



# Annual Report 2008



MACMAHON

## 2008 Annual Report

This year Macmahon has changed the format of its Annual Report and created two separate documents for shareholders. This document fulfills the statutory requirements of the Annual Report and includes a review of operations, the financial statements and directors' report. On 30 September 2008 Macmahon will release an Annual Review, which contains a detailed review of Macmahon's operations for the year.

The Annual Review and Annual Report will be distributed to those shareholders who opted in to receive this communication. Additionally, all shareholders will be sent a brochure which will provide a brief outline of Macmahon's activities and financial highlights for the year.

Macmahon Holdings Limited is a leading mine contracting and civil construction company listed on the Australian Securities Exchange (ASX).

Operating for more than 45 years, Macmahon has grown to become an ASX/S&P 200 company with annual turnover in excess of \$1.2 billion, employing more than 3,600 people across Australia, New Zealand and Malaysia.

Macmahon aims to maximise long-term returns to shareholders through a strategy that focusses on the value of its people, customers, suppliers and communities in which it operates.

The Mining Business provides a total mining service for surface and underground operations, managing mines for some of the world's largest mining companies.

Macmahon has considerable experience in mining a variety of commodities including coal, iron ore, copper, diamonds, gold and phosphates.

Able to provide a full mine to mill capability, its services include mine design, drill and blast, load and haul, crushing, screening, materials handling, cable bolting, shotcreting, underground mine development and production, raise drilling and shaft sinking.

With a track record of achievement in all facets of civil engineering, the Construction Business provides its customers with a partnership that is flexible, responsive and focussed on performance.

During the past four decades, Macmahon has delivered some of Australia's key projects including roads, rail, bridges, dams, ports, pipelines and resources infrastructure. It continues to provide first class civil engineering solutions for both government and private customers - on time and on budget.

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# Review of Operations

For the year ended 30 June 2008

## Highlights

*\$ million except where stated*

Group revenue

Joint venture revenue

Less joint venture recoveries

**Total revenue**

EBIT

EBIT margin %

**Profit before tax**

Tax

Minorities

**Profit after tax and minorities**

**Profit after tax margin %**

Earnings per share - basic (cents per share)

Dividends per share (cents per share)

New contracts and extensions

Order book

	JUNE 2008	JUNE 2007*	CHANGE
Group revenue	1,201.2	910.3	32.0%
Joint venture revenue	63.4	79.1	(20.0)
Less joint venture recoveries	(20.2)	(23.4)	(13.7)
<b>Total revenue</b>	<b>1,244.4</b>	<b>966.0</b>	<b>28.8%</b>
EBIT	74.7	59.7	25.1%
EBIT margin %	6.0%	6.2%	(3.2%)
<b>Profit before tax</b>	<b>67.2</b>	<b>48.7</b>	<b>38.0%</b>
Tax	(17.8)	(15.3)	16.3%
Minorities	(0.6)	0.0	N/A
<b>Profit after tax and minorities</b>	<b>48.8</b>	<b>33.4</b>	<b>46.1%</b>
<b>Profit after tax margin %</b>	<b>3.9%</b>	<b>3.5%</b>	<b>11.4%</b>
Earnings per share - basic (cents per share)	9.2	6.4	43.8%
Dividends per share (cents per share)	5.5	3.0	83.3%
New contracts and extensions	1,377	1,753	21.8%
Order book	2,138	2,005	6.6%

\*FY2007 results are calculated on an underlying basis, which excludes the sale of Allplant.

Macmahon Holdings has continued to grow at a rapid rate, delivering a record full year profit of \$48.8 million, a 46.1 per cent increase when compared to the underlying result for the year ended 30 June 2007. Revenue grew from \$966.0 million to \$1,244.4 million, a 28.8 per cent increase.

This growth in revenue and profit was due to strong operational results across both the Construction and Mining Businesses. The Construction Business delivered an impressive 56.0 per cent increase in revenue, along with improved margins. The Mining Business also achieved improved results from operations in Western Australia and its mining services business.

Macmahon is ideally positioned to take advantage of the growing resources and infrastructure sectors; having firmly cemented its position as a top-tier national contractor, which is reflected in the sustained growth delivered over the last five years.

## Dividend

The Directors have declared a final dividend of 3.5 cents per share. The dividend, to be paid on 10 October 2008, represents an increase of 75.0 per cent over the FY2007 final dividend. Combined with the interim dividend of 2 cents per share, total dividends for the year have increased by 83.3 per cent, which is a reflection of the strong earnings growth and outlook for the Company.

## Order book

Macmahon has continued to win work and gain contract extensions throughout the year. Importantly, Macmahon now has the ability to win larger and more technically complex work, but remains flexible enough to take on smaller projects.

As at 30 June 2008, the Company's order book stood at \$2.138 billion, excluding the \$1.1 billion Spinifex Ridge Moly Mines contract, which is subject to the client completing project financing.

Building on the Company's established reputation with its blue-chip clients, Macmahon was successful in extending all contracts due for renewal during the year, as well as winning a number of new contracts.

Combined work for government agencies, BHP Billiton and Rio Tinto accounts for 75 per cent of the total order book confirming the strength of the Company's customer base.

To reduce exposure to cost increases, Macmahon has successfully maintained a low percentage of fixed price contracts and continued to win alliance contracts.

Additionally, the long-term nature of many of the Company's contracts reduces order book volatility, with more than 50 per cent of Macmahon's contracts greater than three years duration.

A summary of movements in the order book since 30 June 2007 is shown below:

	\$ MILLION
<b>Opening balance at 30 June 07</b>	<b>2,005</b>
<b>Less:</b> Work completed	(1,244)
<b>Add:</b> New contracts	805
<b>Add:</b> Contract Extensions/Renewals	572
<b>Closing balance at 30 June 08</b>	<b>2,138</b>

## Income statement

### Revenue

A strong operational performance in both the Construction and Mining Businesses increased the Group's revenue by \$278.4 million, or 28.8 per cent, to \$1,244.4 million with both businesses benefiting from continuing demand for contracting services.

The Construction Business continued to deliver impressive growth, underpinned by ongoing federal and state government investment in infrastructure, including railways, roads, ports and dams. The Construction Business is also benefiting from the numerous resource infrastructure contracts on offer in Western Australia's Pilbara iron ore region.

The east coast of Australia remains an important focus for the business, with several key projects including the Logan River Catchment and Jilalan Rail Yard Upgrade commencing during the year.

The Mining Business continued to build on its strong relationships with a number of its blue-chip clients, with the award of several contract extensions.

Mining Services, including ARD and CRE increased revenues and added further depth to the capabilities of the Mining Business.

The higher growth states of Western Australia and Queensland remain the primary revenue contributors accounting for 60 per cent and 18 per cent of total Group revenue respectively.

### Margins

Earnings Before Interest and Tax (EBIT) margin was 6.0 per cent which is in line with the Group target.

The Construction Business delivered a standout result with margins increasing from 4.0 per cent to 6.1 per cent. Margin growth was due to solid results from a number of key projects, underpinned by the ongoing demand for infrastructure works in Australia.

Mining margins were 8.8 per cent, slightly down on the previous year. The lower margins were mainly due to the unusually heavy rain in Queensland and lower volumes at some coal projects.

### Interest

Net interest expense decreased to \$7.5 million, from \$10.4 million in the prior year, due to lower net debt levels as a result of stronger operating cash flows and lower capital expenditure requirements.

### Tax

Group income tax expense increased by 16.3 per cent to \$17.8 million. Higher tax on earnings was offset by concessions available through Research and Development activities and previously unrecognised income tax losses.

The effective tax rate for the year was 26.5 per cent, compared to the previous year's rate of 31.3 per cent.

### Cash flow and balance sheet

Cash from operations was \$88.3 million, up from \$68.7 million in the prior period, primarily due to higher operating profit and lower interest payments, offset by increased tax payments due to higher earnings.

Growth and replacement capital expenditure totalled \$47.0 million for the year, with an additional \$22.2 million of equipment financed through the \$230 million operating lease facility. The majority of the expenditure was on equipment for mining projects, including the new Saraji open cut coal contract.

The balance sheet is in a strong position with the Company's gearing at a new low of 11.6 per cent. This compares to 26.0 per cent at 30 June 2007 and positions the Company ideally for growth and expansion activities.

Low debt levels and increased cash from operations have resulted in net interest coverage almost doubling, from 5.4 times at June 2007 to 9.9 times at 30 June 2008.

Return on equity was 19.4 per cent compared with 15.8 per cent in the prior corresponding period, reflecting the Company's commitment to maximising returns on shareholders' equity.

The strong and consistently improving balance sheet demonstrates the Company's ability to organically grow the business without the need to raise additional equity or materially increase debt levels.

### Funding

As at 30 June 2008, cash on hand totalled \$120.1 million. Undrawn facilities were; term debt \$30 million, domestic operating leases \$207.8 million and performance bonding \$93.1 million. The US\$50 million overseas operating lease facility remains undrawn.

# Review of Operations (cont.)

For the year ended 30 June 2008

## Business unit results

### Construction Business

<i>\$ millions</i>	2008	2007	CHANGE
<b>Revenue</b>	<b>628.0</b>	<b>402.6</b>	<b>56.0%</b>
EBIT	38.1	16.0	138.1%
<b>EBIT margin %</b>	<b>6.1</b>	<b>4.0</b>	<b>52.5%</b>
Capex	5.4	4.1	31.7%
Order book	974.1	933.0	4.4%
Employees	1,137	818	39.0%

The Construction Business has built on its excellent half year performance, delivering \$628.0 million of revenue for the full year, up 56.0 per cent from the \$402.6 million recorded in 2007.

EBIT was up a very impressive 138.1 per cent to \$38.1 million. Margins have increased by 52.5 per cent, up from 4.0 per cent to 6.1 per cent. The successful completion of a number of contracts assisted in delivering improved margins. Additionally, the business has continued to focus on growing its market share in the booming infrastructure states of Western Australia and Queensland.

### New contracts

- Goonyella to Abbot Point Expansion Project (Queensland), rail upgrade including Pring Stockyard, Queensland Rail, \$206 million
- Newman Hub - RGP4 (Pilbara, Western Australia), structural concrete and foundations, BHP Billiton Iron Ore, \$84 million
- Mesa A (Pilbara, Western Australia), earthworks for rail extension, Pilbara Iron - Rio Tinto, \$65 million
- Newman SOBS (Pilbara, Western Australia), earthworks and track laying, BHP Billiton Iron Ore, \$42 million
- GEMCO Tailings Dam (Groote Eylandt, Northern Territory), completion of tailings dam, BHP Billiton Manganese, \$12 million

### Extensions

- Blacktip Civil Works (Northern Territory), ENI Australia, \$13 million

### Key achievements for the Construction Business over the period included:

- The award of the Goonyella to Abbot Point Expansion Project in the Bowen Basin, building on the strong relationship with Queensland Rail.
- The award of the Newman Hub project and SOBS rail and earthworks package, both for BHP Billiton and the MESA A rail extension for Pilbara Iron - Rio Tinto, have added to the business's resource infrastructure portfolio in Western Australia.

- Delivery of the Eyre Highway contract in Western Australia, three months ahead of schedule.
- The completion of the Boddington Gold Mine contract, as well as the substantial completion of the Millstream Link Project.
- The International Association for Public Participation (IAP2) Australasian Award, presented to the Mitchell Freeway Extension contract, in recognition of the valuable contribution public participation adds to project decision making. This is the first project in Western Australia to win this prestigious award.

