



MACMAHON

**MACMAHON HOLDINGS LIMITED
AND ITS CONTROLLED ENTITIES
INTERIM FINANCIAL REPORT
31 DECEMBER 2019**



CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

For the six months ended 31 December 2019

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DIRECTORS REPORT

For the six months ended 31 December 2019

The Directors present their report together with the condensed consolidated interim financial statements of Macmahon Holdings Limited and its controlled entities (“the Group” or “Macmahon”) for the six months ended 31 December 2019 including the review report thereon.

DIRECTORS

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

E D R Skira	(Chair of the Board, Non-executive)
A Ramlie	(Non-executive)
A W Sidarto	(Non-executive)
V A Vella	(Non-executive)
B Munro	(Non-executive appointed 1 October 2019)
H Tyrwhitt	(Non-executive appointed 1 October 2019)
M J Finnegan	(Managing Director appointed 1 October 2019)

PRINCIPAL ACTIVITIES

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

OPERATIONAL OVERVIEW

Macmahon’s operational activities include surface mining, underground mining, civil works at mine sites (including rehabilitation), and equipment maintenance and management.

Surface Mining

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

Life of mine contracts

Macmahon is currently fulfilling life of mine contracts at:

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

Term contracts

Macmahon continues with the following surface mining contracts:

- **Byerwen Coal Mine** (majority owned by the QCoal Group) – a three year contract executed in November 2017 for the provision of all open cut mining.
- **Mount Morgans Gold Mine** (owned by Dacian Gold Limited) – a five year mining services contract awarded in December 2017 for the provision of open pit mining services including drilling and blasting, loading and hauling.
- **Argyle Diamond Mine** – under its indigenous subsidiary, Doorn DjiI, Macmahon is currently operating at Argyle where it is undertaking tailings dam construction work for Rio Tinto.
- **Martabe Gold Mine** (controlled by PT Agincourt Resources) – Macmahon is part of a 50:50 joint venture which is contracted by PT Agincourt Resources to provide mining services at the Martabe gold mine, in the North Sumatra province of Indonesia. In November 2019, Macmahon secured the extension of the contract to March 2023.
- **Kanthan** (owned by YTL Cement) **and Lhoknga** (owned by Pt Semen Indonesia) **Quarries** - a range of mining activities in Malaysia and Indonesia over several years.
- **Langkawi Quarry** – Macmahon commenced surface mining services at the Langkawi Quarry in January 2019 (owned by YTL Cement).
- **Mt Keith Nickel Operation** (owned by BHP Nickel West) – Macmahon was awarded a short-term mining services contract at Mt Keith in December 2019.

DIRECTORS REPORT

For the six months ended 31 December 2019

Advisory Services

Macmahon is providing advisory services to Anglo American Platinum in South Africa for an operational transformation program. As part of this project, Macmahon personnel provide coaching and expertise across load and haul, and drill and blast operations to deliver performance enhancements.

Underground Mining

Macmahon's underground mining division offers underground development and production services, a broad range of ground support services, as well as services to facilitate ventilation and access to underground mines including shaft sinking, raise drilling and shaft lining.

During the period, Macmahon provided underground services to the following projects:

- **Boston Shaker Gold Mine** – Macmahon commenced a five-year contract in May 2019 to develop a new underground mine at the Tropicana site, which is a joint venture between AngloGold Ashanti and Independence Group.
- **Ballarat Gold Mine** – Macmahon provides production drilling and cable bolting for Castlemaine Gold Fields in Victoria.
- **Fosterville Gold Mine** – commenced in December 2018, Macmahon continues to provide cable bolting services to Kirkland Lake Gold in Victoria.
- **Granny Smith Gold Mine** – Macmahon provides cable bolting services to Goldfields near Laverton in Western Australia.
- **Leinster Nickel Mine** – Macmahon provides cable bolting services to BHP.
- **Tujuh Bukit Copper/Gold Mine** - Macmahon through its 50:50 joint venture is contracted to construct an underground exploration decline for PT Merdeka Copper Gold in East Java, Indonesia. During the period, this contract was extended to May 2020.
- **Mount Wright Gold Mine** – Macmahon provided production drilling services at the Mount Wright Gold Mine in Queensland for Carpentaria Gold during the period with works completed in October 2019.
- **Nifty Copper Mine** – Macmahon provided production drilling, cable bolting, box hole drilling and shotcreting to Metals X in Western Australia during the year with works completing in December 2019.
- **Olympic Dam Mine** - Macmahon continues to provide raise drilling services at the Olympic Dam Mine in South Australia for BHP. Macmahon has been active at Olympic Dam for more than 10 years and is contracted to continue underground raise drilling work at this site until June 2023.

