable bolting), Cadia-Ridgeway Mine (cable bolting), Nifty Mine (production drilling, cable bolting and shotcreting), Pajingo Mine (box hole drilling), and Granny Smith Gold Mine (cable bolting). Both Pajingo and Cadia-Ridgeway contracts were completed during the half year whilst new cable bolting services commenced at Leinster Mine (August 2018) and Fosterville (December 2018).

Raise drilling

Raise drilling services continued (and was completed) at the Leinster Mine and at the Olympic Dam Mine for BHP on both surface and underground. In December 2018 raise drilling services commenced at Thalanga for Red River Resources.

In addition Macmahon continues to provide care and maintenance services at the Ranger Mine and assists several clients with short to medium term equipment hire.

Civil Construction, Mining Infrastructure and Rehabilitation

Macmahon's Brisbane based subsidiary, TMM Group, provides rehabilitation, civil construction and maintenance services. Over the period TMM undertook road construction services at Peak Downs for BMA, creek diversion and the construction of a new flood levee and water storage facility at Rolleston for Glencore and construction of flood protection levee at Poitrel for BHP. In addition to these services TMM provides BMA with several items of equipment for utilisation at Saraji.

Equipment Maintenance and Management

Macmahon owns and operates world-class plant maintenance facilities, giving it a unique ability to support and maintain frontline equipment.

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 including providing 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.

FINANCIAL OVERVIEW

Mining Business

The Mining segment consolidates the results of the Group's Surface Mining, Underground Mining and International Mining segments.

Mining revenues increased significantly for the half year to $542.2 million from $270.0 million for the comparative period. This increase is primarily attributed to the growth in the Company with the Batu Hijau contract commencing Phase 2 in April 2018 and the commencement of new projects at Mt Morgans (late December 2017) and Byerwen Coal (November 2017).

Mining EBIT (before share based payments ("SBP") expense of $1.4 million) increased to $38.6 million compared to an EBIT (before SBP gain of $0.2 million) of $9.7 million in the prior corresponding period due to the expansion and commencement noted above and the improvement at the Telfer project.

The acquisition of the TMM Group provided Macmahon with additional capabilities that were and continue to be offered to existing clients with in the Mining Business. As these services have been integrated into existing operations the TMM Group is not considered a separate segment to the mining business.

Balance sheet and operating cash flows

The execution of existing projects together with commencement of new projects resulted in a net increase in Net Assets during the half year from $409.8 million to $424.4 million. The net increase resulted from increased working capital and capital expenditure primarily offset by the utilisation of cash and the increase in asset financing.

Working Capital

Net working capital increased during the six months by $33.8 million due to current trade and other receivables increasing to $183.0 million at 31 December 2018 (June 2018: $152.3 million), inventory increasing to $45.8 million (June 2018: $42.0 million) and the decrease in current trade and other payables to $175.0 million at 31 December 2018 (June 2018: $174.3 million). The $30.7 million increase in current trade and other receivables was a result of timing of receipts from current trade receivables.

Capital Expenditure

Capital expenditure (excluding intangible assets) for the half totalled $87.6 million, comprising plant of $62.2 million acquired through finance lease including $16.1 million of assets that are classified as lease receivable and $25.4 million major componentry and other minor additions funded through cash.

Net Financing

As at 31 December 2018, cash on hand totalled $77.4 million (30 June 2018: $109.6 million) against total debt of $158.6 million (30 June 2018: $106.3 million). The increase in net debt resulted from increased plant and equipment for new projects and contract expansions including sustaining capital at existing projects.

Cash Flow

For the half year the company generated $34.6 million cash from operating activities (excluding settlement of the class action, interest and tax) compared to $13.4 million (excluding interest and tax) for the prior comparative period. This represents a conversion rate from EBITDA of 38.8% compared to 29.1% EBITDA conversion for the comparative period. The cash flow conversion was impacted by the increase in working capital resulting from the timing of receipts from current trade receivables.

Events subsequent to reporting date

The Directors are not aware of any other matter or circumstance arising since 31 December 2018 not otherwise dealt with within the condensed consolidated financial statements that has significantly affected or may significantly affect the operations of the consolidated entity and the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

Dividends

The Directors have determined that no interim dividend will be declared.