### Mining Business

<i>\$ millions</i>	2008	2007	CHANGE
<b>Revenue</b>	<b>616.4</b>	<b>555.9</b>	<b>10.9%</b>
EBIT	54.4	50.6	7.5%
<b>EBIT margin %</b>	<b>8.8</b>	<b>9.1</b>	<b>(3.3%)</b>
Capex	36.9	86.0	(57.1%)
Order book	1,163.5	1,073.0	8.4%
Employees	2,337	2,102	11.2%

The Mining Business experienced ongoing growth for the period, delivering \$616.4 million of revenue for the full year, up 10.9 per cent. EBIT increased by 7.5 per cent, when compared to the comparative period.

Growth in the Mining Business was achieved by expanding on its strong relationships with a number of its blue-chip clients, with the award of several new contracts and extensions.

### New contracts

- Spinifex Ridge (Pilbara, Western Australia), molybdenum, Moly Mines, \$1.1 billion (not included in the order book and subject to Moly Mines completing project financing)
- Sinclair Nickel Project (Leinster, Western Australia), nickel, Jubilee Mines, \$98 million
- Saraji (Bowen Basin, Queensland), coal, BHP Billiton Mitsubishi Alliance, \$75 million
- Lhoknga (Indonesia), limestone quarry, Lafarge, US\$60 million
- Goonyella Riverside Mine (Bowen Basin, Queensland), coal, BHP Billiton Mitsubishi Alliance

### Extensions and renewals

- Olympic Dam Extension (South Australia) copper, BHP Billiton, \$101 million
- Saraji (Bowen Basin, Queensland), coal, BHP Billiton Mitsubishi Alliance, \$100 million

## Key achievements for the Mining Business over the period included:

- The award of Moly Mines Spinifex Ridge Contract. Valued at \$1.1 billion, it is the largest contract ever won by the business, and with an expected mine life of over 20 years, Spinifex Ridge will be one Australia's largest metalliferous mining operations.
- The award of the four year, \$98 million Sinclair Nickel project. The project has started as an open pit contract, and will then move to underground, highlighting the business's capability to deliver a life of mine solutions to its clients.
- Further growth in Queensland coal with the award of two new contracts for the BHP Billiton Mitsubishi Alliance.
- ARD and CRE's ongoing contribution to the business, with both continuing to exceed the acquisition parameters.

## Safety

The health and safety of our people is paramount and Macmahon strives to achieve continual improvement in its safety performance.

The Total Recordable Injury Frequency Rate (TRIFR) for the year was 12.9, up slightly on the comparative period of 12.7. The Lost Time Injury Frequency Rate (LTIFR) was 2.0, compared to 1.9 in the previous year.

In order to keep up with the rapid expansion of operations, the Company is sourcing employees from other industries. This has necessitated an increased focus on training and education in relation to the health and safety aspects of the Mining and Construction industries.

Macmahon will continue to build on its proactive approach to safety to deliver a safe, healthy and rewarding workplace for all employees.

## People

Macmahon's success is driven by its people. With an increase of over 500 employees during the year, Macmahon's workforce stood at more than 3,600 at 30 June 2008. Despite the labour shortages facing the industry, the Company has continued to create new strategies and initiatives to increase its workforce and meet its growth targets.

The Apprentice Program has proved to be an excellent avenue to recruit and train additional employees, and as at 30 June 2008, 114 apprentices were employed throughout Australia.

Recruiting indigenous employees remains a key element of Macmahon's people strategy, with the highly successful Indigenous Mining Skills Program, run in conjunction with BHP Billiton, now into its third year. In July 2008, Macmahon announced the formation of the Aboriginal contracting business, Doorn-Djil Yoordaning. These initiatives reflect the Company's strong commitment to the communities in which it operates, as well as ensuring diversity across the Group.

The expansion of the Macmahon Graduate program has resulted in participant numbers increasing by 64 per cent on the comparative period to 36 graduates.

To build further on its management capacity, Mr Pat Doyle was appointed Executive General Manager of Construction. Mr Doyle has 30 years experience in the construction sector, with previous management positions at Leighton Contractors, John Holland and Baulderstone Hornibrook.

Demonstrating the Company's commitment to employee development, Ms Michelle Narustrang joined Macmahon in May 2008 as Executive General Manager People and Organisation Development. Prior to Macmahon, Ms Narustrang held a senior role for Iluka Resources, in addition to earlier leadership roles for Rio Tinto and BankWest.

## Board appointments

During the year, the Macmahon Board was strengthened by two new appointments.

Mr John Massey was appointed to the Board on 1 September 2007 and brings with him extensive and broadly based commercial experience, spanning many different industries.

Mr Vyril Vella was appointed to the Board on 19 November 2007 and has over 33 years experience in the property development and construction industries.

## Risk management and information systems

During the year, the Company completed the implementation of its Business Risk and Opportunity Management program. The program provides a system to identify and manage risks and opportunities, and includes a risk register process which allows for improved risk management at a project, business unit and corporate level.

The upgrade of the Company's information systems made significant progress over the period with a new integrated Human Resources and Payroll application going live across the Group's Australian operations. Over the next 12 months upgraded financial, inventory management and production/scheduling systems will be rolled-out across the Company.

# Review of Operations (cont.)

For the year ended 30 June 2008

## Equipment supply and material costs

A key challenge for the mining and construction industries is the availability and pricing of materials and equipment. In general, these sectors are seeing shortages and long delivery periods for particular types of equipment and increasing costs.

To counter these rising costs, Macmahon has engaged in a number of proactive strategies. In addition to leveraging purchasing power as the organisation expands, the Group is also sourcing a large portion of its requirements directly from emerging economies. The most significant of these arrangements is a strategic alliance formed with a Chinese tyre manufacturer.

Furthermore, the Company is focused on ensuring that contractual relationships with customers which involve cost increases outside its control are able to be recovered.

Macmahon is working closely with its equipment suppliers to ensure the Group has adequate equipment to maintain its existing operations, as well as to meet future growth plans. Significant levels of forward orders have been placed due to the long lead times for equipment, particularly for large open cut mining trucks and shovels.

## Industry outlook

### Construction

The Australian construction market is experiencing an unprecedented boom in activity levels, with demand for construction services at an all time high. Driving this growth is the strong public investment in transport, energy and water infrastructure, coupled with expanding resource projects especially in iron ore and coal.

Approximately \$65 billion worth of resource infrastructure projects have been committed, or are currently in progress in Australia. With surging coal and iron ore prices, production rates are at record levels, escalating the need to remove bottlenecks and upgrade capacity on Australia's coal and iron ore networks.

In addition, Australian governments have embarked on a strategy to make up for two decades of under investment in key public infrastructure, which is resulting in an exceptionally strong demand for construction services. It is estimated that Australian state governments will invest in excess of \$166 billion in infrastructure over the next four years. These projects are being driven by the ongoing population growth in Australia, and are focused on alleviating congestion and upgrading ageing or insufficient infrastructure, to better service the needs of the expanding nation.

The Australian federal government has also allocated \$20 billion to infrastructure projects, including road and rail and an additional \$13 billion towards water infrastructure. In Western Australia alone, approximately \$7 billion of construction opportunities have been identified over the next four to five years, creating an excellent environment for Macmahon.

### Mining

The outlook for the resource sector remains robust with demand for mining contracting services being driven by the global demand for resources, particularly from emerging economies.

Contract miners continue to benefit from this high level of demand, with ongoing expansion of existing operations and a number of new mining operations coming on line.

The rapid economic growth of China has seen steel consumption rise dramatically, with China accounting for the majority of growth in world steel demand. This growth is leading to increased demand for steel making raw materials.

Iron ore production is forecast to increase on average by around 15 per cent per annum to 2012, as the major mining houses continue to expand capacity. The expected increases in iron ore production over the next five years will require a significant amount of labour and associated resources, with contractors set to be key participants.

Surging coal prices combined with strong growth in consumption have resulted in a significant boom in coal related investment in Australia with contractors again expected to participate in the increased production.

## Takeover offer for Ausdrill Ltd

On 21 May 2008, Macmahon made an offer for all the shares in Ausdrill Ltd of 1.45 Macmahon shares for each Ausdrill share.

On 20 August 2008 Macmahon increased its offer, the terms of which include:

- 1.65 Macmahon shares for each Ausdrill share
- The increased offer is final, subject to a competing proposal
- Ausdrill shareholders to retain a final Ausdrill dividend of six cents for the 2008 financial year
- Current close date of 16 September 2008

The offer is very compelling in that it provides Ausdrill shareholders with an above average takeover premium and provides them the opportunity to participate in a larger company with improved geographic and business diversification.



The acquisition would make Macmahon one of the largest and most diversified Australian based contractors operating in the mining and construction industries, and the only company capable of delivering a full end-to-end mining service to its clients.

The acquisition provides Macmahon with increased scale in contract mining, new capabilities in exploration drilling, and increased geographic reach through Ausdrill's African operations.

The combined group will hold a leading position in the Australian contract mining and construction markets, as well as a strong contract mining presence in Africa.

## Strategy

Macmahon's strategy is to continue to grow its business in line with customer demand, with a strong focus on delivering industry sector top quartile total shareholder returns. Macmahon is committed to building on its strong reputation and order book, with business development and tendering activities remaining a key priority.

To achieve its growth strategy, Macmahon will:

- Focus on growing its already strong presence in the Western Australian iron ore industry, delivering both infrastructure and mining works to customers
- Expand its presence in the Queensland coal industry from mining and resource infrastructure works
- Increase the volume of government infrastructure work across Australia with a focus on the east coast. This will also involve pursuing joint venture construction opportunities with Leighton Holdings through the Memorandum of Understanding
- Continue to grow the Mining Business across all areas, including underground and open cut
- Explore overseas opportunities, with a focus on Asia and Africa
- Pursue acquisition opportunities which satisfy the Company's core criteria, with a focus on delivering value for shareholders

The overall focus of the strategy is to deliver annual revenue and profit growth of 20 to 30 per cent, whilst maintaining a strong balance sheet and cash flows.

## Business outlook

The outlook for Macmahon remains strong, with the Company positioned to continue to benefit from the ongoing demand for mining and construction services, both within Australia as well as in overseas markets.

Notwithstanding the current turmoil in world financial markets and slowing economies, the demand for contracting services remains strong - particularly within the iron ore, coal and government sectors. While delays are occurring with some project start-ups, the overall volume of work being tendered remains high.

Macmahon already has \$1.2 billion of revenue secured for FY09 and is expecting to deliver annual profit growth of 20 to 30 per cent. Subject to the timing of new work, FY09 profit growth is likely to be at the higher end of the 20 to 30 per cent range.

# Directors' Report

For the year ended 30 June 2008

The directors present their report together with the financial report of Macmahon Holdings Limited (the Company) and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2008 and the auditor's report thereon.

The directors of the Company at any time during or since the end of the financial year are:

- R J Carter (Chairman)
- N R Bowen (Chief Executive Officer and Managing Director)
- B L Cusack
- M A Kinnaird AO
- B R Ford
- J C Massey (appointed effective 1 September 2007)
- V A Vella (appointed effective 19 November 2007)

Particulars of the qualifications, experience and independence status of each director, as at the date of this report, are set out on pages 8 to 11.

## Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are as follows:

STANDARD BOARD MEETINGS		
DIRECTOR	A	B
R J Carter	8	8
N R Bowen	8	8
B L Cusack	8	8
M A Kinnaird	8	8
B R Ford	8	8
J C Massey	6	6
V A Vella	4	4

SPECIAL BOARD MEETINGS*		
DIRECTOR	A	B
R J Carter	10	10
N R Bowen	10	10
B L Cusack	10	10
M A Kinnaird	10	10
B R Ford	10	9
J C Massey	5	4
V A Vella	2	2

\*Special Board Meetings were held during the financial year due to corporate activities.