GBF

Consistent with Macmahon's strategy of growing the underground division, on 2 August 2019, Macmahon acquired 100% of GF Holdings (WA) Pty Ltd ("GBF") and its subsidiaries.

Through the strategic acquisition of GBF in August 2019, Macmahon provided services to the following underground projects:

- **Daisy Milano, Maxwells, Cock Eyed Bob & Deflector Gold Mines** – GBF provides underground mining and development services for Silver Lake Resources at both their Mount Monger and Deflector Operations.
- **Comet Vale Gold Mine** – GBF is fulfilling a life of mine contract for Mineral Ventures at the Comet Vale Project owned by Orminex and Sand Queen.
- **Bartons Gold Mine** – During the period GBF provided underground development services for Millennium Minerals until December 2019.
- **Nicolsons Gold Mine** – GBF provides fleet rental and equipment maintenance support at Pantoro's flagship project.
- **Savannah Nickel Mine** – GBF commenced mobilisation to Savannah Nickel Mine in December 2019 for Panoramic Resources, following the successful award of a short-term contract.

In addition to a wide range of underground mining services, GBF subsidiary, BOST, provides design and development of mine support infrastructure, such as underground refuge chambers, refuelling stations, escape ladderways along with underground loader buckets, truck trays, ute bodies and other machinery attachments.

Civil Construction, Mining Infrastructure and Rehabilitation

Macmahon subsidiary TMM, provides rehabilitation, civil construction and maintenance services. During the period TMM continued performing rehabilitation, tailings dam remediation and haul road construction services at Peak Downs for BMA. With the completion of the dam expansion at Poitrel for BHP, TMM were awarded a mud removal contract. In addition to these services, TMM provides BMA with several items of equipment for utilisation at Saraji.

DIRECTORS REPORT

For the six months ended 31 December 2019

Equipment Maintenance and Management

Macmahon owns and operates world-class equipment maintenance facilities, giving it the ability to support front line contracting services with plant maintenance services.

Macmahon's primary workshop, located in Perth, Western Australia, is a key operational asset with the ability to rebuild both plant and components. This facility allows Macmahon to keep maintenance activities in-house and to rapidly and efficiently deploy supplies to client locations and conduct essential maintenance work.

FINANCIAL OVERVIEW

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

Mining revenues increased by 26.7% to \$686.7 million (31 December 2018: \$542.1 million) for the half year primarily due to organic growth, commencement of Boston Shaker Underground Project in May 2019, ramp up of production volumes at the Batu Hijau Mine together with the inclusion of revenues from the GBF Group from August 2019.

The increase in Underlying Earnings Before Interest and Tax (EBIT) for the period to \$43.9 million (31 December 2018: \$39.9 million) was as a result of new projects commenced after the comparative period and inclusion of GBF results since acquisition. Similarly, Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) increased to \$114.0 million for the half year compared to \$89.1 million for the comparative period.

Balance sheet and operating cash flows

The execution of existing projects, commencement of new projects and inclusion of GBF from acquisition resulted in a net increase in Net Assets during the half year from \$447.6 million to \$467.5 million. Net Tangible Assets (NTA) increased by 2.4% during the period to 20.8 cents per share (30 June 2019: 20.3 cents per share).

Working Capital

Working capital increased during the half year to \$85.4 million (30 June 2019: \$58.7 million) due to the inclusion of GBF working capital and commencement of new projects. Current trade and other receivables increased to \$207.0 million (30 June 2019: \$181.5 million), inventory increased to \$55.8 million (30 June 2019: \$45.8 million) and current trade and other payables increased to \$177.4 million at 31 December 2019 (30 June 2019: \$168.6 million).

Capital Expenditure

Capital expenditure (excluding intangible assets) for the half year was \$132.6 million. \$46.2 million related to the acquisition of GBF assets (Note 15), \$36.7 million cash capital spend, \$33.3 million capital acquired through finance leases and \$16.4 million recognised as right-of-use assets with the implementation of AASB 16 (Note 3).