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

The lead auditor's independence declaration is set out on page 7 and forms part of the Directors' Report for the six months ended 31 December 2018.

Rounding of amounts

The consolidated entity is of a kind referred to in *ASIC Corporations (rounding in Financial/Directors' Report) instrument 2016/191* and in accordance with the legislative instrument amounts in the Directors' Report and the Interim Financial Report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the Directors.

J A Walker

Director

25 February 2019

Perth

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 review for the half-year ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Trevor Hart
Partner

Perth

25 February 2019

Independent Auditor's Review Report

To the shareholders of Macmahon Holdings Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Macmahon Holdings Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Macmahon Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2018
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Macmahon Holdings Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001.*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Macmahon Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Trevor Hart
Partner

Perth

25 February 2019

Directors' declaration

In the opinion of the directors of Macmahon Holdings Limited;

1. The condensed consolidated interim financial statements and notes of the consolidated entity set out on pages 11 to 23 are in accordance with the Corporations Act 2001 including:

a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2018 and of its performance for the six months ended on that date; and

b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that Macmahon Holdings Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

J A Walker

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J A Walker

Director

25 February 2019

Perth

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December

In thousands of AUD	Note	2018	2017
Revenue from continuing operations	6	542,150	269,951
Other income		8,100	1,726
		550,250	**271,677**
Expenses			
Materials and consumables used		(207,010)	(108,610)
Employee benefits expense		(161,601)	(86,963)
Depreciation and amortisation expense		(49,258)	(36,168)
Subcontractor costs		(24,339)	(10,396)
Equipment and office expenses under operating leases		(55,620)	(14,229)
Litigation settlements and related legal fees (net of provision)	14	(7,318)	-
Share based payments (expense) / gain	13	(1,394)	202
Other expenses		(14,740)	(6,385)
Operating profit		**28,970**	**9,128**
Net finance costs		(4,825)	(720)
Share of profit of equity-accounted investees, net of tax		2,174	816
Profit before income tax from continuing operations	5	**26,319**	**9,224**
Income tax expense	7	(2,763)	(1,030)
Profit after income tax from continuing operations		**23,556**	**8,194**
(Loss) / profit after income tax expense from discontinued operations		(119)	167
Profit after income tax expense		**23,437**	**8,361**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit and loss			
Foreign currency translation - foreign operations		3,522	2,708
Other comprehensive income for the year, net of tax		**3,522**	**2,708**
Total comprehensive income for the year		**26,959**	**11,069**
Total comprehensive income/(loss) attributable to:			
Continuing operations		**27,078**	**10,902**
Discontinued operations		**(119)**	**167**
		26,959	**11,069**
Earning per share for profit from continuing operations attributable to the owners of Macmahon Holdings Limited			
Basic earnings per share (cents)		1.11	0.42
Diluted earnings per share (cents)		1.07	0.42
Earnings per share for profit attributable to the owners of Macmahon Holdings Limited			
Basic earnings per share (cents)		1.11	0.43
Diluted earnings per share (cents)		1.06	0.43

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of financial position

In thousands of AUD	Note	31-Dec-18	30-Jun-18
Assets			
Current assets			
Cash and cash equivalents		77,418	109,622
Trade and other receivables	8	182,962	152,263
Inventories		45,799	41,984
Lease receivable	9	1,998	700
Income tax		1,235	4,157
		309,412	308,726
Assets classified as held for sale		2,248	2,868
Total current assets		**311,660**	**311,594**
Non-current assets			
Investments accounted for using the equity method		11,228	9,273
Trade and other receivables	8	17,637	4,628
Property, plant and equipment	10	408,242	380,140
Intangible assets and goodwill		9,633	5,808
Lease receivable	9	24,308	9,792
Deferred tax		8,473	2,114
Total non-current assets		**479,521**	**411,755**
Total assets		**791,181**	**723,349**
Liabilities			
Current liabilities			
Trade and other payables		175,043	174,293
Borrowings	11	29,950	21,212
Income tax		2,867	2,007
Employee benefits		20,838	18,209
Provisions		9,064	11,572
Total current liabilities		**237,762**	**227,293**
Non-current liabilities			
Trade and other payables		-	745
Borrowings	11	128,688	85,060
Employee benefits		305	417
Total non-current liabilities		**128,993**	**86,222**
Total liabilities		**366,755**	**313,515**
Net assets		**424,426**	**409,834**
Equity			
Issued capital	12	563,118	563,118
Reserves		(2,537)	3,842
Net accumulated losses		(136,155)	(157,126)
Total equity		**424,426**	**409,834**