A Number of meetings held during the time the Director held office during the year.

B Number of meetings attended.

## 1. Directors

### Richard (Dick) Carter

*CitWA, BCom, FTSE, FAusIMM, FAICD, FAIM*

Independent Non-executive Chairman; appointed December 2004.

Independent Non-executive Director since October 2001.

#### Experience and expertise

Mr Carter is a company director and business adviser with special interests in the minerals industry, corporate governance, strategy formulation and occupational health and safety. His executive career spanned 37 years with the BHP Group, from which he retired in 1997 as BHP Minerals Executive General Manager and Chief Executive Officer.

#### Other current directorships of listed companies

Energy Resources of Australia Limited (Non-executive Director since 1999).

Marion Energy Limited (Non-executive Director since March 2008).

#### Other positions

Mr Carter serves as the Chair of Prahran Mission-Uniting Care (since 2000).

Chairman of the Advisory Board of Zeal Consulting Pty Ltd (since 1998).

Chairman of UCA Cash Management Fund Limited, UCA Growth Fund Limited and Uniting Growth Fund Limited (since 2006) (not for profit organisations).

#### Former directorships of listed companies in last 3 years

Non-executive Chairman of Consolidated Minerals Limited (from 2006 to February 2008).

#### Special responsibilities

Chairman of the Board.

Chairman of the Remuneration Committee.

Member of Audit Committee.

#### Interests in shares and options at the date of this report

245,253 ordinary shares in Macmahon Holdings Limited.

1,000,000 options over ordinary shares in Macmahon Holdings Limited.

### Nick Bowen

*BE (Mining, Hons), FAICD, MAusIMM*

Chief Executive Officer and Managing Director; appointed February 2000.

## *Experience and expertise*

Mr Bowen has 25 years experience in the contracting industry. His experience covers open cut mining, underground mining and civil engineering in Australia and overseas.

## *Other current directorships of listed companies*

Nil.

## *Other positions*

Mr Bowen is a member of the Executive Council of the Chamber of Minerals and Energy of WA (since 2001).

Director of the Australian Constructors Association Limited (since 2000).

## *Former directorships of listed companies in last 3 years*

Nil.

## *Special responsibilities*

Member of Risk & Opportunity Management Steering Committee.

## *Interests in shares and options at the date of this report*

14,532,829 ordinary shares in Macmahon Holdings Limited.

## **Barry Cusack**

*BE (Hons), M.Eng.Sc, FTSE, FAusIMM, FAIM, MAICD*

Independent Non-executive Director; appointed June 2002.

## *Experience and expertise*

Mr Cusack is an honorary life member of the Chamber of Minerals and Energy of Western Australia Inc. He joined CRA (now Rio Tinto - Australia) in 1966 and retired from the position of Managing Director of Rio Tinto Australia in December 2001. Mr Cusack was President of the Minerals Council of Australia from 2001 to 2003 (member since 1996).

## *Other current directorships of listed companies*

Chairman of OZ Minerals Limited (since 2002).

Non-executive Director of Toll Holdings Limited (since 2007).

## *Other positions*

Mr Cusack is a board member of Future Directions International (since 2003) (not for profit organisation).

## *Former directorships of listed companies in last 3 years*

Non-executive Director of Smorgon Steel Group Ltd (from 2002 to 2007).

## *Special responsibilities*

Chairman of the Audit Committee.

Member of Remuneration Committee.

## *Interests in shares and options at the date of this report*

750,000 ordinary shares in Macmahon Holdings Limited.

## **Malcolm Kinnaird**

*AO, DUniv, BE (Civil), Hon FIEAust, FTSE*

Independent Non-executive Director; appointed in June 2004.

## *Experience and expertise*

Mr Kinnaird founded the consulting engineering firm, Kinnaird Hill de Rohan and Young, which became Kinhill Pty Ltd. Kinhill was acquired by Brown & Root (now KBR) in 1997 and Mr Kinnaird continues as a consultant to the organisation. A distinguished civil engineer and industrialist, Mr Kinnaird has been recognised by domestic and overseas governments for his contributions to the field of engineering and the wider community and the development of Australian industry abroad.

## *Other current directorships of listed companies*

Non-executive Chairman of Adelaide Brighton Ltd (Non-executive Director since 1996, Non-executive Chairman since 1997).

## *Other positions*

Chairman of Asia Pacific Transport Pty Ltd and Freightlink Pty Ltd (since 2003).

Director of National Electricity Market Management Company Ltd (since 1996).

Director of United Water International Pty Ltd (since 1996).

Member of the Port Adelaide Maritime Corporation Board for the Government of South Australia (since 2005).

## *Former directorships of listed companies in last 3 years*

Nil.

## *Special responsibilities*

Member of Remuneration Committee.

Chairman of the Risk & Opportunity Management Steering Committee.

## *Interests in shares and options at the date of this report*

245,624 ordinary shares in Macmahon Holdings Limited.

1,000,000 options over ordinary shares in Macmahon Holdings Limited.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 1. Directors (cont.)

### Barry Ford

*B.Econ (Adel), CPA*

Independent Non-executive Director; appointed July 2006.

#### *Experience and expertise*

The majority of Mr Ford's career was spent with the General Motors Corporation in both Australia and North America. He held various positions including Director of Financial Analysis and Planning for General Motors Overseas Operations in Detroit. In Australia, he was Treasurer and finally Director of Finance and Strategic Planning for General Motors Holden Ltd. At the current time, Mr Ford holds a representative position, based in Sydney, for General Motors Holden Ltd. During the 1990's, Mr Ford was Director of Finance and Chief Financial Officer of Goodman Fielder Limited, Chief Financial Officer of Southcorp Holdings and Finance Director of Pratt Industries Pty Ltd. Mr Ford has also held board positions with the National Heart Foundation (VIC) and the Australian Red Cross (NSW Division).

#### *Other current directorships of listed companies*

Nil.

#### *Other positions*

Chairman of Think Tank Group Pty Limited (since 2006).

Director of Automotive Training Board (NSW) (since 2005).

#### *Former directorships of listed companies in last 3 years*

Director of Infomedia Ltd (from 2000 to 2005).

#### *Special responsibilities*

Member of Audit Committee.

#### *Interests in shares and options at the date of this report*

100,000 ordinary shares in Macmahon Holdings Limited.

### John Massey

*BCom, CPA, FAICD (Life), FAIM*

Independent Non-executive Director; appointed 1 September 2007.

#### *Experience and expertise*

Mr Massey became a professional independent Non-executive Director in December 1997, and has extensive and broadly-based commercial experience as a Chairman, Director and Chief Executive spanning many different industries. Mr Massey has been actively involved in corporate governance issues and in 2006 was made a Life Fellow of the Australian Institute of Company Directors in recognition of his eminence in the field of directorship and for distinguished service.

#### *Other current directorships of listed companies*

Chairman Cardno Limited (Director since March 2004, Chairman since July 2004).

#### *Other positions*

Chairman Symbiosis Group Limited (since 2004).

Non-executive Director of the Kerwee Beef Group (since August 2008).

#### *Former directorships of listed companies in last 3 years*

Chairman of Ventracor Limited (from 1998 to April 2008).

Non-executive Director of the Australian Institute of Company Directors (from 2000 to 2005).

Non-executive Director of Dairy Australia Limited (from 1998 to 2005).

Non-executive Director of the South East Queensland Water Corporation Limited (from 2006 to 2007).

#### *Special responsibilities*

Member of Audit Committee.

#### *Interests in shares and options at the date of this report*

40,000 ordinary shares in Macmahon Holdings Limited.

### Vyrl Vella

*BSc, BE (Hons), M.Eng.Sc, FIEAust, FICD*

Non-independent Non-executive Director; appointed 19 November 2007.

#### *Experience and expertise*

Mr Vella has 38 years experience in the civil engineering, building, property and construction industries. Mr Vella is a Fellow of the Institution of Engineers, a Fellow of the Australian Institute of Company Directors and is currently a Director of Devine Industries, representing major shareholder Leighton Holdings on the Board. Mr Vella is also a consultant to Leighton Holdings, where he advises that group on investment in the residential market, general property issues and major construction and infrastructure projects.

#### *Other current directorships of listed companies*

Non-executive Director of Devine Limited (since 2007).

#### *Other positions*

Chairman of the Supervisory Board for the Airport Link Project in Queensland (since June 2008).

#### *Former directorships of listed companies in last 3 years*

Nil.



## *Special responsibilities*

Nil.

## *Interests in shares and options at the date of this report*

30,442 ordinary shares in Macmahon Holdings Limited.

## 2. Company Secretaries

**Efstratios (Strati) Gregoriadis** B.A., L.L.B., M.B.A joined the Company in 2002. He was appointed to the position of Group Legal Counsel/Company Secretary in December 2005. Mr Gregoriadis previously held the role of Commercial Manager and Legal Counsel for the Company. Prior to joining the Company he worked as a lawyer in private legal practice.

**Katina Gunellas** B.Com, CA joined the Company in May 2008 as Company Secretary. Ms Gunellas has previously held the role of Company Secretary for various public companies, and has also worked as an accountant in public practice where she provided corporate and company secretarial advice.

## 3. Corporate governance statement

The Board of Macmahon Holdings Limited ("**Board**") is committed to ensuring that the Company's obligations and responsibilities to its various stakeholders are fulfilled through its corporate governance practices. The directors undertake to perform their duties with honesty, integrity, care and diligence, to act in good faith in the best interests of the Company in a manner that reflects the highest standards of corporate governance.

The Company has followed the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("**ASX Principles and Recommendations**"), where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

### 3.1 Board of Directors

#### *Skills, Experience, Expertise and term of office of each director*

A profile of each director containing the applicable information is set out in the Directors' Report.

## *Role of the Board*

The Board is responsible for the overall corporate governance policies and practices of the Company and all subsidiary companies. The Board has formalised its functions in the Board Charter, details of which are located on the Company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

The Board has delegated responsibility for operation and administration of the Company to the Chief Executive Officer and Managing Director ("**CEO**") and executive management. Responsibilities are delineated by formal authority delegations.

## *Board processes*

To assist in the execution of its responsibilities, the Board has an Audit Committee. The Audit Committee has a committee charter which is reviewed on a regular basis. During the reporting period, the Board formed a Remuneration Committee. Previously, the Board had not considered it necessary to form a separate committee and the full Board performed the role that would otherwise be carried out by a remuneration committee. Further, the Board has not considered it necessary to form a separate nomination committee as the full Board fulfils this role.

The Board has established a framework for the management of the Company including a system of internal control, a Risk Management Policy and business risk management process. The Board has also developed and disclosed its Code of Conduct.

The full Board currently holds eight scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

## *Director education*

New directors are educated about the nature of the Company's business, current issues, the corporate strategy and the expectations of the Company concerning performance of directors. Directors have the opportunity to visit the Company's facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

## *Independent professional advice and access to company information*

Each director has the right of access to all relevant Company information and to the Company's executives and subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 3.1 Board of Directors (cont.)

### *Composition of the Board*

The Board consists of a majority of independent directors. The Chairman of the Board is an independent Non-executive Director. The Board is comprised of directors with a broad range of experience which enables the objectives of the Company to be met. In considering the independence of directors, the Board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("Independence Criteria").

Applying the Independence Criteria, the independent directors of the Company are Richard Carter, Barry Cusack, Malcolm Kinnaird, Barry Ford and John Massey.