Net Financing

As at 31 December 2019, cash on hand totalled \$114.2 million (30 June 2019: \$113.2 million) offset by total financial debt of \$221.0 million (30 June 2019: \$165.8 million) resulting in net debt at 31 December 2019 of \$106.8 million. Financial debt increased by \$55.1 million with the acquisition of GBF assumed debt (Note 15) and the purchase of plant and equipment across the Group to support new projects and maintain growth on existing projects.

Cash Flow

For the half year the Group generated \$90.7 million cash from operating activities (excluding interest, tax and acquisition costs) compared to \$34.6 million (excluding settlement of the class action, interest and tax) for the prior comparative period. This represents a conversion rate from EBITDA of 79.5% compared to 38.8% EBITDA conversion for the comparative period.

Events subsequent to reporting date

The Directors are not aware of any other matter or circumstance arising since 31 December 2019 not otherwise dealt with within the condensed consolidated financial statements that has significantly affected or may significantly affect the operations of the Group and the results of those operations or the state of affairs of the Group in subsequent financial periods.

DIRECTORS REPORT

For the six months ended 31 December 2019

Dividends

Subsequent to half-year end, the Directors have declared an interim dividend of 0.25 cents per share.

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

The lead auditor's independence declaration is set out on page 7 and forms part of the Directors' Report for the six months ended 31 December 2019.

Rounding of amounts

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

Signed in accordance with a resolution of the Directors:



E D R Skira

Director

24 February 2020

Perth



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

To the Directors of Macmahon Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2019 there have been:

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

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta', with a horizontal line extending to the right.

R Gambitta
Partner

Perth

24 February 2020



Independent Auditor's Review Report

To the shareholders of Macmahon Holdings Limited

Report on the Interim Financial Report

Conclusion

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

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

- Giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2019
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Macmahon Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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

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

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta'.

R Gambitta
Partner

Perth

24 February 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	31 December 2019 \$'000	30 June 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		114,169	113,165
Trade and other receivables	8	207,027	181,480
Inventories		55,788	45,818
Lease receivable		24,114	2,057
Income tax receivable		447	5,030
Assets classified as held for sale		1,718	2,159
Total current assets		403,263	349,709
Non-current assets			
Investments accounted for using the equity method		9,207	10,954
Trade and other receivables	8	28,343	19,289
Property, plant and equipment	9	463,095	399,607
Intangible assets and goodwill		19,410	10,245
Lease receivable		-	23,258
Deferred tax asset		16,613	11,843
Total non-current assets		536,668	475,196
Total assets		939,931	824,905
Liabilities			
Current liabilities			
Trade and other payables		177,431	168,606
Financial debt	10	86,488	29,553
Lease debt	3	2,771	
Income tax payable		3,147	3,947
Employee benefits		34,046	26,158
Provisions		15,706	12,385
Total current liabilities		319,589	240,649
Non-current liabilities			
Trade and other payables	15	3,500	-
Financial debt	10	134,496	136,295
Lease debt	3	13,911	
Employee benefits		939	343
Total non-current liabilities		152,846	136,638
Total liabilities		472,435	377,287
Net assets		467,496	447,618
Equity			
Issued capital		563,118	563,118
Reserves		770	(2,004)
Net accumulated losses		(96,392)	(113,496)
Total equity		467,496	447,618

The accompanying notes form part of the condensed half-year financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

<i>In thousands of AUD</i>	Note	Share capital	Reserve for own shares*	Foreign currency reserve, net of tax	Share based payments	Accumulated Losses	Retained profits	Total equity
Balance at 1 July 2019		563,118	(17,755)	12,481	3,270	(192,396)	78,900	447,618
Profit after income tax for the period		-	-	-	-	-	28,721	28,721
Other comprehensive income, net of tax		-	-	229	-	-	-	229
Total comprehensive income for the period (net of tax)		563,118	(17,755)	12,710	3,270	(192,396)	107,621	476,568
Transactions with owners, recorded directly in equity:								
Treasury shares allocated on vesting of performance rights		-	1,700	-	(454)	-	(1,142)	104
Dividends (0.5 cents per ordinary share)		-	-	-	-	-	(10,475)	(10,475)
Share-based payments expense	12	-	-	-	1,299	-	-	1,299
Total transactions with owners		-	1,700	-	845	-	(11,617)	(9,072)
Balance at 31 December 2019		563,118	(16,055)	12,710	4,115	(192,396)	96,004	467,496

* During the reporting period no shares were purchased (2018: 48,457,709 shares purchased for \$11.295 million). As at 31 December 2019, there are 59,991,077 (30 June 2019: 66,455,927) unallocated Macmahon shares held in trust.