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 31 December

In thousands of AUD	Note	Share capital	Reserve for own shares	Foreign currency reserve, net of tax	Share based payments	Accumulated Losses	Retained profits	Total equity
Balance at 1 July 2018		**563,118**	**(5,186)**	**8,388**	**640**	**(189,930)**	**32,804**	**409,834**
Adjustment on initial application of IFRS 9 (net of tax):	3							
- Loss allowance on the Group trade and other receivables		-	-	-	-	(1,354)	-	(1,354)
- Loss allowance on the trade and other receivables of the equity accounted investment		-	-	-	-	(1,112)	-	(1,112)
Adjusted balance at 1 July 2018		**563,118**	**(5,186)**	**8,388**	**640**	**(192,396)**	**32,804**	**407,368**
Profit after income tax for the period		-	-	-	-	-	23,437	23,437
Foreign currency translation		-	-	3,522	-	-	-	3,522
Total comprehensive income for the period (net of tax)		**-**	**-**	**3,522**	**-**	**-**	**23,437**	**26,959**
Transactions with owners, recorded directly in equity:								
Contributions by and distributions to owners								
Treasury shares purchased for compensation plans*		-	(11,295)	-	-	-	-	(11,295)
Share-based payments	13	-	-	-	1,394	-	-	1,394
Total transactions with owners		**-**	**(11,295)**	**-**	**1,394**	**-**	**-**	**(9,901)**
Balance at 31 December 2018		**563,118**	**(16,481)**	**11,910**	**2,034**	**(192,396)**	**56,241**	**424,426**

** During the reporting period 48,457,709 shares were purchased for $11.3 million (2017: nil). As at 31 December 2018, there are 60,157,157 (30 June 2018: 11,699,448) unallocated Macmahon shares held in trust.*

In thousands of AUD	Note	Share capital	Reserve for own shares	Foreign currency reserve, net of tax	Share based payments	Accumulated Losses	Retained profits	Total equity
Balance at 1 July 2017		**384,794**	**(5,781)**	**(4,640)**	**548**	**(189,930)**	**-**	**184,991**
Profit after income tax for the period		-	-	-	-	-	8,361	8,361
Other comprehensive income for the period, net of tax		-	-	2,708	-	-	-	2,708
Total comprehensive income for the period (net of tax)		**-**	**-**	**2,708**	**-**	**-**	**8,361**	**11,069**
Transactions with owners, recorded directly in equity:								
Contributions by and distributions to owners								
Shares issued net of share issue costs		178,324	-	-	-	-	-	178,324
Treasury shares allocated on vesting of performance rights		-	595	-	-	(595)	-	-
Share-based payments	13	-	-	-	(202)	-	-	(202)
Total transactions with owners		**178,324**	**595**	**-**	**(202)**	**(595)**	**-**	**178,122**
Balance at 31 December 2017		**563,118**	**(5,186)**	**(1,932)**	**346**	**(190,525)**	**8,361**	**374,182**

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows

For the six months ended 31 December

In thousands of AUD	Note	2018	2017
Cash flows from operating activities			
Receipts from customers		554,262	250,510
Payments to suppliers		(520,781)	(237,128)
Net receipts from joint venture entities		1,135	-
Payment for settlement of class action	14	(7,560)	-
Interest and other finance costs paid		(5,084)	(853)
Interest received		259	134
Income taxes received/(paid)		(5,163)	10,156
Net cash from operating activities		**17,068**	**22,819**
Cash flows from investing activities			
Payment for property, plant and equipment	10	(25,451)	(13,641)
Proceeds from disposal of property, plant and equipment	10	176	568
Payment for intangibles (software)		(3,825)	-
Net cash used in investing activities		**(29,100)**	**(13,073)**
Cash flows from financing activities			
Purchase of own shares		(11,295)	-
Repayment of hire purchase and finance lease liabilities	11	(9,811)	(2,442)
Net cash used in financing activities		**(21,106)**	**(2,442)**
Net increase/(decrease) in cash and cash equivalents		(33,138)	7,304
Cash and cash equivalents at beginning of period		109,622	62,925
Effects of exchange rate changes on the balance of cash and cash equivalents		934	(33)
Cash and cash equivalents at end of period		**77,418**	**70,196**

Non cash flow acquisitions of plant and equipment of $62.2 million (2017: $34.5 million) acquired under finance lease arrangements have been excluded from the cashflow statement.