Mr Vyrl Vella is a non independent director of the Company. Mr Vella is a nominee of Leighton Holdings Limited and was appointed on 19 November 2007 in accordance with the terms of a Memorandum of Understanding between Leighton Holdings Limited and the Company entered into in November 2007.

### *Access to management*

The Board has access to Company records, information and operating sites and receives regular detailed financial and operational reports from executive management and regular site visits to enable it to perform its duties. The Board may consult executive management and request additional information regularly with the CEO's knowledge.

## 3.2 Nominations

The Board oversees the appointment and induction process for directors and committee members and the selection, appointment and succession planning process of the Company's CEO. When a vacancy exists or there is a need for particular skills, the Board determines the selection criteria based on the skills deemed necessary. The Board identifies potential candidates with advice from an external consultant. Those nominated are assessed by the Board against background, experience, professional skills, personal qualities, whether the nominee's skills and experience will augment the existing Board, and their availability to commit themselves to the Board's activities. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The full Board fulfils the role of a nomination committee, and nomination related discussions occurred from time to time during the reporting period as required.

## 3.3 Remuneration

During the reporting period, the Board formed a Remuneration Committee.

The members of the Remuneration Committee and their attendance at Remuneration Committee meetings during the year are as follows:

REMUNERATION COMMITTEE MEMBERS	NUMBER OF REMUNERATION COMMITTEE MEETINGS	
	HELD	ATTENDED
R J Carter (Chair)	1	1
B L Cusack	1	1
M A Kinnaird	1	1

Prior to the formation of a separate committee, the full Board fulfilled the role of a remuneration committee. In addition to the meeting held by the Remuneration Committee, the full Board also held remuneration related discussions throughout the reporting period, as required.

### 3.4.1 Remuneration policies - audited

The Board reviews the remuneration packages and policies applicable to the executives and the directors of the Company. The Board, in consultation with the Remuneration Committee, also sets the total rewards strategy for the Company which includes equity schemes, incentive packages, superannuation entitlements, retirement and termination entitlements, and fringe benefits policies.

#### *Non-executive remuneration*

Remuneration of Non-executive Directors is determined by the Board upon the recommendations of the Remuneration Committee and with the assistance of external advice. Reference to fees paid to other non executive directors of comparable companies is considered. Additional fees may be paid for participation on Board Committees and for the position of chairperson. The maximum aggregate amount of fees that can be paid to non executive directors is currently \$800,000 as approved by the shareholders at the 2006 Annual General Meeting.

#### *Executive remuneration*

Remuneration packages are set at levels that are intended to attract and retain executives of suitable experience and qualifications. As CEO, Mr Bowen absents himself from the meetings before any discussion by the Board, in relation to his own remuneration.

From time to time options over Company shares are issued to executive management in accordance with the Executive Option Scheme approved by shareholders at the 2005 Annual General Meeting.

Details of directors' and executives' remuneration are set out below in the Remuneration Report.

The Company maintains executive and senior management remuneration policies and practices that include both fixed and performance-based elements. These are linked to the Company's short-term and long-term strategic objectives.

Remuneration policy and key performance indicators ("KPI's") for all executives of the Company are overseen by the Board, in consultation with the Remuneration Committee. There are specified annual KPI's for the CEO and the Board approves the payment of any cash bonuses that may be payable as a result of the achievement of the KPI's. For executives, annual KPI's are set by the CEO in consultation with the Board and the Remuneration Committee.

Compensation levels for directors, key executives, senior management and secretaries of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Company's policy is to remunerate its executives in a manner that is market competitive, consistent with best practice and supports the interests of shareholders. The Company aims to align the interests of executives with those of shareholders by remunerating executives through short-term and long-term incentive plans in addition to their fixed remuneration. Consequently, executives' remuneration consists of the following elements:

- fixed remuneration (salary and superannuation);
- short-term incentive cash bonus based on performance;
- deferred bonus scheme;
- long-term incentive option/equity schemes; and
- other benefits.

The remuneration of senior and general personnel is set having regard to the approach used for the executive team.

#### **Fixed remuneration**

The salary of executives is determined from a review of the market and reflects core performance requirements and expectations. Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax ("FBT") charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. In addition, the Company considers the following:

- the scope of the individual's role;
- the individual's level of skill and experience;
- labour market conditions; and
- the size and complexity of the Company's business.

#### **Performance - linked remuneration**

Performance-linked remuneration includes both short-term and long-term incentives, and is designed to reward executive directors and executives for meeting or exceeding their performance targets. The Short-Term Incentive ("STI") is an "at risk" bonus provided in the form of cash. The Long-Term Incentive ("LTI") is provided as options over ordinary shares of the Company under the Executive Option Scheme approved by shareholders at the 2005 Annual General Meeting. In the case of the CEO, Performance Shares have been awarded, and were converted to ordinary shares subsequent to year end, upon the KPI's specified in his employment contract being met.

- Each executive is assigned a range of KPI's for each financial year. The KPI's include financial, safety and strategic elements.
- The KPI's are set each year to align performance with achieving and exceeding budget.
- Up to 80% of an individual's KPI's are calculated on outcomes based on actual financial performance and safety performance, with the remaining KPI's calculated on outcomes based on specific individual targets.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 3.4.1 Remuneration policies - audited (cont.)

### *Consequences of performance on shareholders' wealth*

In considering the Company's performance and benefits for shareholders' wealth, the Board has regard to the following indices in respect of the current financial year and previous financial years.

	2008	2007	2006	2005	2004
Net profit attributable to equity holders of the parent (\$m)	48.8	44.5	7.5	15.9	11.6
Net profit (normalised \$m)	48.8	33.4	27.5	15.9	11.6
Dividends declared (cents)	5.5	3.0	2.0	1.0	0.5
Share price at 30 June (cents)	166.5	129.0	80.0	45.5	27.0
Return on equity (%)	19.7	21.1	4.4	13.2	11.7
Return on equity (%) (normalised profit)	19.7	15.8	15.9	13.2	11.7
Basic Earnings per share (cents)	9.20	8.54	1.50	4.18	3.51
Basic Earnings per share (cents) (normalised profit)	9.20	6.41	5.49	4.18	3.51

The Board considers that the above performance-linked remuneration structure is generating the desired outcome. This is evidenced by:

- (a) the continual growth in operating profits, earnings per share and share price in recent years; and
- (b) the achievement by the executives and the CEO of a level of performance which qualifies them for a significant proportion of the bonus.

In the current year, the Company achieved its financial targets with most divisions meeting budgeted results.

The Company has implemented a Deferred Bonus Scheme applicable to its key employees (other than the CEO) effective from the 2006 financial year. The percentage of deferred bonus is determined each year by the Board. The amount of deferred bonus that accrues each year is based on a percentage of the actual short term annual bonus earned. The deferred bonus is held in a pool and interest accrues on the amount in this account every 12 months based on the 180 day bank bill note rate. For the 2008 financial year, the Board has determined that the deferred bonus will be up to an additional 50% of the bonus earned during the year. Under the Deferred Bonus Scheme, half of the deferred bonus is payable after three years and the balance is payable after five years. If an employee resigns before the deferred bonus, or part of it, is payable then the employee will forfeit any entitlement to the deferred bonus or the relevant part of the deferred bonus (as the case may be).

### **Employment agreements of executives**

#### **Service contracts**

The Company has entered into service contracts with the CEO, CFO, Executive General Manager Mining and Executive General Manager Construction. A summary of each service contract is as follows:

#### **Nick Bowen, Chief Executive Officer and Managing Director**

Mr Bowen commenced on 3 February 2000 and has a service contract with Macmahon Holdings Limited from 1 December 2005 to 30 June 2009. The components of Mr Bowen's remuneration package include:

- A salary package (including superannuation) of \$1,150,000 per annum.
- A STI based on a number of KPI's specified in his contract (including safety, earnings per share, profit after tax, and return on equity elements). Achievement of all KPI's can deliver a cash bonus of 100% of the salary (base and superannuation).
- A LTI which was approved by the shareholders at the 2005 AGM and is based on KPI's linked to outcomes based on Total Shareholder Return when compared with that of Downer EDI Limited, Leighton Holdings Limited, Clough Limited, Transfield Services Limited, United Group Limited, Ausdrill Limited and Monadelphous Limited. The KPI's were met and the performance shares were converted to ordinary shares on 9 July 2008.
- The contract can be terminated by either party with 6 months notice or payment in lieu thereof.

#### **Ross Carroll, Chief Financial Officer**

Mr Carroll commenced on 6 November 2006 and has an evergreen service contract with Macmahon Holdings Limited. The components of Mr Carroll's remuneration package include:

- A current base salary (including superannuation) of \$600,045 per annum.
- A STI based on a number of KPI's determined by the CEO in consultation with the Board.



- Achievement of all KPI's can deliver a cash bonus of up to 60% of the salary (base and superannuation).
- The contract can be terminated by either party with 6 months notice or payment in lieu thereof.

#### **Mark Hine, Executive General Manager Mining**

Mr Hine commenced on 31 January 2005 and has a service contract with Macmahon Holdings Limited from 1 June 2006 to 30 June 2010. The components of Mr Hine's remuneration package include:

- A current base salary (including superannuation) of \$569,972 per annum.
- A STI based on a number of KPI's determined by the CEO in consultation with the Board.
- Achievement of all KPI's can deliver a cash bonus of up to 50% of the salary (base and superannuation).
- The contract can be terminated by either party with 6 months notice or payment in lieu thereof.

#### **Patrick Doyle, Executive General Manager Construction**

Mr Doyle commenced on 15 April 2008 and has an evergreen service contract with Macmahon Holdings Limited. The components of Mr Doyle's remuneration package include:

- A current base salary (including superannuation) of \$650,000 per annum.
- A STI based on a number of KPI's determined by the CEO in consultation with the Board.
- Achievement of all KPI's can deliver a cash bonus of up to 50% of the salary (base and superannuation).
- The contract can be terminated by either party with 6 months notice or payment in lieu thereof.

#### **Executive employment agreements**

The Company has entered into employment agreements with the executives set out below. A summary of each executive employment agreement is as follows:

#### **Neil Wilson, Executive General Manager of Health, Safety, Environment and Quality**

Mr Wilson commenced on 7 May 2003 and has an evergreen employment agreement with Macmahon Contractors Pty Ltd.

The components of Mr Wilson's remuneration package include:

- A current salary package (including superannuation) of \$389,438 per annum.

- A STI based on a number of KPI's determined by the CEO in consultation with the Board.
- Retrenchment/severance benefit based on 2 weeks salary for each completed year of service.
- Achievement of all KPI's can deliver a cash bonus of up to 40% of the salary (base and superannuation).
- The contract can be terminated by either party with 3 months notice or payment in lieu thereof.

#### **Michelle Narustrang, Executive General Manager People & Organisational Development**

Ms Narustrang commenced on 19 May 2008 and has an evergreen employment agreement with Macmahon Contractors Pty Ltd. The components of Ms Narustrang's remuneration package include:

- A current salary package (including superannuation) of \$381,500 per annum.
- A STI based on a number of KPI's determined by the CEO in consultation with the Board.
- Retrenchment/severance benefit based on 2 weeks salary for each completed year of service.
- Achievement of all KPI's can deliver a cash bonus of up to 40% of the salary (base and superannuation).
- The contract can be terminated by either party with 3 months notice or payment in lieu thereof.

#### **Non-executive Directors**

Total remuneration for all Non-executive Directors, last voted upon by shareholders at the 2006 AGM, is not to exceed \$800,000 per annum excluding superannuation. Remuneration of Non-executive Directors is set based on advice from external advisors with reference to fees paid to other Non-executive Directors of comparable companies. Aggregate Non-executive Directors' fees are presently at \$682,500 per annum.