<i>In thousands of AUD</i>	Note	Share capital	Reserve for own shares*	Foreign currency reserve, net of tax	Share based payments	Accumulated Losses	Retained profits	Total equity
Balance at 1 July 2018		563,118	(5,186)	8,388	640	(189,930)	32,804	409,834
Adjustment on initial application of AASB 9 (net of tax):								
- Loss allowance on the Group trade and other receivables		-	-	-	-	(1,354)	-	(1,354)
- Loss allowance on the trade and other receivables of the equity accounted investment		-	-	-	-	(1,112)	-	(1,112)
Adjusted balance at 1 July 2018		563,118	(5,186)	8,388	640	(192,396)	32,804	407,368
Profit after income tax for the period		-	-	-	-	-	23,437	23,437
Other comprehensive income, net of tax		-	-	3,522	-	-	-	3,522
Total comprehensive income for the period (net of tax)		-	-	3,522	-	-	23,437	26,959
Transactions with owners, recorded directly in equity:								
Treasury shares purchased for compensation plans		-	(11,295)	-	-	-	-	(11,295)
Share-based payments expense	12	-	-	-	1,394	-	-	1,394
Total transactions with owners		-	(11,295)	-	1,394	-	-	(9,901)
Balance at 31 December 2018		563,118	(16,481)	11,910	2,034	(192,396)	56,241	424,426

The accompanying notes form part of the condensed half-year financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		657,734	554,262
Payments to suppliers and employees		(571,241)	(520,781)
Net receipts from joint venture entities		-	1,135
Payments to settle class actions		-	(7,560)
Interest paid		(7,793)	(5,084)
Interest received		226	259
Dividends received from equity-accounted investments		2,911	-
Income taxes paid		(3,631)	(5,163)
Net cash from operating activities		78,206	17,068
Cash flows from investing activities			
Proceeds from disposal of plant and equipment		929	176
Payment for plant and equipment	9	(36,654)	(25,451)
Payment for intangible assets		(3,205)	(3,825)
Acquisition of a subsidiary, net of cash acquired	15	(18,907)	-
Net cash used in investing activities		(57,837)	(29,100)
Cash flows from financing activities			
Dividends paid		(10,475)	-
Proceeds from financial debt	10	22,141	-
Repayment of financial debt	10	(6,330)	-
Repayment of capital lease liabilities	10	(23,150)	(9,811)
Repayment of lease debt		(1,351)	-
Purchase of treasury shares		-	(11,295)
Net cash used in financing activities		(19,165)	(21,106)
Net increase/(decrease) in cash and cash equivalents		1,204	(33,138)
Cash and cash equivalents at beginning of period		113,165	109,622
Effect of exchange differences		(200)	934
Cash and cash equivalents at end of period		114,169	77,418

The accompanying notes form part of the condensed half-year financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1. General information

Macmahon Holdings Limited ("the Company") is a for-profit public company limited by shares, incorporated and domiciled in Australia. The condensed half-year financial statements of the Company as at 31 December 2019 and the six months then ended consist of Macmahon Holdings Limited and the entities it controlled at the end of, or during, the half-year (collectively, "the Group").

The principal activities of the Group for the six months ended 31 December 2019 consisted of the provision of contract mining services.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2019 ("2019 Financial Statements") are available on request at the Group's registered office at 15 Hudswell Road, PERTH AIRPORT, 6105, Western Australia or at www.macmahon.com.au.

2. Basis of preparation

These condensed half-year financial statements for the half-year ended 31 December 2019 were prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these condensed half-year financial statements should be read in conjunction with the 2019 Financial Statements for the year ended 30 June 2019.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 Financial Statements.

The amounts contained in the condensed half-year financial statements were rounded to the nearest thousand dollars under the option available to the Group under Australian Securities and Investment Commission ("ASIC") Corporations Instrument (Rounding in Financial/Directors' Report) 2016/191, unless otherwise stated.

The condensed half-year financial statements provide comparative information in respect of the previous period. Reclassification of items in the financial statements have been made in accordance with the classification of items in the condensed half-year financial statements of the current period.

3. Changes in significant accounting policies

The accounting policies are consistent with those disclosed in the 2019 Financial Statements, except for the impact of new or amended standards and interpretations effective 1 July 2019. The adoption of these standards and interpretations did not result in any significant changes to the Group's accounting policies, with the exception of AASB 16 *Leases* ("AASB 16").

