MACMAHON

TARGET'S STATEMENT

by Macmahon Holdings Limited ACN 007 634 406

In response to the offer by CIMIC Group Investments Pty Limited ACN 126 876 953 to acquire all of your ordinary shares in Macmahon Holdings Limited ACN 007 634 406.

The Directors of Macmahon Holdings Limited unanimously recommend that you

REJECT

the inadequate and opportunistic Offer from

CIMIC

BY TAKING NO ACTION.

This is an important document and requires your immediate attention. If you are in any doubt about how to deal with this document, you should consult your financial, legal or other professional adviser immediately.

Financial Adviser

MACQUARIE

Legal Adviser

ashurst

KEY REASONS WHY YOU SHOULD REJECT THE OFFER

The Directors of Macmahon Holdings Limited unanimously recommend that you

REJECT

THE INADEQUATE AND OPPORTUNISTIC OFFER FROM CIMIC BY TAKING NO ACTION.

1	**CIMIC's Offer is inadequate and the Independent Expert has concluded that it is neither fair nor reasonable**	Refer to page 7
2	**The timing of the Offer is opportunistic and doesn't reflect the improved outlook for the mining services sector**	Refer to page 7
3	**Macmahon has significantly improved prospects from its existing contracts and a strong tender pipeline**	Refer to page 9
4	**CIMIC is not offering enough for the benefits it may receive**	Refer to page 10
5	**Accepting CIMIC's Offer may deprive you of the ability to consider an alternative proposal, should one emerge**	Refer to page 11

You should read this Target's Statement in its entirety for further information on the reasons why the Directors recommend that Macmahon Shareholders reject the Offer.

IMPORTANT INFORMATION

To **REJECT** the Offer, you should **TAKE NO ACTION** in relation to all correspondence sent to you by CIMIC.

NATURE OF THIS DOCUMENT

This Target's Statement is dated 27 February 2017. This document is issued by Macmahon Holdings Limited ACN 007 634 406 (**Macmahon**) under Part 6.5 of the Corporations Act in response to the offer by CIMIC Group Investments Pty Limited ACN 126 876 953 (**CIMIC**), wholly owned subsidiary of CIMIC Group Limited ACN 004 482 982 (**CIMIC Group**), to acquire all of your ordinary shares in Macmahon made pursuant to its Bidder's Statement dated 24 January 2017 (as supplemented by a First Supplementary Bidder's Statement dated 31 January 2017, a Second Supplementary Bidder's Statement dated 9 February 2017 and a Third Supplementary Bidder's Statement dated 17 February 2017).

Unless otherwise specified, in this document CIMIC Group Investments Pty Limited is referred to as **CIMIC** and CIMIC Group Limited is referred to as **CIMIC Group**.

ASIC AND ASX DISCLAIMER

A copy of this Target's Statement was lodged with ASIC and provided to ASX on 27 February 2017. Neither ASIC, nor ASX, nor any of their respective officers, take any responsibility for the contents of this Target's Statement.

DEFINED TERMS

A number of defined terms are used in this Target's Statement. These terms are defined in section 11, which also sets out certain rules of interpretation which apply to this Target's Statement.

NO ACCOUNT OF PERSONAL CIRCUMSTANCES

This Target's Statement, which includes the Independent Expert's Report, does not take into account the individual investment objectives, financial or tax situation or particular needs of any person. It does not contain personal financial advice. You should seek independent legal, financial and taxation advice before making a decision as to whether or not to accept the Offer.

DISCLAIMER AS TO FORWARD LOOKING STATEMENTS

This Target's Statement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. These forward looking statements are based on, among other things, Macmahon's assumptions, expectations, estimates, objectives, plans and intentions as at the date of this Target's Statement.

Forward looking statements are subject to inherent risks and uncertainties. Although Macmahon believes that the expectations reflected in any forward looking statement included in this Target's Statement are reasonable, no assurance can be given that such expectations will prove to be correct. Actual events, results or outcomes may differ materially from the events, results or outcomes expressed or implied in any forward looking statement.

Except as required by applicable law or the ASX Listing Rules, Macmahon does not undertake to update or revise these forward looking statements, nor any other statements whether written or oral, that may be made from time to time by or on behalf of Macmahon, whether as a result of new information, future events or otherwise.

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

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

KEY DATES

Announcement of Offer Bidder's Statement lodged with ASIC and ASX	**24 January 2017**
Commencement of Offer Period (date of the Offer)	**8 February 2017**
Date of this Target's Statement	**27 February 2017**
Date for CIMIC to provide Notice of Status of Condition[1]	**27 February 2017**
Close of the Offer Period (unless extended or withdrawn)[2]	**7:00 pm (Sydney time) on 9 March 2017**

1. *If the Offer Period is extended, this date will be taken to be postponed for the same period.*
2. *This date is indicative only and may be changed as permitted by the Corporations Act.*

DISCLAIMER AS TO INFORMATION

The information regarding CIMIC, CIMIC Group and each Relevant Subsidiary contained in this Target's Statement has been prepared by Macmahon from publicly available information. None of the information in this Target's Statement concerning CIMIC, CIMIC Group and each Relevant Subsidiary has been commented on, or verified, by CIMIC, CIMIC Group, the Relevant Subsidiaries or Macmahon (save for obtaining the information from the Bidder's Statement prepared by CIMIC). Accordingly, Macmahon does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes full responsibility for that report.

RISK FACTORS

Macmahon Shareholders should note that there are a number of risk factors attached to their investment in Macmahon and other risks which apply in the event the Offer is accepted. Section 8 of this Target's Statement sets out further information regarding those risks.

MAPS AND DIAGRAMS

Any diagrams, charts, maps, graphs, figures and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

FOREIGN JURISDICTION

The release, publication or distribution of this Target's Statement in jurisdictions outside Australia may be restricted by law or regulation. Accordingly, any person who comes into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

PRIVACY

Macmahon has collected your information from the register of Macmahon Shareholders for the purposes of providing you with this Target's Statement. The type of information Macmahon has collected about you includes your name, contact details and information on your shareholding(s) in Macmahon. Without this information, Macmahon would be hindered in its ability to issue this Target's Statement.

The Corporations Act requires the names and addresses of Macmahon Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Macmahon and its related bodies corporate, holders of Macmahon Shares and external service providers, and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by Macmahon, please contact us on the number set out below.

EFFECT OF ROUNDING

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Target's Statement.

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

ENQUIRIES

If you have any questions in relation to the Offer or this Target's Statement, please contact the Shareholder information line on 1300 449 257 (within Australia) or +61 2 8022 7948 (from outside Australia).

TABLE OF CONTENTS

CHAIRMAN'S LETTER

27 February 2017

Dear fellow Macmahon Shareholders,

REJECT CIMIC'S OFFER FOR YOUR MACMAHON SHARES BY TAKING NO ACTION

On 24 January 2017, CIMIC announced an unsolicited off-market takeover offer to acquire all of the Macmahon Shares that it does not already own or control for $0.145 per Macmahon Share.

Your Directors[1] have carefully considered the Offer and, for the reasons set out below:

- consider that CIMIC's Offer is **INADEQUATE** and **OPPORTUNISTIC**; and
- unanimously recommend that you **REJECT the Offer**.

IN SUMMARY, THE REASONS FOR YOUR DIRECTORS' RECOMMENDATION ARE THAT:

- **CIMIC's Offer is inadequate and the Independent Expert has concluded that CIMIC's Offer is neither fair nor reasonable**. The Independent Expert has assessed the value of 100% of Macmahon on a controlling interest basis to be in the range of $0.177 to $0.203 per Macmahon Share.

  Given that CIMIC's Offer is at a 18.1% to 28.6% discount to that valuation, the Independent Expert has concluded that the Offer is neither fair nor reasonable. Please refer to Annexure B of this Target's Statement for the full Independent Expert's Report.

- **The timing of the Offer is opportunistic and doesn't reflect the improved outlook for the mining services sector**. The Offer has been made after a challenging period in the resources cycle. Your Directors are of the opinion that the Offer does not adequately reflect the improving market for commodities and the mining services sector. As a participant in that sector, CIMIC should be well aware of the improving market.

- **Macmahon has significantly improved prospects from its existing contracts and a strong tender pipeline**. Macmahon is anticipating a significant turnaround in financial performance over the next eighteen months, and has provided FY2018 EBIT guidance of $30 million to $35 million.[2]

  Macmahon has already implemented a number of initiatives to lay the foundations for future success, including cost reductions, measures to turnaround performance at Telfer and the termination of its operations in Nigeria. Macmahon's management team has also built stronger relationships with existing and new clients to advance new opportunities.

  Further, Macmahon's revenue from the Tropicana project is expected to increase by approximately 25% in the 2017 calendar year,[3] and may increase further from July 2018 if Tropicana's Long Island expansion proceeds. Also, Macmahon's second largest contract, the Telfer project, is expected to start generating monthly profits for Macmahon during the latter part of the 2017 calendar year.

  The anticipated future growth of Macmahon is also supported by a significant tender pipeline.[4] Macmahon is currently pursuing new work opportunities comprising $6.4 billion of potential new contracts in aggregate across 18 opportunities. A number of these opportunities are at the stage where Macmahon is among the exclusive, preferred or shortlisted bidders.

1. *Mr Vella did not participate with the Independent Directors in their consideration of the Offer until shortly before the approval of this Target's Statement by the full Board. However, Mr Vella has carefully reviewed this Target's Statement and agrees that the Offer should be rejected for the reasons set out in this Target's Statement.*
2. *Please refer to the bases, assumptions and sensitivities relevant to this information in section 6.4 of this Target's Statement and to the risk factors in section 8.2 for various matters which may affect the guidance.*
3. *Based on a comparison of actual revenues for the calendar year ended 31 December 2016 and currently anticipated revenues based on internal projections for the year ending 31 December 2017 as announced by Macmahon to the ASX on 25 January 2017.*
4. *In this Target's Statement, references to 'tender pipeline' include potential contracts that Macmahon may be awarded in the future that are either currently at tender or pre-tender stages or may be negotiated directly with potential Macmahon clients.*

- **CIMIC is not offering enough for the benefits it may receive**. In the event CIMIC is able to secure 100% of Macmahon, CIMIC could benefit from material corporate overhead and administrative cost savings which your Directors consider are not adequately reflected in the Offer Price. CIMIC may also reap rewards from a reduction of competition in the mining services sector where Macmahon currently competes with the CIMIC Group subsidiary, Thiess.
- **Accepting CIMIC's Offer may deprive you of the ability to consider an alternative proposal, should one emerge**.

These reasons for recommending that you **REJECT** the Offer are discussed in more detail in section 1 of this Target's Statement.

WHY DOES CIMIC WANT MACMAHON?

CIMIC has been publicly critical of Macmahon's recent financial performance and may try to persuade you that this will not improve. However, would CIMIC be seeking to buy your Macmahon Shares if it could not see upside in Macmahon's prospects?

FURTHER IMPORTANT INFORMATION

This Target's Statement contains Macmahon's formal response to the Offer. The Independent Expert's Report is set out in Annexure B. We strongly encourage you to read all the information contained in this Target's Statement carefully (including the risk factors in section 8 of this Target's Statement and the Independent Expert's Report). You should also seek independent advice before deciding whether or not to accept the Offer.

SUMMARY

Your Directors recommend that you reject this inadequate Offer.

To **REJECT** the Offer you should simply **DO NOTHING** and take **NO ACTION** in relation to all documents sent to you by CIMIC.

If you have any questions about the Offer, please contact the Shareholder information line on 1300 449 257 (within Australia) or +61 2 8022 7948 (from outside Australia).

Yours sincerely,

Jim Walker
Independent Non-executive Chairman
Macmahon Holdings Limited

The Directors of Macmahon Holdings Limited unanimously recommend that you

REJECT

CIMIC'S OFFER AND TAKE NO ACTION.

CIMIC'S OFFER IS OPPORTUNISTIC AND INADEQUATE.

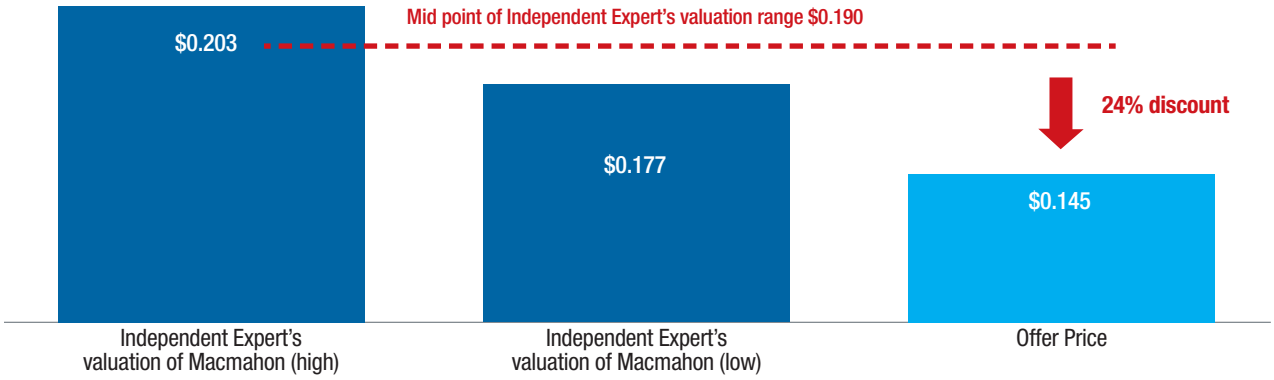
1

WHY THE DIRECTORS RECOMMEND THAT YOU REJECT THE OFFER

1.1 CIMIC'S OFFER IS INADEQUATE AND THE INDEPENDENT EXPERT HAS CONCLUDED THAT IT IS NEITHER FAIR NOR REASONABLE

The Independent Expert, Lonergan Edwards & Associates Limited, has concluded that CIMIC's Offer of $0.145 per Macmahon Share is neither fair nor reasonable to Macmahon Shareholders. The primary reason for this is that CIMIC's Offer is at a significant discount to the Independent Expert's assessed value of Macmahon on a 100% controlling interest basis, as shown in Figure 1.

FIGURE 1: INDEPENDENT EXPERT VALUATION SUMMARY ($ per Macmahon Share)



The Independent Expert has assessed the value of a Macmahon Share on a 100% controlling basis to be between $0.177 to $0.203 per share. Given that CIMIC's Offer Price is at an 18.1% to 28.6 % discount to the value of Macmahon on a 100% controlling interest basis, the Independent Expert has concluded that the Offer is **neither fair nor reasonable**.

You should read the full Independent Expert's Report, which is contained in Annexure B of this Target's Statement.

The Directors believe that CIMIC's Offer of $0.145 per share is inadequate and does not reflect fair value.

1.2 THE TIMING OF THE OFFER IS OPPORTUNISTIC AND DOESN'T REFLECT THE IMPROVED OUTLOOK FOR THE MINING SERVICES SECTOR

The Directors believe that CIMIC's Offer is opportunistic and has been timed after a challenging period in the resources cycle. In particular, the Directors believe that CIMIC's Offer does not adequately reflect the improving outlook and profitability of the resources and mining services sectors, underpinned by increased commodity prices. The Directors expect the recent improvement in commodity prices to result in increased activity levels of mining companies and hence new business opportunities for Macmahon in 2017 and beyond, although of course this cannot be guaranteed.

Key points for consideration:

- Since 2011, commodity prices have fallen, with gold, copper, nickel, iron ore and thermal coal all trading well below their historical highs (see Figure 2). However, since early 2016 commodity prices have rallied due to an improving industrial outlook globally and hence resources sector profitability has increased dramatically. As outlined in Figure 3, gold, copper, nickel, iron ore and thermal coal have each had material price increases since 1 January 2016.[1]
- Global mining expansion capital expenditure declined by approximately 63% from US$130 billion in 2012 to US$48 billion in 2016, significantly reducing the level of mining activity and the number of new resource projects. However, driven by an improved commodity price outlook, global mining expansion capital expenditure is expected to increase by approximately 14% per annum from 2016 to 2019 which is expected to drive growth in the contract mining sector.[2] (see Figure 4)
- The Directors believe that we are still in a relatively early phase of the recovery in the mining services sector. As outlined in Figure 5, an Australian Mining Services Index compiled by Macmahon is still trading at a 74% discount to its all-time high reached on 30 March 2012.[3] As the recovery in the resources sector continues, Macmahon and its peers are expected to benefit from greenfield project developments, brownfield expansion opportunities and potential for reduced price pressure on contracts. However, there is no guarantee that this will occur.

1. *Factset, sourced without consent. Market data as at 20 February 2017.*
2. *Wood Mackenzie, "Global mining capex spend: winners and losers" dated August 2016, sourced without consent.*
3. *IRESS, as at 20 February 2017, sourced without consent. Mining Services Peers represents an equal weighted median index of Macmahon, Ausdrill, NRW, MACA, Imdex and Watpac.*

1. Why the Directors recommend that you reject the Offer *continued*

FIGURE 2: HISTORICAL COMMODITY PRICES[4] (since 2011, rebased to 100)

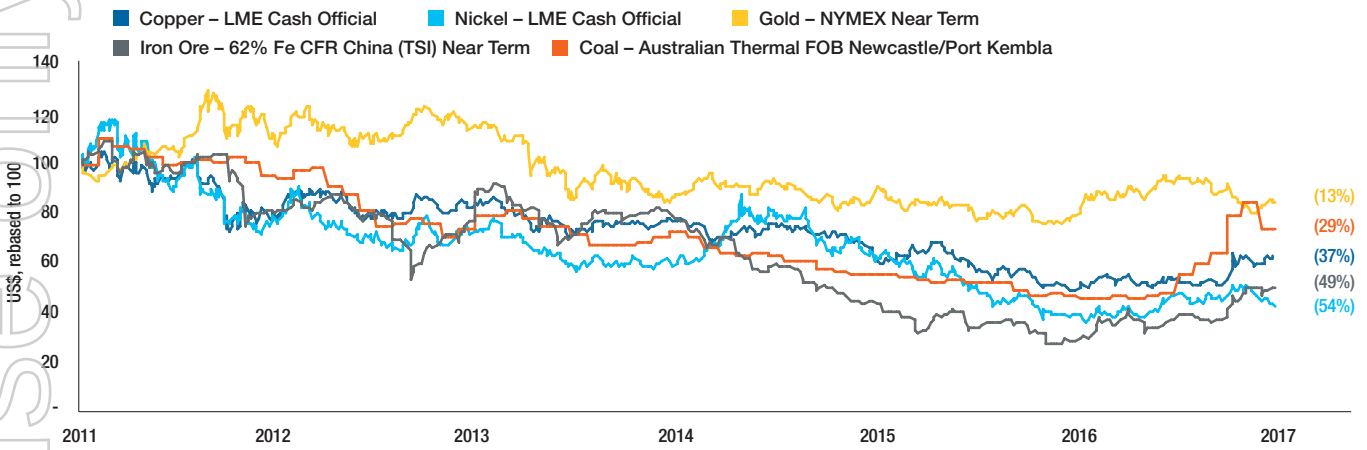


FIGURE 3: RECENT COMMODITY PRICES[4] (since 2016, rebased to 100)

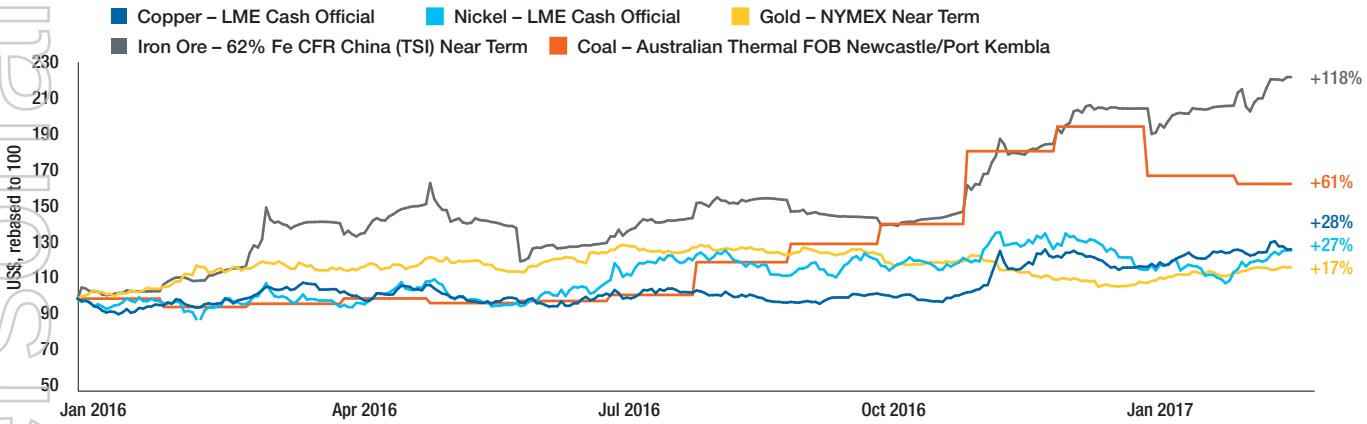
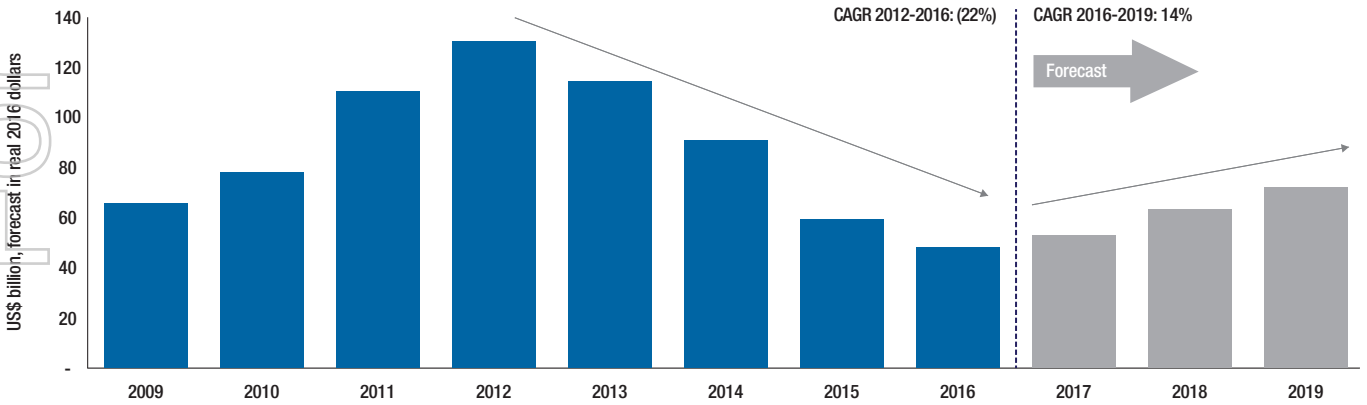
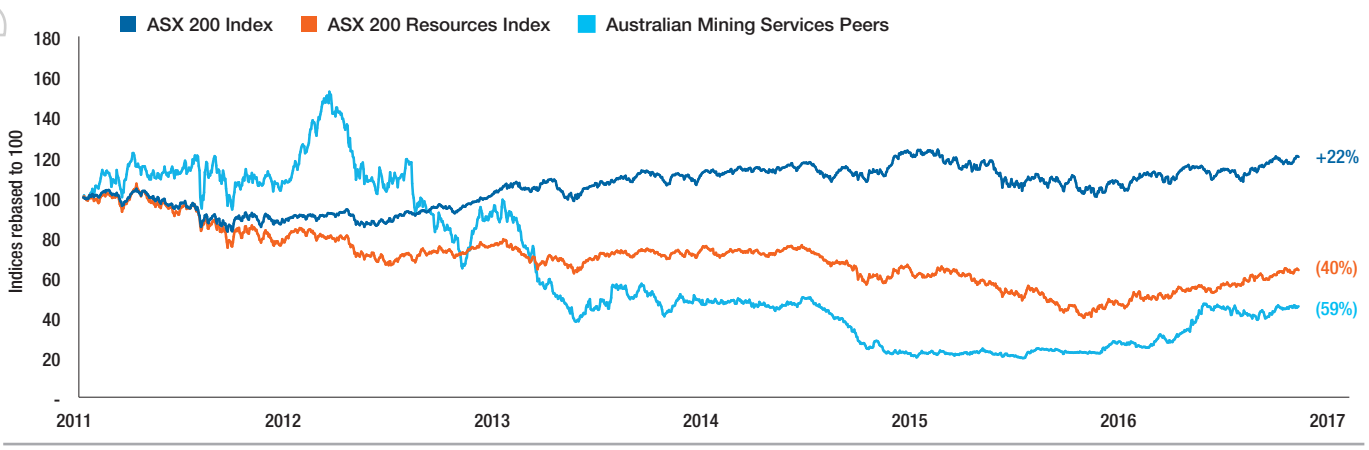


FIGURE 4: GLOBAL MINING EXPANSION CAPITAL EXPENDITURE[5] (billions of US$, forecast in 2016 real terms)



4. *Factset, sourced without consent. Market data as at 20 February 2017. Charts shows US$ prices which have been rebased to 100 on 1 January 2011 for Figure 2 and rebased to 100 on 1 January 2016 for Figure 3.*
5. *Wood Mackenzie, "Global mining capex spend: winners and losers" dated August 2016, sourced without consent.*

FIGURE 5: RECENT SHARE PRICE PERFORMANCE[6] (Index performance since 1 January 2011, rebased to 100)



1.3 MACMAHON HAS SIGNIFICANTLY IMPROVED PROSPECTS FROM ITS EXISTING CONTRACTS AND A STRONG TENDER PIPELINE

Macmahon is an Australian mining services company with strong relationships across the domestic and international mining sector. In response to a recent period of challenging business conditions Macmahon's management team has executed a business transformation strategy underpinned by cost reductions, productivity improvements and the sale of non-core assets. Macmahon is now better positioned for improved financial performance driven by a combination of potential new contract wins, expansion of existing contracts, improvements at Telfer and a resulting increase in earnings margins. Whilst there is no guarantee that these events will occur,[7] the Directors believe that Macmahon has a bright future, one which is not adequately reflected in the CIMIC Offer.

Macmahon has minimal debt and a net cash position of $49.8 million (as at 31 December 2016) and is therefore well positioned to pursue these growth opportunities. A strong balance sheet is particularly important for mining services businesses given the cyclical nature of the industry and the capital expenditure required to be able to grow the business.

Macmahon has announced its financial results for the half year ended 31 December 2016 (1H17), and provides full year guidance for both FY2017 and FY2018 (as outlined below).

TABLE 1: EARNINGS GUIDANCE SUMMARY[8]

All figures are in $ millions and reflect continuing operations only	1H17 Actual	FY2017 Guidance	FY2018 Guidance
Revenue	168.3	350.0 – 370.0	470.0 – 510.0
EBITDA	10.4	30.0 – 35.0	67.0 – 75.0
EBIT	(4.5)	(3.0) – 0.0	30.0 – 35.0

Macmahon's guidance for FY2017 and FY2018 is based on the assumptions listed in section 6.4 of this Target's Statement, the most significant of which are:

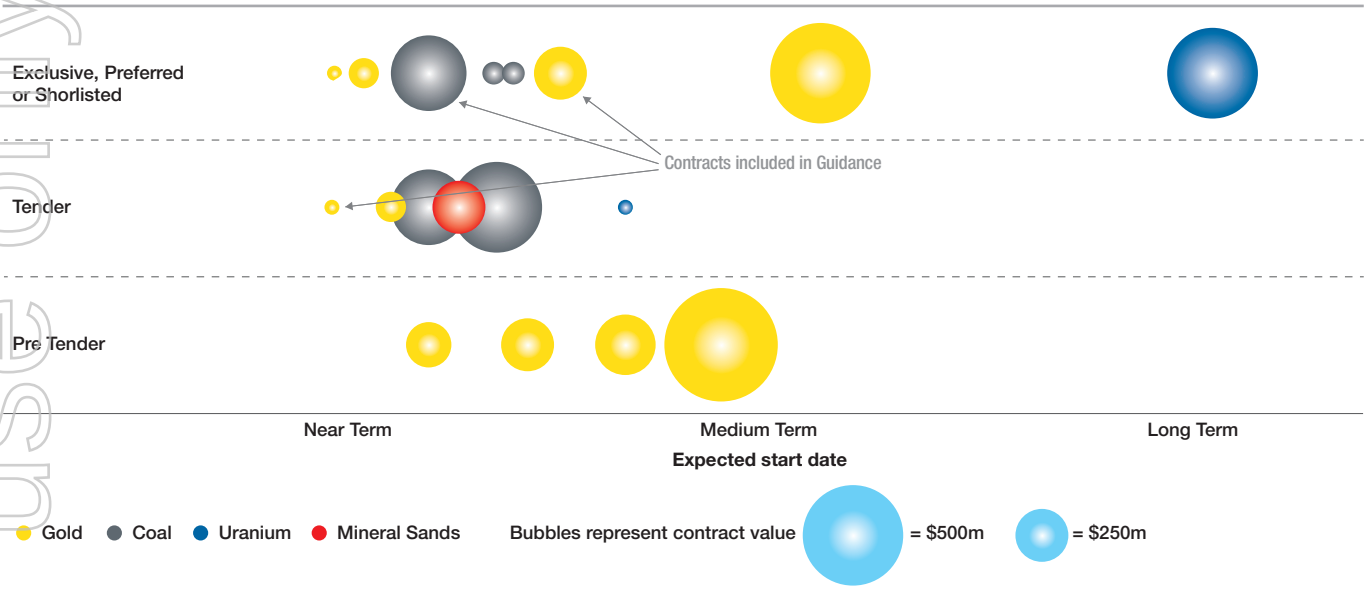
- ongoing revenue from its contracted order book, which is the future value of work or services that is under contract;
- anticipated improvements in financial and operational performance at Telfer; and
- three potential new contract awards in FY2018 sourced from Macmahon's tender pipeline (as shown in Figure 6).

In addition to Macmahon's order book of $1.295 billion (as 31 December 2016), Macmahon's future potential is supported by its tender pipeline. With the ongoing recovery of the resources sector and Macmahon's focus on developing client relationships, this pipeline has significantly expanded over the past year and now includes $6.4 billion of potential new contracts in aggregate. Approximately 44% of Macmahon's tender pipeline by anticipated value is at a point where Macmahon is among the exclusive, preferred or shortlisted bidders, as described in section 6.4(g) of this Target's Statement.

6. *IRESS, Market data as at 20 February 2017, sourced without consent. Australian Mining Services Peers represents an equal weighted median index of Macmahon, Ausdrill, NRW, MACA, Imdex and Watpac.*
7. *Please refer to the financial information in section 6.4 and the risk factors in section 8.2 of this Target's Statement.*
8. *Please refer to the bases, assumptions and sensitivities relevant to this information in section 6.4 of this Target's Statement and to the risk factors in section 8.2 for various matters which may affect the earnings guidance.*

1. Why the Directors recommend that you reject the Offer *continued*

FIGURE 6: TENDER PIPELINE[9]



Not included in the tender pipeline described above is the three year memorandum of understanding that a subsidiary of Macmahon has signed with Indonesian company PT Amman Mineral Nusa Tenggara (**AMNT**).[10] AMNT operates the very substantial Batu Hijau copper and gold mine in Indonesia. The agreement will see Macmahon assist AMNT to evaluate options to accelerate production from the Batu Hijau mine, and potentially develop additional deposits in the same mining area.

As part of this agreement AMNT has nominated Macmahon as its preferred contractor for the term of the agreement to negotiate potential terms for Macmahon to provide any earthmoving and mining services that may be required if AMNT decides to proceed with any of these options. While there is no guarantee that this will lead to any future work for Macmahon, the Directors consider that the relationship with AMNT is an encouraging step forward in expanding Macmahon's presence in Indonesia.

1.4 CIMIC IS NOT OFFERING ENOUGH FOR THE BENEFITS IT MAY RECEIVE

CIMIC has announced in its Bidder's Statement that if it is successful in acquiring a relevant interest in 50% or more of the Macmahon Shares, it will, among other things, conduct a strategic review of the business to drive operational efficiencies and improvements to projects. The Directors are of the view that if CIMIC is able to secure 100% of Macmahon, CIMIC may benefit from material corporate overhead cost savings which are not reflected in the current Offer Price.

CIMIC directly competes with Macmahon for work through its subsidiary, Thiess. If CIMIC acquires Macmahon under the Offer, CIMIC could ultimately benefit from there being less competition outside of CIMIC's corporate group.

Key benefits that the Directors believe CIMIC may derive from acquiring Macmahon include:

- **Corporate overhead cost savings**: there is potential to reduce corporate overhead and administrative costs through integration of Macmahon head office functions (ie HR, IT, lease costs, Board, ASX listing fees, audit & compliance costs, supplier rationalisation etc). Macmahon currently has annual corporate overhead costs of approximately $25 million per annum, and the Directors believe that this could be substantially reduced if CIMIC is successful in acquiring 100% of Macmahon; and
- **Taxation benefits**: Macmahon has $51.1 million of unrecognised Australian deferred tax assets (as at 31 December 2016) which, if realised, may reduce Macmahon's future taxable income. This would reduce future tax payments and therefore increase cash flows available. However, Macmahon has not conducted any analysis on whether CIMIC can utilise some or all of these taxation benefits.