Other than options approved by shareholders in the past, Non-executive Directors do not receive performance-related remuneration. Directors' fees cover all main Board activities and membership of committees. Non-executive Directors receive a fee for being the chairperson or a member of a Board committee.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 3.4.2 Directors' and executive officers' remuneration (consolidated) - audited

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named Company executives and relevant group executives who receive the highest remuneration are:

		SHORT-TERM				POST EMPLOYMENT	OTHER LONG TERM	TERMINATION BENEFITS	SHARE-BASED PAYMENTS		S300A (1)(e)(i) PROPORTION OF REMUNERATION PERFORMANCE RELATED %	S300A (1)(e)(ii) VALUE OF OPTIONS AS PROPORTION OF REMUNERATION %
		SALARY & FEES \$	STI CASH BONUS (A) \$	NON-MONETARY BENEFITS \$	TOTAL \$	SUPERANNUATION BENEFITS \$			VALUE OF OPTIONS (B) \$	TOTAL \$		
<b>Directors</b>												
<b>Non-executive</b>												
R J Carter, (Chairman)	2008	184,404	-	-	184,404	15,771	-	-	-	200,175	-	-
	2007	163,807	-	-	163,807	14,742	-	-	19,755	198,304	-	10
B L Cusack	2008	97,707	-	-	97,707	8,463	-	-	-	106,170	-	-
	2007	85,384	-	-	85,384	7,685	-	-	19,755	112,824	-	18
B R Ford	2008	3,593	-	-	3,593	89,907	-	-	-	93,500	-	-
	2007	6,644	-	-	6,644	73,826	-	-	-	80,470	-	-
M A Kinnaird	2008	96,437	-	-	96,437	-	-	-	20,426	116,863	-	17
	2007	89,925	-	-	89,925	-	-	-	31,064	120,989	-	26
J C Massey <sup>1</sup>	2008	57,505	-	-	57,505	19,398	-	-	-	76,903	-	-
	2007	-	-	-	-	-	-	-	-	-	-	-
V A Vella <sup>2</sup>	2008	50,172	-	-	50,172	4,516	-	-	-	54,688	-	-
	2007	-	-	-	-	-	-	-	-	-	-	-
D J Humann <sup>3</sup>	2008	-	-	-	-	-	-	-	-	-	-	-
	2007	29,792	-	-	29,792	2,438	-	-	-	32,230	-	-
<b>Director Executive</b>												
N R Bowen, CEO	2008	1,042,820	803,801	11,393	1,858,014	50,787	-	-	560,085 <sup>4</sup>	2,468,886	33	23 <sup>4</sup>
	2007	867,773	797,000	2,918	1,667,691	40,560	-	-	558,555	2,266,806	35	25

## 3.4.2 Directors' and executive officers' remuneration (consolidated) - audited (cont.)

		SHORT-TERM				POST EMPLOYMENT	OTHER LONG TERM <sup>5</sup>	TERMINATION BENEFITS \$	SHARE-BASED PAYMENTS	S300A (1)(e)(i) PROPORTION OF REMUNERATION PERFORMANCE RELATED %	S300A (1)(e)(vi) VALUE OF OPTIONS AS PROPORTION OF REMUNERATION %
		SALARY & FEES \$	STI CASH BONUS (A) \$	NON-MONETARY BENEFITS \$	TOTAL \$						
<b>Executives</b>											
R A Carroll, Chief Financial Officer	2008	528,260	266,780	9,959	804,999	50,431	133,390	-	124,504	36	11
	2007	293,538	144,000	2,918	440,456	26,418	72,000	-	100,692	34	16
R L Blair, Chief Financial Officer <sup>6</sup>	2008	-	-	-	-	-	-	-	-	-	-
	2007	115,856	-	-	115,856	7,717	-	-	8,231	-	6
P S Hatt, EGM Strategic Development & Risk <sup>7</sup>	2008	198,961	-	6,639	205,600	93,430	-	-	13,082	-	4
	2007	331,938	88,000	3,341	423,279	29,874	22,000	-	39,177	21	8
M A Hine, EGM Mining	2008	515,641	72,814	7,117	595,572	42,971	36,407	-	133,319	14	16
	2007	457,534	225,000	18,950	701,484	41,178	112,500	-	153,055	33	15
W A Rooney, EGM Construction <sup>8</sup>	2008	464,480	189,308	-	653,788	98,915	-	-	59,313	23	7
	2007	489,071	166,000	-	655,071	76,784	83,000	-	61,956	28	7
N J Wilson, EGM HSEQ	2008	351,558	56,157	-	407,715	31,640	28,078	-	31,276	17	6
	2007	277,779	62,000	-	339,779	25,000	15,500	-	37,531	19	9
P F Doyle, EGM Construction <sup>9</sup>	2008	176,491 <sup>11</sup>	40,000	659	217,150	11,384	20,000	-	-	24	-
	2007	-	-	-	-	-	-	-	-	-	-
M A Narustrang, EGM People & Organisational Development <sup>10</sup>	2008	42,423	-	415	42,838	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-	-	-
<b>Total compensation: directors and executive personnel</b>											
	2008	3,810,452	1,428,860	36,182	5,275,494	517,613	217,875	-	942,005	-	-
	2007	3,209,041	1,482,000	28,127	4,719,168	346,222	305,000	-	1,029,771	-	-

- J C Massey appointed 1 September 2007.
- V A Vella appointed 19 November 2007.
- D J Humann retired on 10 November 2006.
- Relates to Performance Shares - refer to paragraph 3.4.4.1 for details.
- These amounts are the deferred bonus payable under the Deferred Bonus Scheme as detailed in paragraph 3.4.1 above.
- R L Blair resigned on 28 September 2006.
- P S Hatt resigned on 29 February 2008.
- W A Rooney ceased as EGM Construction on 24 June 2008. The period 15 April 2008 to 24 June 2008 was a transitional handover period between W A Rooney and P F Doyle. Mr Rooney who was employed by Macmahon Contractors Pty Ltd from 7 January 1991 is entitled under his contract to severance benefits of 6 months in lieu of notice and 2 weeks salary for each year of completed service. W A Rooney was still employed with the group as at 30 June 2008.
- P F Doyle appointed 15 April 2008.
- M A Narustrang appointed 19 May 2008.
- This amount includes a \$50,000 sign on bonus.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 3.4.2 Directors' and executive officers' remuneration (consolidated) - audited (cont.)

### Notes in relation to the table of directors' and executive officers remuneration - audited

- The STI bonus is for performance during the 30 June 2008 financial year using the criteria set out in paragraph 3.4.1. The amount was finally determined on 15 August 2008 after performance reviews were completed and approved by the Board.
- The fair value of the options is calculated at the date of grant using the Monte Carlo model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

The following factors and assumptions were used in determining the fair value of options on grant date:

	2008 EXECUTIVE OPTIONS <sup>1</sup>	2007 EXECUTIVE OPTIONS <sup>1</sup>	CFO OPTIONS <sup>2</sup>
Fair value at measurement date	\$0.65 - \$0.70	\$0.21 - \$0.24	\$0.20 - \$0.23
Valuation Model	Monte Carlo	Monte Carlo	Monte Carlo
Share price	\$1.28	\$0.82	\$0.84
Exercise price	\$0.60	\$0.82	\$0.84
Expected life (years)	2.4 - 3.9	4.3 - 5.5	4.0 - 5.3
Company volatility	35%	35%	35%
Dividend yield	2.77%	2.40%	2.40%
Risk free interest rate	6.28% - 6.30%	6.04% - 6.09%	5.68% - 5.73%

- Options were issued at various dates. Fair values and assumptions above relate to those options newly impacting on the share based payment expense recognised for the period, and were provided by independent valuers.
- CFO options were granted to the CFO as part of his remuneration package on 8 September 2006 under the 2005 Executive Option Scheme.

### Details of performance related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance related is discussed under paragraph 3.4.1.

## 3.4.3 Analysis of bonuses included in remuneration - audited

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company and each of the six named Company executives and relevant group executives are detailed below.

### Short term incentive bonus

THE COMPANY & CONSOLIDATED	INCLUDED IN REMUNERATION \$ (A)	VESTED IN YEAR %	FORFEITED IN YEAR % (B)	DEFERRED BONUS \$ (C)
N R Bowen	803,801	73.5	26.5	N/A
R A Carroll	266,780	74.1	25.9	133,390
M A Hine	72,814	25.6	74.4	36,407
N J Wilson	56,157	36.1	63.9	28,078
P F Doyle	40,000 <sup>1</sup>	N/A	N/A	20,000
W A Rooney <sup>2</sup>	189,308	65.7	34.3	N/A
M A Naruistrang <sup>3</sup>	N/A	N/A	N/A	N/A

- Mr Doyle commenced on 15 April 2008 and was paid a discretionary bonus, not linked to specified performance criteria.
  - Mr Rooney ceased as EGM Construction on 24 June 2008.
  - Ms Naruistrang commenced on 19 May 2008 and was not eligible to receive a short term incentive or deferred bonus.
- (A) Amounts included in remuneration for the financial year represent amounts that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2008 financial year except for the deferred bonus.
- (B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.
- (C) The deferred bonus is calculated up to 50% of the STI and is part of the Deferred Bonus Scheme as detailed in paragraph 3.4.1 above.

## 3.4.4 Equity instruments - audited

All options refer to options over ordinary shares of the Company which are exercisable on a one-for-one basis under the Executive Option Scheme.



### 3.4.4.1 Analysis of share-based payment granted as remuneration - audited

Details of vesting profile of the options granted as remuneration to each director of the Company and each of the six named Company executives and relevant group executives is detailed below.

#### Options

	OPTIONS GRANTED				FINANCIAL YEARS IN WHICH GRANT VESTS	VALUE YET TO VEST \$	
	NUMBER	DATE	% VESTED IN YEAR	FORFEITED IN YEAR (A)		MIN (B)	MAX (C)
Executives							
R A Carroll	2,000,000	08/09/2006	Nil	Nil	2009 - 2012	-	435,000
M A Hine	500,000	14/02/2006	25	Nil	2008 - 2011	-	108,750
M A Hine	1,500,000	23/06/2006	25	Nil	2008 - 2011	-	266,250
W A Rooney	750,000	14/02/2006	25	Nil	2008 - 2011	-	163,125
N J Wilson	400,000	14/02/2006	25	Nil	2008 - 2011	-	87,000
P S Hatt <sup>1</sup>	400,000	14/02/2006	25	75	2008 - 2011	-	-

1 PS Hatt resigned on 29 February 2008.

(A) The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.

(B) The minimum value of options yet to vest is \$0.00 as the performance criteria may not be met and consequently the option may not vest.

(C) The maximum value of options yet to be exercised is not determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange ("ASX") at the date the option is exercised. The maximum value presented in the tables above and below represents the portions of the fair value of the options which have not vested at 30 June 2008.

#### Performance Shares<sup>1</sup>

	NUMBER	DATE	% VESTED IN YEAR <sup>2</sup>	FORFEITED IN YEAR (A)	FINANCIAL YEARS IN WHICH GRANT VESTS
<b>A Class</b>					
N R Bowen	2,000,000	02/12/2005	Nil	Nil	2008
<b>B Class</b>					
N R Bowen	2,000,000	02/12/2005	Nil	Nil	2008

1 N R Bowen was issued with 4,000,000 Performance Shares pursuant to his contract dated 2 December 2005. Details of these shares were disclosed at the 2005 Annual General Meeting. The conditions for conversion of the performance shares to ordinary shares were met and the performance shares were converted to ordinary shares on 9 July 2008. The conditions were that:

For A Class Performance Shares:

1.1 the Total Shareholder Return of the Company being equal to the average of the Total Shareholder Return of a peer group of listed companies over the period from 1 September 2005 to 30 June 2008 as specified in Mr Bowen's employment contract with the Company dated 2 December 2005.