The Group has not elected to early adopt any new or amended standards or interpretations that are issued but not yet effective.

AASB 16 Leases

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Depreciation on the leased asset and interest on lease debt are recognised in the consolidated statement of comprehensive income.

Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at inception as either a finance lease or operating lease. For operating leases, the leased item was not capitalised and the lease payments were recognised in the consolidated statement of comprehensive income on a straight-line basis.

Transition to AASB 16 Leases

The Group adopted AASB 16 on 1 July 2019 using the modified retrospective approach and applied the practical expedients as follows:

- applied the exemption not to recognise right-of-use ("ROU") assets and liabilities for leases with less than 12 months of lease term and low-value items
- a single discount rate used to a portfolio of leases with reasonably similar characteristics, and
- hindsight used when determining the lease term if the contract contains options to extend or terminate the lease.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and incentives received from the lessor.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

3. Changes in significant accounting policies (continued)

At 1 July 2019

	\$'000
Property, plant and equipment	16,443
Lease debt	(16,687)
Prepayments	(10)
Trade and other payables	254

There was nil impact on opening retained earnings with the adoption of AASB 16.

When measuring lease debt for leases that were classified as operating leases, the Group discounted future lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average borrowing rate applied was 4.81%. Operating lease commitments disclosed at the end of the comparative period are reconciled to the opening balance of lease debt as follows:

	\$'000
Operating lease commitments disclosed at 30 June 2019	25,362
Present value of discounting lease debt	21,636
Less: Short-term leases	(4,949)
Lease debt recognised on 1 July 2019	16,687

Leases accounting policy (applied from 1 July 2019)

When a contract is entered into, the Group assesses whether the contract contains a lease. A lease arises when the Group has the right to direct the use of an identified asset which is not substitutable and to obtain substantially all economic benefits from the use of the asset throughout the period of use.

The Group separates the lease and non-lease components of the contract and accounts for these separately. The Group allocates the consideration in the contract to each component on the basis of their relative stand-alone prices.

Leases as a lessee

Lease assets and lease liabilities are recognised at the lease commencement date, which is when the assets are available for use. The assets are initially measured at cost, which is the present value of future lease payments adjusted for any lease payments made at or before the commencement date, plus any make-good obligations and initial direct costs incurred.

Lease assets are depreciated using the straight-line method over the shorter of their useful life and the lease term. Periodic adjustments are made for any re-measurements of the lease liabilities and for impairment losses, assessed in accordance with the Group's impairment policies.

Lease liabilities are initially measured at the present value of future minimum lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined, and are subsequently measured at amortised cost using the effective interest rate. Minimum lease payments are fixed payments or index-based variable payments incorporating the Group's expectations of extension options and do not include non-lease components of a contract. A portfolio approach was taken when determining the implicit discount rate for leased assets with similar terms and conditions on transition.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the lease assets, with any excess recognised in the consolidated statement of comprehensive income.

The movement in lease debt during the reporting period was as follows:

	Total \$'000
Balance at 1 July 2019	(16,687)
New leases through a business combination	(1,346)
Repayment of lease debt	1,351
Balance at 31 December 2019	(16,682)
Current	(2,771)
Non-current	(13,911)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

3. Changes in significant accounting policies (continued)

Short-term leases and lease of low value assets

Short term leases (lease term of 12 months or less) and leases of low value assets are recognised as incurred as an expense in the consolidated statement of comprehensive income. Low value assets comprise plant and equipment.

Leases as a lessor

The Group leases mining equipment to clients, including right-of-use assets. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor are not different from those under AASB 117 *Leases*. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Operating lease income is recognised in other revenue in the statement of comprehensive income.

4. Estimates

The preparation of condensed half-year financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the condensed half-year financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Financial Statements.