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Macmahon Holdings Limited (the "Company") is a for profit company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "consolidated entity" or "the Group") and the consolidated entity's interests in jointly controlled entities.

The principal activities of the consolidated entity for the six months ended 31 December 2018 consisted of the provision of contract mining services (inclusive of infrastructure services).

The consolidated annual financial statements of the consolidated entity as at and for the year ended 30 June 2018 are available upon request at the Company's registered office at 15 Hudswell Road, PERTH AIRPORT, 6105, Western Australia or at www.macmahon.com.au.

2. Basis of preparation

These condensed consolidated interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the consolidated entity as at and for the year ended 30 June 2018.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2018.

The consolidated entity is of a kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with the legislative instrument amounts in the Directors' Report and the Interim Financial Report have been rounded off to the nearest thousand dollars unless otherwise stated.

For consistency with the current year's presentation, where required, comparative information has been reclassified.

3. Changes in significant accounting policies

Accept as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2018.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has initially adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers from 1 July 2018. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards except for separately presenting impairment loss on trade receivables.

A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedging accounting requirements.

Classification

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. However, it eliminates the previous AASB 139 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of AASB 9 did not have a significant impact on the way the Group classifies or recognises its financial liabilities.

The classification of financial assets under AASB 9 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and;
- its contractual terms give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

Cash and cash equivalents and trade and other receivables that were classified as loans and receivables under AASB 139 are now classified as at amortised cost.

Subsequent to initial recognition cash and cash equivalents and trade and other receivables remain at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

Impairment of financial assets

AASB 9 replaces the incurred loss model in AASB 139 with an expected credit loss (ECL) model. The Group has elected to measure loss allowances for trade and other receivables including contract assets at an amount equal to lifetime ECL's.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due of the customer approval date.

ELC's are measured as the present value of all cash shortfalls on default financial assets taking into account both quantitative and qualitative information and analysis, based on the Group's historical experience.

An increase of $1.4 million in the allowance for impairment over the Group trade and other receivables and $1.1 million over the equity accounted investment trade and other receivables was recognised in the opening retained earnings at 1 July 2018 on transition to AASB 9.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group has adopted AASB 15 using the cumulative effect method. Accordingly comparative information has not been restated, it is presented as previously reported under AASB 118 Revenue.

The application of AASB 15 has had no material impact on the Group's Statement of financial position, statement of profit and loss and OCI or statement of cash flows (refer to Note 6: Revenue for the Group's accounting policy) and therefore no adjustments were made in the financial statements.

4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgments made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

5. Operating segments

Identification of reportable 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 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.

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

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 including rehabilitation.

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.

Reportable segment information for the six months ended 31 December

Consolidated - 2018	Mining $'000	Discontinued Operations $'000	Unallocated $'000	Total $'000
Revenue				
External revenue	542,150	-	-	542,150
Total revenue	542,150	-	-	542,150
Earnings before interest, tax, depreciation and amortisation	87,810	(119)	1,304	88,995
Interest income	88	-	172	260
Finance costs	(5,085)	-	-	(5,085)
Depreciation and amortisation	(49,258)	-	-	(49,258)
Share-based payments	(1,394)	-	-	(1,394)
Litigation settlements and related legal fees (net of provision)	-	-	(7,318)	(7,318)
Profit/(loss) before income tax expense	32,161	(119)	(5,842)	26,200
Income tax expense				(2,763)
Profit after income tax expense				23,437
Add back:				
Income tax expense (including tax on discontinued operations)				2,763
Profit / (Loss) before income tax expense from discontinued operations				119
Profit / (Loss) before income tax from continuing operations				26,319
Assets				
Segment assets	701,594	4	89,583	791,181
Total assets at 31 December 2018				791,181
Liabilities				
Segment liabilities	362,692	117	3,946	366,755
Total liabilities at 31 December 2018				366,755
Capital Expenditure	69,446	-	-	69,446