9. *Tender pipeline as at 31 December 2016. Eighteen opportunities are displayed, with the Batu Hijau opportunity excluded from the chart as the value of this opportunity is yet to be determined (refer to Macmahon's ASX announcement dated 13 February 2017 "Macmahon signs MOU to become preferred contractor for Batu Hijau mine" for more information). This includes opportunities at Tropicana, where Macmahon is the life of mine contractor. Tender pipeline represents the aggregate value of the contracts which Macmahon is currently pursuing with clients. There is no guarantee that these opportunities will be converted into revenue.*
10. *As Macmahon announced to the ASX on 13 February 2017.*

1.5 ACCEPTING CIMIC'S OFFER MAY DEPRIVE YOU OF THE ABILITY TO CONSIDER AN ALTERNATIVE PROPOSAL, SHOULD ONE EMERGE

Since the announcement of the Offer, Macmahon has engaged with third parties regarding potential alternative proposals intended to deliver greater value for the benefit of all Macmahon Shareholders. As at the date of printing this Target's Statement, no proposal has reached a stage where it is sufficiently progressed to be disclosed in this Target's Statement and the Directors can give no assurance that any alternative proposal will emerge. The Board will continue to keep Macmahon Shareholders informed of any material developments in this regard.

Whilst prior to the Offer Macmahon Shares have traded below the Offer Price, on and from the date of announcement of the Offer on 24 January 2017, Macmahon Shares have consistently traded at or above the Offer Price.[11]

Accepting the Offer could also deny you the opportunity to sell your Macmahon Shares on market at a price higher than the Offer Price.

11. IRESS, Market data as at 20 February 2017, sourced without consent.

2

MACMAHON DIRECTORS' RECOMMENDATION AND DIRECTORS' INTERESTS

2.1 DIRECTORS OF MACMAHON

As at the date of this Target's Statement, the directors of Macmahon are:

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

The Independent Directors are Jim Walker (Chairman), Giles Everist and Eva Skira. Vyril Vella was appointed to the Board in 2007 as a nominee of CIMIC Group (then Leighton Holdings Limited). Given Mr Vella's role as a nominee of CIMIC Group, he is not considered to be an independent director of Macmahon in relation to the Offer. Accordingly, Mr Vella has not participated with the Independent Directors in the consideration given by the Independent Directors to the Offer until shortly before the approval of this Target's Statement by the full Board.

2.2 INDEPENDENT DIRECTORS' RECOMMENDATION AND INTENTIONS

After taking into account the matters in this Target's Statement and in the Bidder's Statement, each of the Independent Directors recommend that you **REJECT** the Offer.

The reasons for the Independent Directors' recommendation are set out in section 1 of this Target's Statement.

The Independent Directors intend to reject the Offer for all Macmahon Shares which they own or control.

2.3 MR VYRIL VELLA'S RECOMMENDATION AND INTENTIONS

After taking into account the matters in this Target's Statement and in the Bidder's Statement, Mr Vella has joined with the Independent Directors in recommending that you **REJECT** the Offer for the reasons set out in section 1 of this Target's Statement.[1]

Mr Vella also intends to reject the Offer for all Macmahon Shares which he owns or controls.

2.4 INTERESTS AND DEALINGS OF DIRECTORS IN MACMAHON SECURITIES

As at the Last Practicable Trading Day, the Directors had the following relevant interests in Macmahon Shares:

TABLE 2: RELEVANT INTERESTS OF MACMAHON DIRECTORS

Director	Number of Macmahon Shares
Jim Walker	300,000[2]
Giles Everist	100,000[3]
Eva Skira	None
Vyril Vella	1,357,842[4]

As at the Last Practicable Trading Day, no Director had a relevant interest in any Macmahon Performance Rights.

No Director has acquired or disposed of a relevant interest in any Macmahon Securities in the four month period ending on the date immediately before the date of this Target's Statement.

2.5 INTERESTS AND DEALINGS OF DIRECTORS IN ACS, HOCHTIEF AG, CIMIC GROUP OR RELEVANT SUBSIDIARY SECURITIES

As at the date immediately before the date of this Target's Statement, no Director had a relevant interest in the securities of ACS, HOCHTIEF AG, CIMIC Group or any subsidiary of any of the foregoing (**Relevant Subsidiary**).

No Director has acquired or disposed of a relevant interest in any securities of ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary in the four month period ending on the date immediately before the date of this Target's Statement.

1. *Mr Vella did not participate with the Independent Directors in their consideration of the Offer until shortly before the approval of this Target's Statement by the full Board. However, Mr Vella has carefully reviewed this Target's Statement and agrees that the Offer should be rejected for the reasons set out in this Target's Statement.*
2. *The shares are held by BT Portfolio Pension Plan as trustee for James Allan Walker, registered owner BT Portfolio Services Ltd*
3. *The shares are held by Mrs Sally Marjorie Everist as trustee for the Everist Family Trust. Giles Everist is a beneficiary of the trust.*
4. *The shares are held by Evercity Pty Ltd as trustee for the Vella Superannuation Fund. Mr Vella is a director of the trustee and a beneficiary of the trust.*

2. Macmahon Directors' recommendation and Directors' interests *continued*

2.6 BENEFITS AND AGREEMENTS

a. Benefits to Directors

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from the Board, managerial office or related body corporate of Macmahon.

No Director has agreed to receive, or is entitled to receive, any benefit from ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary or any related body corporate of ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary which is related to or conditional on the Offer, other than in their capacity as a holder of Macmahon Shares.

b. Agreements in connection with or conditional on the Offer

No agreement has been made between any Director and any other person in connection with, or conditional upon, the outcome of the Offer, other than in their capacity as a holder of Macmahon Shares.

c. Interests in contracts with CIMIC

No Director has any interest in any contract entered into by ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary or any related body corporate of ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary.

3

FREQUENTLY ASKED QUESTIONS

3. Frequently Asked Questions

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Macmahon Shareholders. This section should be read together with all other parts of this Target's Statement.

Note: Section numbers refer to this Target's Statement unless otherwise specified

Question	Answer	More information
Who is making the Offer?	The Offer is being made by CIMIC Group Investments Pty Limited ACN 126 876 953 (**CIMIC**), a wholly owned subsidiary of CIMIC Group Limited ACN 004 482 982 (**CIMIC Group**). Information in relation to CIMIC and CIMIC Group can be obtained in section 7 of this Target's Statement and in the Bidder's Statement.	*Section 7 Bidder's Statement*
What is CIMIC offering for my Macmahon Shares?	The Offer Price is $0.145 per Macmahon Share.	*Section 5*
What is the Bidder's Statement?	The Bidder's Statement is the document prepared by CIMIC which sets out the terms of the Offer, as required by the Corporations Act. All Macmahon Shareholders should have recently received a copy of the Bidder's Statement in the mail and it is available on the ASX Market Announcements Platform.	
What is the Target's Statement?	This Target's Statement is the formal response by the Board of Macmahon to the Offer, as required by the Corporations Act. This document has been prepared by Macmahon and contains important information to help you decide whether to accept the Offer.	
What choices do I have as a Macmahon Shareholder?	As a Macmahon Shareholder, you have the following choices in respect of your Macmahon Shares: – reject the Offer by doing nothing (which is what the Directors recommend that you do); – sell all or some of your Macmahon Shares, for example, on ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or – accept the Offer. There are several implications in relation to each of the above choices. A summary of these implications is set out in section 4 of this Target's Statement. You should seek legal, financial or taxation advice from your professional adviser regarding the action that you should take in relation to the Offer.	*Section 4*
What do your Directors recommend?	The Directors unanimously recommend that you **REJECT** the Offer. The reasons for the Directors' recommendation are set out in section 1 of this Target's Statement.	*Section 1*
What do the Directors intend to do with their Macmahon Shares?	The Directors intend to reject the Offer for any Macmahon Shares they own or control. The Directors' interests in Macmahon Shares are set out in section 2.4 of this Target's Statement.	*Section 2.4*
What are the risks of accepting or rejecting the Offer?	Non-exhaustive lists of key risks of accepting or rejecting the Offer are set out in section 8 of this Target's Statement.	*Section 8*
How many Macmahon Shares does CIMIC already have an interest in?	As at the Last Practicable Trading Day, CIMIC had a relevant interest in 276,049,392 Macmahon Shares,[1] representing 22.99% of the voting power in Macmahon. See section 2 of CIMIC's Second Supplementary Bidder's Statement for further details of the CIMIC interest in Macmahon as at 8 February 2017.	*Section 2 of CIMIC's Second Supplementary Bidder's Statement*

1. *Based on CIMIC's Second Supplementary Bidder's Statement dated 9 February 2017.*

Question	Answer	More information
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Offer is neither fair nor reasonable to Macmahon Shareholders. A copy of the Independent Expert's Report is contained in Annexure B of this Target's Statement.	*Annexure B*
Why should I REJECT the Offer?	You should **REJECT** the Offer for the following key reasons: – CIMIC's Offer is inadequate and the Independent Expert has concluded that it is neither fair nor reasonable; – the timing of the Offer is opportunistic and doesn't reflect the improved outlook for the mining services sector; – Macmahon has significantly improved prospects from its existing contracts and a strong tender pipeline; – CIMIC is not offering enough for the benefits it may receive; and – accepting the Offer may deprive you of the ability to consider an alternative proposal, should one emerge.	*Section 1*
How do I REJECT the Offer?	To reject the Offer, you should **TAKE NO ACTION** in relation to all correspondence from CIMIC in relation to the Offer.	*Section 4*
Is the Offer conditional?	The Offer is subject to a "prescribed occurrences" condition only, as described in section 9.8 of the Bidder's Statement (**Defeating Condition**).	*Section 9.8 of the Bidder's Statement and Section 5.3*
What happens if the Defeating Condition is not fulfilled or waived?	If the Defeating Condition (which is described in section 9.8 of the Bidder's Statement) is not fulfilled at the end of the Offer Period and is not waived by three business days after the Offer closes, your acceptance of the contract resulting from your acceptance of the Offer is void. You would then be free to deal with your Macmahon Shares even if you had accepted the Offer.	*Section 5.4*
What are the consequences of accepting the Offer now, while it remains conditional?	If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your Macmahon Shares or otherwise deal with your Macmahon Shares while the Offer remains open and CIMIC would also be able to exercise the rights attaching to your Macmahon Shares. For example, upon your acceptance of the Offer, CIMIC and each of its directors, secretaries and officers will be entitled to attend meetings of Macmahon and vote on your behalf in relation to your Macmahon Shares. You will, or will be deemed to, have acknowledged and agreed that in exercising such powers that attorney may act in the interests of CIMIC as the intended registered holder of your Macmahon Shares. While the Offer remains conditional, you will not be paid consideration under the Offer. You should take into account the possibility that the Defeating Condition may not be fulfilled or waived. You should also take into account the possibility that if a 'prescribed occurrence' occurs in breach of the Defeating Condition, CIMIC is entitled to defer its decision of whether to free the Offer from the Defeating Condition until up to three business days after the close of the Offer.	*Section 5.8*
If I accept the Offer, can I withdraw my acceptance?	You may only withdraw your acceptance if CIMIC has not declared the Offer to be unconditional and CIMIC varies the Offer in a way that postpones the time when CIMIC is required to satisfy its obligations by more than one month.	*Section 5.9*
What are the consequences of the Offer becoming unconditional?	If you accept the Offer after the Offer becomes unconditional or the Offer becomes unconditional after you have accepted, you will be entitled to receive the Offer Price in respect of your Macmahon Shares (subject to the terms of the Offer in the Bidder's Statement).	*Section 5.10*

3. Frequently Asked Questions *continued*

Question	Answer	More information
Can CIMIC increase the Offer Price?	Only in the event of a competing proposal. CIMIC has declared that the Offer Price is final and cannot be increased during the Offer Period, in the absence of a competing proposal. Under the ASIC's truth in takeovers policy, where a bidder makes a last and final statement like this, it cannot then depart from the statement. The Offer Price cannot, in the absence of a competing proposal, be increased above $0.145 during the Offer Period.	*Section 5.11*
When does the Offer close?	The Offer is currently scheduled to close at 7.00 pm (Sydney time) on 9 March 2017, but the Offer Period can be extended in certain circumstances.	*Section 5.2*
When will I receive the Offer Price if I accept the Offer?	If you accept the Offer, you will have to wait for the Offer to become unconditional before you will be sent your consideration from CIMIC. CIMIC has provided in its Bidder's Statement that subject to section 9 of its Bidder's Statement, the Corporations Act and ASIC Class Order 13/521, if you accept the Offer you will be sent your consideration on or before the later of: – where the Offer is unconditional, seven business days after the date on which the Offer is accepted; or – if the Offer is subject to the Defeating Condition when accepted, within seven business days after the date on which the Offer becomes unconditional. However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration if you accept the Offer are set out in section 9.9 of the Bidder's Statement.	*Section 9.9 of the Bidder's Statement*
What are the tax implications of accepting the Offer?	A non-exhaustive general outline of the Australian tax implications of disposing of your Macmahon Shares pursuant to the Offer is set out in section 9 of this Target's Statement. As the outline is general in nature, Macmahon Shareholders are encouraged to seek their own specific professional tax advice as to the taxation implications applicable to their circumstances. Further information in relation to taxation is set out in section 7 of the Bidder's Statement.	*Section 9*
Can I be forced to sell my Macmahon Shares?	You cannot be forced to sell your Macmahon Shares unless CIMIC becomes entitled to compulsorily acquire those shares under Chapter 6A of the Corporations Act. In summary, CIMIC would need to obtain a relevant interest in 90% or more of the Macmahon Shares in order to proceed to compulsory acquisition. Refer to section 5.13 of this Target's Statement for more specific information.	*Section 5.13*
What are CIMIC's intentions with respect to Macmahon's business?	CIMIC's intentions in relation to the continuation of Macmahon's businesses, any major changes to be made to the businesses of Macmahon (including any redeployment of the fixed assets of Macmahon), changes to the Macmahon Board and the future employment of present employees of Macmahon are set out in section 4 of its Bidder's Statement.	*Section 4 of the Bidder's Statement*
Can CIMIC withdraw its Offer?	CIMIC may not withdraw the Offer if you have already accepted it. Before you accept the Offer, CIMIC may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent. However, the Offer is conditional on the Defeating Condition, which is described in section 9.8 of the Bidder' Statement. If the Defeating Condition is not fulfilled by the end of the Offer Period and is not waived by three business days after the end of the Offer Period, the Offer will lapse, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Macmahon Shares as you see fit.	*Section 5.7* *Section 9.8 of the Bidder's Statement*

Question	Answer	More information
What is Macmahon's dividend policy?	The Board actively considers all capital management initiatives. Following completion of Macmahon's on-market share buy-back during late 2016, the Board remains committed to its aim of generating sustainable returns for Macmahon Shareholders. It is expected that once Macmahon returns to profitability (which cannot be guaranteed), dividends will be a priority for the Board. However, any future determination as to the payment of dividends by Macmahon will be at the discretion of the Board at the relevant time and will depend on the availability of distributable earnings, operating results, the financial condition of Macmahon, future capital requirements and general business and other factors considered relevant by the Board. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by Macmahon. Refer to section 6.6 of this Target's Statement for a summary of Macmahon's dividend and capital management policies.	*Section 6.6*
Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further questions about the Offer, please contact the Shareholder information line on 1300 449 257 (within Australia) or +61 2 8022 7948 (from outside Australia).	*Important Information*

4

YOUR CHOICES AS A MACMAHON SHAREHOLDER

As a Macmahon Shareholder, you have three options available to you. Those options are set out below.

You should note that:

- the Directors unanimously recommend that you **REJECT** the Offer;
- each of the Directors intends to **REJECT** the Offer in respect of the Macmahon Shares which they own or control; and
- the Directors encourage you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Macmahon Shares.

4.1 OPTION 1 – REJECT THE OFFER

If you do not wish to accept the Offer and want to retain your Macmahon Shares, you should simply do nothing. This is the recommendation of the Directors.

If you choose to reject the Offer, do not take any action in relation to documents sent to you by CIMIC.

4.2 OPTION 2 – SELL YOUR MACMAHON SHARES ON ASX

Macmahon Shareholders remain free to sell their Macmahon Shares on ASX, provided they have not already accepted the Offer.

CIMIC's Bidder's Statement confirms that it has appointed Credit Suisse Equities (Australia) Limited to stand in the market on ASX from 24 January 2017 and purchase on CIMIC's behalf Macmahon Shares offered to it at the Offer Price.

On the Last Practicable Trading Day, the closing share price for Macmahon Shares on ASX was $0.150 per share. The latest price for Macmahon Shares may be obtained from the ASX website at www.asx.com.au.

If you sell your Macmahon Shares on ASX, you:

- will lose your exposure to any future growth potential of Macmahon, although there can be no certainty that will occur and there are risks associated with an investment in Macmahon (refer to the risk factors in section 8.2 of this Target's Statement for further information);
- will not receive the potential benefits of:
  - any potential higher competing offer for your Macmahon Shares;
  - any higher price which may be available for your Macmahon Shares on the ASX market (although no forecast is made of future prices); or
  - any increase by CIMIC of the Offer Price in response to a competing offer (see FAQ "*Can CIMIC increase the Offer Price?*" for further information in this regard),

  although no forecast is made of whether those events will occur;
- may be liable to pay tax (eg CGT) on the sale; and
- may incur a brokerage charge.

Macmahon Shareholders who wish to sell their Macmahon Shares on ASX should contact their broker for information on how to effect that sale. They should also seek professional tax advice as to the tax implications for them from such a sale. A non-exhaustive general outline of the Australian tax implications of such a sale is set out in section 9 of this Target's Statement.

4.3 OPTION 3 – ACCEPT THE OFFER

Macmahon Shareholders who accept the Offer:

- will likely lose their exposure to any future growth potential of Macmahon, although there can be no certainty that will occur and there are risks associated with an investment in Macmahon (refer to the risk factors in section 8.2 of this Target's Statement for further information);
- will not receive the potential benefit of any higher price which may be available for their Macmahon Shares on the ASX market (although no forecast is made of future prices);
- will not receive the Offer consideration unless the Defeating Condition is fulfilled or waived;
- will not be able to withdraw their acceptance and sell their Macmahon Shares, meaning that they would not be able to accept a higher price from a competing bidder if such a bid eventuates, except in certain limited circumstances (see section 5.9 of this Target's Statement); and
- may be liable to pay tax (eg CGT) on the disposal of their Macmahon Shares which may have financial consequences for some Macmahon Shareholders (see section 9 of this Target's Statement for a general outline of the Australian tax consequences of disposing of Macmahon Shares pursuant to the Offer).

Macmahon Shareholders who wish to accept the Offer should refer to the Bidder's Statement for instructions on how to do so.

5

IMPORTANT INFORMATION ABOUT THE OFFER

5.1 OFFER CONSIDERATION

The consideration being offered by CIMIC is $0.145 for each Macmahon Share you own.

5.2 OFFER PERIOD

The Offer is open for acceptance from 8 February 2017 until 7.00 pm (Sydney time) on 9 March 2017, unless extended or withdrawn.

The circumstances in which CIMIC may extend or withdraw the Offer are set out in section 5.6 and section 5.7 respectively of this Target's Statement.

5.3 DEFEATING CONDITION

The Offer is conditional on there being no "prescribed occurrences" during the Condition Period. The "prescribed occurrences" are listed in section 9.8 of the Bidder's Statement and include the following events:

a. Macmahon converts all or any of its shares into a larger or smaller number of shares;

b. Macmahon or a subsidiary of Macmahon resolves to reduce its share capital in any way;

c. Macmahon or a subsidiary of Macmahon:

   i. enters into a buy-back agreement; or

   ii. resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;

d. Macmahon or a subsidiary of Macmahon issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option;

e. Macmahon or a subsidiary of Macmahon issues, or agrees to issue, convertible notes;

f. Macmahon or a subsidiary of Macmahon disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;

g. Macmahon or a subsidiary of Macmahon grants, or agrees to grant, a security interest in the whole, or a substantial part, of its business or property;

h. Macmahon or a subsidiary of Macmahon resolves to be wound up;

i. a liquidator or provisional liquidator of Macmahon or of a subsidiary of Macmahon is appointed;

j. a court makes an order for the winding up of Macmahon or of a subsidiary of Macmahon;

k. an administrator of Macmahon, or of a subsidiary of Macmahon, is appointed under section 436A, 436B or 436C of the Corporations Act;

l. Macmahon or a subsidiary of Macmahon executes a deed of company arrangement; or

m. a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Macmahon or of a subsidiary of Macmahon.

5.4 EFFECT OF NON-SATISFACTION OF DEFEATING CONDITION

If the Defeating Condition is not fulfilled by the end of the Offer Period and has not been waived by three business days after the end of the Offer Period, the Offer will lapse with an unfulfilled Defeating Condition. If the Offer lapses, all acceptances of the Offer will be void and of no effect.

5.5 STATUS OF DEFEATING CONDITION

Section 9.8(f) of the Bidder's Statement states that CIMIC will give a Notice of Status of the Defeating Condition to ASX and Macmahon on 27 February 2017 (subject to extension in accordance with the Corporations Act if the Offer Period is extended). CIMIC is required to set out in its Notice of Status of the Defeating Condition:

- whether the Offer is free of the Defeating Condition;
- whether, so far as CIMIC knows, the Defeating Condition has been fulfilled; and
- CIMIC's voting power in Macmahon at that time.

If the Offer Period is extended by a period before the Notice of Status of the Defeating Condition is to be given, the date for giving the Notice of Status of the Defeating Condition will be taken to be postponed for the same period. In the event of such an extension, CIMIC is required, as soon as practicable after the extension, to notify ASX and Macmahon of the new date for giving the Notice of Status of the Defeating Condition.

5. Important information about the Offer *continued*

5.6 EXTENSION OF OFFER PERIOD

CIMIC may extend the Offer Period at any time before giving the Notice of Status of the Defeating Condition while the Offer is subject to the Defeating Condition. However, if either:

- the Offer is unconditional (that is the Defeating Condition is waived); or
- the Offer is conditional and one of the following happens after CIMIC gives the Notice of Status of the Defeating Condition:
  - another person lodges with ASIC a bidder's statement for a takeover bid for Macmahon Shares;
  - another person announces a takeover bid for Macmahon Shares;
  - another person makes offers under a takeover bid for Macmahon Shares; or
  - the consideration for offers under another takeover bid for Macmahon Shares is improved,

  then CIMIC may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

- CIMIC improves the consideration offered under the Offer (noting that CIMIC has declared the Offer 'final' in the absence of a competing proposal, and therefore cannot improve the consideration in the absence of a competing proposal); or
- CIMIC's voting power in Macmahon increases to more than 50%.

If either of these events occur, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurred.

5.7 WITHDRAWAL OF OFFER

CIMIC may not withdraw the Offer if you have already accepted it. Before you accept the Offer, CIMIC may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

However, the Offer is conditional on the Defeating Condition. If the condition to the Offer is not fulfilled by the end of the Offer Period and has not been waived by three business days after the end of the Offer Period, the Offer will lapse, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Macmahon Shares as you see fit.

5.8 EFFECT OF ACCEPTANCE

The effect of acceptance of the Offer is set out in section 9.6 of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Macmahon Shares and the representations and warranties which you will be giving CIMIC by accepting the Offer.

In particular, accepting CIMIC's Offer will prevent you from selling your Macmahon Shares during the Offer Period and CIMIC would also be able to exercise the rights attaching to your Macmahon Shares.

5.9 WITHDRAWAL OF YOUR ACCEPTANCE

If you accept the Offer, you will only be able to withdraw your acceptance in limited circumstances.

You may only withdraw your acceptance of the Offer if CIMIC varies the Offer in a way that postpones, for more than one month, the time when CIMIC needs to meet its obligations under the Offer. This will occur if CIMIC extends the Offer Period by more than one month and the Offer is still subject to the Defeating Condition.

5.10 WHEN YOU WILL RECEIVE THE OFFER CONSIDERATION

CIMIC has provided in its Bidder's Statement that, subject to section 9 of its Bidder's Statement, the Corporations Act and ASIC Class Order 13/521, if you accept the Offer you will be sent your consideration on or before the later of:

- where the Offer is unconditional, seven business days after the date on which the Offer is accepted; or
- if the Offer is subject to the Defeating Condition when accepted, within seven business days after the date on which the Offer becomes unconditional.

However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration if you accept the Offer are set out in section 9.9 of the Bidder's Statement.

5.11 EFFECT OF AN IMPROVEMENT IN THE OFFER CONSIDERATION

If CIMIC improves the consideration offered under the Offer (noting that it will only be permitted to do so if a competing proposal emerges), all Macmahon Shareholders, whether or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration. Any Macmahon Shareholders who have sold their Macmahon Shares on ASX will not receive the benefit of the improved consideration in relation to those Macmahon Shares.

5.12 LAPSE OF THE OFFER

The Offer will lapse if the Defeating Condition referred to in section 5.3 of this Target's Statement is not fulfilled by the end of the Offer Period and has not been waived by three business days after the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Macmahon Shares as you see fit.

5.13 COMPULSORY ACQUISITION

CIMIC has stated in section 4 of the Bidder's Statement that if it becomes entitled to do so under the Corporations Act, it intends to compulsorily acquire any outstanding Macmahon Shares and Macmahon Performance Rights. Please refer to section 4.4 of the Bidder's Statement for more information regarding CIMIC's intentions regarding compulsory acquisition and compulsory buy-out. Macmahon Shareholders should seek professional tax advice as to the tax implications for them from disposing of their Macmahon Shares pursuant to compulsory acquisition by CIMIC. A non-exhaustive general outline of the Australian tax implications of such a disposal is set out in section 9 of this Target's Statement.

The two types of compulsory acquisition under Chapter 6A of the Corporations Act are summarised below.

a. Follow on compulsory acquisition

Under Part 6A.1 of the Corporations Act, CIMIC will be entitled to compulsorily acquire any outstanding Macmahon Shares for which it has not received acceptances on the same terms as the Offer if, during or at the end of, the Offer Period, CIMIC (together with its associates):

i. has relevant interests in at least 90% (by number) of the Macmahon Shares; and

ii. has acquired at least 75% (by number) of the Macmahon Shares that CIMIC offered to acquire under the Offer (whether the acquisitions happened under the Offer or otherwise but excluding Macmahon Shares in which CIMIC or its associates had a relevant interest at the date of the Offer and also excluding Macmahon Shares issued to an associate of CIMIC during the Offer Period).

If these thresholds are met, CIMIC will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to Macmahon Shareholders who have not accepted the Offer. The consideration payable by CIMIC will be the Offer Price last offered under the Offer.

Macmahon Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Macmahon Shareholders to establish to the satisfaction of a court that the terms of the Offer do not represent "fair value" for the Macmahon Shares.

b. General compulsory acquisition

If CIMIC does not become entitled to compulsorily acquire outstanding Macmahon Shares at the end of the Offer Period as described above, CIMIC might be entitled to compulsorily acquire Macmahon Shares at a later time under the general compulsory acquisition power if CIMIC becomes a "90% holder".

CIMIC might also use this general compulsory acquisition power to acquire Macmahon Performance Rights (see below).

Under Part 6A.2 of the Corporations Act, CIMIC will be entitled to compulsorily acquire any outstanding Macmahon Shares, if CIMIC (either alone or with a related body corporate) holds full beneficial interests in at least 90% of Macmahon Shares (by number) (ie if CIMIC becomes a "90% holder").

If this threshold is met, CIMIC will have six months after CIMIC becomes a 90% holder within which to give compulsory acquisition notices to Macmahon Shareholders. The compulsory acquisition notices sent to Macmahon Shareholders must be accompanied by an independent expert's report and an objection form.

The independent expert's report must set out, among other things, whether the terms of the compulsory acquisition give a "fair value" for the Macmahon Shares and the independent expert's reasons for forming that opinion.

If Macmahon Shareholders with at least 10% of Macmahon Shares covered by the compulsory acquisition notice object to the acquisition before the end of the objection period (which must be at least one month), CIMIC may apply to the Court for approval of the acquisition of the Macmahon Shares covered by the notice.

5. Important information about the Offer *continued*

Macmahon's executive remuneration framework includes several long term incentive plans, pursuant to which certain employees have been issued Macmahon Performance Rights. Participants are granted Macmahon Performance Rights which vest subject to the achievement of certain performance hurdles. Refer to section 10.3 of this Target's Statement for more information regarding the Macmahon Performance Rights and the Board's present intentions in relation to the waiver of performance conditions applicable to them.

Subject to CIMIC obtaining ASIC relief to enable it to use the general compulsory acquisition power to acquire the Macmahon Performance Rights, CIMIC will be in a position to compulsorily acquire Macmahon Performance Rights if CIMIC in the future holds the full beneficial interest in at least 90% by value of the Macmahon Shares and Macmahon Performance Rights.

5.14 CIMIC'S INTENTIONS

Section 4 of the Bidder's Statement sets out CIMIC's intentions in respect of the business and operations of Macmahon in certain circumstances.

6

INFORMATION RELATING TO MACMAHON

6. Information relating to Macmahon *continued*

6.1 OVERVIEW

Macmahon is an Australian based contractor offering the complete package of mining services in Australia and internationally.

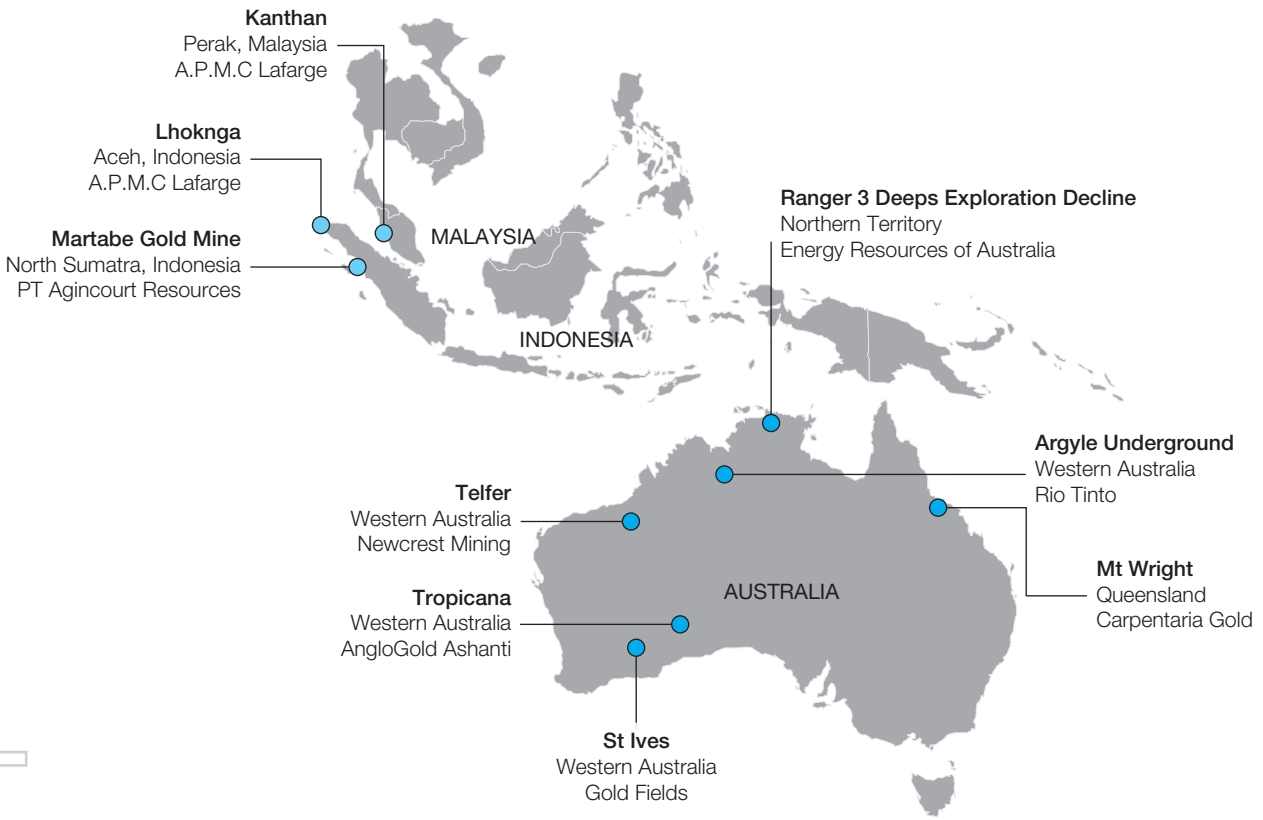
Macmahon was listed on ASX on 1 December 1983 (ASX code: MAH), currently employs approximately 1,400 people, and operates its head office from Perth, Western Australia.