5. Operating segments

	Mining \$'000	Unallocated \$'000	Total \$'000
2019			
Revenue			
Revenue from contracts with customers	582,234	-	582,234
Revenue from contracts with customers - non-cash consideration	104,505	-	104,505
Total revenue	686,739	-	686,739
Earnings before interest, tax, depreciation and amortisation (before other significant items)	113,457	544	114,001
Finance income	-	226	226
Finance costs	(7,462)	(331)	(7,793)
Depreciation and amortisation expense	(69,167)	(941)	(70,108)
Share-based payments expense	(1,299)	-	(1,299)
Acquisition costs (Note 15)	-	(1,274)	(1,274)
Profit / (loss) before income tax expense	35,529	(1,776)	33,753
Other segment information			
Segment assets	791,121	148,810	939,931
Segment liabilities	454,836	17,599	472,435
Capital expenditure	69,933	-	69,933
2018			
Revenue			
Revenue from contracts with customers	542,150	-	542,150
Total revenue	542,150	-	542,150
Earnings before interest, tax, depreciation and amortisation (before other significant items)	87,810	1,304	89,114
Finance income	88	172	260
Finance costs	(5,085)	-	(5,085)
Depreciation and amortisation expense	(49,258)	-	(49,258)
Share-based payments expense	(1,394)	-	(1,394)
Litigation settlements and related legal fees	-	(7,318)	(7,318)
Profit/(loss) before income tax expense	32,161	(5,842)	26,319
Other segment information			
Segment assets	690,155	134,750	824,905
Segment liabilities	372,104	5,183	377,287
Capital expenditure	69,446	-	69,446

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

5. Operating segments (continued)

	Sales to external customers		Geographical non-current assets as at	
	2019	2018	31 December 2019	30 June 2019
	\$'000	\$'000	\$'000	\$'000
Australia	442,149	352,380	367,645	297,753
Indonesia	230,777	186,623	157,507	165,330
Other	13,813	3,147	11,516	12,113
	686,739	542,150	536,668	475,196

6. Other expenses

	2019	2018
	\$'000	\$'000
Freight expenses	6,636	2,888
Travel costs	5,129	2,473
Consulting and other professional services	3,677	2,428
Recruitment and other related expenses	2,818	1,621
Facilities costs	2,665	878
Insurance	2,596	1,227
IT costs	2,461	746
Remeasurement of ECL allowance (Note 8)	2,063	-
Acquisition costs (Note 15)	1,274	-
Legal costs in relation to client mediation	1,125	-
Other expenses	6,444	2,479
Total other expenses	36,888	14,740

7. Income tax expense

For the half-year ended 31 December 2019, the income tax expense of the Group from continuing operations was \$5.032 million (2018: \$2.763 million). The effective tax rate of 14.91% (2018: 10.50%) resulted from the utilisation of previously unrecognised Australian unused tax losses and lower statutory tax rates of foreign operations. Excluding these adjustments, the effective tax rate for the half-year ended 31 December 2019 approximates 30.00% (2018: 30.00%).

8. Trade and other receivables

	31 December 2019	30 June 2019
	\$'000	\$'000
Current		
Trade receivables	76,900	60,672
Less: Expected credit loss allowance (ECL)	(3,472)	(1,409)
	73,428	59,263
Contract assets	114,168	109,549
Other receivables	14,758	8,256
Prepayments	4,673	4,412
	207,027	181,480
Non-current		
Other receivables	28,343	19,289

Non-current other receivables includes VAT receivable of \$23.729 million (30 June 2019: \$13.886 million) relating to the AMNT asset acquisition and sales to AMNT.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

9. Property, plant and equipment

Acquisitions and disposals

Capital expenditure (excluding intangible assets) for the half year was \$132.574 million. \$46.198 million related to the acquisition of GBF assets (Note 15), \$36.654 million cash capital spend, \$33.279 million capital acquired through finance leases and \$16.443 million recognised as ROU assets with the implementation of AASB 16.

Impairment

The Group assessed each cash generating unit ("CGU") for indicators of impairment and impairment reversal. No indicators of impairment or impairment reversal were identified for half year ended 31 December 2019 (30 June 2019: Nil). The key estimates and judgements used have not materially changed to those disclosed in the 2019 Financial Statements.

Capital commitments

At 31 December 2019, the Group had entered into non-cancellable contracts to purchase plant and equipment of \$12.292 million (2018: \$2.250 million).

10. Financial debt

For the half-year ended 31 December 2019, the limit of the Group's multi-option facility was increased from \$50.000 million to \$75.000 million. At 31 December 2019, the undrawn balance against the multi-option facility was \$41.444 million (30 June 2019: \$29.598 million). The Group also maintains trade finance and lease facilities with various financiers, which are secured by the leased assets and in the event of default the leased assets revert to the lessor. At 31 December 2019, the undrawn balance against trade finance and lease facilities were \$2.739 million (30 June 2019: Nil) and \$57.242 million (30 June 2019: \$66.792 million), respectively. The remaining Australian domiciled assets of the Group are pledged as security under the multi-option facility.