Consolidated - 2017	Mining $'000	Discontinued Operations $'000	Unallocated $'000	Total $'000
Revenue				
External revenue	269,951	-	-	269,951
Total revenue	269,951	-	-	269,951
Earnings before interest, tax, depreciation and amortisation	45,915	146	15	46,076
Interest income	54	-	80	134
Finance costs	(853)	-	-	(853)
Depreciation and amortisation	(36,168)	-	-	(36,168)
Share-based payments	202	-	-	202
Profit/(loss) before income tax expense	9,150	146	95	9,391
Income tax expense				(1,030)
Profit after income tax expense				8,361
Add back:				
Income tax expense (including tax on discontinued operations)				1,030
Profit / (Loss) before income tax expense from discontinued operations				(167)
Profit / (Loss) before income tax from continuing operations				9,224
Assets				
Segment assets	598,681	132	124,536	723,349
Total assets at 30 June 2018				723,349
Liabilities				
Segment liabilities	307,829	116	5,570	313,515
Total liabilities at 30 June 2018				313,515
Capital Expenditure	26,791	-	-	26,791

Geographical information

	Sales to external customers for the six months ending		Geographical non-current assets as at	
	31 December 2018 $'000	31 December 2017 $'000	31 December 2018 $'000	30 June 2018 $'000
Australia	352,380	239,551	295,581	236,918
Indonesia	186,623	28,181	174,613	172,715
Other	3,147	2,219	9,327	2,122
	542,150	269,951	479,521	411,755

The Mining segment operated in the 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.

6. Revenue

The group generates revenue primarily from providing inter-related mining services to its customers.

	Consolidated	
	2018 $'000	2017 $'000
Revenue from contracts with customers	542,150	269,951

Services revenue

Macmahon Group generates revenue from the provision of mining services, civil construction & rehabilitation services to mining companies in Australia and Indonesia. Revenue for services was predominantly recognised on the basis of the work completed over time and billed to customers as the services were delivered to customers. On adoption of AASB 15, the activities for each contract were assessed and have been determined to be one performance obligation as they are highly inter-related, fulfilled over time and the customer receives the benefit over time as the services are performed resulting in no change to the way the Group recognises revenue.

The transaction price for each contract is based on agreed contractual rates to which the Group is entitled and may include a variable pricing element which is accounted for in accordance with the policy on variable consideration.

Variable consideration

Certain contracts with customers include a variable element which is subject to the Group meeting either certain cost targets or material movement KPI's. Variable consideration is recognised when it is highly probable that a significant reversal of revenue will not occur in a subsequent period.

At 31 December 2018 the variable consideration recognised has been approved by customers.

7. Income tax expense

The Company's income tax expense for continuing operations was $2.8 million, compared to a $1.0 million expense for the prior corresponding half year period.

The effective tax rate for continuing operations for the half year was 10.5%, compared to the prior half year's tax rate of 11.2%.

The effective tax rate of 10.5% is primarily due to tax payable for foreign operations at the respective tax rates. The Australian tax expense has been reduced due to the recognition of previously unrecognised deferred tax assets. Excluding these adjustments, the effective tax rate for the current period for continuing operations would be approximately 30%.

8. Trade and Other Receivables

a) Current trade and other receivables

	Consolidated	
	31-Dec-18 $'000	**30-Jun-18 $'000**
Trade receivables	40,483	42,362
Less: Expected credit loss allowance	(1,480)	(126)
	39,003	42,236
Other receivables and prepayments	25,428	29,433
Accrued revenue	118,531	80,594
	182,962	152,263

b) Non-current trade and other receivables

	Consolidated	
	31-Dec-18 $'000	**30-Jun-18 $'000**
Other receivables	17,637	4,628

Other receivables includes VAT receivable of $12.9 million relating to the AMNT asset acquisition.