As at 22 February 2017 (being the Last Practicable Trading Day), Macmahon had 1,200,920,894 shares on issue and a market capitalisation of approximately $180 million (based on the closing trading price of $0.15 per share on ASX).

6.2 MAP OF OPERATIONS

As outlined in Figure 7, Macmahon's operations are primarily based in Australia, but with operations also in Southeast Asia and a growing focus on Indonesia.

FIGURE 7: OVERVIEW OF MACMAHON'S OPERATIONS



6.3 BOARD AND SENIOR MANAGEMENT

a. Board of Directors

As at the date of this Target's Statement, the Directors of Macmahon are:

i. Jim Walker (Independent Non-Executive Chairman);
ii. Giles Everist (Independent Non-Executive Director);
iii. Eva Skira (Independent Non-Executive Director); and
iv. Vyril Vella (Non-Executive Director, CIMIC nominee).

b. Management team

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

i. Michael Finnegan (Chief Executive Officer);
ii. José Martins (Chief Financial Officer);
iii. Greg Gettingby (General Counsel & Company Secretary);
iv. James Glover (Underground Operations Manager);
v. Russell Taylor (General Manager Surface Mining Australia);
vi. Michael Fisher (Operations Manager Mining Indonesia);
vii. David Van Den Berg (Chief Technology and Innovation Officer);
viii. Mark Hatfield (General Manager Maintenance);
ix. Katherine Blacklock (Human Resources Manager); and
x. Kale Ross (Manager HSEQ).

6.4 FINANCIAL INFORMATION

Macmahon's last published financial statements are for the financial half year ended 31 December 2016, as set out in its Half Year Report announced on ASX on 27 February 2017. Except as set out in this Target's Statement and the Independent Expert's Report, the Directors are not aware of any material changes to the financial position of Macmahon since 31 December 2016.

a. Introduction

This section sets out a summary of key consolidated historical and anticipated financial information for Macmahon, including the basis of preparation and presentation and the Board's discussion and analysis of financial performance.

The financial information in this section comprises:

- extracts of historical audited statements of financial performance for FY2016 that have been restated to exclude discontinued operations and the reviewed financial statements for the half year ended 31 December 2016 (**Historical Financial Information**); and
- the Macmahon earnings guidance for FY2017 and FY2018 (**Guidance**),

collectively the **Financial Information**.

The Financial Information should be read in conjunction with the other information contained within this Target's Statement.

The Guidance should be read in conjunction with the Directors' material best estimate assumptions described in section 6.4 and the risk factors in section 8.2 of this Target's Statement.

b. Basis of preparation

The Financial Information in this section has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, other mandatory professional reporting requirements and Macmahon's adopted accounting policies.

The Financial Information in this section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act.

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

6. Information relating to Macmahon *continued*

The financial information is presented after adjusting for discontinued operations to allow greater comparability with the Guidance and better representation of performance from continuing operations. The adjustments made to the Historical Financial Information are outlined in section 6.4(d) of this Target's Statement.

The Guidance represents your Directors' best estimate of Macmahon's anticipated financial performance for FY2017 and FY2018, based on:

- an assessment of current economic and market conditions;
- an ongoing anticipated improvement in operating conditions for the mining services sector resulting from the improved commodity price environment;
- ongoing revenue from its contracted order book, which is the future value of work or services that is under contract;
- anticipated improvements in financial and operational performance at Telfer;
- three potential new contract awards anticipated to commence during FY2018 as sourced from Macmahon's tender pipeline; and
- a number of other material best estimate assumptions set out in section 6.4(f) of this Target's Statement as determined by the Directors.

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

The Guidance should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the best estimate assumptions or that Macmahon will achieve, or is likely to achieve, the particular results. Macmahon Shareholders are encouraged to read the material best estimate assumptions and sensitivities in section 6.4(f) in conjunction with the risk factors set out in section 8.2 of this Target's Statement.

The Guidance also takes no account of the adviser and other third party costs incurred to date and to be incurred by Macmahon in responding to CIMIC's Offer, on the basis that they are non-recurring and therefore not reflective of the underlying performance of Macmahon. The expected reported statutory results for Macmahon in FY2017 will include costs associated with responding to CIMIC's Offer and are estimated to be approximately $2.5 million to $3.0 million.

c. Summary Financial Information

TABLE 3: SUMMARY FINANCIAL INFORMATION

$ millions	FY2016 Actual	Half year ended 31 December 2016 Actual	FY2017 Guidance	FY2018 Guidance
Revenue	313.2	168.3	350.0 – 370.0	470.0 – 510.0
EBITDA	46.2	10.4	30.0 – 35.0	67.0 – 75.0
EBIT	17.3	(4.5)	(3.0) – 0.0	30.0 – 35.0
EBIT margin	5.5%	(2.7%)	(0.9%) – 0.0%	6.4% – 6.9%
Capital expenditure:				
– Existing contracts				
– Stay in business	23.5	16.5	37.2	27.7
– Expansion	–	10.3	10.3	–
– New contracts	–	–	–	60.5
Total	**23.5**	**26.8**	**47.5**	**88.2**
Net cash/(debt) as at the end of the period	56.5	49.8		

Note: All figures are in millions of Australian dollars and reflect continuing operations only.

d. Adjustments made to Historical Financial Information

The Historical Financial Information is presented after adjusting for discontinued operations to allow greater comparability with the Guidance and better representation of performance from continuing operations. A summary of the adjustments made is set out below.

TABLE 4: ADJUSTMENTS MADE TO FY2016 FINANCIAL INFORMATION

$ millions	FY2016 Audited Results	Adjustments for discontinued Nigerian operations	FY2016 Pro Forma
Revenue	347.4	(34.2)	313.2
Other income	10.9	(–)	10.9
Expenses excluding depreciation, net finance costs and tax	(321.3)	43.4	(277.9)
EBITDA	37.0	9.2	46.2
Depreciation & amortisation	(33.1)	4.2	(28.9)
EBIT	3.9	13.4	17.3
Net finance costs	(2.4)	1.7	(0.7)
Profit before tax	1.5	15.1	16.6
Tax	(0.4)	–	(0.4)
Net profit after tax	1.1	15.1	16.2

No adjustments have been made to the Historical Financial Information in relation to the half year ended 31 December 2016 as those financial statements already reflect the Nigerian operations as discontinued.

e. Commentary on Historical Financial Performance

i. FY2016

FY2016 saw the continuation of challenging market conditions that had characterised the resources sector since 2013. As a result, revenue from continuing operations fell from $618.4 million in FY2015 to $313.2 million in FY2016.

During FY2016 Macmahon's largest surface mining operation (Tropicana) and surface operations in Malaysia and Indonesia performed well.

However, overall financial performance from continuing operations in FY2016 was impacted by:

- losses on the Telfer project (which commenced in February 2016) due to a number of issues including greater than expected start-up costs, complicated site conditions and additional maintenance rectification costs for client supplied equipment; and
- the completion of Macmahon's Olympic Dam development and mining services contracts in South Australia in the first half of the year.

Partially offsetting these impacts was the award of $624 million in new work (to be completed over several years). New projects included:

- a contract for the provision of plant and personnel at the St Ives Gold Mine for St Ives Gold Mining Company Pty Ltd near Kambalda in Western Australia; and
- a contract to provide mining services (in a joint venture with a local contractor) at the Martabe Gold Mine in Indonesia.

ii. The half year ended 31 December 2016

In the half year ended 31 December 2016, Tropicana, Macmahon's largest contract, continued to perform profitably. Overall financial performance during that period was impacted by losses at the Telfer project. During this period, Macmahon focussed on exiting from Nigeria (which is excluded from continuing operations) and improving performance at the Telfer project.

Net cash at 31 December 2016 was $49.8 million.

6. Information relating to Macmahon *continued*

f. Commentary on Guidance

i. FY2017 guidance

The revenue and EBIT guidance for Macmahon for the full year to 30 June 2017 is, for revenue, between $350 million and $370 million and, for EBIT, a loss of between ($3.0) million and $0.0 million from continuing operations.

The guidance for FY2017 is based on the actual results for the six months ended 31 December 2016 (excluding the discontinued Nigerian operations) together with anticipated performance for the six month period to 30 June 2017. Macmahon anticipates an improvement in financial performance in the second half of FY2017.

The key assumptions underlying this guidance are set out below, subject to the sensitivity analysis which follows and the risk factors in section 8.2:

- Macmahon's revenue guidance for FY2017 is based on existing work in hand from long-term contracts, together with ongoing revenue derived from underground mining services and external maintenance and engineering services which are all typically carried out on short-term contracts. Macmahon has assumed that none of the existing long term contracts are terminated.
- An order book, being the value of work or services that is under contract as at 31 December 2016, of $1.295 billion. For the balance of FY2017, more than 90% of Macmahon's expected revenue is already contracted.
- Revenue in the second half of FY2017 is anticipated to increase from that reported in the six months to 31 December 2016, primarily due to revenue growth at the Tropicana project as a result of increased mining volumes.
- Improving operating and financial performance at the Telfer project. Macmahon has been incurring significant losses at Telfer since operations commenced on site in February 2016, primarily due to:
  - greater than expected costs in start-up activities;
  - difficult operating conditions in the initial mining areas; and
  - additional maintenance rectification costs for client supplied equipment, the lower availability of which also impacted upon mining productivity.
- Macmahon anticipates that operational and financial performance at Telfer will improve in the second half of FY2017 given that:
  - the majority of the primary loading equipment rebuilds have now been completed;
  - the most difficult working areas, West Dome Interim Stage 2 and the Main Dome Stage 4, are either complete or nearing completion and the primary production excavator has now been removed from those areas;
  - Macmahon is now commencing work in new areas where mining activities are expected to be more efficient because they involve shorter trucking hauls, higher excavator productivity rates and easier geological and hydrological conditions; and
  - from February 2017 Macmahon will be entitled to increase its rates for the Telfer project as a result of applying the contractual rise and fall mechanism.

As a result of the factors described above, Macmahon anticipates that the financial performance at Telfer will improve from a loss of $18.7 million in the six months ended 31 December 2016 to a loss of $7.8 million for the second half of FY2017. Macmahon also expects that this contract will start generating monthly profits during the latter part of the calendar year 2017 after having been in a loss making position since its inception.

Figure 8 and 9 outline the key financial movements for the revenue and EBIT guidance for FY2017.

FIGURE 8: FY2017 REVENUE GUIDANCE – KEY MOVEMENTS[1]

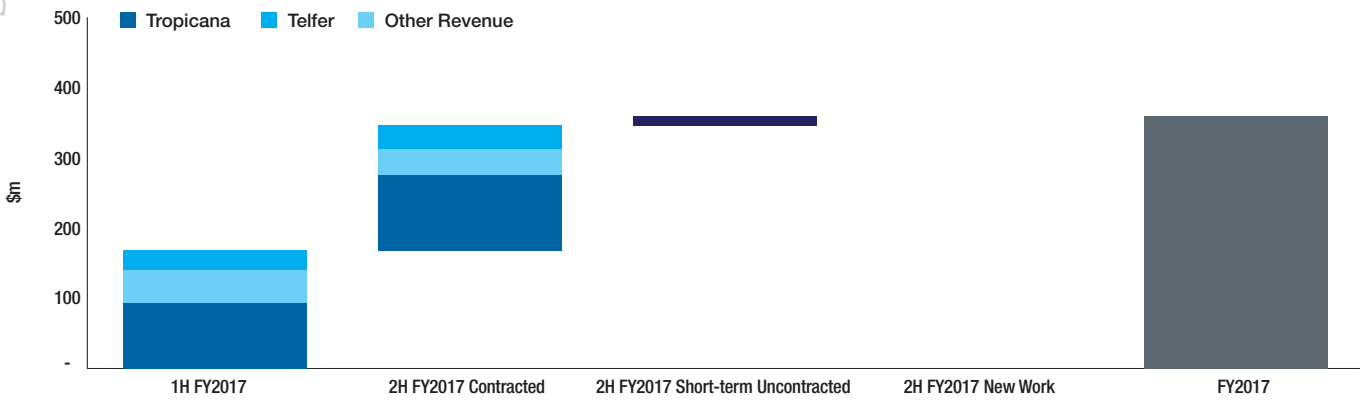
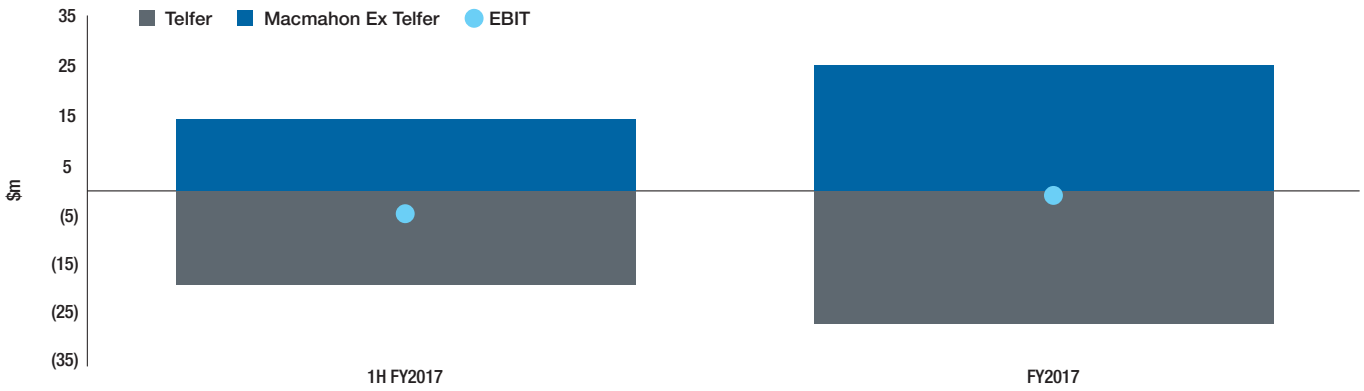


FIGURE 9: FY2017 EBIT GUIDANCE – KEY MOVEMENTS[1]



Please refer to the risk factors in section 8.2 of this Target's Statement for various events which may affect the assumptions above.

The FY2017 revenue and EBIT guidance are inherently uncertain and the following table summarises the key sensitivities in both revenue and EBIT:

TABLE 5: FY2017 SENSITIVITY ANALYSIS

Sensitivity analysis (FY2017) – millions of Australian dollars	Revenue	EBIT
FY2017 Guidance	350.0 - 370.0	(3.0) – 0.0
Mid-point FY2017 Guidance	360.0	(1.5)
Effect of no new long-term contracts	$0 – no assumption made	$0 – no assumption made
Effect of a ±1% movement in Telfer EBIT margin		±0.3
Effect of a ±1% movement in EBIT margin		±1.9

Note: Sensitivity analysis flexes each variable for the second half of FY2017 relative to FY2017 guidance. Each metric is flexed in isolation to provide an indicative assessment of incremental financial impact. The analysis ignores the impact of correlation between variables.

1. *Revenue and EBIT guidance charts show mid-point of guidance range.*

6. Information relating to Macmahon *continued*

ii. FY2018 guidance

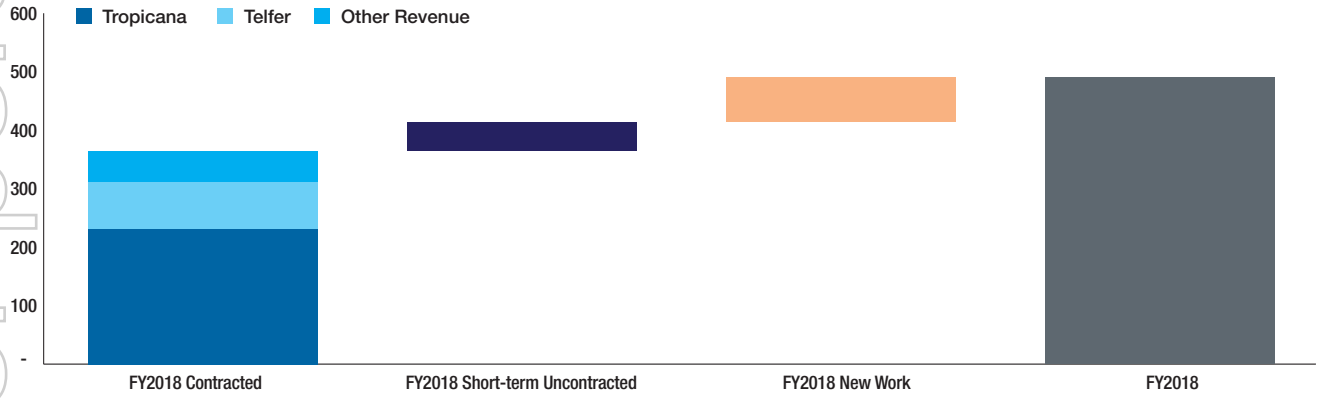
In FY2018, Macmahon is anticipating substantially improved financial performance with revenue increasing to between $470 million and $510 million and EBIT to increase to between $30 million and $35 million.

The key assumptions underlying the FY2018 guidance are set out below, subject to the sensitivity analysis which follows and the risk factors in section 8.2:

- Consistent with progress expected to be made at the Telfer project (as described above), Macmahon is anticipating that Telfer will generate a modest profit in FY2018. The bases for this assumption are as described in relation to the FY2017 guidance above.
- Macmahon expects to continue to realise ongoing ad-hoc revenue from its underground mining services business, based on past activity levels. No material revenue growth is assumed in relation to those activities.
- Revenue growth is anticipated to be derived from Telfer and Tropicana based on anticipated increased productivity at Telfer and increased mining volumes at both projects based on the existing long term mine plans. Macmahon has assumed that none of the existing long term contracts are terminated.
- Macmahon expects to be successful in securing revenue during FY2018 from three new contracts. The three new contracts form part of Macmahon's tender pipeline. The basis for this assumption is that Macmahon is one of two bidders for each of these three contracts, which is why 50% of a full year's earnings potentially derived from those contracts is reflected in the Guidance. This percentage also reflects the possibility of Macmahon winning alternate work. The three contracts are among the most advanced in Macmahon's tender pipeline of 18 contract opportunities representing $6.4 billion in aggregate (including these three contracts). If Macmahon is not successful in achieving any new long-term contracts in FY2018, EBIT is anticipated to be approximately $25 million. Refer to section 6.4(g) of this Target's Statement for further information in relation to Macmahon's tender pipeline.
- Capital Expenditure for FY2018 is expected to be $88 million comprising expenditure on existing contracts of $28 million and $60 million in relation to three potential new contracts. New sources of funding will be required to assist with meeting the anticipated capital expenditure to carry out the new contracts. The structure and timing of that funding has not yet been determined, but the basis of the assumption that the necessary funding will be secured is that funding has been traditionally available to Macmahon once a contract is secured. Refer to section 6.5 for further information.

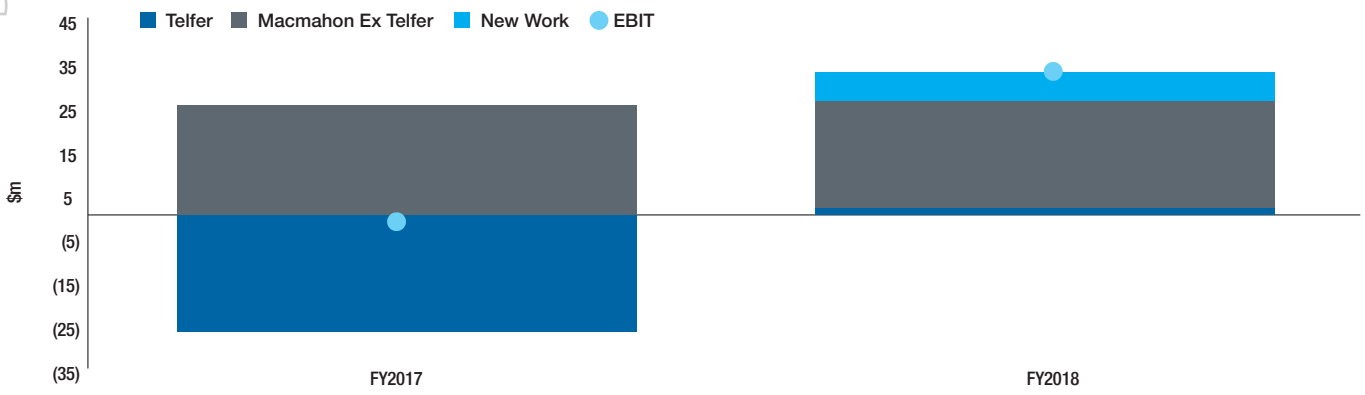
Figure 10 and 11 outline the key financial movements for the revenue and EBIT guidance for FY2018.

FIGURE 10: FY2018 REVENUE GUIDANCE[2]



2. *Revenue and EBIT guidance charts show mid-point of guidance range.*

FIGURE 11: FY2018 EBIT GUIDANCE[3]



Please refer to the risk factors in section 8.2 of this Target's Statement for various events which may affect the assumptions above.

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

TABLE 6: FY2018 SENSITIVITY ANALYSIS

Sensitivity analysis (FY2018) – millions of Australian dollars	Revenue	EBIT
FY2018 Guidance	470.0 – 510.0	30.0 – 35.0
Mid-point of FY2018 Guidance	490.0	32.5
No new long-term contracts	(76.4)	(6.8)
Effect of a ±1% movement in Telfer EBIT margin		±0.8
Effect of a ±1% movement in EBIT margin		±4.9
Effect of a ±5% movement in revenue based on average EBIT margin of 6.6%	±24.5	±1.6

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

3. *Revenue and EBIT guidance charts show mid-point of guidance range.*

6. Information relating to Macmahon *continued*

g. Tender pipeline

Macmahon has a pipeline of 18 tender opportunities which represent total contract value of approximately $6.4 billion in aggregate. This pipeline has increased substantially as activity has picked up in the mining services sector as outlined in section 1.2 of this Target's Statement.

As outlined in Figure 12, 44% of Macmahon's tender opportunity pipeline by anticipated contract value is at a point where Macmahon is among the exclusive, preferred or shortlisted bidders, including for the three contracts referred to in section 6.4(f)(ii) of this Target's Statement above. Whilst there is no certainty that any new contracts will be secured, Macmahon considers that there are reasonable bases (as described above) for the revenue growth reflected in the Guidance.

FIGURE 12: TENDER PIPELINE BY STATUS[4,5]

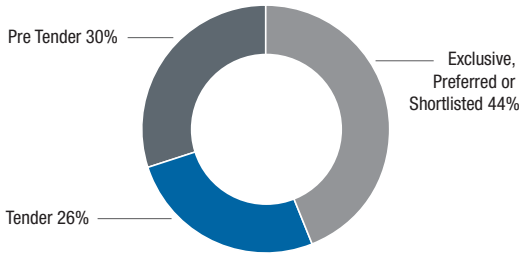


FIGURE 13: TENDER PIPELINE BY COMMODITY[5]

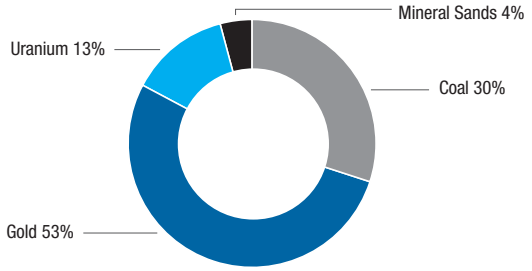


FIGURE 14: TENDER PIPELINE BY BY CONTRACT TYPE[5]

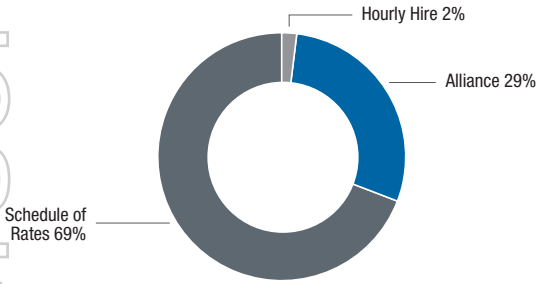
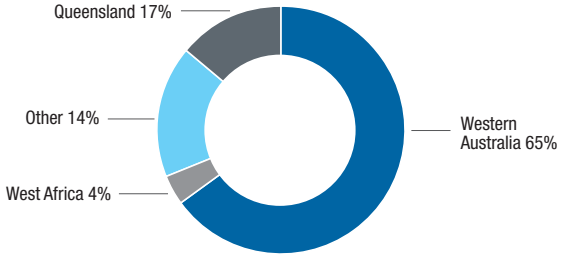


FIGURE 15: TENDER PIPELINE BY LOCATION[5]



h. Order book

As at 31 December 2016, Macmahon's order book (being the value of work or services that is under contract) was $1.295 billion. This order book value excludes any additional contract value which may arise from the extension of the life of mine at Tropicana which is the subject of the announcements by AngloGold Ashanti and Independence Group on 15 December 2016. Results of the Long Island study are due by the end of June 2017 along with further studies on other deposits, which, if approved, could potentially extend the life of mine at Tropicana through to 2027-2030.

4. *Tender pipeline by aggregate contract value as at 31 December 2016. This includes opportunities at Tropicana, where Macmahon is the life of mine contractor.*
5. *Macmahon's MOU with Indonesia's PT Amman Mineral Nusa Tenggara (AMNT) has not been included in the tender pipeline given uncertainty in relation to whether AMNT will decide to proceed with development of the relevant projects and uncertainty of the ultimate contract size.*

FIGURE 16: ORDER BOOK BY COMMODITY

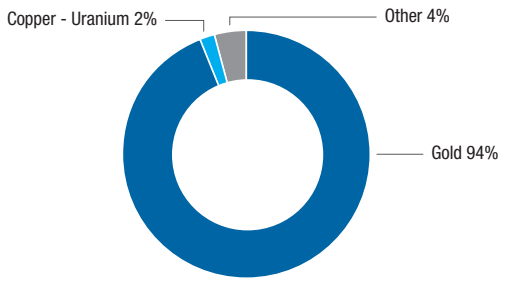
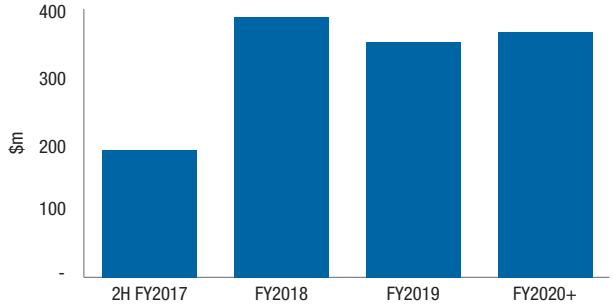


FIGURE 17: ORDER BOOK BY YEAR



6.5 FINANCING FACILITIES

Macmahon currently has a multi-option facility with an Australian trading bank of $10 million which expires in April 2017 and is also referred to in section 10.5(b) of this Target's Statement. This facility is mainly used by Macmahon to issue guarantees required under some contracts. The aggregate amount currently utilised under this facility is $3.8 million. This facility may be renewed in order for Macmahon to continue to provide guarantees as and when required.

Macmahon also has finance and operating lease arrangements in place which has funded previous capital expenditure, which are also referred to in section 10.5(c) of this Target's Statement. As at 31 December 2016, Macmahon had a finance lease liability of $9.8 million and also had operating lease commitments of $33.7 million.

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

6.6 DIVIDEND AND CAPITAL MANAGEMENT POLICIES

Macmahon has not paid a dividend since 2012 as a result of reported losses. However, Macmahon conducted an on-market share buy-back in 2016 as that was considered to be the most effective form of capital management at that time given the lack of franking credits meant that any dividend would have to be unfranked. The Board of Macmahon remains committed to its aim of generating sustainable returns for Macmahon Shareholders and will continue to consider various capital management initiatives in the next 18 months whilst being cognisant of the funding needs of Macmahon during this period of growth.

It is expected that once Macmahon returns to profitability, dividends will be a priority for the Board. However, any future determination as to the payment of dividends by Macmahon will be at the discretion of the Board at the relevant time and will depend on the availability of distributable earnings, operating results, the financial condition of Macmahon, future capital requirements and general business and other factors considered relevant by the Board. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by Macmahon.

6.7 TRANSACTION EXPENSES

The Offer will result in Macmahon incurring fees and expenses that would not otherwise have arisen in the 2017 financial year. As a result of the Offer and based on the current Offer Price, the aggregate amount of fees and expenses to be incurred (or expected to be incurred) is currently estimated to be approximately $2.5 million to $3.0 million (exclusive of GST). They include:

- fees payable to financial and legal advisers, and the Independent Expert; and
- costs relating to printing and dispatch of this Target's Statement and the Shareholder Information Line.

7

INFORMATION RELATING TO CIMIC AND CIMIC GROUP

7.1 DISCLAIMER

The following information about CIMIC and CIMIC Group is based on publicly available information, including information in the Bidder's Statement, and has not been independently verified by Macmahon. Macmahon does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information.

The information on CIMIC and CIMIC Group in this Target's Statement should not be considered comprehensive. Further information about CIMIC and CIMIC Group is set out in the Bidder's Statement, and may also be obtained from CIMIC Group's website at www.cimic.com.au. Announcements made by CIMIC Group to the ASX may also be obtained from the ASX's website at www.asx.com.au (ASX code: CIM). Information contained in or otherwise accessible from those websites does not form part of this Target's Statement. CIMIC and CIMIC Group are required to lodge various documents with ASIC. Copies of documents lodged with ASIC by CIMIC and CIMIC Group may be obtained from, or inspected at, an ASIC office.

Section 2 of the Bidder's Statement provides further information relating to CIMIC and CIMIC Group.

7.2 OVERVIEW OF CIMIC GROUP

CIMIC Group is a public company listed on ASX (ASX code: CIM) which provides construction, mining, mineral processing, engineering, concessions, and operation and maintenance services to the infrastructure, resources and property markets.

7.3 CIMIC'S INTEREST IN MACMAHON

Section 4.3 of the Bidder's Statement disclosed that, through CIMIC (a wholly owned subsidiary of CIMIC Group), as at 24 January 2017, CIMIC Group owned or controlled 20.54% of Macmahon Shares. This has since increased to 22.99% as at the Last Practicable Trading Day (refer to the Substantial Holding notice lodged by CIMIC Group with ASX Market Announcements on 30 January 2017 and CIMIC's Second Supplementary Bidder's Statement dated 9 February 2017).

7.4 CIMIC DIRECTORS

According to the Bidder's Statement, as at 24 January 2017:

a. The directors of CIMIC Group were:
   - Mr Marcelino Fernández Verdes (Executive Chairman);
   - Mr Adolfo Valderas (Chief Executive Officer and Managing Director);
   - Mr Russell Chenu;
   - Mr José Luis del Valle Pérez;
   - Mr Trevor Gerber;
   - Mr Pedro López Jiménez;
   - Mr David Robinson; and
   - Mr Peter-Wilhelm Sassenfeld.

b. The directors of CIMIC were:
   - Mr Robert Brian Cotterill; and
   - Mr Angel Manuel Muriel Bernal.

7.5 MACMAHON'S WORK WITH CIMIC GROUP

Macmahon works with CIMIC Group and subsidiaries of CIMIC Group from time to time. This currently includes leasing of machinery by CIMIC Group to Macmahon, and raisebore subcontract works by Macmahon to CIMIC Group, all undertaken on normal commercial terms. There are no current joint ventures or projects being undertaken between CIMIC Group and Macmahon.

8 RISK FACTORS

In considering this Target's Statement and the Offer, Macmahon Shareholders should be aware that there are a number of risks which apply to a continuing investment in Macmahon. There are also risks associated with the alternative of accepting the Offer.

Non-exhaustive lists of relevant risk factors are provided in this section 8.

8.1 RISKS ASSOCIATED WITH ACCEPTING THE OFFER

a. Possibility of a superior proposal emerging

A third party may emerge with a superior proposal. If you accept the Offer, other than in limited circumstances provided in the Corporations Act (as summarised in section 5.9 of this Target's Statement), you will not be able to accept your Macmahon Shares into any superior proposal and you will not be able to obtain any potential benefit associated with that superior proposal (if any). Accepting the Offer will also preclude a Macmahon Shareholder from selling their Macmahon Shares on-market on the ASX, where they may trade at a higher price than the Offer Price.

b. Possibility of future Macmahon Share price appreciation

It may be possible in the future to sell your Macmahon Shares for more valuable consideration than that offered under the Offer. The Directors make no forecast of whether this will occur.

c. Taxation consequences of a change in control in Macmahon

The taxation consequences of disposing of your Macmahon Shares pursuant to the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of certain Australian tax considerations of such a disposal is set out in section 9 of this Target's Statement.

You should carefully read and consider the taxation consequences of disposing of your Macmahon Shares pursuant to the Offer. The outline provided in this Target's Statement is of a general nature only and you should seek your own specific professional tax advice as to the taxation implications applicable to your circumstances.

8.2 RISKS ASSOCIATED WITH REJECTING THE OFFER AND CONTINUING AN INVESTMENT IN MACMAHON

In considering this Target's Statement and the Offer, Macmahon Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of Macmahon and the value of Macmahon Shares. Some of the risks can be adequately mitigated by the use of safeguards and appropriate systems but many are beyond the control of Macmahon and its Directors and cannot be mitigated.