1.2 N R Bowen remaining as CEO of the Company until and including 30 June 2008.

For B Class Performance Shares:

1.3 the Total Shareholder Return of the Company exceeding by 10% or more the average of the Total Shareholder Return of a peer group of listed companies over the period from 1 September 2005 to 30 June 2008 as specified in Mr Bowen's employment contract with the Company dated 2 December 2005.

1.4 N R Bowen remaining as CEO of the Company until and including 30 June 2008.

2 The Performance Shares vested on 1 July 2008.

(A) The percentage forfeited in the year represents the reduction from the maximum number of performance shares available to vest due to the highest level performance criteria not being achieved.

(B) The performance shares have vested and as a result the minimum value is Nil.

(C) The performance shares have vested and as a result the maximum value is Nil.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 3.4.4.2 Options and rights over equity instruments granted as compensation - audited

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	NUMBER OF OPTIONS GRANTED DURING 2008	GRANT DATE	NUMBER OF OPTIONS VESTED (V)/ EXERCISED (E) DURING 2008	FAIR VALUE PER OPTION AT GRANT DATE (\$)	EXERCISE PRICE PER OPTION GRANTED (G)/ VESTED (V) (\$)	EXPIRY DATE OF OPTION GRANTED IN 2008	EXPIRY DATE OF OPTION VESTED/ EXERCISED
<b>Executives</b>							
M A Hine	-	14/02/2006	125,000(v) <sup>1</sup>	0.30	0.60(v)	-	14/08/2011
MA Hine	-	23/06/2006	375,000 (v) <sup>1</sup>	0.25	0.795 (v)	-	22/12/2011
W A Rooney	-	11/01/2005	400,000(e) <sup>2</sup>	0.11	0.61(v)	-	15/01/2010
W A Rooney	-	14/02/2006	187,500 (v) <sup>1</sup>	0.30	0.60 (v)	-	14/08/2011
W A Rooney	-	14/02/2006	187,500 (e) <sup>1</sup>	0.30	0.60 (v)	-	14/08/2011
N J Wilson	-	26/03/2004	228,571 (e) <sup>2</sup>	0.08	0.42(v)	-	30/10/2008
N J Wilson	-	14/02/2006	100,000(v) <sup>1</sup>	0.30	0.60(v)	-	14/08/2011
P S Hatt <sup>3</sup>	-	11/01/2005	100,000(e) <sup>2</sup>	0.11	0.61(v)	-	15/01/2010
P S Hatt <sup>3</sup>	-	14/02/2006	100,000 (v) <sup>1</sup>	0.30	0.60 (v)	-	14/08/2011
P S Hatt <sup>3</sup>	-	14/02/2006	100,000 (e) <sup>1</sup>	0.30	0.60 (v)	-	14/08/2011

On the 14 July 2008 options over ordinary shares in the Company were granted to the following executives:

- Patrick F Doyle 500,000 options<sup>1</sup>
- Michelle A Narustrang 250,000 options<sup>1</sup>

1 These options were issued pursuant to the Macmahon 2005 Executive Option Scheme. The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on the 2nd, 3rd, 4th and 5th anniversary of the grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Company achieving certain performance hurdles.

2 These options were issued under the Macmahon 2000 Executive Option Scheme. The options were issued for no consideration. The options expire 5 years after the grant date, and may not be exercised until the expiration of 18 months from the grant date. One half of the options (1st tranche) may be exercised if the market share price is 1.5 times the exercise price, and the balance (2nd tranche) may be exercised if the market share price is 2.0 times the exercise price.

Further details regarding options granted to executives under the 2005 Executive Option Scheme and previous schemes are in note 22 to the financial statements.

3 P S Hatt resigned on 29 February 2008.

	NUMBER OF OPTIONS GRANTED DURING 2007 <sup>1</sup>	GRANT DATE	NUMBER OF OPTIONS VESTED (V)/ EXERCISED (E) DURING 2007 <sup>2</sup>	FAIR VALUE PER OPTION AT GRANT DATE (\$)	EXERCISE PRICE PER OPTION GRANTED (G)/ VESTED (V) (\$)	EXPIRY DATE OF OPTION GRANTED IN 2007	EXPIRY DATE OF OPTION VESTED/ EXERCISED
<b>Directors</b>							
B L Cusack	-	31/10/2003	1,000,000(e)	0.11	0.42(v)	-	30/10/2008
M A Kinnaird	-	07/12/2004	1,000,000(v)	0.10	0.61(v)	-	06/12/2009
<b>Executives</b>							
R L Blair <sup>3</sup>	-	26/03/2004	500,000(e)	0.08	0.42(v)	-	30/10/2008
R A Carroll	2,000,000	08/09/2006	-	0.20-0.23	0.84(g)	07/03/2012	-
M A Hine	-	25/01/2005	400,000(v)	0.11	0.61(v)	-	15/01/2010
M A Hine	-	25/01/2005	200,000(e)	0.11	0.61(v)	-	15/01/2010
W A Rooney	-	25/01/2005	400,000(v)	0.11	0.61(v)	-	15/01/2010
N J Wilson	-	11/01/2005	200,000(v)	0.11	0.61(v)	-	15/01/2010
P S Hatt <sup>4</sup>	-	26/03/2004	400,000(e)	0.08	0.42(v)	-	30/10/2008
P S Hatt <sup>4</sup>	-	11/01/2005	200,000(v)	0.11	0.61(v)	-	15/01/2010
P S Hatt <sup>4</sup>	-	11/01/2005	100,000(e)	0.11	0.61(v)	-	15/01/2010

- 1 These options were issued pursuant to the Macmahon 2005 Executive Option Scheme. The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on the 2nd, 3rd, 4th and 5th anniversary of the grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Company achieving certain performance hurdles. For options granted in the 2007 year, the earliest exercise date is 8 September 2008.
- 2 These options were issued under the Macmahon 2000 Executive Option Scheme. The options were issued for no consideration. The options expire 5 years after the grant date, and may not be exercised until the expiration of 18 months from the grant date. One half of the options (1st tranche) may be exercised if the market share price is 1.5 times the exercise price, and the balance (2nd tranche) may be exercised if the market share price is 2.0 times the exercise price.  
Further details regarding options granted to executives under the 2005 Executive Option Scheme and previous schemes are in note 22 to the financial statements.
- 3 R L Blair resigned on 28 September 2006.
- 4 P S Hatt resigned on 29 February 2008.

### 3.4.5 Analysis of movements in options - audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the six named Company executives and relevant group executives is detailed below.

	VALUE OF OPTIONS OR PERFORMANCE SHARES			
	GRANTED IN YEAR \$ (A)	EXERCISED IN YEAR \$ (B)	FORFEITED IN YEAR \$ (C)	TOTAL VALUE IN YEAR \$
W A Rooney	-	624,750	-	624,750
N J Wilson	-	302,857	-	302,857
P S Hatt	-	164,000	90,000	254,000
	-	1,091,607	90,000	1,181,607

- (A) There were no options granted to the directors or the six named company executives and relevant group executives during the reporting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company on the ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a Monte Carlo formula with no adjustments for whether the performance criteria have or have not been achieved.

# Directors' Report (cont.)

For the year ended 30 June 2008

## 3.5 Audit Committee

The Audit Committee has a documented charter, approved by the Board. The Audit Committee is to consist of only Non-executive Directors, a majority of independent directors, an independent chairperson who is not chairperson to the Board and have at least three members, in accordance with the ASX Principles and Recommendations. The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The Audit Committee's charter is available on the Company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

The members of the Audit Committee and their attendance at Audit Committee meetings during the year are as follows:

Audit Committee Members	NUMBER OF AUDIT COMMITTEE MEETINGS	
	HELD <sup>1</sup>	ATTENDED
B L Cusack (independent Chairman of the Audit Committee)	4	4
R J Carter (independent)	4	4
M A Kinnaird (independent, retired from the Audit Committee on 8 November 2007)	1	1
B R Ford (independent)	4	4
J C Massey (independent, appointed a member of the Audit Committee on 8 November 2007)	3	3

1 Number of meetings held during the time the Director was a member of the Audit Committee.

The Audit Committee is comprised of appropriate qualified directors who have financial expertise. Details of each of the director's qualifications are set out in the Director's Report.

The external and internal auditors, the CEO, the CFO and the Group Financial Controller are invited to Audit Committee Meetings at the discretion of the Audit Committee.

The current auditor for the Company is KPMG. This firm was appointed as the Company's auditor in November 2005.

## 3.6 Risk management

### Oversight of the risk management system

The Board is responsible for the Company's system of internal controls relating to the operational, administrative and financial aspects of the Company's activities. The Board oversees the establishment, implementation and monitoring of the Company's risk management system.

### Monitoring of risk by the Board

The Board monitors risk management by:

- receiving monthly reports in respect of operations, the financial position and the safety performance of the Company;

- considering the recommendations and advice of external and internal auditors and other external advisers on the operational and financial risks that face the Company;
- ensuring recommendations made by the external and internal auditors and other external advisers are investigated and where considered necessary, appropriate actions are taken to ensure that the Company has an appropriate internal control environment and systems in place to manage the key risks identified;
- attending presentations made to the Board by members of the management team on the nature of particular risks and details of the measures which are either in place or can be adopted to manage or mitigate the risk; and
- requesting additional operational and project audits to be undertaken should the need arise.

## Risk and Opportunity Management Steering Committee

The Steering Committee determines the risk management strategy, reviews the risk profile, reviews risk management performance and reports to the Board. The Committee comprises of one Non-executive Director of the Board (Chairman), the Chief Executive Officer, the Chief Financial Officer, Executive General Manager Construction, Executive General Manager Mining, and the Group Risk Manager.

## Financial reporting and audits

The CEO and the CFO provide a written statement to the Board each half and full year confirming that the financial records of the Company for the financial year have been properly maintained, and that the Company's financial reports for the financial year comply with accounting standards and present a true and fair view of the Company's financial condition and operational results.

Such written statement is provided by the CEO and CFO on the basis that it is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies which have been adopted by the Board of directors either directly or through delegation to senior executives and that the such systems are operating effectively and efficiently in all material respects.

Internal audits and third party audits covering financial and operational aspects of the Company's activities are conducted throughout the year.

## Environmental regulation

The Macmahon Environmental Management System is certified to the International Standard ISO14001 which is subject to regular external third party and internal audits. Our overall environmental performance is assessed during these audits as well as during regular business unit and senior management meetings and reviews.

The Company's Health, Safety, Environment, Quality and Community Report contains further information regarding its environmental performance and will be available on the Company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

No environmental breaches have been notified by any government agency during the year ending 30 June 2008.

### 3.7 Board performance

A review of the Board's performance is undertaken annually. The intent of the review is to gauge the effectiveness of the Board as a whole.

An external facilitator is appointed to collate responses from executive management and from board members for the assessment of the performance of the Board and the Chairman. Individual performance of board members is reviewed periodically by way of questionnaires and private forum.

The Board, in open forum, also focuses on the appropriate skills and characteristics required of board members. This assessment includes issues of judgment, accomplishment, character, diversity, skills, background, and other matters necessary to achieve the Company's objectives and is viewed in the context of the perceived needs of the Board and the current makeup of the Board at that point in time.