9. Lease Receivable

During the six months ended 31 December 2018, the consolidated entity acquired $16.1 million of mining equipment which includes a put and call option. Due to the option clause in the contract, the equipment is classified as a lease receivable rather than property, 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 interest income.

10. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2018, the consolidated entity acquired plant and equipment of $87.6 million. This comprised $62.2 million of plant acquired under a finance lease (six months ended 31 December 2017: $34.5 million) including $16.1 million of assets that are classified as lease receivable (refer note 9), $25.4 million (six months ended 31 December 2017: $13.6 million) of major componentry and additions.

Property, plant and equipment with a carrying value of $0.1 million was disposed during the six months ended 31 December 2018 (six months ended 31 December 2017: $0.5 million), resulting in a gain on disposal of $0.03 million (six months ended 31 December 2017 gain on disposal: $0.1 million) in the condensed consolidated statement of profit and loss.

Capital commitments

As at 31 December 2018, the consolidated entity had entered into non-cancellable contracts to purchase plant and equipment totaling $2.3 million (31 December 2017: $38.6 million).

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.

11. Borrowings

During the reporting period the Company's multi-option facility was extended to September 2020 and the limit increased from $25 million to $50 million. The facility was partially drawn at 31 December 2018 for bank guarantees amounting to $17.3 million. The Company maintains also finance lease facilities with various financiers. As at 31 December 2018 the amount outstanding under these facilities is $158.6 million. The Company's finance lease liabilities are secured by the leased assets and in the event of default the leased assets revert to the lessor. The remaining Australian domiciled assets of the Company are pledged as security under the multi option facility.

The table below summarises movements in borrowings (both current and non-current) during the six months ended 31 December 2018:

In thousands of AUD	**Currency**	**Carrying Amount**
Balance at 1 July 2018	AUD	106,272
Movements		
New finance lease	AUD	62,177
Repayment of finance lease liabilities	AUD	(9,811)
Interest accrued	AUD	5,084
Interest repaid	AUD	(5,084)
Balance at 31 December 2018	AUD	158,638

At 31 December 2018, the undrawn domestic lease facility was $56.6 million (30 June 2018: $26.7 million).

12. Issued capital

	The Company No. ordinary shares ('000)	
	2018	**2017**
On issue at 1 July	2,154,986	1,200,921
Issue of new Macmahon shares to related party AMNT	-	954,065
On issue at 31 December	2,154,986	2,154,986

13. Share based payments

For the half year, the consolidated entity issued a Macmahon Executive Equity Plan ("EEP") for senior personnel with 1 tranche, Senior Manager Long Term Incentive Plan ("LTIP") for senior personnel with three tranches and Non-Executive Director Salary Sacrifice Plan ("SSP") with two tranches.

The LTIP and EEP provide senior personnel with the opportunity to receive fully paid shares in Macmahon for no consideration, subject to specific time restrictions, continuous employment and certain performance conditions being met. Each performance right will entitle participants to receive one fully paid ordinary share at the time of vesting. The LTIP and EEP are designed to assist with employee retention, and to incentivise employees to maximise returns and earnings for shareholders.

	LTIP Performance rights				EEP Performance rights
	Tranche 1	**Tranche 2**	**Tranche 3[1]**	**Tranche 3[1]**	
Grant date	1/07/2018	1/07/2018	1/07/2018	1/07/2018	5/10/2018
Service period	2 years	3 years	4 years	5 years	3 years
Vesting date	1/07/2020	1/07/2021	1/07/2022	1/07/2023	1/07/2021
Tranche and number of performance rights	16,162,394	16,162,394	16,162,394	16,162,394	8,660,803
Vesting performance condition					
Less than 17% CAGR in TSR	0%	0%	0%		0%
17% CAGR in TSR	50%	50%	50%		50%
25% or more CAGR in TSR	100%	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%		Pro-rata between 50% and 100%

[1] 50% of shares that vest as a result of Tranche 3 Performance rights is subject to a retention period of 1 year.