One or more or a combination of these risks could materially and adversely impact Macmahon's business, including its operating and financial performance, industry standing and the price and value of Macmahon Shares. If you do not accept the Offer and continue to hold Macmahon Shares, your investment in Macmahon will be subject to these and other risks.

A non-exhaustive list of key risks applicable to maintaining your investment in Macmahon in the present circumstances, is set out in sections 8.2(a) and 8.2(b) below.

a. Specific risks

i. Performance of the Telfer project

There can be no guarantee that the guidance in this Target's Statement in relation to the turnaround of the Telfer project will be realised.

There is a risk that the assumptions which have been described in section 6.4 of this Target's Statement in relation to the Telfer project may be incorrect.

Although these risks apply to all the Guidance, the Telfer project is particularly material to Macmahon.

ii. Additional requirements for capital

Although Macmahon has a net cash position of approximately $49.8 million (as at 31 December 2016), the Directors anticipate that these cash reserves will not be sufficient to finance the expenditure costs associated with Macmahon's aim of growing its business. The Board anticipates that it will seek further funding, although the timing and structure of any potential funding have not been determined. If Macmahon is unable to use debt or equity to fund its activities there can be no assurances that Macmahon will have sufficient capital resources to pursue any growth opportunities which may be available, or that it will be able to obtain additional resources on terms acceptable to Macmahon or at all. Any additional equity financing will be dilutive to Shareholders and any debt financing if available may involve restrictive covenants, which may limit Macmahon's operations and business strategy.

If Macmahon is unable to obtain additional funding, that will adversely impact on its ability to fund the capital expenditure costs of any future work opportunities, if they arise.

8. Risk factors *continued*

iii. Possibility of future Macmahon Share price depreciation

While there are many factors that influence the market price of Macmahon Shares, following the close of the Offer, the market price of Macmahon Shares may fall if CIMIC's Offer fails (and there is no alternative takeover bid to the Offer), or if the Offer is otherwise unsuccessful.

Depending on the size of CIMIC's interest in Macmahon, there may also be a reduced likelihood that another party will make an offer to acquire all of the Macmahon Shares in the future.

Depending on the number of acceptances to the Offer, the number of Macmahon Shares held by investors for trading purposes may be reduced, thereby potentially diminishing the future liquidity of ASX market trading of Macmahon Shares.

There is also a general risk of future depreciation of the price of Macmahon Shares due to other factors, such as the other risks described in this Target's Statement.

iv. Other alternatives to the Offer

If you reject the Offer there can be no guarantee that a competing proposal will emerge. Please refer to section 1.5 of this Target's Statement for further information.

As at the date of printing of this Target's Statement, the Macmahon Board is not in a position to provide Macmahon Shareholders with information in relation to the probability of an alternative transaction arising but will keep Macmahon Shareholders informed of any material developments.

v. Minority ownership consequences

CIMIC has set out, in section 4 of the Bidder's Statement, its intentions in relation to Macmahon in various different scenarios, where CIMIC acquires different levels of relevant interests in Macmahon Shares.

As there is no minimum acceptance condition attaching to the Offer, subject to the Defeating Condition, CIMIC may hold less Macmahon Shares than the compulsory acquisition threshold summarised in section 5.13 of this Target's Statement.

Depending upon the number of Macmahon Shareholders which accept the Offer, this may have a number of implications for remaining Macmahon Shareholders who do not accept the Offer, including:

- CIMIC may be in a position, either alone or in conjunction with one or more of the other Macmahon Shareholders, to significantly influence the composition of Macmahon's Board and management and the strategic direction of the businesses of Macmahon and its subsidiaries (or potentially to control those factors in conjunction with one or more other Macmahon Shareholders) although no forecast is made as to whether that will occur;
- the liquidity of Macmahon Shares may be lower than at present;
- if CIMIC becomes entitled at some later time to exercise any compulsory acquisition rights under the Corporations Act, it may exercise those rights (as described in section 4.3 of the Bidder's Statement);
- in the event that a change of control results from the Offer, this may have materially adverse consequences for Macmahon's material contracts, including as summarised in section 10.5 of this Target's Statement, which may adversely affect Macmahon's financial position and financial performance; and
- if the number of Macmahon Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the ASX may suspend and/or de-list Macmahon. If this occurs, any remaining Macmahon Shareholders will not be able to sell their Macmahon Shares on-market.

vi. Earnings guidance

Macmahon has provided earnings guidance on the basis of a number of assumptions and forecasts, which may subsequently prove to be incorrect. Earnings guidance is not a guarantee of future performance and involves known and unknown risks, many of which are beyond the control of Macmahon.

Key identified risks that may result in Macmahon not meeting its earnings guidance include the other risk factors in this section 8.2, such as (among other risks) failure to achieve the performance improvements anticipated at the Telfer project, termination of key contracts, the non-availability of funding which has not yet been secured, variability in cost and productivity assumptions and inability to recover claims and variations from clients.

Macmahon's actual results may differ materially from its earnings guidance and the assumptions on which that earnings guidance is based. Not meeting its guidance is likely to adversely affect the price and value of Macmahon Shares. It could also adversely impact upon Macmahon's prospects of securing new work and new contracts. Accordingly, you should not place undue reliance on Macmahon's earnings guidance.

vii. 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, including:

- demand for mining production, which may be influenced by various factors including (but not limited to):
  - prices and demand/supply for commodities;
  - exchange rates; and
  - competitiveness of Australian mining operations;
- government policy on infrastructure spending;
- policies of mine owners including their decisions to undertake their own mining operations or outsource these functions; and
- availability and cost of key resources including people, large earth moving equipment and critical consumables.

In particular, Macmahon is indirectly exposed to movements in commodity prices. Commodity prices are volatile and subject to factors beyond Macmahon's control. Any significant or extended decline 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.

Any significant or extended decline in the level of activity in the mining and resources industry is likely to adversely impact Macmahon's financial performance and position. Macmahon is unable to accurately predict the timing, extent or duration of the industry cycles in which it operates, which may have an adverse impact on operating and financial performance.

viii. Liquidity Risk

Macmahon's approach to managing liquidity is to aim to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Macmahon's reputation.

However, errors or unforeseen changes in actual and forecast cash flows that then create a mismatch against the maturity profiles of financial assets and liabilities could have a detrimental effect on a company's liquidity.

ix. 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.

x. Early contract termination and contract variations

Macmahon's Guidance is partly based on current contracts in hand and Macmahon derives a significant proportion of its revenue from providing services under large contracts. The contractual relationship for such contracts often allows Macmahon's clients to terminate the services on short term notice under termination for convenience provisions and without penalty with the customer paying for all work completed to date, unused material and in most cases demobilisation from the site and redundancies. As a result, there can be no assurance that work in hand will be realised as revenue in any future period. In Macmahon's business, this risk is increased by the high percentage of its revenue that is derived from a single project.

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 Macmahon's financial performance and position. The quantum of this adverse effect will vary based on a number of factors, including the value of the contract terminated or not renewed, and the magnitude of compensation due for termination for convenience under the contract.

While Macmahon has no reason to believe any existing contracts will be terminated, there can be no assurance that this will not occur, particularly given the various termination rights which may be triggered if certain change of control events occur (for example as a result of the Offer) as summarised in section 10.5.

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. This may have an adverse impact on Macmahon's reported performance in any given accounting period.

xi. Failure to win new contracts and competition

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 its fair share of work in the sectors in which it operates will impact its financial performance and position.

Macmahon operates in an increasingly competitive environment, with customers particularly focused on cost-reduction. Macmahon expects to continue to have a broad range of competitors across all of its operations, which impacts the margins that Macmahon is able to obtain on contracts. There is a risk that existing and increased future competition may limit Macmahon's ability to win new contracts or achieve attractive margins.

8. Risk factors *continued*

xii. Project Delivery Risk

The execution and delivery of projects involves judgment regarding the planning, development and operation of complex operating facilities and equipment. Some parts of Macmahon's business are involved in large-scale, complex projects that may occur over extended time periods. As a result, Macmahon's operations, cash flows and liquidity could be affected if Macmahon miscalculates the resources or time needed to complete a project, if it fails to meet contractual obligations, or if it encounters delays or unspecified conditions.

xiii. 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.

xiv. Margins, operations, safety and environment

Macmahon's long term viability is dependent upon its continued ability to operate efficiently, with minimal operational failures or accidents and maintain margins. Any cost overruns, unfavourable contract outcomes, serious or continued operational failure, disruption at key facilities, disruptions to communication systems or safety incident has 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 and position could be adversely affected.

Macmahon has a key operational and safety focus. However, 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 position, and reputation and ability to win new contracts.

xv. Commodity concentration

Gold is the single most important commodity contributing to Macmahon's current order book and tender pipeline. If the gold industry were to suffer from external factors, it would have a material adverse effect on Macmahon revenues and profitability.

xvi. Equipment and consumable availability

Being a contractor, Macmahon has a significant fleet of equipment and has a substantial ongoing requirement for consumables including tyres, parts and lubricants. A key risk to any contractor, including Macmahon, is the reliable supply and availability of equipment and consumables. If Macmahon cannot secure such a reliable supply, there is a risk that its operational and financial performance may be adversely affected.

xvii. Key personnel

Macmahon's growth and profitability may be limited by any loss of key operating personnel, the inability to recruit and retain skilled and experienced employees or by increases in compensation costs associated with attracting and retaining personnel. Macmahon is dependent on the availability of suitably skilled labour to provide its services and accordingly access to labour represents an ongoing risk to the business.

If changes occur in certain key personnel of Macmahon's group, this may materially affect Macmahon's material contracts, for example by giving counterparties to certain contracts rights to terminate those contracts in some circumstances, as summarised in section 10.5 of this Target's Statement.

xviii. Currency fluctuation

As a company with international operations, Macmahon is exposed to fluctuations in the value of the Australian dollar versus other currencies. Because Macmahon's consolidated financial results are reported in Australian dollars, if Macmahon generates sales or earnings or has assets and liabilities in other currencies, the translation into Australian dollars for financial reporting purposes can result in a significant increase or decrease in the amount of those sales or earnings and net assets.

xix. Partner risk

Macmahon, in some cases, may undertake services through and participate in joint ventures or partnering/alliance arrangements. The success of these partnering activities depends on the 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.

xx. Asset impairment and write-down risk

Macmahon has a fleet of assets that in the normal course of business may become idle for periods of time, as well as carrying goodwill assets and other investments. In the event the market value is lower than the carrying value of these assets or investments, Macmahon may be required to write these assets or investments down to market value, which may have an adverse impact on Macmahon's financial performance or position.

xxi. Reputational risk

Macmahon is exposed to adverse consequences such as decreased financial performance which may flow from a loss of its reputation. Examples of circumstances which may adversely impact on Macmahon's reputation include poor project outcomes, environmental and other public disasters, unsafe work practices, unethical business practices, and otherwise not meeting the market's expectation for Macmahon's operational, managerial and financial performance.

xxii. Claims, liability and litigation

Macmahon may have disputes with counterparties in respect of major contracts, or may be exposed to customer, personal injury, public liability, property damage, breach of contract or statutory duty, liquidated damages, environmental, occupational health and safety or other claims. Macmahon may incur costs in defending or making payments to settle any such claims, which may not be adequately covered by insurance or at all. Such payments may have an adverse impact on Macmahon's profitability and/or financial position.

An adverse determination on such claims or proceedings may harm Macmahon's reputation and may cause a material negative impact on Macmahon's financial performance.

In the ordinary course of Macmahon's business, Macmahon provides letters of comfort, guarantees or indemnities in respect of the performance by it and its subsidiaries of their contractual and financial obligations. If any such letters, guarantees or indemnities are called upon, Macmahon's financial performance and position may be adversely affected.

In the ordinary course of business, Macmahon is also called upon to give performance bonds, 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. As a consequence of the nature of the projects and contracts to which Macmahon is a party, there is a risk that the guarantees, bonds and indemnities may be called upon and that Macmahon would be required by the banks and insurance companies involved to fund payments. This may, in turn, have an adverse effect on Macmahon's future financial performance and position.

From time to time Macmahon enters into joint venture arrangements under which it may be jointly and severally liable for the liabilities of the joint arrangement.

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 Macmahon or its related bodies corporate and/or joint venture arrangements in which Macmahon or its related bodies corporate have 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.

Please refer to section 10.4 of this Target's Statement for details of an ongoing shareholder class action in relation to Macmahon.

xxiii. Country risks

While Macmahon primarily operates in Australia it also operates in South East Asia and may undertake new projects in mining regions such as West Africa, where sovereign risk may be higher than is the case in Australia.

Operating in international markets can expose Macmahon to additional adverse economic conditions, civil unrest, conflicts, security breaches and bribery and corrupt practices.

Some countries in which Macmahon operates, or may operate in future, have less developed legal, regulatory or political systems than in Australia, which may be subject to unexpected or sudden change. 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.

b. General risks

As with any entity with listed securities on ASX, the future prospects, operating and financial performance of Macmahon and the value of the Macmahon Shares are affected by a wide variety of factors, including:

i. general business cycles;

ii. economic and political factors in Australia and overseas;

iii. interest rates;

iv. inflation;

v. employment levels;

vi. changes in government fiscal or regulatory regimes and foreign trade policies;

vii. changes in accounting or financial reporting standards; and

viii. changes in taxation laws (or their interpretation).

Deterioration of the general economic conditions, adverse foreign exchange rate movements, fluctuations in the Australian and overseas stock markets, natural disasters and catastrophic events may also affect Macmahon's operating and financial position.

9 TAXATION

9.1 INTRODUCTION

This section provides a general outline of the Australian taxation implications for Macmahon Shareholders from disposing of their Macmahon Shares, in return for cash. The information in this section is based upon Australian taxation law and practice in effect at the date of this Target's Statement.

The taxation consequences to Macmahon Shareholders of disposing of their Macmahon Shares depend on a number of factors and will vary depending on their particular circumstances. The outline provided in this section is of a general nature only and does not consider any specific facts or circumstances that may apply to particular Macmahon Shareholders.

Macmahon Shareholders should not rely on the disclosure of taxation considerations in this Target's Statement as being advice on their own affairs and should seek their own specific professional tax advice as to the taxation implications applicable to their circumstances. Neither Macmahon nor any of its Directors or advisers accept any liability or responsibility in respect of any statement concerning the taxation consequence to particular Macmahon Shareholders from disposing of their Macmahon Shares.

The following comments only apply to Macmahon Shareholders who hold their Macmahon Shares on capital account.

This section does not deal with Macmahon Shareholders who:

- hold their Macmahon Shares in the course of carrying on a business (eg as trading stock) or on revenue account (eg as part of a profit-making undertaking or scheme);
- acquired their Macmahon Shares pursuant to an employee share, rights or option scheme; or
- are subject to the Taxation of Financial Arrangements provisions in Division 230 of the *Income Tax Assessment Act 1997*,

and does not deal with the implications of disposing of Macmahon Shares under the taxation laws of countries other than Australia.

9.2 AUSTRALIAN RESIDENT SHAREHOLDERS

This section 9.2 applies to Macmahon Shareholders who are residents of Australia for Australian income tax purposes.

a. Pre-CGT shares

If a Macmahon Shareholder acquired (for capital gains tax (**CGT**) purposes) their Macmahon Shares before 20 September 1985, then in general, no CGT consequences should arise on a disposal of those Macmahon Shares.

b. Post-CGT shares

i. CGT event

A. Macmahon Shareholders who accept the Offer

A disposal by a Macmahon Shareholder of their Macmahon Shares pursuant to the Offer will constitute a CGT event for the Macmahon Shareholder. The date of the CGT event will be the date the contract to dispose of the Macmahon Shares is entered into by the Macmahon Shareholder.

B. Macmahon Shareholders who sell their Macmahon Shares on market

During the Offer Period, Macmahon Shareholders who have not already accepted the Offer may choose to sell their Macmahon Shares on the ASX. The sale of Macmahon Shares by a Macmahon Shareholder on the ASX will constitute a CGT event for the Macmahon Shareholder.

The date of the CGT event will be the date the contract to sell the Macmahon Shares is entered into by the Macmahon Shareholder.

C. Compulsory Acquisition

If a Macmahon Shareholder does not dispose of their Macmahon Shares either on the ASX or under the Offer and their Macmahon Shares are compulsorily acquired in accordance with Part 6A.1 of the Corporations Act, the Macmahon Shareholder will also be treated as having disposed of their Macmahon Shares for CGT purposes. The date of the CGT event should be the date when the Macmahon Shareholder ceases to be the owner of the Macmahon Shares.

ii. Calculation of capital gain or capital loss

Macmahon Shareholders will make a capital gain to the extent that the capital proceeds from the disposal of the Macmahon Shares are more than the cost base of those Macmahon Shares. Conversely, Macmahon Shareholders will make a capital loss to the extent that the capital proceeds from the disposal are less than their reduced cost base of those Macmahon Shares.

iii. Cost base – indexation

The cost base of the Macmahon Shares generally includes the purchase price paid for the shares and certain non-deductible incidental costs of their acquisition and disposal. The reduced cost base of the Macmahon Shares is usually determined in a similar, but not identical, manner.

9. Taxation *continued*

If the Macmahon Shares were acquired (for CGT purposes) at or before 11.45 am on 21 September 1999 by a Macmahon Shareholder which is:

- an individual, a complying superannuation entity or the trustee of a trust, the shareholder may choose to adjust the cost base of their Macmahon Shares to include indexation by reference to changes in the consumer price index from (generally) the calendar quarter in which their Macmahon Shares were acquired until the quarter ended 30 September 1999. If the Macmahon Shareholder makes this choice, they are not entitled to discount the amount of the capital gain (see below under "Other issues"); or
- a company, the cost base of their Macmahon Shares will include that indexation adjustment until the quarter ended 30 September 1999.

Indexation adjustments are taken into account only for the purposes of calculating capital gains; they are ignored when calculating capital losses.

iv. Capital proceeds

The capital proceeds from a disposal of Macmahon Shares is generally the amount of consideration received by the Macmahon Shareholder for the disposal.

v. Other issues

If a Macmahon Shareholder makes a capital gain from a disposal of their Macmahon Shares, the capital gain is aggregated with other capital gains made by the Macmahon Shareholder in the same income year. Any available capital losses of the Macmahon Shareholder from the same or previous income years may then be offset against the capital gains (subject to satisfaction of loss recoupment tests). If there is a capital gain remaining after application of available capital losses, the Macmahon Shareholder may be entitled to apply a discount (see below). Any net capital gain after applying the discount (if applicable) is included in assessable income of the Macmahon Shareholder in that income year.

Individuals, complying superannuation entities and trusts that have held the CGT asset to which the capital gain relates for at least 12 months before the CGT event but do not index the cost base of the CGT asset (refer above) may be entitled to discount the amount of the capital gain (after application of capital losses) by 50% in the case of individuals and trusts or by 33⅓% for complying superannuation entities. For trusts, the ultimate availability of the discount for beneficiaries of the trust in relation to distributions of capital gains by the trust will depend on the particular circumstances of the beneficiaries. No discount is available for Macmahon Shareholders which are companies.

If a Macmahon Shareholder makes a capital loss from the disposal of their Macmahon Shares, the capital loss may only be used to offset capital gains of the Macmahon Shareholder in the same or future income years (subject to satisfaction of loss recoupment tests).

9.3 NON-RESIDENT SHAREHOLDERS

This section 9.3 applies to Macmahon Shareholders who:

- are not, and have never been, residents of Australia for Australian income tax purposes;
- do not hold their Macmahon Shares in carrying on a business through a permanent establishment in Australia; and
- did not acquire their Macmahon Shares as a result of a roll-over under former section 160ZZN or 160ZZO of the *Income Tax Assessment Act 1936*.

The disposal of Macmahon Shares will generally only result in Australian CGT implications to a non-resident Macmahon Shareholder if the Macmahon Shares were acquired (for CGT purposes) on or after 20 September 1985 and the Macmahon Shares are 'taxable Australian property'.

Shares that meet the following conditions are 'indirect Australian real property interests' and are included in taxable Australian property:

- if the holding of shares by the shareholder, together with its associates, aggregates to ten percent or more of the total shares on issue in the company at the time of the CGT event or for any 12 month period within two years preceding the CGT event (referred to as a 'non-portfolio interest'); and
- if the aggregate market value of the company's assets which is attributable to 'taxable Australian real property' (including interests in Australian real property, leases of Australian real property and mining, quarrying or prospecting rights in respect of materials situated in Australia) exceeds the aggregate market value of the company's assets which are not taxable Australian real property (referred to as satisfying the 'principal asset test').

Non-resident Macmahon Shareholders who hold a 'non-portfolio interest' in Macmahon should obtain independent tax advice as to the tax implications to them of the disposal.

9.4 NON-RESIDENT CGT WITHHOLDING RULES

Macmahon Shareholders who dispose of their Macmahon Shares off-market (eg pursuant to the Offer or whose Macmahon Shares are compulsorily acquired) should be aware that they may be subject to recently enacted non-resident CGT withholding rules.

From 1 July 2016, broadly, purchasers that acquire indirect Australian real property interests that are shares (as described in section 10.3) may be required to withhold 10% of the consideration and pay that amount to the Australian Taxation Office. There are limited exemptions to the withholding tax applying and in certain circumstances, the amount to be withheld by the purchaser may be varied to a lower amount than 10% of the consideration. The withholding tax is not a final tax, and the shareholder receives a credit for amounts withheld on filing an Australian tax return and may receive a refund of tax if amounts have been withheld in excess of their actual Australian tax liability.

These rules are targeted at non-resident sellers. Under the rules, CIMIC may make a withholding from the cash consideration where:

- CIMIC knows or reasonably believes that the Macmahon Shareholder is a non-resident or the Macmahon Shareholder has an overseas address or CIMIC is authorised to pay the consideration overseas (in a case where CIMIC does not reasonably believe that the Macmahon Shareholder is an Australian resident); and
- that Shareholder has a non-portfolio interest in Macmahon and Macmahon passes the principal asset test (as described in section 9.3 of this Target's Statement).

Where a Macmahon Shareholder provides a declaration to CIMIC that the Shareholder is an Australian resident or their Macmahon Shares are not indirect Australian real property interests, there is no requirement for CIMIC to withhold under the rules unless CIMIC knows the declaration to be false.

CIMIC may not withhold if it considers that Macmahon Shares are not indirect Australian real property interests. CIMIC has not indicated its views in this regard.

Macmahon Shareholders should obtain independent tax advice as to the potential implications to them of the withholding rules, contact CIMIC and, if appropriate, provide a declaration to CIMIC if the withholding rules do not apply in relation to their disposal.

9.5 GST & STAMP DUTY

No liability to GST should arise for Macmahon Shareholders in respect of a disposal of their Macmahon Shares. Macmahon Shareholders may be charged GST on costs they incur which relate to the disposal (eg legal, financial and tax advisor fees). Certain Macmahon Shareholders may be entitled to claim input tax credits or reduced input tax credits in relation to the GST amount incurred on these costs, but should seek independent tax advice in relation to their individual circumstances.

No liability to stamp duty should arise for Macmahon Shareholders in any State or Territory of Australia in respect of a disposal of their Macmahon Shares.

10 ADDITIONAL INFORMATION

10.1 ISSUED CAPITAL

As at 22 February 2017 (being the Last Practicable Trading Day), Macmahon had:

a. 1,200,920,894 Macmahon Shares on issue; and

b. 12,118,502 Macmahon Performance Rights on issue. There are sufficient Macmahon Shares held on trust in the Macmahon Holdings Limited Employee Share Ownership Plans Trust to satisfy the vesting of all Macmahon Performance Rights on issue. Those Macmahon Shares held on trust are included in the aggregate number of Macmahon Shares specified in paragraph (a) above. Please refer to section 10.3(c) of this Target's Statement for a description of the Board's present intentions in relation to the waiver of performance conditions applicable to the existing Macmahon Performance Rights.

10.2 SUBSTANTIAL HOLDERS

As at 22 February 2017 (being the Last Practicable Trading Day), based on the substantial shareholder notices provided to Macmahon and based on CIMIC's the Second Supplementary Bidder's Statement dated 9 February 2017, the substantial shareholders of Macmahon Shares are:

Name of holder	Number of Macmahon Shares	Percentage Shareholding based on current issued Macmahon Shares
CIMIC	276,049,392	22.99%
Forager Funds Management Pty Ltd	104,157,293	8.67%
3rd Wave Investors Ltd	63,425,000	5.28%
Schroder Investment Management Australia Limited	62,545,555	5.21%

10.3 EFFECT OF THE OFFER ON MACMAHON PERFORMANCE RIGHTS

a. The Macmahon Performance Rights

Macmahon's executive remuneration framework includes long term incentive plans, pursuant to which certain executives have been issued Macmahon Performance Rights. Participants are granted Macmahon Performance Rights which vest subject to the achievement of various vesting hurdles, such as time based hurdles, Total Shareholder Return and/or Earnings Per Share performance hurdles.

Each Macmahon Performance Right is, upon vesting, an entitlement to one Macmahon Share (subject to adjustments, for example resulting from reconstructions of Macmahon's issued capital). If Macmahon Performance Rights held by a participant vest, Macmahon may satisfy that vesting by a new issue of Macmahon Shares or a transfer of existing Macmahon Shares, in each case to a trustee which holds those Macmahon Shares on behalf of the relevant plan participant under the Macmahon Holdings Limited Employee Share Ownership Plans Trust, until they are transferred to the participant in certain circumstances. The Macmahon Holdings Limited Employee Share Ownership Plans Trust currently holds 13,042,548 Macmahon Shares, which is sufficient to supply more than the 12,118,502 Macmahon Shares which may vest from the Macmahon Performance Rights.

Prior to vesting, Macmahon Performance Rights do not have voting rights or entitlements to dividends. No cash amount is payable by the holder of Macmahon Performance Rights on the vesting of their Macmahon Performance Rights.

Macmahon Performance Rights generally lapse upon the plan participant ceasing to be employed by Macmahon or one of Macmahon's subsidiaries. The Board may, however, determine that all or a portion of any unvested Macmahon Performance Rights will not lapse even if the relevant participant ceases to be so employed, if:

i. (takeover bid) a takeover bid is made for all of the Macmahon Shares and a person acquires voting power in more than 50% of the Macmahon Shares;

ii. (compromise or arrangement) the court has sanctioned a compromise or arrangement (for the purposes of, or in connection with, a scheme for the reconstruction of Macmahon or its amalgamation with any other entity or entities under Part 5.1 of the Corporations Act);

iii. (Board determination) a takeover bid is made for all of the Macmahon Shares, or a transaction contemplated in paragraph (ii) immediately above is announced but a Court has not yet ordered a meeting of shareholders, and the Board determines (in its absolute discretion) to apply this discretion;

iv. (winding up) Macmahon passes a resolution for voluntary winding up or an order is made for the compulsory winding up of Macmahon;

v. (delisting) Macmahon ceases to be listed on ASX; or

vi. (other) prior to vesting of the relevant Macmahon Performance Rights the employee to whom they are allocated ceases to be an employee of Macmahon or one of Macmahon's subsidiaries because of any circumstance beyond the employee's control.

10. Additional information *continued*

The Macmahon Board also has a separate discretion to vary or waive some or all of the vesting conditions for Macmahon Performance Rights, including to permit them to vest into Macmahon Shares at any time.

b. Number of unvested Macmahon Performance Rights

As at the date of this Target's Statement there are 12,118,502 unvested Macmahon Performance Rights on issue.

c. Proposed treatment of the Macmahon Performance Rights

The Macmahon Board currently intends to exercise its discretion (described in section 10.3(a) of this Target's Statement) to waive the performance conditions applicable to all existing Macmahon Performance Rights so that they vest into Macmahon Shares, effective on and subject to CIMIC's Offer becoming unconditional and subject to CIMIC holding voting power of at least 33% in Macmahon. The Directors have made this determination on the basis that they consider 33% to be currently a control threshold for CIMIC, having regard to the current composition of Macmahon's share register.

As described in section 10.1 of this Target's Statement, the Macmahon Shares represented by the Macmahon Performance Rights comprise a de minimis part of Macmahon's total issued capital. No new Macmahon Shares will be issued upon vesting of the existing Macmahon Performance Rights because the relevant Macmahon Shares which would be allocated to holders of those Macmahon Performance Rights upon vesting are already on issue, held in the Macmahon Holdings Limited Employee Share Ownership Plans Trust. Consequently that vesting event would not trigger the Defeating Condition and would not dilute existing Macmahon Shareholders. None of the Macmahon Performance Rights are held by related parties of Macmahon.

d. Ability of holders of Macmahon Performance Rights to participate in the Offer

Macmahon Performance rights are generally non-transferable.

CIMIC has obtained ASIC relief to confirm that CIMIC's Offer extends to Macmahon Shares that are issued during the period from the Register Date to the end of the Offer Period due to the vesting of, conversion of or exercise of rights attached to, Macmahon Performance Rights that were on issue as at the Register Date. A copy of the relief from ASIC was attached to CIMIC's ASX announcement dated 14 February 2017.

CIMIC confirmed in its ASX announcement dated 14 February 2017 that, if Macmahon issues Macmahon Shares as a result of the vesting of Performance Rights (which are already on issue at the Register Date) on or after the Register Date and before the end of the Offer Period, CIMIC may not regard the issue of such Macmahon Shares on the vesting of such Performance Rights as non-fulfilment of the defeating condition in section 9.8(a)(i)(D) of CIMIC's Bidder's Statement.

This means that any holder of Macmahon Performance Rights that were on issue as at the Register Date whose Macmahon Performance Rights vest during the Offer Period can accept the Offer in respect of the Macmahon Shares that they receive upon such vesting. Details on how to accept the Offer are set out in the Bidder's Statement.

CIMIC is not making a separate offer to acquire any outstanding Macmahon Performance Rights. However, CIMIC has stated in section 4.4(b) of its Bidder's Statement that if it acquires a Relevant Interest in 90% or more of the Macmahon Shares:

- if it becomes entitled to do so under the Corporations Act, CIMIC intends to give notices to compulsorily acquire any outstanding Macmahon Shares and Macmahon Performance Rights in accordance with section 661B of the Corporations Act; and
- if it is required to do so under sections 662A and 663A of the Corporations Act, CIMIC intends to give notices to Macmahon Shareholders and holders of Macmahon Performance Rights offering to acquire their Macmahon Shares and Macmahon Performance Rights in accordance with sections 662B and 663C of the Corporations Act.

Please refer to section 5.13 of this Target's Statement for information in relation to compulsory acquisitions.

10.4 MATERIAL LITIGATION

On 9 November 2015, Macmahon was served with a shareholder class action filed in the Federal Court of Australia. 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 now completed Hope Downs 4 contract. Macmahon denies any wrongdoing and is defending the action.

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.

10.5 EFFECT ON MACMAHON'S MATERIAL CONTRACTS

Following is a summary of material contracts which may be affected by a change in control of Macmahon.

a. Customer contracts

i. Tropicana Project

If there is a change in the effective control of Macmahon Contractors Pty Ltd (a wholly owned subsidiary of Macmahon) or its business, the client, AngloGold Ashanti Australia Limited (**AngloGold**), may (among other things) terminate the contract after a consultation period. The same applies if there is a change in key Macmahon Contractors Pty Ltd personnel which is not approved by AngloGold. Termination in either of these circumstances may give rise to a number of consequences for Macmahon, including that Macmahon Contractors Pty Ltd would be taken to have repudiated the contract and may be liable to AngloGold for damages.

ii. Telfer Project

If there is a change in effective control of Macmahon Contractors Pty Ltd or its business, including any change in the underlying beneficial ownership of Macmahon Contractors Pty Ltd or its business, then the client, Newcrest Operations Limited, may in its absolute discretion (among other things) immediately terminate the contract. The same applies if there is a change in key Macmahon Contractors Pty Ltd personnel which is not approved by Newcrest Operations Limited. Termination in either of these circumstances will entitle Newcrest Operations Limited to recover from Macmahon Contractors Pty Ltd any and all losses, damages, costs and expenses suffered which arise out of that termination. Macmahon has also agreed to guarantee these obligations of Macmahon Contractors Pty Ltd under this customer contract.

iii. Martabe Project (Indonesia)

If there is a material change in the control of Macmahon's Indonesian subsidiary which carries out the Martabe Project, a termination event is deemed to occur and continue unless and until the consent of the client, PT Agincourt Resources, is obtained (such consent not to be unreasonably withheld) or the contract is terminated on 14 days' notice by the client.

iv. Equipment hire and services contract

Macmahon Contractors Pty Ltd's client, St Ives Gold Mining Company Pty Ltd, under a material equipment hire and services contract may terminate that contract immediately if there is a change in ownership or shareholding of Macmahon Contractors Pty Ltd which in the client's opinion may affect the quality or delivery of the services under the contract or the ability of Macmahon Contractors Pty Ltd to perform its obligations under the contract to the requisite standard.

v. Kanthan Quarry (Malaysia)

If there is a change in control of Macmahon's Malaysian subsidiary which carries out works at the Kanthan quarry, the client, Associated Pan Malaysia Cement SDN BHD, may terminate the contract on 90 days written notice.

b. Facility agreement

Under Macmahon's multi-option facility with a major Australian trading bank a change in control of Macmahon will constitute a "Review Event" unless the prior consent of bank has been obtained.