During the year ended 30 June 2008 the performance of the Board was assessed in accordance with this policy.

### 3.8 Conflicts of interest

Board members are required to identify any conflict of interest they may have in dealing with the Company's affairs and subsequently to refrain from participating in any discussion or voting on these matters. Directors and executives are required to disclose in writing any related party transactions.

Executives are contractually prohibited from involvement in any activities that might be in conflict with the Company's activities or interests. Any exception to this requires written approval from the CEO.

### 3.9 Trading in shares

Directors, officers and employees of the Company must not, whether in their own capacity or as an agent for another, subscribe for, purchase or sell, or enter into an agreement to subscribe for, purchase or sell, any securities in the Company, or procure another person to do so if they possess inside information.

Directors and Officers of the Company are strongly encouraged to follow a long-term holding policy with respect to their investments in the Company's securities (which includes derivatives). Directors and Officers are prohibited from any trading of a short-term or speculative nature in the securities of the Company.

The Trading in Shares policy is available on the Company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

### 3.10 Continuous Disclosure Policy

The Company's Continuous Disclosure Policy is available on the Company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

The policy sets out the Company's internal notification and decision-making responsibilities concerning its continuous disclosure obligations. The policy addresses measures for seeking to avoid the emergence of a false market in the Company's securities and the procedure for media contact and comment as well as speaking with analysts and responding to shareholder questions.

### 3.11 Periodic disclosure

The Company is committed to the full and accurate reporting of its financial results. Consequently, when complying with its periodic disclosure requirements the Company will provide commentary on its financial results. The purpose of the commentary will be to clarify and balance the information in the financial results and it will be delivered in a manner that is neutral, free from any bias and easy to understand. This may involve the provision of both positive and negative information that the Company believes is necessary to keep investors fully informed.

The Company's Corporate Governance policies and procedures, annual reports, profit announcements, CEO briefings, notices of meetings, media releases, analyst presentations and ASX announcements are published on the Company website.

Shareholders are encouraged to attend general meetings or other shareholders' briefings from time to time. At these meetings shareholders are given the opportunity to meet with and question the Board and management on the Company's performance and activities. The external auditors to the Company are also required to attend the annual general meetings of shareholders and to be available to answer questions from shareholders in relation to the audit.

### 3.12 Code of Conduct

The Board, management and all employees of the Company are committed to implementing the Company's Code of Conduct when dealing with clients, government authorities, creditors and the community as whole as well as other employees.

The Company's Code of Conduct is available on the Company's website at [www.macmahon.com.au](http://www.macmahon.com.au)

### 3.13 Existence and terms of any schemes for retirement benefits for Non-executive Directors

There are no termination or retirement benefits for Non-executive Directors.



# Directors' Report (cont.)

For the year ended 30 June 2008

## 4. Review of operations

A review of the operations of the Company during the financial year and of the results of those operations is contained on pages 2 to 7 and forms part of this report.

### 4.1 Principal activities

The principal activities of the Company consist of civil construction and contract mining.

There were no significant changes in the nature of the activities of the Company during the year.

During the financial year there was no significant change in the state of affairs of the Company other than that referred to in the financial statements or notes thereto.

## 5. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	CENTS PER SHARE	TOTAL AMOUNT \$'000	FRANKED/ UNFRANKED	DATE OF PAYMENT
<i>Declared and paid during the year</i>				
<b>2008</b>				
Interim 2008	2.0	10,627	Franked	4 April 2008
Final 2007	2.0	10,512	Franked	9 October 2007
Total amount		21,139		

Franked dividends declared as paid during the year were franked at the rate of 30%. Further information is set out in note 24 of the Financial Statements.

### *Declared after end of year*

After the balance sheet date the following dividend has been declared by the directors.

Final ordinary				
Total amount	3.5	18,736	Franked	10 October 2008

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports.

## 6. Events subsequent to reporting date

On 20 August 2008 Macmahon announced that it had increased the consideration under its takeover offer for Ausdrill Limited to 1.65 Macmahon shares for each Ausdrill share. The amount of the increased offer is final, and will not be further increased in the absence of a competing proposal. If the offer is successful, Macmahon will issue approximately 142,308,000 new ordinary shares based on 50.1% of acceptances being achieved and up to a maximum of approximately 284,048,000 shares if 100% of acceptances are achieved. Macmahon's offer is currently due to close on 16 September 2008.

## 7. Likely developments

Disclosures of information regarding likely developments in the operations of the Company in future financial years are included in the Review of Operations.

## 8. Directors' interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Company and other related bodies corporate, as notified by the directors to the ASX in accordance with section 205G (1) of the Corporations Act 2001, at the date of this report is as follows:

### Macmahon Holdings Limited

	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
R J Carter	245,253	1,000,000
N R Bowen	14,532,829	-
B L Cusack	750,000	-
M A Kinnaird	245,624	1,000,000
B R Ford	100,000	-
J C Massey <sup>1</sup>	40,000	-
V A Vella <sup>2</sup>	30,442	-

<sup>1</sup> J C Massey appointed 1 September 2007.

<sup>2</sup> V A Vella appointed 19 November 2007.

## 9. Share options

At the date of this report unissued ordinary shares of the Company under option are as follows:

EXPIRY DATE	EXERCISE PRICE (CENTS)	NUMBER OF SHARES
26/03/2004	0.420	71,429
30/10/2008	0.420	1,000,000
06/12/2009	0.610	1,000,000
15/01/2010	0.610	850,000
14/08/2011	0.600	6,751,374
22/12/2011	0.795	1,500,000
07/03/2012	0.840	2,000,000
19/04/2013	0.820	1,637,000
14/07/2014	1.620	1,600,000
		<b>16,409,803</b>

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, for those options expiring after 15 January 2010, the ability to exercise the options is conditional on the Company's share price reaching a certain level. Further details are set out in note 22 to the Financial Statements.

Options do not entitle the holder to participate in any share issue of the Company or any other body corporate until they have been exercised.

### Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

NUMBER OF SHARES	AMOUNT PAID ON EACH SHARE (CENTS)
528,571	0.42
1,060,752	0.60
2,225,000	0.61

# Directors' Report (cont.)

For the year ended 30 June 2008

## 10. Indemnification and insurance of officers and executives

### Indemnification

During the financial year, the Company paid an insurance premium to insure all directors, company secretaries, and officers of the Company and its related entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than fines or other criminal penalties or where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their positions or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### Insurance premiums

Since the end of the previous financial year the Company has paid insurance premiums of \$256,076 in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including executives, secretaries and managers of the Company and its controlled entities. The insurance policy provides cover for costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

## 11. Non-audit services

During the year KPMG, the Company's auditor, performed services in addition to their statutory duties as set out in note 33. The Board has considered the non audit services provided during the year by the auditor and is satisfied that the provision of those non audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001.

## 12. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 27 and forms part of the directors' report for financial year 2008.

## 13. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:



**Nick Bowen**

Director

Dated at Perth this 29 day of August 2008.

# Auditor's Independence Declaration

For the year ended 30 June 2008



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

To: the directors of Macmahon Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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

A blue ink signature of a KPMG representative.

KPMG

A blue ink signature of D P McComish.

D P McComish  
*Partner*

Perth  
29 August 2008

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

# Income Statements

For the year ended 30 June 2008

<i>In thousands of AUD</i>	Note	CONSOLIDATED 2008	2007	THE COMPANY 2008	2007
<b>Continuing Operations</b>					
Revenue	3,4	1,201,216	902,771	-	-
Other income	5	1,731	4,147	418	125
Materials and consumables used		(515,831)	(399,536)	(1)	-
Employee benefits expense		(467,496)	(354,966)	(3,992)	(2,916)
Subcontractor costs		(92,156)	(45,114)	-	-
Depreciation and amortisation expenses		(40,209)	(34,813)	(197)	-
Rental expenses relating to operating leases	26	(4,657)	(3,144)	-	-
Other expenses		(13,450)	(20,958)	15,257	7,272
<b>Results from operating activities</b>		<b>69,148</b>	<b>48,387</b>	<b>11,485</b>	<b>4,481</b>
Financial income	7	5,253	3,470	39,931	33,792
Financial expenses	7	(12,766)	(13,901)	(4,218)	(4,004)
Net financing (costs)/income		(7,513)	(10,431)	35,713	29,788
Share of profit of jointly controlled entities accounted for using the equity method	16	5,540	5,887	-	-
<b>Profit before income tax</b>		<b>67,175</b>	<b>43,843</b>	<b>47,198</b>	<b>34,269</b>
Income tax (expense)/benefit	9	(17,797)	(13,800)	1,853	1,677
<b>Profit from continuing operations</b>		<b>49,378</b>	<b>30,043</b>	<b>49,051</b>	<b>35,946</b>
<b>Discontinued operation</b>					
Profit from discontinued operation (net of tax)	8	-	3,378	-	-
Profit from sale of discontinued operation (net of tax)	8	-	11,110	-	11,110
<b>Profit for the year</b>		<b>49,378</b>	<b>44,531</b>	<b>49,051</b>	<b>47,056</b>
Attributable to:					
Equity holders of the Company		48,755	44,511	49,051	47,056
Minority interest		623	20	-	-
<b>Profit for the year</b>	24	<b>49,378</b>	<b>44,531</b>	<b>49,051</b>	<b>47,056</b>
<b>EARNINGS PER SHARE</b>					
<b>For profit attributable to ordinary equity holders of the Company</b>					
Basic (cents per share)	10	9.20	8.54		
Diluted (cents per share)	10	9.06	8.39		
<b>For Continuing Operations:</b>					
Basic (cents per share)	10	9.20	5.76		
Diluted (cents per share)	10	9.06	5.66		

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 32 to 82.



# Statements of Recognised Income and Expense

For the year ended 30 June 2008

<i>In thousands of AUD</i>	<b>Note</b>	<b>CONSOLIDATED</b>		<b>THE COMPANY</b>	
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Foreign currency translation differences for foreign operations	24	(920)	106	-	-
Effective portion of changes in fair value of cash flow hedges	24	-	411	-	-
Net income recognised directly in equity		(920)	517	-	-
Profit for the year		49,378	44,531	49,051	47,056
<b>Total recognised income and expense for the year</b>	<b>24</b>	<b>48,458</b>	<b>45,048</b>	<b>49,051</b>	<b>47,056</b>
Attributable to:					
Equity holders of the Company		47,835	45,028	49,051	47,056
Minority interest		623	20	-	-
<b>Total recognised income and expense for the year</b>		<b>48,458</b>	<b>45,048</b>	<b>49,051</b>	<b>47,056</b>

Other movements in equity arising from transactions with owners as owners are set out in note 24.

The amounts recognised directly in equity are disclosed net of tax where applicable.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 32 to 82.