The table below summarises movements in financial debt during the six months ended 31 December 2019:

	Interest-bearing loans \$'000	Capital lease liabilities \$'000	Total \$'000
At 1 July 2019	-	165,848	165,848
New financial debt	22,141	33,279	55,420
New financial debt assumed in business combination (Note 15)	1,307	27,587	28,894
Repayments	(6,330)	(23,150)	(29,480)
Other	-	305	305
Exchange differences	-	(3)	(3)
At 31 December 2019	17,118	203,866	220,984
Current	17,118	69,370	86,488
Non-current	-	134,496	134,496

11. Fair value measurement

There were no material financial assets or financial liabilities carried at fair value. The carrying amount of financial assets and financial liabilities approximates their fair value.

12. Share based payments

For the half year ended 31 December 2019, the Group issued one tranche of performance rights under the Macmahon Executive Equity Plan ("EEP") and two tranches of share rights under the Non-Executive Director Salary Sacrifice Plan ("SSP").

The EEP provides senior management with the opportunity to receive fully paid shares in the Company for no consideration, subject to specific time restrictions, continuous employment and the satisfaction of certain performance conditions. Each performance right entitles the participant to receive one fully paid ordinary share at the time of vesting. The EEP is designed to assist with employee retention and to incentivise senior management to optimise returns and earnings for shareholders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

12. Share based payments (continued)

	EEP Performance rights
Grant date	6/08/2019
Service period	3 years
Vesting date	1/07/2022
Performance conditions	
Less than 17% CAGR ¹ in TSR ²	0%
17% CAGR in TSR	50%
25% or more CAGR in TSR	100%
Between 17% and 25% CAGR in TSR	Pro-rata between 50% and 100%

¹ CAGR – Compound Annual Growth Rate

² TSR – Total Shareholder Return

Measurement of grant date fair values

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

	EEP Performance rights
Fair value at grant date	\$0.051
Share price at grant date	\$0.170
Expected volatility (weighted average volatility)	45.00%
Option life (expected weighted average life)	2.9 years
Dividend yield	4%
Risk-free interest rate (based on government bonds)	0.71%

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

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

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

	NED share rights	
	Tranche 1	Tranche 2
Grant date	2/08/2019	2/08/2019
Service period	8 months	14 months
Vesting date	21/02/2020	25/08/2020
Tranche and number of share options	564,264	564,264
Share price at grant date	\$0.180	\$0.180
Discount for lack of marketability	30%	30%
Implied FV of restricted shares	\$0.126	\$0.126
Exercise price	\$0.198	\$0.198
Risk-free rate	0.94%	0.94%
Volatility factor	45%	45%
Dividend yield	0%	4%
Implied discount to share price at grant date	99%	97%
Fair value at grant date	\$0.002	\$0.005

The volume of rights outstanding as of 31 December 2019 is reconciled below:

	LTIP and EEP performance rights		NED share rights	
	2019	2018	2019	2018
Balance at 1 July	87,517,607	17,880,139	492,929	-
Granted	10,197,059	73,310,377	1,128,528	1,393,348
Vested	(5,971,921)	-	(492,929)	-
Forfeited	(1,760,286)	(482,074)	-	-
Balance at 31 December	89,982,459	90,708,442	1,128,528	1,393,348

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

13. Contingent assets and liabilities

Macmahon has the normal contractor's liability in relation to its current and completed contracts (for example, liability relating to design, workmanship and damage).

Bank guarantees and insurance bonds are issued to contract counterparties in the ordinary course of business as security for the performance by the Group of its contractual obligations. The Group is also called upon to provide guarantees and indemnities to contract counterparties in relation to the performance of contractual and financial obligations. The value of these guarantees and indemnities is indeterminable.

There were no contingent assets as at 30 June 2019 or 31 December 2019.

14. Related party transactions

The following table provides the total amount of transactions entered into with AMNT, an entity with significant influence over the Group, for the six months ended December 31, 2019 and 2018, as well as balances with related parties as at 30 June 2019 and 31 December 2019:

	2019 \$'000	2018 \$'000
Sales to related party	227,115	183,358
Purchases from related party	(104,505)	(85,641)
Amount owing from related party	46,924	47,537

15. Business combination

On 2 August 2019, the Group acquired 100% of the voting shares of GF Holdings (WA) Pty Ltd and its subsidiaries ("GBF"), an unlisted company located in Western Australia that specialises in the provision of underground mining services. The Group acquired GBF as it expands both its service portfolio and customer base. The condensed half year financial statements include the results of GBF for the five month period from the acquisition date.