If prior consent of the bank is not obtained, the consequences of a Review Event may include the bank varying the terms of the facility. If Macmahon and the bank cannot reach agreement in respect of any changes to the terms of the facility requested by either party within a prescribed period then the bank may declare all amounts owing under the facility due and payable no earlier than 60 days from the date of that declaration.

As at the date of this Target's Statement, an amount of approximately $3.8 million is currently utilised by Macmahon under the facility to support bank guarantees.

c. Lease agreements

Macmahon and certain of its related bodies corporate are parties to various finance leases, operating lease agreements and equipment hire agreements with financiers of equipment. Under certain of those agreements, a change of control of Macmahon would (subject in some cases to a consultation obligation) give rise to a right for the counterparties to terminate the respective agreements. If the agreements are terminated in these circumstances, Macmahon may be liable to pay either a "termination amount" or damages to the counterparty, which in aggregate may be material to Macmahon.

Macmahon has not yet received any confirmation of whether any of the above termination rights in the various contracts will be exercised if they are triggered by the Offer.

10. Additional information *continued*

10.6 EFFECT OF THE TAKEOVER ON MACMAHON'S SENIOR EMPLOYEE AND DIRECTOR ARRANGEMENTS

To the best of each Director's knowledge, none of the contractual arrangements between Macmahon and its senior employees or between Macmahon and its Directors are materially affected by a change in control of the Macmahon Shares, if that occurs pursuant to the Offer save to the extent described below.

In the cases of Mr Michael Finnegan (CEO of Macmahon), Mr José Martins (CFO of Macmahon) and Mr Greg Gettingby (General Counsel and Company Secretary of Macmahon), if:

a. more than 50% of all the voting Macmahon Shares are acquired under a takeover bid made for all the Macmahon Shares;

b. a court approves a compromise or arrangement in connection with a scheme for the reconstruction of Macmahon or its amalgamation with any other entity or entities under part 5.1 of the Corporations Act; or

c. Macmahon ceases to be listed on the ASX,

and any of their contracts of employment are terminated by either:

d. themselves where any of the events in sections 10.6(a), (b) or (c) above occur and their status, duties, authorities or reporting lines are materially diminished without their consent; or

e. Macmahon within six months after any of the events in sections 10.6(a), (b) or (c) above occur,

then in addition to their normal contractual and statutory entitlements, Messrs Finnegan, Martins and Gettingby would each be contractually entitled to:

f. a payment equal to six months of their respective total fixed remuneration;

g. subject to Board discretion, all or a portion of any applicable respective long term incentives (such as Macmahon Performance Rights) immediately vesting or ceasing to be subject to any exercise or disposal restrictions. Please refer to section 10.3(c) of this Target's Statement for a description of the Board's present intentions in relation to the waiver of performance conditions applicable to the existing Macmahon Performance Rights; and

h. in the case of Messrs Finnegan and Martins, subject to Board discretion, all or a portion of any applicable respective cash short term incentives being payable.

Each of Mr Finnegan, Martins and Gettingby is also entitled to a contractual retention bonus equal to 20% of their respective total fixed remuneration:

a. on 15 October 2018, provided the executive has not resigned from employment with Macmahon group or any related company prior to that time;

b. on the date on which the executive is made redundant, if that occurs prior to 15 October 2018; or

c. on the earlier of 15 October 2018 and the date the executive ceases employment, if any event in (a), (b) or (c) at the beginning of this section 10.6 occurs and the executive resigns after his status, duties, authorities or reporting lines are materially diminished without his consent.

Also in the above circumstances if Mr Mark Hatfield's (who is Macmahon's General Manager-Plant) contract of employment is terminated by Macmahon or he resigns, and in addition to his normal contractual and statutory entitlements, Mr Hatfield may be entitled, subject to Board discretion, to all or a portion of his applicable cash short term incentives being paid and his long term incentive rights (including Macmahon Performance Rights) immediately vesting or ceasing to be subject to any exercise or disposal restrictions.

The payments described above are subject to the limitations in the Corporations Act.

The payments described above are subject to the limitations in the Corporations Act.

Please refer to section 10.3(c) of this Target's Statement for a description of the Board's present intentions in relation to the waiver of performance conditions applicable to the existing Macmahon Performance Rights.

10.7 MACMAHON SHARE PRICE ABSENT THE OFFER

While there are many factors that influence the market price of Macmahon Shares, the Directors anticipate that, immediately following the close of the Offer if no superior proposal emerges, the market price of Macmahon Shares may fall if CIMIC's Offer fails, if CIMIC acquires more than 50% (but less than 90%) of the Macmahon Shares or if the Offer is otherwise unsuccessful.

10.8 CONSENTS

Macquarie, Ashurst Australia and the Independent Expert have given and have not, before lodgement of this Target's Statement with ASIC, withdrawn their consent:

- to be named in this Target's Statement in the form and context in which they are named; and

- if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appears in this Target's Statement.

More specifically, the Independent Expert has given, and not withdrawn, before lodgement of this Target's Statement with ASIC, its written consent to the inclusion of the Independent Expert's Report in the form and context in which it appears in Annexure B and references to the Independent Expert's Report in the form and context in which they appear in this Target's Statement.

Each person named in this section 10.8 as having given its consent to the inclusion of a statement or being named in this Target's Statement:

- has not authorised or caused the issue of this Target's Statement;
- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those statements which have been included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility (and in the case of Macquarie, also disclaims any damage, loss (whether direct, indirect or consequential), cost or expense that may be incurred by any person as a result of the Target's Statement being inaccurate or incomplete in any way for any reason) for any part of this Target's Statement, other than a reference to its name and any statements or report which have been included in this Target's Statement with the consent of that party.

ASIC has published various Class Orders and Legislative Instruments that modify, or exempt parties from compliance with the operation of various provisions of Chapter 6 of the Corporations Act. Macmahon has relied on that ASIC Class Order and Legislative Instrument relief.

As permitted by ASIC Class Order 13/521 this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX. Pursuant to this ASIC Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of these statements in this Target's Statement. Any Macmahon Shareholder who would like to receive a copy of any of those documents may obtain a copy free of charge (within two business days of the request) during the Offer Period by contacting the Shareholder information line on 1300 449 257 (within Australia) or +61 2 8022 7948 (from outside Australia).

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person;
- that are a correct and fair copy of, or extract from, what purports to be a public official document; or
- that are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication,

provided the statement was not made, or published, in connection with the Offer or CIMIC or Macmahon or any business, property or person the subject of this Target's Statement.

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement contains share price trading data sourced from IRESS without its consent.

10.9 CONTINUOUS DISCLOSURE

Macmahon is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au and Macmahon's website at www.macmahon.com.au.

Copies of the documents lodged with ASIC in relation to Macmahon may be obtained from, or inspected at, an ASIC office.

Macmahon Shareholders may obtain a copy of:

- Macmahon's annual report for the financial year ended 30 June 2016;
- Macmahon's half year report for the half year ended 31 December 2016;
- Macmahon's constitution; and
- any document lodged by Macmahon with ASX between the release of Macmahon's annual report for the financial year ended 30 June 2016 and the date of this Target's Statement,

free of charge upon request by contacting the Shareholder information line on 1300 449 257 (within Australia) or +61 2 8022 7948 (from outside Australia) or from the ASX website at www.asx.com.au. Macmahon's annual report, constitution and this Target's Statement are also available on Macmahon's website at www.macmahon.com.au.

10. Additional information *continued*

10.10 NO OTHER MATERIAL INFORMATION

This Target's Statement is required to include all the information that Macmahon Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for Macmahon Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information to known to any Director.

The Directors are of the opinion that the information that Macmahon Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in Macmahon's releases to ASX, and in the documents lodged by Macmahon with ASIC, before the date of this Target's Statement; and
- the information contained in this Target's Statement.

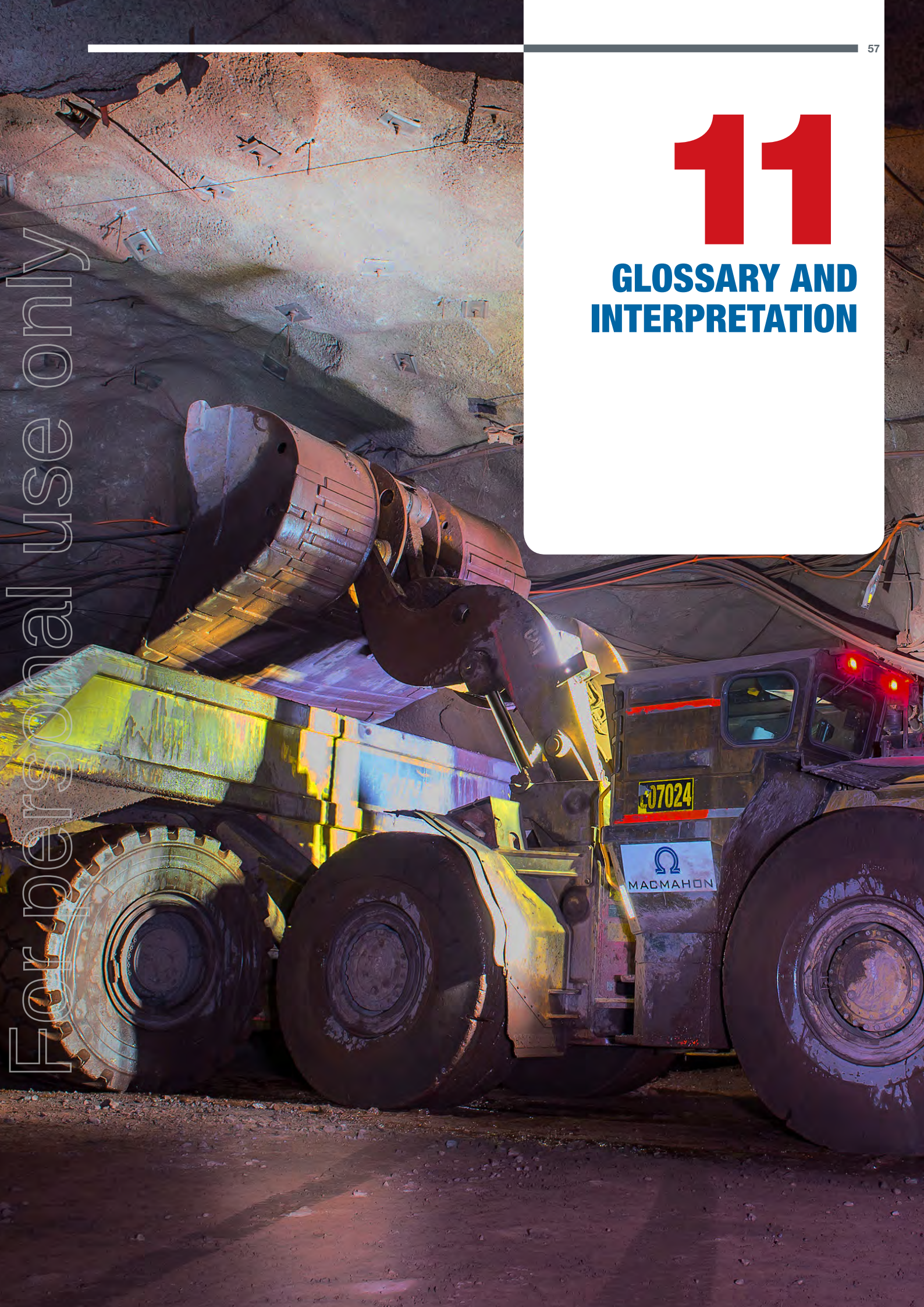
The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of the Macmahon Shares;
- the matters that Macmahon Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Macmahon Shareholders' professional advisers; and
- the time available to Macmahon to prepare this Target's Statement.

11

GLOSSARY AND INTERPRETATION



11. Glossary and interpretation *continued*

11.1 DEFINITIONS

Term	Meaning
1H	means the first half of a financial year.
2H	means the second half of a financial year.
ACS	means Actividades de Construccion y Servicios S.A.
AngloGold Ashanti	means AngloGold Ashanti Limited ARBN 090 101 170.
ASIC	means the Australian Securities and Investments Commission.
ASX	means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.
ASX Listing Rules	means the official listing rules of the ASX.
Bidder's Statement	means the bidder's statement received by Macmahon from CIMIC under Part 6.5 of the Corporations Act dated 24 January 2017 (and where appropriate, as supplemented by a First Supplementary Bidder's Statement dated 31 January 2017, a Second Supplementary Bidder's Statement dated 9 February 2017 and a Third Supplementary Bidder's Statement dated 17 February 2017).
Board	means the board of directors of Macmahon.
CAGR	means compound annual growth rate.
CGT	means capital gains tax.
CIMIC	means CIMIC Group Investments Pty Limited ACN 126 876 953.
CIMIC Group	means CIMIC Group Limited ACN 004 482 982.
Condition Period	means the period beginning on 24 January 2017 and ending at the end of the Offer Period (each inclusive).
Corporations Act	means the *Corporations Act 2001* (Cth).
Defeating Condition	means the condition of the Offer set out in section 9.8 of the Bidder's Statement.
Directors	means the current directors of Macmahon.
EBIT	means earnings before interest and taxation.
EBIT margin	means EBIT as a percentage of revenue.
EBITDA	means earnings before interest, tax, depreciation and amortisation.
FY	means a financial year ended 30 June.
GST	means the same as "GST" means in the GST Law.
GST Law	means the same as "GST law" means in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).
HOCHTIEF AG	means HOCHTIEF Aktiengesellschaft.
Independence Group	means Independence Group NL ABN 46 092 786 304.
Independent Directors	means Jim Walker, Giles Everist and Eva Skira.
Independent Expert	means Lonergan Edwards & Associates Limited ACN 095 445 560.
Independent Expert's Report	means the report produced by the Independent Expert set out in Annexure B of this Target's Statement.
Last Practicable Trading Day	means 22 February 2017.
Macmahon	means Macmahon Holdings Limited ACN 007 634 406.
Macmahon Performance Right	means a performance right issued by Macmahon.
Macmahon Security	means either a Macmahon Share or a Macmahon Performance Right.

Term	Meaning
Macmahon Share	means a fully paid ordinary share in Macmahon.
Macmahon Shareholder	means a holder of Macmahon Shares.
Macquarie	means Macquarie Capital (Australia) Limited ABN 79 123 199 548.
Notice of Status of Defeating Condition	means CIMIC's notice disclosing the status of the Defeating Condition which is required to be given by section 630(3) of the Corporations Act.
Offer	means the offer by CIMIC for Macmahon Shares, which is contained in section 9 of the Bidder's Statement or the off-market takeover bid constituted by that Offer, and Offers means the several like Offers which together constitute the Offer, as varied in accordance with the Corporations Act.
Offer Period	means the period during which the Offer will remain open for acceptance in accordance with the terms of the Offer in the Bidder's Statement.
Offer Price	means the consideration offered under the Offer, being $0.145 per Macmahon Share.
Operating Cashflow	means the amount of cash generated from revenue, excluding cash outflows associated with long-term investment on capital items or investment in securities.
Register Date	means 7.00pm (Sydney time) on 25 January 2017.
Relevant Subsidiary	has the meaning given in section 2.5 of this Target's Statement.
Tender pipeline	means potential contracts that Macmahon may be awarded in the future that are either currently at tender or pre-tender stages or may be negotiated directly with potential Macmahon clients.
Target's Statement	means this document (including the annexures), being the statement of Macmahon under Part 6.5 Division 3 of the Corporations Act.

11.2 INTERPRETATION

In this Target's Statement, unless the context requires otherwise:

a. headings are inserted for convenience and do not affect the interpretation of this Target's Statement;

b. words and phrases in this Target's Statement have the same meaning given to them (if any) in the Corporations Act;

c. the singular includes the plural and vice versa;

d. a gender includes all genders;

e. a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;

f. if a word is defined, another part of speech has a corresponding meaning;

g. a reference to a section or appendix is a reference to a section or appendix of this Target's Statement;

h. a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

i. unless expressly stated otherwise, a reference to time is a reference to Sydney time;

j. unless expressly stated otherwise, a reference to **dollars**, **$**, **A$** or **AUD** is a reference to the lawful currency of Australia; and

k. words and terms defined in the GST Law have the same meaning in sections concerning GST.

12 AUTHORISATION

This Target's Statement is dated 27 February 2017 and has been approved by a resolution passed by the Directors of Macmahon.

Signed for and on behalf of Macmahon:

Jim Walker
Independent Non-executive Chairman

A

MACMAHON ASX ANNOUNCEMENTS SINCE 22 AUGUST 2016 AND THE LAST PRACTICAL TRADING DAY

Date	Title
22/02/2017	Postcard to shareholders
21/02/2017	Response to ASX Query
17/02/2017	CIM: KEY ISSUES FOR MACMAHON'S TARGET STATEMENT TO ADDRESS
14/02/2017	CIM:CGI's TAKEOVER FOR MACMAHON-ASIC RELIEF GRANT
13/02/2017	Postcard to shareholders
13/02/2017	Preferred contractor for Batu Hijau mine in Indonesia
10/02/2017	CIMIC Completion of despatch of Bidder's Statement
09/02/2017	CIM: SECOND SUPPLEMENTARY BIDDER's STATEMENT
03/02/2017	Letter to Shareholders
31/01/2017	CIM: First Supplementary Bidder's Statement
31/01/2017	Change in substantial holding
30/01/2017	Change in substantial holding from CIM
27/01/2017	Directors' Statement re Takeover
25/01/2017	Significant Increase at Tropicana Project
25/01/2017	Change in Substantial Holding from CIM
24/01/2017	Response to CIMIC Offer
24/01/2017	Change in substantial holding from CIM
24/01/2017	CIM: Bidders Statement Off-market bid for Macmahon
24/01/2017	CIM: FINAL UNCONDITIONAL OFFER FOR MACMAHON BY CIMIC
30/11/2016	AGM - Results of Meeting
30/11/2016	Chairman's Address to Shareholders
15/11/2016	CEO employment contract
14/11/2016	Final Director's Interest Notice
24/10/2016	Letter to Shareholders
24/10/2016	Notice of Annual General Meeting/Proxy Form
21/10/2016	Final share buy-back notice - Appendix 3F
21/10/2016	Daily share buy-back notice - Appendix 3E
18/10/2016	Daily share buy-back notice - Appendix 3E
17/10/2016	CEO Resignation and Appointment
12/10/2016	Market Update
16/09/2016	Cancellation of Shares - ASIC form 484
15/09/2016	Daily share buy-back notice - Appendix 3E
13/09/2016	Daily share buy-back notice - Appendix 3E
08/09/2016	Appendix 3B
06/09/2016	Daily share buy-back notice - Appendix 3E
05/09/2016	Daily share buy-back notice - Appendix 3E
02/09/2016	Daily share buy-back notice - Appendix 3E

Annexure A. Macmahon ASX announcements since 22 August 2016 and the Last Practical Trading Day

Date	Title
25/08/2016	Daily share buy-back notice - Appendix 3E
24/08/2016	Daily share buy-back notice - Appendix 3E
22/08/2016	Investor Presentation
22/08/2016	FY16 Full Year Results
22/08/2016	Appendix 4G
22/08/2016	2016 Annual Report
22/08/2016	Appendix 4E

B

INDEPENDENT EXPERT'S REPORT

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS
& ASSOCIATES LIMITED

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AFS Licence No 246532
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GPO Box 1640, Sydney NSW 2001

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

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

27 February 2017

Subject: Takeover offer for Macmahon Holdings Limited

Dear Independent Directors

Introduction

1 On 24 January 2017, CIMIC Group Limited (CIMIC) announced an intention to make a takeover offer for all of the ordinary shares that it did not already own[1] in Macmahon Holdings Limited (Macmahon or the Company) at an offer price of $0.145 cash per share (the Offer)[2].

2 The Offer is unconditional other than with respect to a no "prescribed occurrences" condition[3], and values the total equity in Macmahon at approximately $174 million. The Offer price of $0.145 per share is final and cannot be increased during the Offer period unless a competing proposal for Macmahon is made during the Offer period.

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

4 CIMIC is one of the world's leading international contractors and the world's largest contract miner. CIMIC was listed on the Australian Securities Exchange (ASX) in 1962 and provides construction, mining, mineral processing, engineering, concessions, and operation and maintenance services to the infrastructure, resources and property markets. It operates in more than 20 countries throughout the Asia Pacific, the Middle East, North America,

1 As at 24 January 2017 CIMIC held a relevant interest of 20.54% in Macmahon.
2 The Offer is being made by CIMIC Group Investments Pty Limited (CGI), a wholly owned subsidiary of CIMIC. All subsequent references to CIMIC refer to CIMIC's corporate group.
3 Refer Section I of this report for further information on this condition.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Sub-Saharan Africa and South America and, as at 31 December 2016, employed approximately 50,500 people directly and through its investments.

5 Notwithstanding the absence of any regulatory requirement, the Independent Directors of Macmahon have requested that Lonergan Edwards & Associates Limited (LEA) prepare an independent expert's report (IER) stating whether, in LEA's opinion, the Offer is fair and reasonable.

6 LEA is independent of Macmahon and CIMIC and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

7 LEA has concluded that the Offer is neither fair nor reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation methodology

8 Macmahon reported losses at the EBITA line in both the year ended 30 June 2016 (FY16) and the six months ended 31 December 2016 (1HY17). These losses were principally due to:

(a) operating losses of $8.4 million in FY16 and $4.0 million[4] in 1HY17 at its Nigerian operations (which have since been closed)

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

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

(a) the elimination of recent losses at Telfer and in Nigeria

(b) increases in revenue at the Tropicana Gold project. As discussed in Section III, Macmahon recently announced a production increase at the mine which is expected to increase Macmahon's revenues at the project by approximately 25% in the 12 months ending 31 December 2017 compared to the preceding 12 month period; and

(c) potential revenue and profit from new work opportunities[5].

10 Given the above, in our opinion, the DCF method is the most appropriate valuation methodology.

---

4 Due to asset impairments, closure costs and foreign exchange translation losses the total loss from the Nigeria operation in 1HY17 was $18.0 million.

5 Refer to Sections 6.4 and 8.2 of Macmahon's Target's Statement for further information on Macmahon's profit guidance, including the bases and assumptions for the Macmahon guidance and various sensitivities and risk factors applicable to it.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Value of contract mining business

11 Based on the level of contracted work on hand as at 31 December 2016 and the historic annual level of other ad hoc revenues, in our opinion, it is reasonable to assume that annual revenue over the next few years will be around $425 million. This could increase further should Macmahon be successful in winning new work.

12 In this regard we note that Macmahon has identified a large potential pipeline[6] and has outstanding tenders and tender opportunities totalling $6.4 billion, a number of which have reached the stage where Macmahon is among the short-listed bidders. This pipeline includes potential increases in the mine life at the Tropicana Gold project (dependent on the outcome of the Long Island feasibility study currently underway), which may lead to more work for Macmahon under its Life of Mine contract.

13 Given the above, we have adopted the following key assumptions in our Base Case DCF valuation:

(a) Macmahon achieves a small positive EBITA in 2HY17

(b) from FY18, Macmahon achieves annual revenue of $425 million (growing at 2.5% per annum, consistent with inflation). This assumption is considered reasonable given the level of contracted work on hand, but is well below the average revenue achieved over the FY10 to 1HY17 period[7]

(c) EBITA margins increase to 6.0% of revenue by FY19[8], consistent with:

(i) the weighted average margins achieved by Macmahon over the FY10 to 1HY17 period; and

(ii) the observed EBITA margins generated by the Mining Services division of Downer EDI Limited (which is a larger competitor).

14 In assessing the appropriate valuation range for the contract mining operations of Macmahon we have also considered the sensitivity of value to changes in the key assumptions, as shown below:

DCF value of contract mining business – sensitivity table ($m)

	Sustainable revenue (in real terms)			
EBITA margin (% of revenue)	**$400m**	**$425m**	**$450m**	**$475m**
5.5%	169	179	189	198
6.0%	182	193	203	213
6.5%	195	206	217	228

6 The large majority of these projects are not expected to commence in the short term (even if Macmahon is successful).

7 In this regard, we have been advised that following the recent restructure of the operating cost base, Macmahon considers annual revenues of up to $600 million to be within the existing capacity of the Company (subject to additional capital expenditure if fleet requirements differ to existing assets held).

8 This EBITA margin implicitly allows for the capital cost of mining equipment, which can either be funded by outright purchase (resulting in depreciation charges), finance leases (resulting in depreciation charges) or operating leases (treated as an operating expense).

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15 Using a discount rate of 13% per annum (after tax)[9], we have assessed the value of Macmahon's contract mining business at between $180 million and $205 million. This valuation range was also cross-checked using a capitalisation of EBITA method.

Valuation of Macmahon

16 We have assessed the value of 100% of Macmahon on a controlling interest basis as follows:

Value of Macmahon	Low $m	High $m
Value of contract mining business	180.0	205.0
Surplus net cash	25.0	30.0
Other assets (net of liabilities)	6.9	9.1
Equity value	211.9	244.1
Fully diluted shares on issue	1,200.0	1,200.0
Value per share	$0.177	$0.203

Assessment of fairness

17 Pursuant to the Australian Securities & Investments Commission's (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

18 This comparison is shown below:

Comparison of Offer consideration and Macmahon share value	Low $ per share	High $ per share	Mid-point $ per share
Value of Offer consideration	0.145	0.145	0.145
Value of 100% of shares in Macmahon	0.177	0.203	0.190
Extent to which the Offer consideration is less than the value of the shares in Macmahon	0.032	0.058	0.045

19 As the consideration offered by CIMIC of $0.145 cash per share is less than our assessed value of the ordinary shares in Macmahon on a 100% controlling interest basis, in our opinion, the Offer is not fair when assessed under the guidelines set out in RG 111.

Assessment of reasonableness

20 We have concluded that the Offer is also not reasonable. We are of this opinion primarily because the Offer consideration of $0.145 per share is significantly lower than our assessed valuation range for Macmahon shares when assessed under the guidelines set out in RG 111.

9 A 0.5% change in the discount rate has an impact of around $5 million on the resulting net present value (NPV).

Annexure B. Independent Expert's Report *continued*

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General

21 In preparing this report we have considered the interests of Macmahon shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

22 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

23 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

24 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Macmahon shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Martin Holt
Authorised Representative

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Table of contents

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendices

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I Outline of the Offer

Terms of the Offer

25 On 24 January 2017, CIMIC Group Limited (CIMIC) announced an intention to make a takeover offer for all of the ordinary shares that it did not already own[10] in Macmahon Holdings Limited (Macmahon or the Company) at an offer price of $0.145 cash per share (the Offer)[11].

26 CIMIC has stated that the Offer price of $0.145 cash per share is final, and cannot be increased during the offer period unless a competing proposal for Macmahon is made during the Offer period.

27 However, as indicated in the Bidder's Statement, the Offer price may be reduced in the event that certain rights attaching to the ordinary shares are effectively distributed to Macmahon shareholders prior to the close of the Offer period. Such rights include the payment of dividends, but do not include any franking credits attached to any dividend. In this regard we understand it is not the current intention of Macmahon to pay any dividend in respect of the six months ended 31 December 2016 (1HY17).

Conditions

28 The Offer is unconditional other than with respect to a no "prescribed occurrences" condition. A "prescribed occurrence" includes, in summary:

(a) Macmahon or a subsidiary:

(i) splitting or consolidating its shares

(ii) buying-back or reducing its capital

(iii) issuing securities

(iv) disposing of or agreeing to grant a security interest in the whole or a substantial part of its business or property

(b) the occurrence of insolvency events in respect of Macmahon or a subsidiary.

29 Further detail on the no "prescribed occurrences" condition is set out in Section 9.8 of CIMIC's Bidder's Statement.

30 Macmahon shareholders should also note that the Offer is not subject to any minimum acceptance condition.

31 Furthermore, given the substantially unconditional nature of the Offer, CIMIC has commenced buying shares in Macmahon on market during the offer period, at a price equal to the Offer consideration of $0.145 per share[12].

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10 As at 24 January 2017 CIMIC held a relevant interest of 20.54% interest in Macmahon.

11 The Offer is being made by CIMIC Group Investments Pty Limited, a wholly owned subsidiary of CIMIC.

12 On 9 February 2017 CIMIC announced that it had increased its interest in Macmahon to 22.99%, including through on-market purchases of Macmahon shares.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

II Scope of our report

Purpose

32 Section 640 of the *Corporations Act 2001* (Cth) (Corporations Act) requires a target company to commission an IER when the bidder's voting power in the target is at least 30% of the target or when the bidder and the target have one or more common directors. Neither of these conditions applies in the circumstances of Macmahon[13].

33 Notwithstanding the absence of any regulatory requirement, the Independent Directors of Macmahon have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

34 This report has been prepared to assist the Independent Directors of Macmahon in making their recommendation to Macmahon shareholders in relation to the Offer and to assist the shareholders of Macmahon assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.

35 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

36 Our report has been prepared pursuant to the same standard as that provided in s640 of the Corporations Act 2001. Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.

37 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company

(b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

38 Our report has therefore considered:

Fairness

(a) the market value of 100% of the shares in Macmahon

(b) the value of the consideration offered i.e. $0.145 cash per Macmahon share

(c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

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13 Whilst CIMIC has a nominee on the Board of Macmahon, the bidder and target do not have common directors.

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Reasonableness

(d) the extent to which a control premium is being paid to Macmahon shareholders

(e) the extent to which a share of the synergy benefits likely to arise upon an acquisition of Macmahon by CIMIC is being paid to Macmahon shareholders

(f) the listed market price of Macmahon shares both prior and subsequent to the announcement of CIMIC's intention to make the Offer

(g) CIMIC's current shareholding in Macmahon and the potential for CIMIC to control Macmahon pursuant to the Offer

(h) the value of Macmahon to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(i) the likely market price of Macmahon shares if the Offer is not successful

(j) other risks, advantages and disadvantages.

Limitations and reliance on information

39 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time and have been particularly volatile in recent times.

40 Our report is also based upon financial and other information provided by Macmahon and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

41 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of Macmahon shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

42 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

43 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of Macmahon. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

44 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of Macmahon. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

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III Profile of Macmahon

Overview

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

History

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

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

(a) in 1987, the Company acquired FK Kanny & Sons, an open-cut mining contractor based in Western Australia. The acquisition provided Macmahon with proven open-cut mining expertise and enabled the expansion into similar mining ventures in other parts of Australia

(b) in 1995, Macmahon expanded its underground mining capabilities with the acquisition of National Mine Management Pty Ltd, an underground mining and consultancy services group based in Kalgoorlie

(c) in 2006, Macmahon acquired Australian Raise Drilling (ARD) and Combined Resource Engineering (CRE). At the time of the acquisitions, ARD specialised in vertical and horizontal raise drilling whilst CRE was engaged in the provision of engineering design, manufacture and installation of underground mine infrastructure.

48 On 12 December 2012, Macmahon announced that following an operational and strategic review, it would divest its construction projects and refocus its strategy solely on contract mining services. Macmahon signed a memorandum of understanding with Leighton Holdings Limited[14] (Leighton) to transfer the majority of its then current construction projects to Leighton for approximately $20 million[15], including equipment and employees associated with the projects. This transaction was finalised in early 2013. In conjunction with the exit from the construction business, Macmahon undertook an $81 million equity capital raising to strengthen its financial position, fund capital expenditure requirements and support the future growth of the contract mining business.

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14 Leighton was subsequently renamed CIMIC.

15 The net consideration was approximately $14 million after transferring employee liabilities associated with personnel moving to Leighton.

Annexure B. Independent Expert's Report *continued*

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49 In recent years, Macmahon has reduced its international presence with the sale of its operations in Mongolia in June 2015 for US$65 million[16], and the termination of its contract at the Calabar mine in Nigeria in October 2016[17]. In addition, Macmahon completed its contract with LafargeHolcim at the Ewekoro mine in Nigeria in April 2016 and is no longer providing services in Nigeria.

Current operations

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

51 Macmahon is currently active in most states and territories in Australia, and is also delivering mining services operations in Malaysia and Indonesia. The Company operates from a Perth head office, with additional offices in Adelaide, Brisbane, Malaysia and Indonesia. It employs approximately 1,400 staff[18].

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

(a) **surface mining** – Macmahon offers a full range of surface mining services including mine planning, drill and blast, bulk and selective mining, crushing and screening, materials handling, resource infrastructure development and plant operation and maintenance

(b) **underground mining** – delivery of underground mine development and production services which includes the provision of a variety of specialised services including ground support services (rock bolting, cable bolting and shotcreting) and ventilation and access services (shaft sinking, raise drilling and shaft lining)

(c) **engineering** – the Company has engineering capabilities covering design and fabrication services, on-site infrastructure construction, mechanical services and electrical services

(d) **plant and maintenance** – provision of associated plant and maintenance services such as commissioning, shutdown and maintenance management as well as operation and maintenance of customer-owned plant and infrastructure. Macmahon's domestic and international operations are supported by its world-class workshop in Perth.