Measurement of grant date fair values

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

	LTIP Performance rights			EEP Performance rights
	Executive management team			Executive and senior management team
	Tranche 1	Tranche 2	Tranche 3	
Fair value at grant date	$0.094	$0.090	$0.090	$0.138
Share price at grant date	$0.215	$0.215	$0.215	$0.265
Expected volatility (weighted average volatility)	45.00%	45.00%	45.00%	45.00%
Option life (expected weighted average life)	2 years	3 years	4 years	2.9 years
Expected dividends	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	2.01%	2.08%	2.18%	2.03%

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

The SSP provides non-executive directors an option to sacrifice a portion of their salary in return for a fixed number of rights over ordinary but restricted shares which will vest equally at two dates approximately 8 months and 14 months from the start of the financial year (NED share rights). Once vested, the shares will be held on trust on behalf of the recipients but will be subject to certain restrictions which limit the recipients' ability to sell the shares. Trading restrictions will generally end on the earliest of ceasing to be a non-executive director, the date a change of control occurs or 15 years after the date the relevant NED share rights were granted.

The following inputs were applied in the measurement of the fair values at grant date of NED share rights using the Black-Scholes option pricing model:

	NED share rights	
	Tranche 1	Tranche 2
Grant date	1/07/2018	1/07/2018
Service period	8 months	14 months
Vesting date	1/03/2019	1/09/2019
Tranche and number of share options	696,675	696,675
Share price at grant date	$0.215	$0.215
Discount for lack of marketability	30%	30%
Implied FV of restricted shares	$0.151	$0.151
Exercise price	$0.213	$0.213
Risk-free rate	1.93%	1.92%
Volatility factor	45%	45%
Dividend yield	0%	0%
Implied discount to share price at grant date	97%	97%
Fair value at grant date	$0.006	$0.012

Information about LTIP and EEP performance rights and NED share rights outstanding at the period end:

	LTIP and EEP performance rights		NED share rights	
	31-Dec-18	30-Jun-18	31-Dec-18	30-Jun-18
Balance at start of the year	17,880,139	12,118,502	-	-
Granted during the year	73,310,377	15,221,483	1,393,348	-
Vested during the year	-	(1,343,100)	-	-
Expired during the year	-	(2,356,900)	-	-
Forfeited during the year	(482,075)	(5,759,846)	-	-
Balance at the end of year	90,708,441	17,880,139	1,393,348	-

Share-based payments recognised in employee benefits expense:

	Consolidated	
	2018 $'000	2017 $'000
LTIP performance rights	950	-
EEP performance rights	437	(202)
NED Share rights	7	-
Total (income) / expense recognised in employee benefits expense	1,394	(202)

14. 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 was filed on behalf of shareholders who acquired Macmahon securities between 2 May 2012 and 19 September 2012 and relates to disclosures by Macmahon in 2012 regarding the previously completed Hope Downs 4 contract. On 4 October 2018 Macmahon reached an agreement to settle the class action by paying $6.7 million in full and final settlement of the proceedings, inclusive of interest and the applicant's legal costs. Macmahon continues to deny any wrong doing and the settlement is not an admission of any liability, nor a finding against the company or any individuals. The impact of the settlement and related legal fees (net of provision previously recognised) is recognised as a one-off charge to income statement included in the other expenses.

15. Related party transactions

	Consolidated	
	2018 $'000	2017 $'000
Revenue recognised from shareholder (AMNT)	183,358	25,445
Purchases made from shareholder (AMNT)	(85,641)	-

16. Subsequent events

The Directors are not aware of any other matter or circumstance arising since 31 December 2018 not otherwise dealt with within the condensed consolidated interim financial statements that has significantly affected or may significantly affect the operations of the consolidated entity and the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

CORPORATE DIRECTORY

DIRECTORS

J A Walker	(Chairman, Non-executive)
E D R Skira	(Non-executive)
A Ramlie	(Non-executive)
A W Sidarto	(Non-executive)
K A Horne	(Non-executive)

COMPANY SECRETARY

G P Gettingby

K Nadebaum

PRINCIPAL REGISTERED OFFICE

15 Hudswell Road

Perth Airport, Western Australia 6105

LOCATION OF SHARE REGISTRY

Computershare Investor Services Pty Ltd

Level 11, 172 St Georges Terrace

Perth WA 6000

SECURITIES EXCHANGE

Macmahon is listed on the Australian Securities Exchange with an ASX code of “MAH”

AUDITOR

KPMG

235 St Georges Terrace

Perth WA 6000