Consideration transferred

Purchase consideration is as follows:

	\$'000
Cash paid	21,203
Deferred cash consideration - current	2,000
Deferred cash consideration - non-current	2,000
Contingent consideration - non-current	1,500
Total consideration	26,703

Contingent consideration

The acquisition included a potential contingent payment based on future earnings of GBF.

At acquisition date, the fair value of the contingent consideration was estimated to be \$1.500 million utilising discounted cash flow method and future earnings assumptions for the years ended 30 June 2020 and 2021. The fair value of the contingent consideration was classified as Level 3 in the fair value hierarchy. Contingent consideration is classified as a non-current trade and other payable within the consolidated statement of financial position.

There were no changes in the key judgements or estimates which informed the valuation of contingent consideration between acquisition date and balance date. As a result, no gain or loss on remeasurement to fair value was recognised to profit or loss for the half year ended 31 December 2019.

Acquisition costs

The Group incurred acquisition costs of \$1.274 million in respect of external legal and due diligence fees. Acquisition costs are included in other expenses in the consolidated statement of comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

15. Business combination (continued)

Identifiable net assets

The assets and liabilities recognised as a result of the acquisition are as follows:

	\$'000
Assets	
Cash and cash equivalents	2,296
Trade and other receivables	23,781
Inventories	7,029
Income tax receivable	569
Property, plant and equipment	46,198
Intangible assets - Customer contracts	1,100
Total assets	80,973
Liabilities	
Trade and other payables	(22,533)
Employee benefits	(7,280)
Financial debt	(28,894)
Leases debt	(1,346)
Total liabilities	(60,053)
Net identifiable assets acquired	20,920
Goodwill arising on acquisition	5,783
Purchase consideration transferred	26,703

Lease debt

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The ROU assets were measured at an amount equal to the lease liabilities and adjusted to reflect favourable / unfavourable terms of the lease relative to market terms.

Customer contracts

Customer contracts are a separately identifiable intangible asset equal to the present value of future post-tax cash flows attributed to the portfolio of incomplete underground mining services contracts assumed at acquisition date.

Customer contracts are carried at cost, less accumulated depreciation and impairment losses. Amortisation of customer contracts is included in depreciation and amortisation expenses in the consolidated statement of comprehensive income. The expected useful life of customer contracts is 3 years. Amortisation included in profit and loss for the half year amounted to \$0.157 million.

Goodwill

The goodwill recognised is attributed to the expected synergies and other benefits from combining the assets and activities of GBF with those of the Group.

Provisional accounting

The initial accounting of the acquisition of GBF has only been provisionally determined at the end of the reporting period. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the time, then the accounting for the acquisition will be revised.

16. Change to the composition of the Group

From 30 June 2019, the following entities were acquired as part of the acquisition of GBF:

- GBF Number 3 Pty Ltd
- GBF Number 4 Pty Ltd
- GBF Number 5 Pty Ltd
- GBF Number 6 Pty Ltd
- Ramex Services Pty Ltd
- GBF Mining and Industrial Services Pty Ltd
- GBF North Pty Ltd
- GBF Project Services s.r.o

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

17. Subsequent events

Subsequent to half-year end, the Directors have declared an interim dividend of 0.25 cents per share.

The Directors are not aware of any other matters or circumstances arising from 31 December 2019 not otherwise dealt with within the condensed half-year financial statements that has significantly affected or may significantly affect the operations of the Group and the results of those operations or the state of affairs of the Group in subsequent financial periods.

COPORATE DIRECTORY

DIRECTORS

E D R Skira	(Chair of the Board, Non-executive)
A Ramlie	(Non-executive)
A W Sidarto	(Non-executive)
V A Vella	(Non-executive)
B Munro	(Non-executive appointed 1 October 2019)
H Tyrwhitt	(Non-executive appointed 1 October 2019)
M J Finnegan	(Managing Director appointed 1 October 2019)

COMPANY SECRETARY

G P Gettingby
K Nadebaum

PRINCIPAL REGISTERED OFFICE

15 Hudswell Road
Perth Airport, Western Australia 6105

LOCATION OF SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth WA 6000

SECURITIES EXCHANGE

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

AUDITOR

KPMG
235 St Georges Terrace
Perth WA 6000