Key contracts / projects

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

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16 Macmahon had been providing mining services to the coal mining operations of the Tavan Tolgoi project in Mongolia since January 2012.

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

18 As at 31 December 2016.

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Surface mining

Tropicana Gold Project (Western Australia)

54 Macmahon is providing a full range of mining services at the Tropicana Gold Project under a life of mine contract. The project is owned by a joint venture (JV) consisting of AngloGold Ashanti Australia Ltd (70% interest and manager) and Independence Group NL (30% interest), and is located some 300 kilometres from Kalgoorlie. Macmahon has been active at the project since early 2012.

55 On 25 January 2017, the Company announced an increase in mining volumes at the project, with gold production expected to increase to an annualised rate of between 450,000 and 490,000 ounces per annum[19] from the second half of calendar 2017. The production increase is expected to result in a 25%[20] increase in Macmahon's revenue from the Tropicana Gold Project in the 12 months ending 31 December 2017 compared to the 12 months ended 31 December 2016.

56 In addition, further production increases are anticipated, depending on the outcome of the Long Island Study which is currently being finalised. The Long Island Study is investigating mining methods that will greatly reduce waste mining costs and improve the resource to reserve conversion, which in addition to further studies on Havana South and Boston Shaker could result in a potential extension to the life of the mining operations to 2027-2030[21].

Telfer Gold Mine (Western Australia)

57 In November 2015, Macmahon was awarded a contract by a subsidiary of Newcrest Mining to provide contract mining services at its Telfer operation in the East Pilbara region of Western Australia to 2022. Services provided under the contract include drill and blast, mining of waste materials, equipment hire and subcontractor management.

58 As indicated in subsequent announcements, Macmahon has been incurring losses on the contract since it commenced operations in February 2016 due to larger than expected start up costs, difficult operating conditions and additional maintenance rectification costs for the equipment. However, Macmahon expects the Telfer contract to be reporting a monthly profit during the latter part of the calendar year 2017.

St Ives Gold Mine (Western Australia)

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

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

20 Based on the actual revenues for the calendar year ended 31 December 2016.

21 Source: Independence Group NL company presentation, *Tropicana – value enhancement update,* 15 December 2016.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Argyle Diamond Mine (Western Australia)

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

Underground mining

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

(a) raise drilling services at BHP Billiton's Olympic Dam mine in South Australia

(b) cablebolting activities at Newcrest Mining's Cadia project in New South Wales

(c) care and maintenance services at the Ranger Mine in the Northern Territory

(d) a raisebore at BHP Billiton's Leinster Mine in Western Australia (as a subcontractor to Thiess).

International operations

Martabe Gold Mine (Indonesia)

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

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

Other international projects

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

Order book

65 Macmahon's order book (the value of work contracted) over recent periods to 31 December 2016 is shown below:

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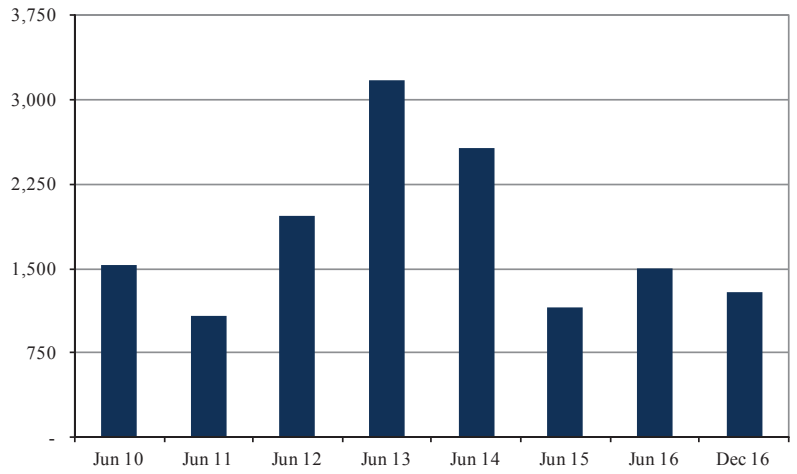
Macmahon – order book
$millions



66 As indicated above, Macmahon's order book has historically exhibited a significant degree of volatility due to the cyclical nature of the global mining industry and the size of particular contracts.

67 As at 31 December 2016, the Company's order book stood at $1,295 million, reflecting a decrease from 30 June 2016. The majority of contracted work relates to surface mining projects.

68 It should be noted that the order book at 31 December 2016 includes only the original value of contracted work at Tropicana (and assumes production ceases in FY20). This materially understates the level of work expected to be undertaken by Macmahon under its life of mine contract at Tropicana due to the size of existing reserves[22]. The order book value has not changed as the Long Island expansion plans are not yet approved by AngloGold Ashanti and Independence Group. An update to the order book is expected once the Long Island Study is completed in mid-2017 for the Tropicana project.

69 In addition, on 13 February 2017 Macmahon announced that it had signed a three year memorandum of understanding (MOU) with Indonesian-based PT Amman Mineral Nusa Tenggara (AMNT), making Macmahon the preferred contractor for AMNT's Batu Hijau copper and gold mine. Under the MOU, Macmahon will assist AMNT in evaluating options to accelerate production at the mine. The MOU also provides Macmahon with an exclusivity period in which to negotiate terms for certain earthmoving and mining services to be provided by Macmahon (should they be required).

22 As stated above, on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) as at 31 December 2016. As gold production is expected to increase to between 450,000 and 490,000 ounces per annum from the second half of calendar 2017, the expected mine life (based on reserves alone) is some 8 years.

Annexure B. Independent Expert's Report *continued*

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Financial performance

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

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

Note:
1 Rounding differences exist.
2 Amortisation primarily relates to software development costs.
3 Earnings before interest and tax (EBIT).
4 Significant items comprise the following:

	FY13 Audited $m	FY14 Audited $m	FY15 Audited $m	FY16 Audited $m	1HY17 Unaudited $m
Impairment of plant and equipment and goodwill	(1.8)	(2.0)	(202.0)	-	-
Writedowns of inventory	-	-	(27.3)	-	-
Onerous lease provision	-	-	(4.5)	(2.1)	-
Net foreign exchange gain	5.4	(2.2)	11.9	2.5	(0.1)
Net gain / (loss) on disposal of plant and equipment	0.3	1.3	(13.0)	6.3	0.7
Bad debts written off and subsequent gain on sale of Mongolian operations	(7.2)	(7.7)	10.5	-	-
Provision and subsequent gain on settlement of dispute	(16.1)	-	16.3	-	-
	(19.4)	(10.6)	(208.1)	6.7	0.6

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

71 As previously discussed, on 12 December 2012, Macmahon announced the sale of its construction business. The results from continuing operations shown above have been restated to exclude any contribution from this business. The results from discontinued operations in 1HY17 also includes losses and asset writedowns in connection with the closure of Macmahon's Nigerian operations. However, the earlier results have not been adjusted to reflect the Nigerian operations as a discontinued operation[23].

72 The key factors that have impacted the reported financial performance of Macmahon in the above financial periods are summarised below:

Year to 30 June 2013 (FY13)

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

Year to 30 June 2014 (FY14)

- revenue declined around 13%, reflecting difficult trading conditions in the mining sector and the completion of some contracts
- Macmahon's surface mining operations (which included work on the Tropicana Gold Project and the Christmas Creek Mine expansion) improved steadily over the year. However:
  - operations were reduced at Peabody Energy's Eaglefield / Lenton mine as the mine was nearing the end of its life[24]
  - works at BHP Billiton's Orebody 18 were completed in June 2014 following the decision by BHP to take operations in-house
  - Yancoal also decided to take operations at its Cameby Downs mine in-house following the completion of Macmahon's contract (resulting in demobilisation from site in December 2013)
- in Macmahon's underground mining operations, contracts were completed at Glencore Xstrata's George Fisher Mine in Queensland

23 Further information on the profitability of the Nigerian operations is set out in Section VI.
24 The project was expected to be completed in November 2014.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

- operations at BHP Billiton's Olympic Dam Mine performed well, with a further four-year extension granted during the period to provide raise drilling services
- in Mongolia, operations at the Tavan Tolgoi mine were impacted by payment delays for work completed

Year to 30 June 2015 (FY15)

- revenue declined around 35% due to continued difficult trading conditions in the mining sector and the completion of a number of contracts during the prior year
- to mitigate the impact of the prevailing difficult trading conditions, the Company entered into a number of short term equipment hire agreements with a range of customers across Australia
- in January 2015, the Company was awarded a three-year contract extension by a subsidiary of Rio Tinto to continue its tailings dam management operations at the Argyle Diamond Mine
- a five-year contract extension was also awarded at the Lafarge Kanthan Quarry in Malaysia. However, quarrying activities at Lafarge's Rawang cement project were completed
- in addition:
  - in February 2015 Fortescue Metals Group consolidated its two Christmas Creek Mines in Western Australia. As a result, Macmahon's mining services contract at the Christmas Creek Expansion project concluded in May 2015
  - in May 2015, Macmahon was advised that the operations at Waihi Gold Mine in New Zealand would be concluding ahead of schedule. Macmahon demobilised from the site shortly after year end
  - Macmahon's project at Peabody Energy's Eaglefield / Lenton mine was completed in November 2014
  - underground development works at Rio Tinto's Argyle Diamond Mine were completed in August 2014[25]
  - in August 2014, operations at the Tavan Tolgoi coal project in Mongolia were suspended by the client following a dispute regarding payment delays. Subsequently, in June 2015, Macmahon announced the sale of its Mongolian business for US$65 million
- as a result of the above, work on hand as at 30 June 2015 fell to $1.15 billion (from $2.6 billion as at 30 June 2014)
- non-recurring items (net expense of $205.6 million) comprised significant asset writedowns and onerous lease provisions, partly offset by an accounting gain on the settlement of a contract dispute

Year to 30 June 2016 (FY16)

- Macmahon's main surface mining operation (Tropicana) continued to perform well. However:

25 This was a separate contract to the tailings dam project mentioned above.

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- losses of $13.5 million were incurred on the Telfer project (which commenced in February 2016) due to a number of issues including start-up costs, complicated site conditions and additional maintenance rectification costs for client supplied equipment
- significant losses were incurred from the Company's Nigerian projects due to low volumes, increased maintenance costs, industrial action and project closure costs at Ewekoro
- revenue fell significantly to $347.4 million due to the difficult mining conditions and the transition to new projects

- whilst the Olympic Dam projects (with the exception of the raise drilling contract) and a number of other projects were completed during the period, $624 million in new work was awarded in 2016. New contracts included:
  - the provision of contract mining services at the Telfer gold mine for Newcrest Mining Limited (as noted above)
  - the provision of plant and personnel at the St Ives Gold Mine near Kambalda in Western Australia
  - the provision of mining services (under a joint venture arrangement) at the Martabe Gold Mine in Indonesia

Six months to 31 December 2016 (1HY17)

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

Year to 30 June 2017 (FY17) and outlook

- Macmahon expects the Telfer contract to operate profitably on a monthly basis during the latter part of the calendar year 2017. Whilst losses on this contract are expected in the six months to 30 June 2017 (2HY17), Macmahon expects the business overall to achieve a positive EBITA in that period, before returning to significant profitability in FY18 due to:
  - the elimination of recent losses at Telfer and in Nigeria
  - increases in revenue at the Tropicana project (as discussed above); and
  - revenue and profit from new work opportunities
- In the Target's Statement, Macmahon has provided guidance that Macmahon expects to generate $30 million to $35 million in EBITA in FY18. In providing this guidance, Macmahon has stated in the Target's Statement that profitability in FY18 assumes an improved performance at Telfer as well as an assumption that there will be three new contracts from its current tender pipeline of 18 opportunities, which are assumed to commence from 1 January 2018. In the event that no new contracts are awarded to Macmahon, FY18 EBITA guidance would be $23.8 million to $27.7 million.

Annexure B. Independent Expert's Report *continued*

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Financial position

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

Macmahon – statement of financial position[1]	30 Jun 16 Audited $m	31 Dec 16 Reviewed $m
Debtors and prepayments	59.6	46.0
Income tax receivable (net)	12.6	13.2
Inventories	37.3	35.4
Creditors, accruals and provisions	(86.5)	(83.3)
Net working capital	23.0	11.3
Assets held for sale	9.2	4.2
Property, plant and equipment	117.7	123.3
Investments accounted for using the equity method	6.3	6.2
Deferred tax assets	0.6	0.6
Employee benefits (non current)	(0.4)	(0.4)
Other provisions	(5.4)	(6.9)
Total funds employed	150.9	138.4
Cash and cash equivalents	56.7	59.6
Interest bearing liabilities	(0.2)	(9.8)
Net cash / (borrowings)	56.5	49.8
Net assets attributable to Macmahon shareholders	207.4	188.2

Note:
Rounding differences exist.

Net working capital

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

Property, plant and equipment

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

Net cash

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

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

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

Assets held for sale

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

Deferred tax assets

79 As at 31 December 2016, Macmahon had unrecognised Australian deferred tax assets (DTA) of $51.1 million. These have principally arisen due to the impairment of plant and equipment in FY15, and reflect future tax deductions[26] which can be used to reduce future taxable income.

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

Other provisions

81 Other provisions as at 31 December 2016 comprise:

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

Share capital and performance

82 As at the date of this report, Macmahon had 1,200.9 million fully paid ordinary shares on issue. In addition the company had 12.1 million performance rights granted under the Company's previous and current long-term incentive plans, which vest subject to the achievement of specific performance hurdles.

26 Primarily due to tax depreciation being higher than accounting depreciation (due to the impairment charges).

Annexure B. Independent Expert's Report *continued*

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83 We note that the Company currently holds approximately 13.0 million Macmahon shares on trust to satisfy the vesting of all Macmahon performance rights on issue (i.e. a surplus of 0.9 million shares).

84 For valuation purposes, we have treated this surplus trust holding as treasury shares, and have therefore adopted fully diluted shares on issue of 1,200.0 million.

Significant shareholders

85 Based on the substantial shareholder notices provided to Macmahon and CIMIC's Second Supplementary Bidder's Statement dated 9 February 2017, the substantial shareholders of Macmahon shares are:

Macmahon – substantial shareholders

	Shares held	
Shareholder	**Million**	**% interest**
CIMIC	276.05	22.99
Forager Funds Management Pty Limited	104.15	8.67
3rd Wave Investors Limited	63.43	5.28
Schroder Investment Management Australia Limited	62.55	5.21

86 CIMIC primarily acquired its shareholding in Macmahon in 2007 and through participation in various capital raisings. CIMIC (through its subsidiary CGI) has subsequently acquired further shares in Macmahon since the announcement of the Offer at the Offer price. As at 9 February 2017, CIMIC's interest in Macmahon had increased to 276.05 million shares (or 22.99% of the total Macmahon shares on issue).

87 We note that Forager Funds Management Pty Limited's (Forager) latest change of substantial holder notice released to the ASX on 31 January 2017 indicated that Forager has acquired further shares in the Company since the Offer was announced, at prices above the Offer price through on-market purchases.

Dividend and capital management policy

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

Share price performance

89 The following chart illustrates the movement in the share price of Macmahon from 1 January 2014 to 23 January 2017[27]:

[27] Being the last full day of trading prior to the announcement of the Offer.

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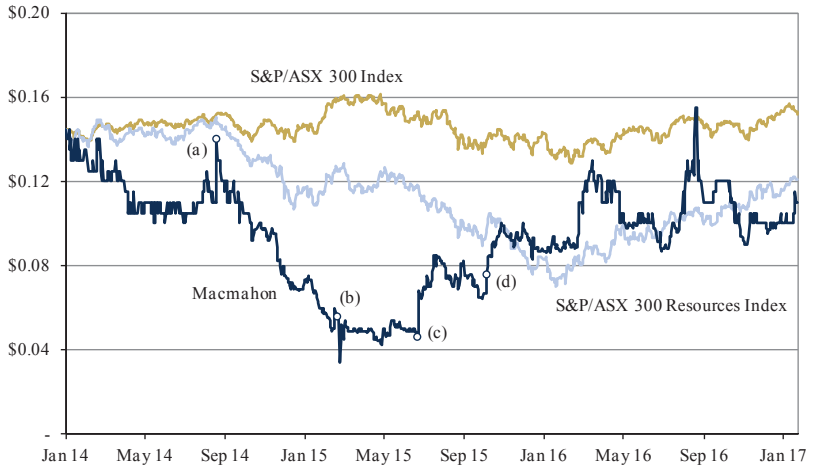
Macmahon – share price history[1]
1 January 2014 to 23 January 2017



Note:
1 Based on closing prices. The S&P/ASX 300 Index and the S&P/ASX 300 A-REIT Index have been rebased to Macmahon's last traded price on 1 January 2014, being $0.145.
Source: Bloomberg (sourced throughout the report without specific consent in relation to this report) and Macmahon ASX announcements.

90 The material decline in the share price of Macmahon over the period to mid 2015 coincided with the general deterioration in market conditions in the mining services industry. We also note the following market sensitive announcements with respect to the material movements in the share price of Macmahon above:

(a) **20 August 2014** – announced the suspension of its operations in Mongolia due to disagreements with the customer, with US$22 million in progress payments being overdue

(b) **20 February 2015** – advised that operations under its Christmas Creek Mine expansion contract would cease in April 2015 due to a consolidation of the two Christmas Creek mines, whereby mine operations would be managed by a single contractor. The contract was initially awarded to Macmahon in January 2013, and had a value at that time of $1.8 billion (being the largest mining contract Macmahon had ever been awarded), and was intended to last for five years to 2018

(c) **25 June 2015** – advised that it had significantly reduced overhead and operating costs following an organisational restructure, and that it was tendering for a greater number of smaller opportunities to diversify its order book. In addition, Macmahon announced that it had sold its Mongolian operations to a private company for US$65 million, which resulted in the Company being in a net cash position

(d) **6 October 2015** – announced an on-market share buy-back of up to 10% of the fully paid ordinary shares in Macmahon over a 12 month period as part of an ongoing capital management plan.

Annexure B. Independent Expert's Report *continued*

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Liquidity in Macmahon shares

91 The liquidity in Macmahon shares based on trading on the ASX over the 12 month period prior to 24 January 2017[28] is set out below:

Macmahon – liquidity in shares

Period	Start date	End date	No of shares traded 000	WANOS[(1)] outstanding 000	Implied level of liquidity Period[(2)] %	Annual[(3)] %
1 month	24 Dec 16	23 Jan 17	17,832	1,202,671	1.5	17.8
3 months	24 Oct 16	23 Jan 17	68,401	1,202,671	5.7	22.7
6 months	24 Jul 16	23 Jan 17	315,436	1,205,053	26.2	52.4
1 year	24 Jan 16	23 Jan 17	575,849	1,216,405	47.3	47.3

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

92 As shown above, turnover in Macmahon shares has declined in recent months indicating a reduced level of liquidity. We partly attribute this to the completion of the on-market share buy back in October 2016, and the existence of several substantial shareholders in Macmahon as previously highlighted.

28 Being the announcement date of the Offer.

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IV Industry overview

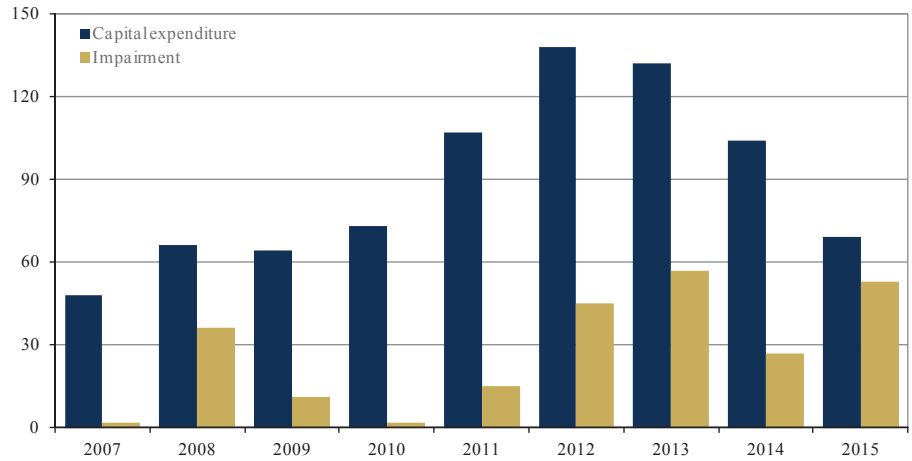
Introduction

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

Global mining industry

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

World's 40 largest mining companies – capital expenditure and impairment
US$bn



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

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

29 Refers to payments for property, plant and equipment and exploration expenditure.
30 The latest available year.

Annexure B. Independent Expert's Report *continued*

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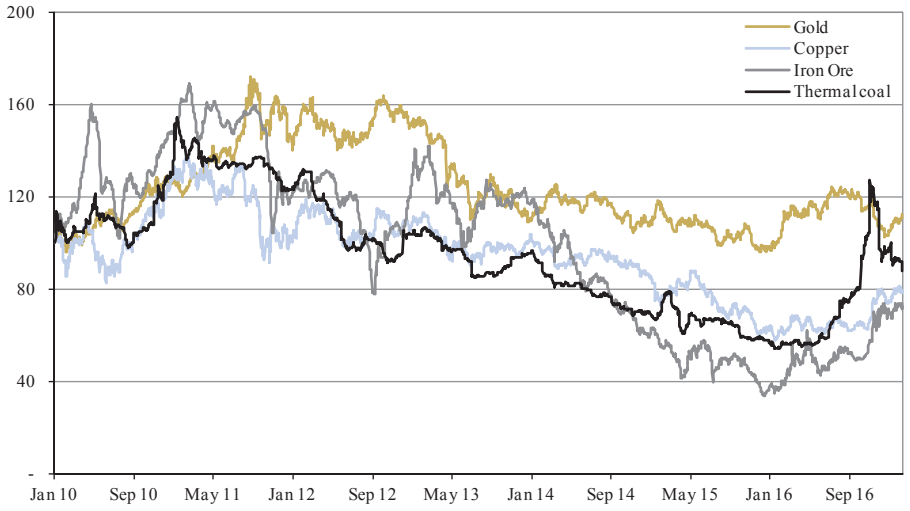
resulted in significant asset write-downs in the subsequent 2012 to 2015 period when commodity prices subsided from their historic highs.

96 The combination of a slowing Chinese economy[31] (in relative terms) and the additional supply from new mines constructed and commissioned during the period of higher commodity prices resulted in bulk mineral commodity prices declining materially over the 2011 to 2015 period. In response, mining companies cut costs, improved productivity and reduced capital expenditure, with global investment in new projects falling over the period from 2012 to 2015 (noting that this should be considered in the context of the record levels of expenditure by mining companies in prior years).

97 During 2016 however commodity prices first stabilised and then generally moved upwards. This has been led by the bulk mineral commodities such as coal and iron ore, prices for which reflected the most significant declines. Base metal commodity prices such as copper, zinc and more recently nickel, have also shown improvement.

Commodity prices 2010 to date
Rebased from 1 January 2010 (US$)



Source: Bloomberg.

98 The recent increases in bulk commodity prices such as iron ore and coal are attributable to a number of factors. These include:

(a) the recent rebound in Chinese property investment

(b) increased infrastructure investment initiated by Chinese authorities in 2015 to address a noticeable slowdown in Chinese economic activity

(c) a more proactive response from Chinese authorities to the unsustainably high pollution issues prevalent in the majority of manufacturing regions.

31 Chinese GDP growth peaked at over 13% in 2007 and has since fallen to around 7% in 2015.

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99 Iron ore prices have also been favourably impacted recently by a number of specific factors, including:

(a) the removal of some 30 million tonnes of higher cost iron ore supply, which proved uneconomic in a lower price environment

(b) the introduction of production caps on scrap metal plants totalling 60 million tonnes in 2016. Chinese authorities are also targeting the removal of another 140 tonnes of scrap metal production by 2020; and

(c) higher coking coal prices, given that this encourages steel producers to focus on higher blast furnace utilisation, which requires better quality iron ore typically sourced from the seaborn market.

100 In respect of coal, in February 2016, the State Council (China's premier legislative body) issued plans to reduce coal production capacity by around 1 billion tonnes over the next three to five years. The State Council also issued a direction in April 2016 that the number of working days for coal mines be reduced from 330 days to 276 days per year. In combination with disruptions to supply from major exporting countries, the price of both thermal and coking coal increased significantly in the second half of 2016, peaking in November 2016. Following the sharp rise in coal prices, the National Development and Reform Commission signalled that the 276 working day policy would be amended for selected coal producers to allow them to temporarily increase their days of operation as a means of relieving supply shortages. Coal prices have since reduced and have now settled at levels comparable to those in 2014.

101 More recently, the expectation of higher levels of infrastructure investment in the US under a Trump presidency has also added to the more positive outlook for commodities, with copper prices in particular (at least in the short term) also favourably impacted by expectations of reduced production from two of the world's largest copper mines (due to differing significant mine specific issues).

Australian mining industry

102 Consistent with the global experience, strong demand for commodities since the early 2000s generated robust investment in the Australian mining sector. This was particularly evident in the bulk commodities sector, which has seen unprecedented levels of investment in recent periods (noting precious and base metals spending levels were also high). However, given the difficult industry conditions that have recently prevailed and the increase of mining stock added during higher commodity prices, Australian mining companies have been more reluctant to commit to new projects and have generally shifted their focus from expansion to operational efficiency. This is illustrated in the following chart, which shows the significant decline in the level of committed mining projects[32] in Australia as at October 2016 compared to the levels reported as at October 2012[33]:

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

33 Being the date of commencement of this data source.

Annexure B. Independent Expert's Report *continued*

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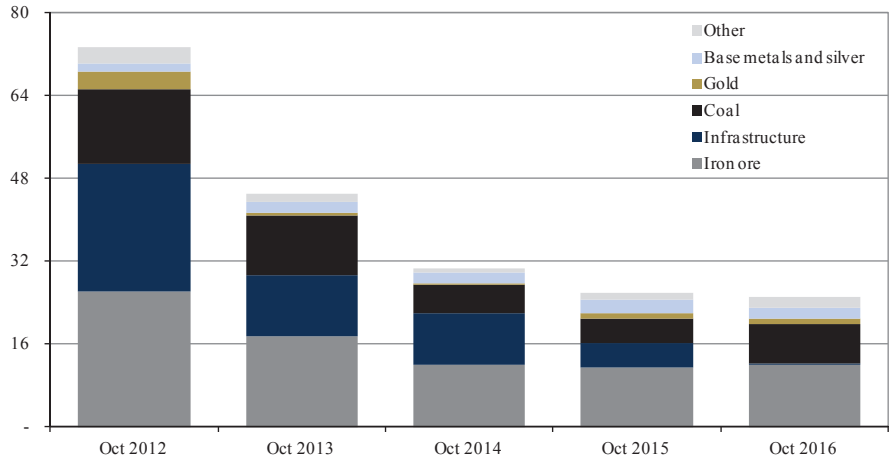
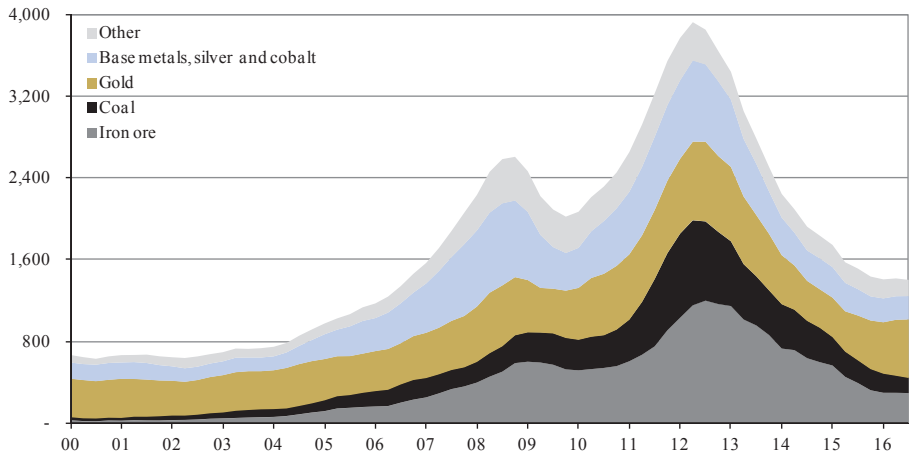
Value of Australian mining projects at the committed stage
$bn



Note: Base metals and silver includes copper, lead, zinc and nickel. Other includes uranium, aluminium, bauxite and alumina.
Source: Department of Industry, Innovation and Science (2012-2016) *Resources and Energy Major Projects* and *Resources and Energy Quarterly*.

103 Given that exploration activities precede mining project development, the level of mining exploration provides an indication of future mining investment. Exploration expenditure in Australia for the year to 30 September 2012 peaked at $3.9 billion, and has since declined to an annual spend of $1.4 billion (for the year to 30 September 2016)[34]. In the most recent annual period exploration expenditure declined for most commodities, with the exception of gold (which increased 31%) and copper (which increased 4%). The composition of Australian exploration expenditure from 2000 to 2016 is set out in the chart below:

Mineral exploration expenditure – January 2000 to September 2016
$m (rolling annual total based on quarterly data)



Note: Base metals, silver and cobalt includes copper, nickel, lead and zinc. Other includes uranium, diamonds and mineral sands.
Source: ABS 8412.0 *Mineral and Petroleum Exploration, Australia.*

34 Source: ABS 8412.0 *Mineral and petroleum exploration, Australia.*

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104 Consistent with commodity price movements, exploration expenditure for bulk mineral commodities (coal and iron ore) has shown the largest reductions in exploration expenditure since peak levels in the year to 30 September 2012. Given recent price increases for coal and iron ore, the potential therefore exists for increased exploration expenditure for these commodities.

105 Whilst base metals exploration expenditure has also reduced significantly, it is important to note that although US$ prices for base commodities have reduced significantly over the past five years, due to a decreasing Australian dollar (AU$) relative to the US$, base metal prices in AU$ terms have not reduced to the same extent. As a result base metal prices in AU$ terms remain relatively high, with a corresponding potential for renewed interest in base metals exploration.

106 The standout commodity for exploration expenditure has been gold, where exploration levels have been relatively consistent over the above period. Gold prices increased substantially from 2000 and peaked in 2011 (in US$ terms), which provided impetus for significant investment in exploration. Since 2011, US$ gold prices have generally reduced, however the impact of a declining AU$:US$ exchange rate has meant that the AU$ gold price has not been as adversely impacted (and has actually been increasing since October 2014). As a result, Australian gold mining exploration expenditure has increased materially in the most recent yearly period.

Mining services

Services

107 The mining services industry consists of companies that provide specialist services to mining companies across all stages of the mining project lifecycle. These services range from undertaking feasibility studies, the subsequent development and construction of a mining project and undertaking ongoing mining operations. Mining services companies are generally employed by mining companies for a number of reasons, including but not limited to:

(a) providing a specialist technical service

(b) reducing project capital requirements (i.e. capital expenditure is avoided in lieu of increased operational expenditure)

(c) providing operational expertise for new projects

(d) increasing productivity and efficiency; and

(e) reducing operating costs.

Recent trends

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

Annexure B. Independent Expert's Report *continued*

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

(a) mining companies have commenced a long overdue reinvestment in their mining operations (in particular, mining plant and equipment) after years of working assets for efficiency and with minimised maintenance

(b) following a prolonged period of consolidation of operations, mining service companies are looking at expansion and growth options

(c) the level of bank financing available to mining service companies for requisite working capital has increased as commodity prices have risen

(d) reflective of the more optimistic conditions, recent share prices of both mining companies and mining services companies have generally increased substantially.

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

(a) "*... while many industry analysts are now suggesting that the worst is behind us we expect it will be some time before mining companies look to increase their capital and operating budgets ... It has been a difficult four years for mining companies and their service providers ... the last six months has seen an increase in commodity prices which is starting to impact positively on industry confidence*"[35]

(b) "*... investor sentiment towards the sector has improved on the back of stronger commodity prices and signs of a tentative industry recovery ... Despite the tough market conditions, there are growth opportunities*"[36]

(c) "*... the recent lift in coal prices has driven an increase in activity across the business... the company has received several enquires for development equipment, something that has been absent for the past 3 years*"[37]

(d) "*... the resources and infrastructure sectors are showing signs of stability. This improvement in sentiment has led to an increase in tender opportunities, particularly over the last 6 months ... The prolonged cycle of capex underinvestment by the majors across bulk commodities, will, at some point, need to reverse and we should see increased spending just to sustain existing production levels*"[38]

(e) "*From an international perspective, we are seeing strong demand for quality Australian resources, including metallurgical and thermal coal, in a strengthened price environment. This is good news for our customers, for the industry and for Aurizon, and could present future volume and growth opportunities*"[39].

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35 RungePincockMinarco Limited, 2016 Annual General Meeting announcement, dated 24 November 2016.
36 MACA Limited, Chairman's Address – 2016 AGM, dated 16 November 2016.
37 Mastermyne Group Limited, Company Update, dated 15 November 2016.
38 NRW Holdings Limited Annual General Meeting, dated 3 November 2016.
39 Aurizon Holdings Limited, Half Year Financial Results Release, dated 13 February 2017.

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Outlook

111 Since mid 2016 commodity prices have increased, although they remain substantially lower than at peak levels in the years past. At present the mining industry is cautiously optimistic about the future prospects, however there is the potential for certain commodity prices to pull back to some extent, e.g. iron ore, as additional supply comes to the market. Further, it is unlikely that commodity prices will exhibit the strength shown in the last boom period cycle, given expectations that China's rate of growth (i.e. the key driver of most commodity prices) will normalise at a lower level in the future[40].

112 Whilst capital spending on new mines is not expected to increase materially in the short to medium term (in part due to the increased investment in mining capacity over recent years), the value of Australia's mining stock has increased significantly over the last decade. As a result, the opportunities for mining contractors offering efficient mining services have potentially increased. Further, new mining project development will continue to be necessary to replace depleted resources.

40 Whilst annual growth rates in China are expected to gradually decline, we note the base from which growth is measured is substantially higher.

Annexure B. Independent Expert's Report *continued*

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V Valuation approach

Valuation approaches

113 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

114 Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

115 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

116 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

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

Methodology selected

118 The market value of Macmahon has been assessed by aggregating the market value of the business operations together with the realisable value of surplus net assets.

119 The value of the business operations has been made on the basis of market value as a going concern. The following valuation methodologies have been adopted to determine value:

Valuation methodologies

Method	Key reasons
DCF analysis	• Whilst Macmahon reported losses at the EBITA level in both FY16 and 1HY17, the Company is expected to return to significant profitability in FY18 • The DCF method is therefore the most appropriate valuation methodology as it allows the quantum and timing of the future earnings recovery to be explicitly modelled
EBITA method	• As stated above, the Company is projected to return to significant profitability in FY18 • EBITA multiple evidence is available from "comparable" listed companies and transactions in the mining services sector • EBITA rather than EBITDA has been adopted as Macmahon's contract mining business is capital intensive
Share price adjusted for a (takeover) control premium	• As a cross-check on the above methods, we have also considered the reasonableness of the control premium implied by our valuation range compared to the VWAP of Macmahon shares before the announcement of the Offer on 24 January 2017

Annexure B. Independent Expert's Report *continued*

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VI Valuation of 100% of Macmahon

120 As discussed in Section V, we have assessed the value of Macmahon using the DCF and capitalisation of EBITA[41] approaches.

DCF valuation

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

(a) operating losses of $8.4 million in FY16 and $4.0 million in 1HY17 at its Nigerian operations (which have since been closed)

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

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

(a) the elimination of recent losses at Telfer and in Nigeria

(b) increases in revenue at the Tropicana Gold project. As discussed in Section III, Macmahon recently announced a production increase at the mine which is expected to increase Macmahon's revenues at the project by approximately 25% in the 12 months ending 31 December 2017 compared to the preceding 12 month period; and

(c) anticipated revenue and profit from new work opportunities.

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

(a) the historical level of revenue, EBITA and EBITA margins generated by Macmahon's mining services business

(b) the outlook for revenue and profit in the short to medium term based on the current level of contracted work on hand.

41 In the case of Macmahon, EBITA is equal to EBIT as Macmahon does not have any amortisation of acquired intangibles.

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Historical profitability

124 As noted in Section III, Macmahon sold its construction business in FY12 and now focuses entirely on its contract mining business. Macmahon has also recently closed it Nigerian operations.

125 Accordingly, we set out below the revenue and EBITA of the continuing contract mining business[42]. In order to derive the underlying EBITA margins (as a percentage of revenue) we have adjusted reported revenue and EBITA to include Macmahon's pro-rata share of revenue and EBITA from joint ventures (JVs)[43].

Macmahon – underlying EBITA from continuing operations[(1)]

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

Note:
1 Underlying EBITA before significant items.
2 Before significant items.
3 Rounding differences exist.

126 In relation to the above historical results, we note that:

(a) revenues from the Tropicana Gold project have steadily increased over the period (commencing in FY12), and accounted for some 50% of total revenue in 1HY17. As stated above, Macmahon's revenue from the Tropicana Gold project is expected to increase by around 25% in the 2017 calendar year due to increased production[44]. In addition, further significant production increases may occur at this project (subject to the outcome of the Long Island feasibility study currently underway)

42 The underlying revenue and EBITA shown in the table excludes any contribution from the construction business (which was sold in FY12) and the Nigerian operations (closed in FY17).

43 For example, Martabe.

44 Source: Macmahon ASX announcement dated 25 January 2017.

Annexure B. Independent Expert's Report *continued*

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(b) Macmahon was awarded its biggest ever contract (the Christmas Creek Mine expansion project for Fortescue Metals Group) in January 2013. This project generated revenue for Macmahon of approximately $700 million over the FY13 to FY15 period, and concluded in May 2015

(c) during FY15 a number of other contracts were also completed, including Peabody Energy's Eaglefield / Lenton mine (November 2014), Rio Tinto's Argyle Diamond Mine (August 2014[45]) and the Waihi Gold Mine in New Zealand (which completed shortly after FY15)

(d) in August 2014 operations at the Tavan Tolgoi coal project in Mongolia were suspended by the client following a dispute regarding payment delays. Subsequently, in June 2015, Macmahon announced the sale of its Mongolian business for US$65 million.

(e) due to the difficult trading conditions in the mining sector over recent years, Macmahon has restructured its operating cost base and reduced annual overhead costs by around $50 million since FY14

(f) as stated above, significant losses were incurred on the Telfer project (which commenced in February 2016) due to a number of issues including greater than expected start-up costs, complicated site conditions and additional maintenance rectification costs for client supplied equipment. In the absence of these losses[46] Macmahon would have generated a positive EBITA in both FY16 and 1HY17, as shown below:

Underlying EBITA after adding back Telfer losses

	FY16 $m	1HY17 $m
Underlying EBITA(1)	6.1	(4.3)
Loss on Telfer contract	13.5	18.7
Underlying EBITA before Telfer losses	19.6	14.4

Note:
1 Includes Macmahon's pro-rata share of EBITA from joint ventures and excludes losses from the Nigerian operations.

(g) the weighted average EBITA margin over the period was around 6.1% of sales revenue. This increases to 6.7% if the losses (and revenue) from Telfer are excluded.

Order book

127 We have also undertaken a detailed review of profitability by major contract, and have considered the outlook for revenue and profit in the short to medium term based on the current level of contracted work on hand.

128 The level of contracted work on hand as at 31 December 2016, and the expected timing of that work, is shown below:

45 A separate contract for tailings dam management at the Argyle Diamond Mine was extended for a further three years in January 2015.

46 Macmahon expects the Telfer contract to achieve a monthly profit in the latter part of the calendar year 2017.

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Contracted work on hand as at 31 December 2016[1]	
Period	**$m**
2HY17	189.9
FY18	386.9
FY19	349.6
FY20+	368.7
Total contracted work on hand	1,295.1

Note:
1 Includes pro-rata share of contracted work on hand undertaken at the Martabe project (which is operated through a joint venture).

129 It should be noted that the order book at 31 December 2016 includes only the original value of contracted work at Tropicana (and assumes production ceases in FY20). This materially understates the level of work expected to be undertaken by Macmahon under its life of mine contract at Tropicana due to the size of existing reserves[47]. The order book value has not changed as the Long Island expansion plans are not yet approved by AngloGold Ashanti and Independence Group. An update to the order book is expected once the Long Island Study is completed for the Tropicana project.

130 Revenue in 1HY17 was $178.8 million (including Macmahon's share of revenue from the Martabe joint venture). Adding the level of contracted work on hand expected to be undertaken in 2HY17 ($189.9 million) results in total contracted revenue for FY17 of $368.7 million. This is broadly similar to the average level of contracted work on hand expected to be undertaken in FY18 and FY19.

131 In addition to the contracted work on hand, Macmahon also generates annual revenues from the provision of ad hoc mining services (e.g. drilling, shotcrete, vertical development and plant maintenance and hire). In 1HY17 these revenues were approximately $20 million ($40 million on an annualised basis), with average annual revenues in FY14 to FY16 being $77 million.

132 Based on the level of contracted work on hand as at 31 December 2016 and the historic annual level of other ad hoc revenues, in our opinion, it is reasonable to assume that annual revenue over the next few years will be around $425 million. This could increase further should Macmahon be successful in winning new work[48].

133 In this regard we note that Macmahon has identified a large potential pipeline[49] and has outstanding tenders and tender opportunities totalling $6.4 billion. This pipeline includes potential increases in the mine life at the Tropicana Gold project (dependent on the outcome of the Long Island feasibility study currently underway), which may lead to more work for Macmahon under its life of mine contract.

47 As stated in Section III, on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) as at 31 December 2016. As gold production is expected to increase to between 450,000 and 490,000 ounces per annum from the second half of calendar 2017, the expected mine life (based on reserves alone) is some 8 years.

48 Including new work, Macmahon's guidance for FY18 is for revenue between $470 million and $510 million. Excluding new work, Macmahon's guidance for FY18 is for revenue of between $396.7 million and $430.5 million.

49 The large majority of these projects are not expected to commence in the short term (even if Macmahon is successful).

Annexure B. Independent Expert's Report *continued*

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DCF assumptions

134 Given the above, we have adopted the following key assumptions in our Base Case DCF valuation:

(a) Macmahon achieves a small positive EBITA in 2HY17

(b) from FY18, Macmahon achieves annual revenue of $425 million (growing at 2.5% per annum, consistent with inflation). This assumption is considered reasonable given the level of contracted work on hand, but is well below the average revenue achieved over the FY10 to 1HY17 period (as shown above)[50]

(c) EBITA margins increase to 6.0% of revenue by FY19[51], consistent with:

(i) the weighted average margins achieved by Macmahon over the FY10 to 1HY17 period (set out above); and

(ii) the observed EBITA margins generated by the Mining Services division of Downer EDI Limited (which is a larger competitor):

Downer EDI – Mining Services EBITA margins[(1)]

	Revenue $m	EBITA margin %
FY10	913	5.4
FY11	1,392	7.3
FY12	2,389	5.7
FY13	2,472	5.7
FY14	1,924	7.9
FY15	1,532	7.4
FY16	1,549	7.0
Weighted average		6.6

Note:
1 Calculated after allocating corporate costs across the group based on sales revenue. Excludes revenue and profit from joint ventures.
2 As shown above, in the more recent reporting periods (FY14 to FY16) Downer EDI has been able to increase EBITA margins to 7% and above.

135 The other key assumptions adopted are summarised below:

(a) a discount rate of 13.0% per annum (after tax) has been applied, for the reasons set out in Appendix C

(b) we have projected annual cash flows to the end of FY25. A terminal value (TV) multiple of 6.5 times EBIT has been applied at the end of FY25. This TV multiple is consistent with the multiple implied from the use of the growth in perpetuity model (based on a discount rate of 13.0% and a growth rate of 2.5%)

50 In this regard, we have been advised that following the recent restructure of the operating cost base, Macmahon considers annual revenues of up to $600 million to be within the existing capacity of the Company (subject to additional capital expenditure if fleet requirements differ to existing assets held).

51 This EBITA margin implicitly allows for the capital cost of mining equipment, which can either be funded by outright purchase (resulting in depreciation charges), finance leases (resulting in depreciation charges) or operating leases (treated as an operating expense).

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(c) no Australian tax payments are projected to be paid until FY25, due to the existence of $51 million in unrecognised deferred tax assets (which have largely arisen due to the impairment of plant and equipment in FY15)[52]

(d) tax is payable on profits on Indonesian and Malaysian projects at the rate of 25%

(e) net working capital levels are assumed to increase with the level of work undertaken.

Sensitivity analysis

136 The assumptions set out above reflect the Base Case assumptions adopted in the financial model on which our valuation is based. However, there are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.

137 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.

138 In assessing the appropriate valuation range for the contract mining operations of Macmahon we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

DCF value – sensitivity table ($m)

	Sustainable revenue (in real terms)			
EBITA margin (% of revenue)	**$400m**	**$425m**	**$450m**	**$475m**
5.5%	169	179	189	198
6.0%	182	193	203	213
6.5%	195	206	217	228

Note:
1 The above values are based on a discount rate of 13% per annum (after tax). A 0.5% change in the discount rate has an impact of around $5 million on the resulting net present value (NPV).

139 Having regard to the above, we have adopted a DCF value for the business of $180 million to $205 million.

Capitalisation of EBITA approach

140 Under the capitalisation of EBITA method the value of Macmahon's business (before surplus assets and liabilities) is derived by multiplying the maintainable EBITA of the business at an appropriate EBITA multiple.

EBITA

141 In the Target's Statement, Macmahon has provided the following guidance for FY18 for Macmahon:

[52] Further detail in respect of these future tax benefits is set out in paragraphs 156 and 157.

Annexure B. Independent Expert's Report *continued*

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Macmahon – FY18 guidance		
	Macmahon guidance including 3 contract wins[(3)] $m	Sensitivity excluding any material contract wins $m
Revenue[(1)]	470 - 510	393.6 – 433.6
EBITA[(2)]	30 - 35	23.2 – 28.2

Note:
1 Revenue excludes Macmahon share of JV revenues.
2 In the case of Macmahon, EBITA is equal to EBIT as Macmahon does not have any amortisation of acquired intangibles.
3 Assumes three new contract wins, which are assumed to commence from 1 January 2018.

142 The guidance of $30 million to $35 million in EBITA for FY18 shown above assumes the award of three new contracts which are assumed to commence from 1 January 2018, two of which are considered material. Whilst Macmahon considers that it is well placed to secure these contracts[53], at the date of this report contracts have not been awarded in relation to these projects.

143 Accordingly, we have based our EBITA valuation on Macmahon's guidance for FY18 excluding these three contracts of around $25 million in EBITA. This figure is consistent with the sustainable EBITA (in real terms) adopted in our Base Case DCF valuation, which assumed sustainable revenue (in real terms) of $425 million at an EBITA margin of 6% (resulting in EBITA of $25.5 million).

144 The potential for new contracts which could substantially improve profitability in the short to medium term has been reflected in our EBITA multiple. In this regard, we note that Macmahon has identified a significant pipeline of potential work opportunities at the date of this report, of which the three projects reflected in Macmahon's guidance form only a proportion of the total potential work opportunities.

EBITA multiple

145 The selection of the appropriate EBITA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

53 The status of respective contract negotiations is set out in the Target's Statement.

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- The stability and quality of earnings
- The quality of the management and the likely continuity of management
- The nature and size of the business
- The spread and financial standing of customers
- The financial structure of the company and gearing level
- The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors
- The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors
- The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- The cyclical nature of the industry
- Expected changes in interest rates
- The asset backing of the underlying business of the company and the quality of the assets
- The extent to which a premium for control is appropriate
- Whether the assessment is consistent with historical and prospective earnings

146 We discuss below specific factors taken into consideration when assessing the appropriate EBITA multiple range for Macmahon.

Listed company multiples

147 The EBITA multiples for Australian listed companies providing contract mining services and mining services generally are shown below:

Listed company multiples[1]

	Enterprise value[2] $m	EBITA multiples Forecast[3] FY17 x	Forecast[3] FY18 x
Contract mining services			
MACA	344	7.0	5.3
NRW Holdings	293	11.0	9.4
Decmil Group	157	8.7	8.5
Mastermyne Group	45	nm	nm
Delta SBD	18	na	na
Mining equipment and services			
RCR Tomlinson	491	9.1	7.7
Imdex	230	13.5	9.0
Austin Engineering	135	nm	17.2
Mineral processing services and others			
Downer EDI	2,925	10.5	10.2
Mineral Resources	2,949	9.6	9.6
Monadelphous Group	881	11.8	11.9
Ausdrill	670	9.6	8.1
Swick Mining Services	85	nm	8.8

Annexure B. Independent Expert's Report *continued*

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Note:
1 Enterprise value and earnings multiples calculated as at 15 February 2017.
2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), net derivative liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and excludes surplus assets.
3 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
4 Brief descriptions of the listed companies are set out in Appendix D.

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.
na - not available. nm – not meaningful.

148 In relation to the above, we note that:

(a) the above multiples are based on the listed market price of each company's shares, and therefore exclude a (takeover) premium for control

(b) empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

149 As stated above, the level of EBITA adopted for valuation purposes is consistent with Macmahon guidance for FY18 excluding any material new contract wins, and the level of sustainable EBITA adopted by us in our DCF valuation. Accordingly, the EBITA multiples for the listed companies based on FY18 forecast earnings (shown above) are more relevant than the EBITA multiples based on FY16 actual or FY17 forecast earnings.

150 However, as noted above, the EBITA multiples for the listed companies vary widely, which reflects differences in (inter-alia):

(a) the size and nature of their operations;

(b) the level of contracted work on hand (relative to the size of the business) and prospective future work opportunities (e.g. outstanding tenders and other identified work opportunities); and

(c) the timing and quantum of their expected earnings recovery.

151 The FY18 EBITA multiples for the listed companies are therefore not necessarily reflective of the EBITA multiple which would be derived from an assessment of each company's "maintainable" earnings. In particular, we note that (at the date of our analysis) a number of these companies were yet to report their earnings for the six months to 31 December 2016, and accordingly analyst broker forecasts for FY17 and subsequent years were yet to be updated. Accordingly, in our view, the listed company multiples should be considered a broad indicator of value only.

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Transaction evidence

152 There have been a number of transactions in the Australian mining services and equipment sector in recent years. The related implied EBITA multiples (where available) are set out in Appendix E. A summary of the EBITA multiples implied by recent transactions is set out below:

Transaction multiples

Date[1]	Target	Acquirer	EV[2] millions	EBITA multiple x
Oct 16	Bradken	Hitachi Construction Machinery	A$993	12.4F[3]
May 16	Ausenco	Resource Capital Fund IV	A$153	9.1F[3]
Jan 16	Sedgman	CIMIC Group	A$179	6.1F[3]
Jul 15	Ausenco (9.5% placement)	Duro Felguera	A$156	10.4F
Dec 14	Resource Equipment	Pump Services	A$141	8.8F[3]
May 12	Industrea	General Electric Company	A$701	8.5F
Jan 12	Ludowici	FLSmith & Co	A$389	14.9F
May 10	Ammtec Ltd	Campbell Brothers	A$152	8.3F

Note:
1 Date of announcement.
2 Enterprise value on a 100% basis.
3 Based on maintainable EBITA as assessed by the independent expert.
F – forecast.
Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports.

153 In relation to the transaction evidence it should be noted that:

(a) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control

(b) none of the above businesses are directly comparable to Macmahon

(c) the companies acquired differ materially in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transactions are not necessarily representative of the multiples which should be applied to Macmahon

(d) the transaction multiples are generally calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The transaction multiples therefore reflect (inter-alia) the outlook for the mining services sector at the date of the transaction and are therefore not necessarily reflective of:

(i) the current outlook for the sector; or

(ii) the multiple which would be derived from an assessment of each target company's "maintainable" earnings.

Annexure B. Independent Expert's Report *continued*

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Other factors

154 In assessing the appropriate EBITA multiple for Macmahon we have also considered (inter-alia):

(a) the level of contracted work on hand as at 31 December 2016 ($1.3 billion), which represents 3.0 times the level of sustainable revenue adopted by us for valuation purposes

(b) the fact that the order book as at 31 December 2016 only includes the original value of contracted work at Tropicana (and assumes production ceases in FY20)[54]. Accordingly, the order book materially understates the level of work expected to be undertaken by Macmahon under its life of mine contract at Tropicana due to the size of existing reserves[55]

(c) the level of prospective work (based on identified opportunities in respect of which Macmahon has been invited to tender or is expected to tender) as at 31 December 2016 ($6.4 billion), which is some 137% above the corresponding figure at 30 June 2016 ($2.7 billion)

(d) the number and extent of contractual difficulties encountered by Macmahon in recent periods

(e) the risks associated with contract mining operations generally, including the inherent potential for contract losses from time to time

(f) the capital intensive nature of contract mining businesses.

Conclusion on EBITA multiple

155 Based on the above, and the reputation of Macmahon in the industry, in our opinion an EBITA multiple of 6.5 to 7.0 is appropriate for Macmahon (inclusive of an appropriate premium for control).

Present value of future tax benefits

156 As stated in Section III, as at 31 December 2016, Macmahon had unrecognised Australian deferred tax assets (DTA) of $51.1 million. These have principally arisen due to the impairment of plant and equipment in FY15, and reflect future tax deductions[56] which can be used to reduce future taxable income.

157 As a result of these DTA's Macmahon is not expected to pay Australian income tax for some time. Having regard to the expected timing of utilisation of these future tax benefits we have assessed their present value (PV) at between $29 million to $30 million (using a discount rate of 13% per annum (after tax)).

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54 The order book value has not changed as the Long Island expansion plans are not yet approved by AngloGold Ashanti and Independence Group. An update to the order book is expected once the Long Island Study is completed for the Tropicana project.

55 As stated above, on a 100% basis, the Tropicana Gold Project had 3.8 million ounces of contained gold in ore reserves (including stockpiles) as at 31 December 2016. As gold production is expected to increase to between 450,000 and 490,000 ounces per annum from the second half of calendar 2017, the expected mine life (based on reserves alone) is some 8 years.

56 Primarily due to tax depreciation being higher than accounting depreciation (due to the impairment charges).

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Capitalisation of EBITA value

158 Given the above, we have assessed the value of the Macmahon business (before net cash and surplus assets) under the capitalisation of EBITA method as follows:

Capitalisation of EBITA value	Low $m	High $m
EBITA	25.0	25.0
EBITA multiple	6.5	7.0
	162.5	175.0
PV of future tax benefits	29.0	30.0
Enterprise value	191.5	205.0

Enterprise value

159 Based on the above, we set out below a summary of our valuation ranges under both methodologies, and our assessed valuation range for the Macmahon business (before net cash and surplus assets):

Macmahon – Assessed business value	Low $m	High $m
DCF method	180.0	205.0
Capitalisation of EBITA method	191.5	205.0
Adopted valuation range	180.0	205.0

Surplus net cash

160 Macmahon held cash net of finance lease liabilities of $49.8 million as at 31 December 2016. However, the net cash position can vary significantly from month to month (and within each month) depending on the Company's working capital requirements.

161 Based on our review of Macmahon's working capital levels and the extent to which cash balances fluctuate during each month, we have concluded that a proportion of the net cash on hand as at 31 December 2016 is required to be retained in the business for working capital and other purposes. Based on this analysis we have concluded that only $25 million to $30 million of the net cash could be considered surplus to requirements.

Other assets / (liabilities)

162 Macmahon has a number of surplus assets / (liabilities) that are not reflected in our valuation of the business and for which an appropriate allowance should be made:

(a) **income tax receivable** – as at 31 December 2016, Macmahon had an Australian income tax receivable of $12.8 million. However, as the Company has a deficit in its franking credit account[57], its ability to access this refund is effectively deferred until Macmahon pays income tax (which is not expected to occur for many years due to the existence of significant DTA). Accordingly, we have discounted the amount owed (having regard to

57 Arising from over-franking a dividend in FY12.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

the likely timing of realisation) to derive a present value of between $8 million and $9 million

(b) **idle plant** – Macmahon has approximately $20 million[58] in idle plant of which $4 million is surplus to requirements and is held for sale[59]. The written down value of this surplus plant ($4 million) is carried at its orderly liquidation value (based on an independent valuation)

(c) **Nigerian plant** – while the Nigerian assets have been written down to nil in Macmahon's financial statements, the Company has received third party (non-binding) offers of around A$3 million for these assets

(d) **residual liabilities of former Nigerian operation** – as at 31 December 2016, Macmahon had residual liabilities and provisions relating to its Nigerian operations of approximately A$3.6 million

(e) **residual liabilities of construction business** – provisions relating to legacy construction contracts totalled $0.6 million as at 31 December 2016

(f) **onerous lease provisions** – the present value of future payments under onerous lease contracts (relating to former office space) was $2.7 million as at 31 December 2016.

163 On this basis we have allowed for the following other assets (liabilities):

Other assets / (liabilities)	Low $m	High $m
Income tax receivable	8.0	9.0
Realisable value of idle plant	3.0	4.0
Realisable value of Nigerian plant	2.8	3.0
Residual liabilities of Nigerian operations	(3.6)	(3.6)
Residual liabilities of construction business	(0.6)	(0.6)
Onerous lease liability	(2.7)	(2.7)
Total	6.9	9.1

Share capital

164 As at the date of this report, Macmahon had 1,200.9 million fully paid ordinary shares on issue. In addition the company had 12.1 million performance rights granted under the Company's previous and current long-term incentive plans, which vest subject to the achievement of specific performance hurdles[60].

165 We note that the Company currently holds approximately 13.0 million Macmahon shares on trust to satisfy the vesting of all Macmahon performance rights on issue (i.e. a surplus of 0.9 million shares).

166 For valuation purposes, we have treated this surplus trust holding as treasury shares, and have therefore adopted fully diluted shares on issue of 1,200.0 million.

58 Written down value.

59 The remaining idle plant ($16 million) is being retained for use in future projects.

60 Being either the Company's total shareholder return or compound annual growth rate in earnings per share.

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Valuation summary

167 Based upon the above, the value of 100% of Macmahon on a controlling interest basis is as follows:

Value of Macmahon	Low $m	High $m
Enterprise value	180.0	205.0
Surplus net cash	25.0	30.0
Other assets (net of liabilities)	6.9	9.1
Equity value	211.9	244.1
Fully diluted shares on issue	1,200.0	1,200.0
Value per share	$0.177	$0.203

Comparison with listed market price

168 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).

169 In the one month and three month periods prior to the announcement of the Offer, the VWAP of Macmahon shares was $0.10 and $0.105 respectively. Our valuation therefore represents the following premiums above the one and three months VWAP of Macmahon shares:

Implied premium to VWAP	Low	High
Assessed value per share	$0.177	$0.203
Implied premium above:		
1 month VWAP ($0.10)	77%	103%
3 months VWAP ($0.105)	69%	93%

170 Whilst the above premiums significantly exceed the premiums observed in successful takeovers generally, it should be noted that:

(a) historically there has been a relatively low level of trading in Macmahon shares (as noted in Section III)

(b) updated information as to Macmahon's improved future trading prospects (to which we have had regard in our valuation assessment) is being released to the market concurrent with this report as part of the Target's Statement. This information was not available to market analysts and investors prior to the announcement of the Offer (i.e. during the periods in which the above VWAPs were derived). We would expect (other things being equal) that the response of share market investors to this information would be positive

(c) the implied premiums are not inconsistent with observed premiums paid recently in respect of other acquisitions in the mining services sector, including Coffey International Limited (October 2015 - 176% premium to the VWAP in the three months prior to the announcement of the takeover) and Ausenco (June 2016 – 67% premium to the three months VWAP prior to the offer).

Annexure B. Independent Expert's Report *continued*

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VII Evaluation of the Offer

Summary of opinion

171 LEA has concluded that the Offer is neither fair nor reasonable. We have formed this opinion for the following reasons.

Assessment of fairness

172 Pursuant to RG 111, an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

173 This comparison is shown below:

Comparison of Offer consideration and Macmahon share value

	Low $ per share	High $ per share	Mid-point $ per share
Value of Offer consideration	0.145	0.145	0.145
Value of 100% of shares in Macmahon	0.177	0.203	0.190
Extent to which the Offer consideration is less than the value of the shares in Macmahon	0.032	0.058	0.045

174 As the consideration offered by CIMIC of $0.145 cash per share is less than our assessed value of the ordinary shares in Macmahon on a 100% controlling interest basis, in our opinion, the Offer is not fair when assessed under the guidelines set out in RG 111.

Assessment of reasonableness

175 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, the expert is of the view that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

176 In assessing whether the Offer is reasonable LEA has considered:

(a) the extent to which a control premium is being paid to Macmahon shareholders

(b) the extent to which a share of the synergy benefits likely to arise upon an acquisition of Macmahon by CIMIC is being paid to Macmahon shareholders

(c) the listed market price of Macmahon shares both prior and subsequent to the announcement of CIMIC's intention to make the Offer

(d) CIMIC's current shareholding in Macmahon and the potential for CIMIC to control Macmahon pursuant to the Offer

(e) the value of Macmahon to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(f) the likely market price of Macmahon shares if the Offer is not successful

(g) other risks, advantages and disadvantages.

177 These issues are discussed in detail below.

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Extent to which a control premium is being paid

178 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

179 We have calculated the premium implied by the Offer consideration of $0.145 per share by reference to the market prices of Macmahon shares up to 23 January 2017, being the last full day of trading[61] prior to the announcement of CIMIC's intention to make the Offer, as shown below:

Implied offer premium relative to recent Macmahon share prices

	Macmahon share price $	Implied control premium %
Closing share price on 23 January 2017[(1)]	0.11	31.8
1 month VWAP[(2)] to 23 January 2017	0.105	38.1
3 months VWAP[(2)] to 23 January 2017	0.10	45.0

Note:
1 Being the last full day of trading prior to the announcement of CIMIC's intention to make the Offer.
2 Volume weighted average price.

180 Whilst the Offer consideration of $0.145 per share represents a significant premium to the VWAP of Macmahon shares prior to the announcement of the Offer, in our opinion, the Offer consideration does not reflect the full underlying value of Macmahon shares.

181 With respect to the implied premium, we also note:

(a) given the significant net cash position of Macmahon, intuitively we would expect the implied premium to be towards (or below) the low end of observed implied premiums paid in successful takeovers generally

61 Shares in Macmahon traded for part of the day on 24 January 2017 prior to the announcement of the intention to make the Offer (106,000 shares traded at a price of $0.115 per share).

Annexure B. Independent Expert's Report *continued*

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(b) however, as noted in Section III, historically there has been a relatively low level of trading in Macmahon shares. In such circumstances we would regard an implied premium as a less reliable basis on which to assess the merits of an offer

(c) updated information as to Macmahon's improved future trading prospects (to which we have had regard in our valuation assessment) is being released to the market concurrent with this report as part of the Target's Statement, and accordingly was previously unavailable to market analysts and investors. We would expect (other things being equal) that the response of share market investors to this information would be positive.

Extent to which shareholders are being paid a share of synergies

182 CIMIC has not quantified the level of synergy benefits or cost savings it expects to be able to achieve if it acquires 100% of Macmahon.

183 However, if CIMIC acquires control of Macmahon, CIMIC has stated in its Bidder's Statement that it intends to conduct a strategic review of the Macmahon businesses in order to:

(a) drive operational efficiencies and improvements to projects

(b) identify ways in which both CIMIC and Macmahon can benefit from the complementary skills and capabilities of the two companies in the provision of mining services

(c) analyse the composition and value within Macmahon's assets.

184 It is also reasonable to expect that CIMIC could achieve corporate / head office cost savings as a result of acquiring Macmahon.

185 Further, CIMIC has stated in the Bidder's Statement that it *"considers that there is opportunity for CIMIC Group and Macmahon to increase their cooperation on specific projects"*. In this regard we note that CIMIC works with Macmahon from time to time. As at the date of the Bidder's Statement, CIMIC was leasing machinery to Macmahon and Macmahon was undertaking raisebore subcontracting works to CIMIC[62]. The acquisition of Macmahon by CIMIC could also enhance the business opportunities potentially available to both companies (noting that CIMIC and Macmahon provide competing services in the contract mining sector).

186 Based on the above, and the complementary nature of the businesses, it is therefore reasonable to expect that CIMIC could achieve some synergy benefits from acquiring 100% of Macmahon.

187 The existence of synergy benefits is one of the key reasons why a potential bidder often pays a significant premium above the pre-bid market price of the securities. However, because CIMIC's Offer values Macmahon at materially less than our assessed market value of 100% of Macmahon, in our opinion, the Offer price does not reflect either the full underlying value of Macmahon shares on a standalone basis or a share of expected synergies.

62 Source: Page 12 of the Bidder's Statement.

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CIMIC's current shareholding in Macmahon

188 At the date of the Offer announcement CIMIC held a 20.54% interest in the issued capital of Macmahon. This shareholding was primarily acquired in 2007 and in subsequent capital raisings by Macmahon.

189 As a result of on-market purchases up to 8 February 2017, CIMIC has modestly increased its shareholding in Macmahon to 22.99%[63]. However, CIMIC does not currently have control of Macmahon.

190 Given that the Offer price is materially below our valuation range, in our opinion, the Offer price does not provide sufficient value to compensate Macmahon shareholders for the fact that control could pass to CIMIC under the Offer.

Likelihood of an alternative offer

191 We have been advised by the Independent Directors of Macmahon that, at the date of this report, no formal alternative offers have been received subsequent to CIMIC's announcement of its intention to make the Offer on 24 January 2017.

Recent share prices subsequent to the announcement of the intention to make the Offer

192 Subsequent to the announcement of the Offer up to 22 February 2017 shares in Macmahon have traded in the range of $0.145 to $0.155 per share, with a VWAP of $0.147 per share.

193 As noted above, given the substantially unconditional nature of the Offer, CIMIC has commenced buying shares in Macmahon on-market during the Offer period at a price of $0.145 per share (being the consideration under the Offer). Forager Funds Management Pty Ltd (Forager[64]) has also acquired shares in Macmahon on-market subsequent to the announcement of the Offer. Based on an ASX announcement dated 31 January 2017, Forager has acquired 7.2 million shares in Macmahon at an average price of $0.147 per share in this period, and has increased its interest in the Company to 8.67% of all Macmahon shares currently on issue. We note the prices paid by Forager exceed the Offer consideration.

Likely price of Macmahon shares if the Offer is not successful

194 In our opinion, if the Offer lapses and no higher offer or alternative proposal emerges, it is likely (at least in the short term) that Macmahon shares will trade at or around the Offer price (subject to the response of investors to the information set out in the Target's Statement). In the absence of the Offer or an alternative proposal, we therefore expect Macmahon shares to trade at a discount to our valuation (consistent with the difference between the value of Macmahon on a portfolio basis and the value on a 100% controlling interest basis).

Other matters

195 Macmahon provides its services to the mining industry. The mining industry is inherently cyclical in nature and a number of industry participants are cautiously optimistic that the industry is in the early stages of an upswing in the cycle. Accordingly, Macmahon shareholders who accept the Offer will forego the opportunity to participate in the expected continued improvement in earnings as the industry moves further into the current upswing in the mining cycle.

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63 Based on CIMIC's Second Supplementary Bidder's Statement dated 9 February 2017.

64 At the date of the Offer, Forager was the second largest shareholder in Macmahon.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Conclusion

196 Based upon the above we have concluded that the Offer is also not reasonable. We are of this opinion primarily because the Offer consideration of $0.145 per share is significantly lower than our assessed valuation range for Macmahon shares when assessed under the guidelines set out in RG111.

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Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target's Statement to be sent to Macmahon shareholders in connection with the Offer.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $130,000 plus GST.

9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix A

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

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Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.

2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 20 years and 30 years of experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Independent Directors of Macmahon to accompany the Target's Statement to be sent to Macmahon shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Macmahon.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Macmahon agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Macmahon which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in Macmahon's Target's Statement.

Annexure B. Independent Expert's Report *continued*

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Appendix C

Assessment of appropriate discount rate

1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.

2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.

3 Businesses are normally funded by a mix of debt and equity. The weighted average cost of capital (WACC) is a widely used and accepted basis to calculate the "representative" rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.

4 As Macmahon is entirely funded by equity[65], we set out below an explanation of:

(a) the CAPM, its elements and its application in determining the cost of equity

(b) our assessment of the appropriate parameters to be used in determining the discount rate to apply.

CAPM and the cost of equity

5 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, rational investors are risk adverse and demand higher returns for accepting higher levels of risk.

6 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

65 Whilst it has recently maintained a net cash position, consistent with the funding mix of contractors generally, Macmahon has available bank guarantee facilities provided in respect of its contractual obligations and has acquired certain mining equipment under finance lease arrangements.

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Appendix C

Cost of equity calculation

$$R_e = R_f + \beta_e\left[E(R_m) - R_f\right]$$

where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

7 The individual components of the CAPM are discussed below.

Risk-free rate

8 The risk-free rate is the theoretical rate of return on an investment with no risk of financial loss. It represents the interest that an investor would expect to receive from a completely risk-free investment over a given period of time.

9 The risk-free rate is normally approximated by reference to a long-term government bond with a maturity equivalent to the timeframe over which the returns from the assets being valued are expected to be received. Typically in the Australian context, the yields on long-term Commonwealth Government bonds (CGBs) are used as a proxy for the long-term risk-free rate.

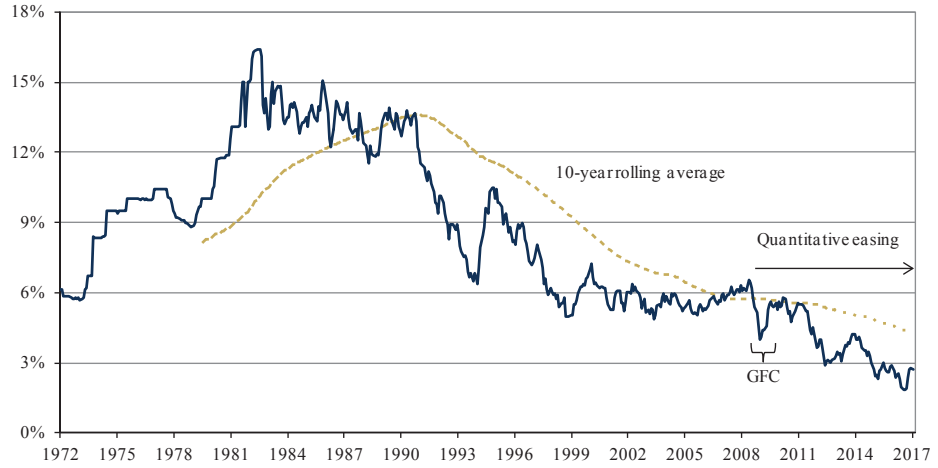
10 However, when assessing the appropriate long-term risk-free rate for the purposes of calculating the cost of equity capital it should be noted that the yields currently prevailing on long-term CGBs are well below historical levels (as shown in the chart below) due to, inter-alia, the weak outlook for global economic growth (and its impact on the outlook for the Australian economy) and the effect of quantitative easing measures by major overseas central banks, which has reduced interest rates on overseas government bonds to, in our view, unsustainably low levels.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Australian 10 year government bond yield – nominal
January 1972 to January 2017



Source: Bloomberg.

11 Our view that current capital market yields are abnormally low is consistent with debt markets where credit spreads have generally increased to offset the impact of the lower risk-free rate.

12 Accordingly, in our view, the risk-free rate and the MRP should be assessed in conjunction with each other and the application of the current (very low) CGB yields and long-term average MRP is inappropriate in the context of determining long-term required equity rates of return (discount rates).

13 Two approaches that are commonly considered in regulatory pricing and commercial valuations are:

(a) calculate WACC using the current CGB yield and an implied MRP that is higher than that derived from the long-term average of historical excess returns (i.e. the rate of return over and above the risk-free rate estimated by the CGB yields[66])

(b) calculate WACC using a "normalised" risk-free rate based on a long-term historical average and an MRP that is based on the observed long-term average of historical excess returns.

14 The first approach recognises the fact that current abnormally low interest rates coincide with heightened economic uncertainties[67] and/or increased investor risk aversion. However, the

66 Given the very long-term nature of the measurement, the impact of quantitative easing and other post-GFC type government stimulus measures is significantly "averaged out".

67 This is particularly the case in Australia at the present time given that Australia's economic growth is linked with China's growth as it has been the engine of growth for Australia and the world during the post-GFC period. As the expectation of economic growth in China tapers off and the associated mining boom in Australia ceases, there are uncertainties as to what will drive domestic growth in Australia going forward. The ongoing uncertainty in regard to the Australian economy and the global economy, and highly expansionary monetary policy adopted in other

approach is difficult to apply in practice because it is difficult to reliably measure short-term changes in the ex-ante MRP.

15 We have therefore adopted the second approach, and have adopted a long-term risk-free rate in Australia of 4.0% per annum.

16 Whilst our adopted rate is higher than the yield on 30-year CGBs of approximately 3.8% as at 31 January 2017, our adoption of a risk-free rate that is higher than the current historically low CGB yields in assessing the CAPM rate of return for long-lived assets is consistent with:

(a) the approach recommended by Duff & Phelps of normalising the risk-free rate by reference to long-term average yields on government-issued bonds[68]

(b) the work of Pablo Fernandez and colleagues[69] who reviewed valuation reports by 156 analysts from 35 different companies published in 2015 about companies with headquarters in six countries (France, Germany, Italy, Spain, UK and USA) and found that most of the analysts used a risk-free rate higher than the yield on domestic 10-year government bonds.

17 Whilst regulatory bodies in Australia generally favour the use of current CGB yields for the risk-free rate (rather than longer term averages or adjusted risk-free rates), it should be noted that these regulatory bodies are not assessing the appropriate risk-free rate in the context of the long-term rate of return required by debt and equity investors (but rather the risk-free rate likely to prevail over a relatively short 5-year period, which is then subject to change depending on market conditions at that time). As a result, the risk-free rates adopted by regulatory authorities in Australia are therefore not necessarily the appropriate risk-free rates to adopt when determining the appropriate discount rate for a business.

Market risk premium

18 The MRP represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities (i.e. the equity market as a whole). Strictly speaking, the MRP is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the MRP is to average realised (ex-post) returns over a long period.

19 In assessing the MRP, it is necessary to recognise that the MRP is a forward-looking concept. It is an expectation, which cannot be directly observed and needs to be estimated. We have had regard to the MRP adopted by Australian Regulators, as discussed below.

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developed economies has contributed to both the RBA maintaining the cash rate at record lows and the observed low CGB yields.

68 Source: Duff & Phelps (2016) *Valuation handbook: guide to cost of capital.*

69 Fernandez, Pizarro and Acin (2015) *Huge dispersion of the risk-free rate and market risk premium used by analysts in USA and Europe in 2015.*

Annexure B. Independent Expert's Report *continued*

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Appendix C

MRP – Historic excess returns

20 Various academic studies put the historical MRP of the Australian equity market in a wide range from 4% to 7% depending on the historical period chosen, whether the MRP is measured relative to bills or bonds, and whether an arithmetic or geometric mean is used.

21 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or MRP. Consequently the MRP should be measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard error of the mean where a shorter period is used. This supports more reliance being placed on the average MRP calculated over the longer term. However, some authors have raised concerns regarding the poor quality of the data available for periods prior to 1958.

22 A recent study of the MRP in Australia by Brailsford, Handley and Maheswaran, analysed data for the period from 1883 to 2005 (inclusive). The following table reports the MRP in nominal terms as measured by this data set, for different time periods up to 2005:

Australia's MRP - Historical excess returns

Time period[1]	Years	Arithmetic mean %	Geometric mean %	Standard deviation %
Relative to bills[2]				
1883 – 2005	123	6.6	5.3	16.0
1937 – 2005	69	6.4	4.6	19.1
1958 – 2005	48	6.8	4.5	22.1
1980 – 2005	26	6.2	3.9	21.9
1988 – 2005	18	5.2	4.2	15.2
1883 – 1987	105	6.8	5.5	16.2
Relative to bonds[3]				
1883 – 2005	123	6.2	4.9	16.0
1937 – 2005	69	5.8	4.0	19.1
1958 – 2005	48	6.3	4.0	22.0
1980 – 2005	26	6.0	3.8	21.7
1988 – 2005	18	5.1	4.0	15.0
1883 – 1987	105	6.4	5.1	16.2

Note:
1 The first four periods have increasing data quality but decreasing sample size. The fifth period begins from the introduction of the imputation tax system in Australia.
2 Various types of bill returns were used due to the lack of a continuous government bill issue covering the study period. The majority of the bill return data is the yield on three month CGBs.
3 Historical bond returns were also collected from a number of sources. Most of the bond returns are CGB yields with a maturity of 10 years or more.

Source: Brailsford et al. (2008) *Re-examination of the historical equity risk premium in Australia* Accounting and Finance 48:73-97, Table 4.

23 Prior to the GFC, independent experts in Australia generally adopted an MRP of around 6.0%. Whilst the MRPs adopted by valuation practitioners (and regulatory bodies) generally

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Appendix C

increased for a relatively short period following the GFC, they have subsequently returned to long-term historical averages of around 6.0%.

24 In October 2015, the Australian Competition and Consumer Commission (ACCC) released their final decision regarding the prices that other operators pay to use Telstra's copper network to provide telecommunication services to consumers. In this final decision the ACCC adopted an MRP of 6.0%[70], having regard to empirical evidence on long-term average of historical excess returns and survey evidence by market practitioners. The empirical evidence relied on by the ACCC was compiled by the Australian Energy Regulator (AER) and has since been updated to the end of the 2015 calendar year as shown below:

Australia's MRP - Historical excess returns

Sampling period	Arithmetic average %	Geometric average %
1883 – 2015	6.1	4.8
1937 – 2015	5.7	3.9
1958 – 2015	6.2	3.8
1980 – 2015	5.9	3.5
1988 – 2015	5.2	3.6

Source: AER (May 2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214.

25 Although the AER provides both arithmetic and geometric averages they note that

"... we consider there may be evidence of bias in the geometric averages. Therefore, our range for historical returns is based on arithmetic averages."

MRP – Survey data

26 Survey estimates explore investor expectations about the MRP. They achieve this by directly asking investors and market practitioners what their expectations are and/or what they apply in practice. The AER in its 2013 *Rate of Return Guideline* report, reviewed evidence from relevant surveys and this review was updated in its 2015 final decision for Jemena Gas Networks[71].

27 We have updated the AER's review of surveys to include those released in 2016. The mean and median MRP across a number of surveys is supportive of an MRP of 6.0% as indicated in the table below:

70 Source: ACCC (October 2015) *Public inquiry into final access determinations for fixed line services - Final Decision* pages 75-76.

71 Source: AER (2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* pages 3-214.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Australia's MRP – Survey results

Survey	Survey date	Number of responses	Mean %	Median %
Fernandez et al. (2013)	May–Jun 12	73	5.9	6.0
Fernandez et al. (2013)	May–Jun 13	17	6.8	5.8
Asher and Hickling (2013)	Sep 13	46	4.8	5.0
Fernandez et al. (2014)	May–Jun 14	93	5.9	6.0
Asher and Hickling (2015)	Dec 14	27	4.4	4.6
Fernandez et al. (2015)	Mar–Apr 15	40	6.0	5.1
Asher and Carruthers (2016)	Dec 15	29	4.9	n/a
Fernandez et al. (2016)	Apr 16	87	6.0	6.0

n/a – not applicable.
Source: AER (2016) *Jemena distribution determination final decision 2016-20: Attachment 3 – Rate of return* page 3-214; Fernandez et al. (2016) *Market risk premium used in 71 countries in 2016*; Asher and Carruthers (May 2016) *Equity risk premium survey 2016* Actuaries pages 7-8.

28 Having regard to all of the above and, in particular, the more stable equity market conditions and values currently prevailing in Australia, we have adopted a long-term MRP of 6.0%.

Equity beta

Description

29 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1.0 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1.0 suggests that future returns will be less volatile and risky.

30 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.

31 In determining the appropriate equity beta for Macmahon we have considered:

(a) the risks faced by Australian mining services companies generally

(b) the risks associated with the mining services business of Macmahon

(c) the beta estimates for comparable companies and related industries; and

(d) the beta estimates for Macmahon.

Risk of mining services operations in Australia

32 In assessing the appropriate beta attributable to companies with mining services operations in Australia the following risks and factors are relevant:

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Appendix C

(a) Australian and international economic outlooks, particularly China's forecast growth rate as a determinant of the global demand for steel and hence bulk commodities

(b) volatility of the international demand for Australian metals and minerals

(c) volatility in demand for mining services, especially as resources companies can scale back operations and internalise previously outsourced services during downturns

(d) volatility of non-rural commodity prices in general

(e) exchange rate movements, as Australia's non-rural commodity exports are usually valued in USD

(f) reliance on the level of demand within the Australian resources and mining industries, which can be cyclical

(g) reliance on the competencies of key personnel and the company's ability to attract / retain qualified personnel. The provision of mining services is dependent on the availability and cost of skilled labour. The mining sector saw 46,000 jobs shed in the first two years after the peak of the boom[72]. There is a risk that skilled workers will permanently exit the industry resulting in shortages during subsequent boom periods

(h) the importance of establishing and maintaining client relationships within the broader mining and resource industries, together with the size and diversity of the company's client base

(i) current and future potential competitors with substantially greater resources may adopt aggressive pricing policies to capture market share

(j) contractual risks such as:

  (i) early termination may mean the full value of the contract is not realised

  (ii) disputes with clients or other parties may impact profits and growth prospects

(k) operational risks including equipment availability and reliability, accidents and industrial action. In particular, severe and prolonged adverse weather can impact operations and financial performance.

33 In summary, considering the above factors, in our opinion, the level of systematic risk associated with mining services operations in Australia is higher than the level of systematic risk of the market as a whole.

34 In considering the risks associated with the mining services business of Macmahon, we note the following additional company risks:

(a) a small number of Macmahon's contracts account for a high proportion of current revenue. For example, the Tropicana contract accounted for around 50% of revenue in 1HY17. Any early termination of these contracts is likely to have a material adverse impact on profitability

72 Source: NAB (2016) *The evolution of mining employment*.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

(b) in addition to its operations based in Australia, Macmahon provides mining services overseas and is therefore subject to potential sovereign risk, as evidenced by the problems encountered in Nigeria in 2016.

Betas of comparable companies

35 In order to assess the appropriate equity beta for Macmahon, we have also had regard to the equity betas of companies listed on the ASX that offer mining services, as well as the industry sectors to which most of these companies belong, as shown below:

Listed mining services company betas

	Market Capitalisation[1] $m	Beta[2]	R-squared[3]
Macmahon	186	1.49	0.09
Contract mining services			
MACA	377	1.34	0.11
NRW Holdings	293	3.29	0.11
Decmil Group	157	0.98	0.12
Mastermyne Group	45	1.89	0.09
Delta SBD	18	1.18	0.02
Mining equipment and services			
Bradken	663	1.82	0.07
RCR Tomlinson	436	1.60	0.14
Imdex	233	1.52	0.06
Austin Engineering	104	1.66	0.08
Mineral processing services and others			
Downer EDI	2,910	1.95	0.40
Mineral Resources	2,532	1.77	0.19
Monadelphous Group	1,067	2.26	0.35
Ausdrill	459	2.33	0.08
Swick Mining Services	66	1.22	0.09
Mean excluding outlier[4]		1.64	0.14
Median excluding outlier[4]		1.63	0.10
Industry betas[5]			
Capital Goods		1.10	0.29
Metals & Mining		1.23	0.32

Note:
1 As at 15 February 2017.
2 The OLS beta as at 30 September 2016, being the most current data available as at the date of this report, based on 48 monthly returns, except for Decmil Group for which the S-W beta is used due to the low liquidity of this stock.
3 Companies with an r-squared value close to 1.0 have a low level of company-specific risk, and companies with an r-squared value close to zero have a high level of company-specific risk. Therefore, companies with a low r-squared value are less indicative of the risk of the sector overall.
4 NRW Holdings is considered an outlier.
5 SIRCA Class classifications.
Source: Bloomberg and SIRCA.

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Appendix C

36 Variation in the above listed company betas reflects differences in size, leverage, stage of development and operational risks. None of the other listed companies are directly comparable to Macmahon. However, we note that most of the beta estimates are well above one, indicating a greater level of systematic risk for mining services operations generally.

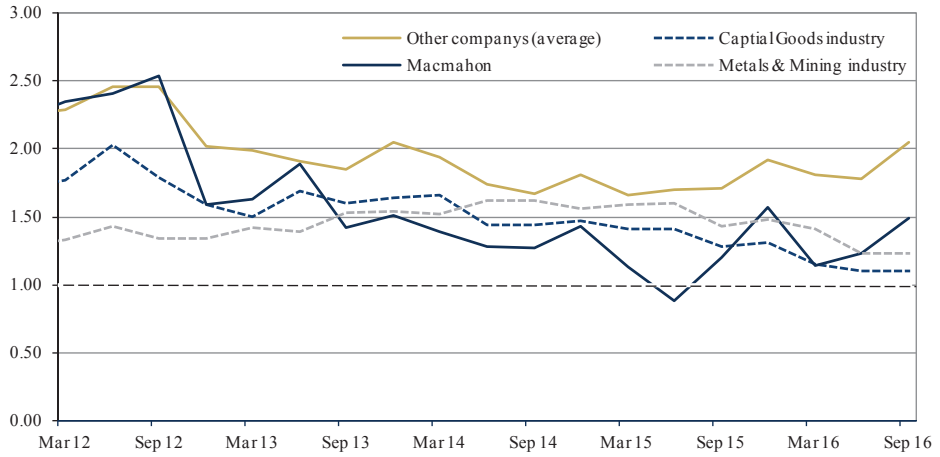
37 The industries selected are those which include most of the comparable companies, however they also cover companies with a much broader range of operations than the selected comparable companies.

38 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long run. In addition, gearing ratios typically change over time. The practice of adjusting equity betas for the difference in financial leverage also gives a misleading impression that the process provides precise comparable beta estimates. Further, most of the above listed companies are entirely equity funded (consistent with Macmahon).

Historical betas of Macmahon relative to industry betas

39 The chart below shows the historical beta estimates of Macmahon, other listed mining services companies (average) and the Capital Goods and Metals & Mining industries:

Historical betas



Note: Other listed companies as per paragraph 35 excluding the outlier (NRW Holdings).
Source: SIRCA.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Conclusion

40 Having regard to the above, the long-term beta estimates of the relevant industries in which the companies operate and the relative risks of mining services generally, we have adopted an equity beta of 1.5 for Macmahon.

Calculation of the cost of equity

41 Based on the above we have adopted a discount rate of 13% per annum (after tax) for Macmahon:

Cost of equity	
Parameters	
Beta	1.50
MRP	6.0%
Risk-free rate	4.0%
Cost of equity	13.0%

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Appendix D

Listed company multiples

1 The listed company multiples and other metrics for a range of Australian mining services companies are set out below, with a brief description of their activities following:

Listed multiples summary[1]

					EBITDA Multiple			EBITA Multiple		
	Most recent full year	Enterprise value[2] $m	Market capitalisation $m	Gearing %	Historical[3] FY16 x	Forecast[4] FY17 x	Forecast[4] FY18 x	Historical[3] FY16 x	Forecast[4] FY17 x	Forecast[4] FY18 x
Contract mining services										
MACA	30 Jun 16	344	377	(9.6%)	3.7	3.4	2.9	9.5	7.0	5.3
NRW Holdings	30 Jun 16	293	253	13.9%	6.2	5.6	5.0	12.8	11.0	9.4
Decmil Group	30 Jun 16	157	163	(3.6%)	9.0	6.2	6.1	14.4	8.7	8.5
Mastermyne Group	30 Jun 16	45	34	24.6%	10.1	7.6	6.1	nm	nm	nm
Delta SBD	30 Jun 16	18	16	12.9%	4.6	na	na	7.4	na	na
Mining equipment and services										
RCR Tomlinson	30 Jun 16	491	436	11.3%	10.0	7.1	6.2	14.5	9.1	7.7
Imdex	30 Jun 16	230	233	(1.3%)	11.3	9.7	7.7	20.1	13.5	9.0
Austin Engineering	30 Jun 16	135	104	22.7%	18.9	10.1	7.9	nm	nm	17.2
Mineral processing services and others										
Downer EDI	30 Jun 16	2,925	2,910	0.5%	5.5	5.8	5.8	10.3	10.5	10.2
Mineral Resources	30 Jun 16	2,949	2,532	7.7%	10.3	7.4	7.1	18.5	9.6	9.6
Monadelphous Group	30 Jun 16	881	1,067	(21.1%)	8.0	9.4	9.8	9.9	11.8	11.9
Ausdrill	30 Jun 16	670	459	31.5%	5.6	4.7	4.2	13.1	9.6	8.1
Swick Mining Services	30 Jun 16	85	66	19.7%	5.8	5.0	3.4	nm	nm	8.8

Note:
1 Enterprise value and earnings multiples calculated as at 15 February 2017.
2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), net derivative liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and excludes surplus assets.
3 Historical earnings are based on latest statutory full year accounts and exclude non-recurring items, significant write downs, realised investment gains or losses, restructuring charges.
4 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
5 Gearing equals net debt (cash adjusted for the effect of share placements and buybacks, special dividends and option dilution) divided by enterprise value.
Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.
na - not available. nm – not meaningful.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

Contract mining services

MACA Limited

2 MACA is a mining and civil construction and road infrastructure company. It offers contract mining, civil earthworks, road asset management, crushing and screening and material haulage solutions primarily in Australia as well as Brazil. The company has two major divisions, Mining Contracting and Civil Contracting and employs over 1,000 staff. The Mining Contracting business offers mine to mill solutions and its services are structured as load and haul, drill and blast, crush and screen and materials handling.

NRW Holdings Limited

3 NRW Holdings is an Australian company providing diversified services to Australia's resource, energy and infrastructure sectors. It operates in Western Australia, the Northern Territory, Queensland and Guinea, West Africa. The company operates three business divisions being NRW Civil and Mining, Action Drill & Blast and AES Equipment Solutions (which focuses on equipment maintenance and repair). Mining related services comprise the majority of company revenues.

Decmil Group Limited

4 Decmil Group is a design, civil engineering and construction, accommodation services, manufacturing and maintenance company. The company has recently diversified its operations, both organically and through acquisition, into contraction and engineering services that are less reliant on the resources sector (e.g. transport infrastructure, renewable energy and fibre and wireless telecommunications). Its operational structure is now structured into Construction & Engineering, Accommodation and Renewables.

Mastermyne Group Limited

5 Mastermyne Group is a specialist provider of mining services to the Australian coal mining industry. The company provides an extensive range of outsourced services to existing and new coal mining operations. It also has a comprehensive range of underground mining equipment which complements its contracting operations. Mastermyne Group is structured into two key operating groups being Mastermyne Mining and Mastertec Products and Services. The Mastertec Products division provides a range of contracting services to the ports, resources, industrial and infrastructure sectors.

Delta SBD Limited

6 Delta SBD is a provider of contract mining services including labour, equipment and systems to the Australian underground coal mining industry. The company was formed through the merger of Delta Mining Pty Ltd and SBD Services Limited in 2007 and provides services in Queensland and New South Wales to blue-chip mining and resources companies. Delta SBD specialises in mine operation and maintenance, board and pillar extraction, secondary support installation, roadway development and ventilation device installation.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

Mining equipment and services

RCR Tomlinson Limited

7 RCR is a multi-disciplinary engineering and infrastructure company offering integrated engineering solutions to the infrastructure, energy and resources sectors in Australia, New Zealand and Asia. The group operates under three business units including; RCR Infrastructure, a leading provider of rail, transport, renewable energy, telecommunication, water, electrical and instrumentation, property services and facilities management solutions; RCR Energy, a provider of turnkey solutions for utility, power and industrial energy projects; and RCR Resources, a structural, construction and maintenance provider for the resources, oil & gas and liquid natural gas industries.

Imdex Limited

8 Imdex is a provider of drilling fluid products, advance down hole instrumentation, data solutions and geo-analytics services to exploration, development and production companies in the mining, oil and gas, water wells and civil engineering industries worldwide. Imdex supports a diverse range of customers at all stages of the mining cycle, from junior explorers to major producers across a wide range of commodities. The company has operational centres in key mining regions of the world, including Asia-Pacific, Africa, Europe and the Americas.

Austin Engineering Limited

9 Austin Engineering is an engineering company focused on the mining and resources sector. The company has Australian manufacturing facilities in Brisbane, Perth, Mackay and Muswellbrook as well as overseas facilities in Wyoming (USA), Antofagasta (Chile), Colombia, Lima (Peru) and Batam Island (Indonesia). Each business division provides an array of manufacturing, repair and support services to the mining, oil and gas, aluminium and industrial sectors.

Mineral processing services and others

Downer EDI Limited

10 Downer EDI provides engineering and infrastructure management services to customers in the minerals and metals, oil and gas, power, rail and transport, telecommunications, water and property industries. Its business is structured into six operating units, including Transport Services, Technology and Communications Services; Utilities Services; Rail; Engineering, Construction and Maintenance; and Mining. Its operations are primarily focused in Australia and New Zealand and extend to Asia-Pacific, South America and South Africa. Downer EDI also provides contract mining services and asset management solutions.

Mineral Resources Limited

11 Mineral Resources is an Australian based diversified mining service, contracting, processing and commodities production company. It has operations in building, mineral crushing, screening, processing and handling, commodity production and export and pipeline fabrication and installation. Mineral Resources has five brands within its portfolio including Crushing Services International, PIHA, Process Minerals International, Polaris Metals and Mesa Minerals (64% ownership).

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

Monadelphous Group Limited

12 Monadelphous Group is an Australian based engineering construction company. The company services a broad range of industries with core markets in the resource industry and a particular focus on iron ore, coal and mineral processing. Its services cover engineering and construction, maintenance, industrial and infrastructure. The company operates primarily in Australia but also has operations in Papua New Guinea and China.

Ausdrill Limited

13 Ausdrill is a diversified mining and energy services company with key operations in Australia and Africa. The offered services include drill and blast, grade control, water well drilling and equipment sales, hire and parts. In addition, Ausdrill provides load and haul and crusher feed services as well as specialist underground mining services in Africa. The Australian operations are primarily based in Western Australia and the African operations are primarily located in Ghana.

Swick Mining Services Limited

14 Swick Mining Services is a mineral drilling contractor, providing both underground and surface drilling services to the Australian resource and mining industry. The company is the market leader in the development of innovative rig designs and drilling practises that improve productivity, safety and versatility. Swick Mining Services has three divisions which include Underground Diamond, Surface Reverse Circulation and Underground Production. The company also operates in Canada, USA, and Europe.

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Appendix E

Transaction evidence

Mining services and equipment sector transactions

Date[1]	Target	Acquirer	EV[2] million	EBITDA multiple Historical x	EBITDA multiple Forecast x	EBITA multiple Historical x	EBITA multiple Forecast x
Oct 16	Bradken	Hitachi Construction Machinery	A$993	9.2	8.3[3]	15.6	12.4[3]
May 16	Ausenco	Resource Capital Fund IV	A$153	na	5.9[3]	na	9.1[3]
Jan 16	Sedgman	CIMIC Group	A$179	5.8	5.1[3]	8.7	6.1[3]
Jul 15	Ausenco[4] (9.5% placement)	Duro Felguera	A$156	9.7	7.0	20.3	10.4
Dec 14	Resource Equipment	Pump Services	A$141	na	5.6[3]	na	8.8[3]
Jun 13	Brinderson	Aegion	US$150	6.3	na	na	na
Oct 12	G&S Engineering Services	Calibre Group	A$94	na	5.5	na	na
Jun 12	Marshall Miller & Associates	Cardno	A$30	na	5.6	na	na
May 12	Industrea	General Electric Company	A$701	6.0	5.3	10.7	8.5
Jan 12	Ludowici	FLSmith & Co	A$389	12.5	11.8	15.9	14.9
Jul 11	Norcast Wear Solutions / Australian & Oversea Alloys	Bradken	C$222	na	7.9	na	na
Dec 10	Easternwell Group	Transfield Services	A$570	11.4	7.5	na	na
Dec 10	Essa Australia Ltd	FLSmith	A$30	8.5	na	11.3	na
May 10	Almac Machine Works	Bradken	C$56	4.1	na	na	na
May 10	Ammtec Ltd	Campbell Brothers	A$152	11.9	7.3	14.2	8.3
Mar 10	Coote Industrial (Engenco)	Elph	A$168	5.7	5.7	na	na

Note:
1 Date of announcement.
2 Enterprise value on a 100% basis.
3 Based on maintainable EBITDA and EBITA as assessed by the independent expert.
4 Based on private placement representing a 9.5% interest in Ausenco.
na – not available.
Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports.

Annexure B. Independent Expert's Report *continued*

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

Glossary

Term	Meaning
1HY17	The 6 months ended 31 December 2016
2HY17	The 6 months ending 30 June 2017
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAPM	Capital asset pricing model
CGB	Commonwealth Government Bonds
CIMIC	CIMIC Group Limited
CGI	CIMIC Group Investments Pty Limited
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering, procurement and construction
EPCM	Engineering, procurement and construction management
EV	Enterprise value
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GFC	Global financial crisis
IE	Independent expert
IER	Independent expert's report
JV	Joint venture
LEA	Lonergan Edwards & Associates Limited
Leighton	Leighton Holdings Ltd
Macmahon or the Company	Macmahon Holdings Limited
MRP	Market risk premium
NPV	Net present value
Offer	CIMIC's offer of $0.145 cash per Macmahon share for the Macmahon shares that it does not already own
RG 111	ASIC Regulatory Guideline 111 – *Content of expert reports*
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding

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CORPORATE DIRECTORY

DIRECTORS

J A Walker (Chairman, Non-executive)

C R G Everist (Non-executive)

E Skira (Non-executive)

V A Vella (Non-executive)

COMPANY SECRETARY

G Gettingby

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LOCATION OF SHARE REGISTRIES

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SECURITIES EXCHANGE

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

AUDITOR

KPMG

235 St Georges Terrace
Perth Western Australia, 6000

OTHER INFORMATION

Macmahon Holdings Limited ACN 007 634 406, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

MACMAHON