# Balance Sheets

For the year ended 30 June 2008

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	11	120,098	114,644	70,843	61,503
Trade and other receivables	12	180,999	128,976	316	143
Inventories	13	33,452	34,144	-	-
Current tax receivable	14	268	344	-	-
<b>Total current assets</b>		<b>334,817</b>	<b>278,108</b>	<b>71,159</b>	<b>61,646</b>
<b>Non-current assets</b>					
Trade and other receivables	12	-	-	178,306	146,934
Other financial assets	29	-	-	72,218	64,571
Investments accounted for using the equity method	16	5,886	4,658	-	-
Deferred tax assets	17	359	1,204	909	522
Property, plant and equipment	18	257,937	255,667	-	-
Intangible assets	19	31,321	20,512	1,735	-
<b>Total non-current assets</b>		<b>295,503</b>	<b>282,041</b>	<b>253,168</b>	<b>212,027</b>
<b>Total assets</b>		<b>630,320</b>	<b>560,149</b>	<b>324,327</b>	<b>273,673</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	20	168,533	138,846	280	1,406
Loans and borrowings	21	32,550	33,815	-	-
Employee benefits	22	35,096	27,965	1,854	-
Current tax liabilities	14	11,657	5,448	11,623	5,401
Provisions	23	6,354	655	18	-
<b>Total current liabilities</b>		<b>254,190</b>	<b>206,729</b>	<b>13,775</b>	<b>6,807</b>
<b>Non-current liabilities</b>					
Trade and other payables	20	-	-	14,914	11,377
Deferred tax liabilities	17	6,434	5,630	-	-
Loans and borrowings	21	116,771	135,600	44,399	44,702
Employee benefits	22	1,925	941	8	-
Provisions	23	-	100	-	-
<b>Total non-current liabilities</b>		<b>125,130</b>	<b>142,271</b>	<b>59,321</b>	<b>56,079</b>
<b>Total liabilities</b>		<b>379,320</b>	<b>349,000</b>	<b>73,096</b>	<b>62,886</b>
<b>Net assets</b>		<b>251,000</b>	<b>211,149</b>	<b>251,231</b>	<b>210,787</b>
<b>Equity</b>					
Issued capital	24	240,880	229,962	240,880	229,962
Reserves	24	(1,228)	(308)	-	-
Retained earnings/(accumulated losses)	24	9,654	(19,576)	10,351	(19,175)
<b>Total equity attributable to equity holders of the Company</b>		<b>249,306</b>	<b>210,078</b>	<b>251,231</b>	<b>210,787</b>
<b>Minority interest</b>	24	<b>1,694</b>	<b>1,071</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>251,000</b>	<b>211,149</b>	<b>251,231</b>	<b>210,787</b>

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 32 to 82.

# Statements of Cash Flows

For the year ended 30 June 2008

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
<b>Cash flows from operating activities</b>					
Cash receipts from customers		1,270,439	988,625	287	85
Cash paid to suppliers and employees		(1,168,974)	(910,795)	(4,713)	(2,704)
Receipts from joint venture entities		4,312	7,753	-	-
Cash generated from operations		105,777	85,583	(4,426)	(2,619)
Interest paid		(12,766)	(14,490)	(4,218)	(4,004)
Dividends received		-	-	35,000	30,500
Interest received		5,253	3,470	4,931	3,292
Income taxes paid		(9,978)	(5,832)	(9,978)	(5,832)
<b>Net cash provided by operating activities</b>	31	88,286	68,731	21,309	21,337
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		5,686	12,444	-	-
Proceeds from disposal of discontinued operations, net of cash disposed of	8	-	67,040	-	67,040
Acquisition of subsidiary, net of cash acquired	30	-	(29,250)	-	(29,250)
Acquisition of property, plant and equipment <sup>1</sup>		(37,253)	(33,009)	-	-
Acquisition of intangibles		(9,267)	-	(1,932)	-
Payment of contingent consideration		(1,448)	-	-	-
Loans from/(to) controlled entities		-	-	487	(33,593)
<b>Net cash (used in)/provided by investing activities</b>		(42,282)	17,225	(1,445)	4,197
<b>Cash flows from financing activities</b>					
Proceeds from the issue of share capital		1,753	1,515	1,753	1,515
Proceeds from borrowings <sup>2</sup>		56,072	20,000	45,000	20,000
Repayment of borrowings and finance lease/hire purchase liabilities <sup>2</sup>		(85,863)	(71,568)	(45,303)	(19,845)
Dividends paid		(11,974)	(8,780)	(11,974)	(8,780)
<b>Net cash used in financing activities</b>		(40,012)	(58,833)	(10,524)	(7,110)
Net increase in cash and cash equivalents		5,992	27,123	9,340	18,424
Effect of exchange rate changes on the balance of cash held in foreign currencies		(538)	106	-	-
Cash and cash equivalents at beginning of year		114,644	87,415	61,503	43,079
<b>Cash and cash equivalents at end of year</b>	11	120,098	114,644	70,843	61,503

1 The consolidated entity acquired plant and equipment on finance leases and hire purchase agreements amounting to \$9,697,000 (2007: \$57,874,110) during the year which has been excluded from the cash flow.

2 The major movement in proceeds from borrowings and repayment of borrowings was the refinancing of the \$45 million term loan, in October 2007, as part of the consolidated entity's new financing facilities.

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 32 to 82.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

## 1. Significant accounting policies

### Reporting entity

Macmahon Holdings Limited (the “**Company**”) is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2008 comprises of the Company and its subsidiaries (together referred to as the “**consolidated entity**”) and the consolidated entity's interest in associates and jointly controlled entities. The financial report was authorised for issue by the Board of Directors on 29 August 2008. The address of the Company's registered office is Level 3, 263 Adelaide Terrace, Perth, Western Australia.

### (a) Basis of preparation

#### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“**AASBs**”), (including Australian interpretations) adopted by the Australian Accounting Standards Board (“**AASB**”) and the Corporations Act 2001. The consolidated financial report of the consolidated entity and the financial report of the Company comply with the International Financial Reporting Standards (“**IFRS**”) and interpretations adopted by the International Accounting Standards Board.

### (b) Adoption of new and revised accounting standards

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.
- AASB 8 *Operating Segments* introduces the “management approach” to segment reporting. AASB 8, which becomes mandatory for the consolidated entity's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated entity's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the consolidated entity presents segment information in respect of its business and geographical segments (see note 3). Under the management approach, the consolidated entity will present segment information in respect of Mining and Construction i.e. same as currently disclosed.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly “**primary**” statement) the “statement of comprehensive income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 financial statements. This standard is not expected to have any impact on the financial statements.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions & Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes

mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.

- AI 14 IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. AI 14 will become mandatory for the consolidated entity's 30 June 2009 financial statements, with retrospective application required. The consolidated entity has not yet determined the potential effect of the interpretation.

The consolidated entity has also adopted AASB 7 *Financial Instruments: Disclosures* which has only impacted the disclosures in the financial statements.

The initial application of all other standards and amendments is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendments either do not apply or are concerned only with disclosures.

## (c) Basis of measurement

The financial report is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the consolidated entity.

The financial report is prepared on the historical cost basis except that certain derivative financial instruments, defined benefit plan assets and liabilities and available for sale financial assets are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been applied consistently by all entities in the consolidated entity.

## (d) Basis of consolidation

### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that

presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's separate financial statements.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the consolidated entity.

### (ii) Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the consolidated entity's share of the total changes in equity of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

In the Company's separate financial statements, investments in associates are carried at cost.

### (iii) Joint ventures

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

### *Jointly controlled entities*

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in jointly controlled entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated income statement from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

In the Company's separate financial statements, investments in jointly controlled entities are carried at cost.



# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## **Jointly controlled operations**

In the consolidated financial statements, jointly controlled operations are accounted for by proportionately consolidating the assets and liabilities of the joint venture and recognising the share of income that is earned.

## **(iv) Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investments accounted for using the equity method' and 'Share of profit of jointly controlled entities accounted for using the equity method' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed.

## **(e) Foreign currency**

### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to Australian dollars at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on retranslation are recognised in the income statement.

### **(ii) Financial statements of foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at the average exchange rate for the period.

Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity (translation reserve).

## **(iii) Net investment in foreign operations**

Exchange differences arising from the translation of a monetary item that forms part of the net investment in foreign operations, and of related hedges are recognised in the translation reserve. They are released into the income statement upon disposal of the foreign operation.

## **(f) Derivative financial instruments**

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in the profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are remeasured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (g)).

## **(g) Hedging**

### **Cash flow hedges**

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedge item affects the income statement.

## **(h) Property, plant and equipment**

### **(i) Owned assets**

Items of property, plant and equipment acquired are stated at the cost of acquisition, being the purchase consideration determined at the date of acquisition, less accumulated depreciation, amortisation and impairment losses (see accounting policy (n)). The cost of self

constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges from foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Gains and losses on disposal of an item of property, plant & equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the income statement.

## (ii) Leased assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property. Leased assets classified as finance leases are recognised as assets. The amount initially recognised is the present value of minimum lease payments.

## (iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

## (iv) Depreciation and Amortisation

Assets other than land are depreciated at rates based upon their estimated useful lives. Estimates of remaining useful lives and residual values are made on a regular basis for all assets, with annual reassessments for major items.

Depreciation on buildings, leasehold improvements and minor plant and equipment is calculated on a straight-line basis. Depreciation on major plant and equipment and components is calculated on machinery hours worked over their estimated useful life. The expected useful lives in the current and comparative periods are as follows:

Buildings	40 years
Leasehold improvements	period of the lease
Plant and equipment	3 - 12 years

## (i) Intangible assets

### (i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment (see accounting policy (n)).

Negative goodwill arising on an acquisition is recognised directly in the income statement.

### (ii) Software development costs

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

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

### (iii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy (n)).

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## (iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Capitalised software development costs	3 - 5 years
Other intangible assets	3 - 5 years

## (j) Investments

### Investments in debt and equity securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through the income statement.

Other financial instruments held by the consolidated entity are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these available-for-sale investments are derecognised or are determined to be impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

The fair value of financial instruments classified as held for trading and available-for-sale is their discounted cash flow at the balance sheet date.

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the consolidated entity on the date it commits to purchase/sell the investments. Securities held-to-maturity are recognised/derecognised on the day they are transferred to/by the consolidated entity.

## (k) Trade and other receivables

### (i) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for construction work performed to date. Construction work in progress is stated at cost plus profit recognised to date (see accounting policy (r)) less an allowance for foreseeable losses and progress billings. Costs include all expenditure related directly to specific projects and an allocation

of fixed and variable overheads incurred in the consolidated entity's contract activities based on normal operating capacity.

### (ii) Other trade and other receivables

Trade and other receivables are stated at cost less impairment losses (see accounting policy note (n)).

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### (iii) Accrued revenue

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

## (l) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and associated on-costs to bring them to their existing location and condition.

The fair value of inventory acquired through acquisition of entities in operation is determined based on its estimated replacement value in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

## (m) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flows.

## (n) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (l)) and deferred tax assets (see accounting policy (t)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

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

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

## (i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated at the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## (ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through

profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## (o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

## (p) Employee benefits

### (i) Defined contribution superannuation plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction is available.

### (ii) Defined benefit superannuation plans

A defined benefit plan is a post-employment plan other than a defined contribution plan.

The consolidated entity's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on Commonwealth Government bonds that have maturity dates approximating to the terms of the consolidated entity's obligations that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a benefit to the consolidated entity, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## (ii) Defined benefit superannuation plans (cont.)

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

To the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of fund assets, that portion is recognised in the income statement over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

## (iii) Other long term service benefits

The consolidated entity's net obligation in respect of long term service benefits, other than defined benefit plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the consolidated entity's obligations.

## (iv) Short-term benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and sick leave expected to be settled in 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

## (v) Share-based payment transactions

The consolidated entity provides benefits to employees in the form of share based payment transactions, approved by shareholders, whereby employees render services in exchange for shares or rights over shares.

There are currently two forms of arrangement in place to provide these benefits:

- Share option programmes which provide benefits to directors, executives and other employees
- Performance Shares provided to the Chief Executive Officer as a long term incentive.

The fair value of options and Performance Shares granted are recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at Grant Date and spread over the period during which the employees become unconditionally entitled to the options or Performance Shares. The fair value of the options and Performance Shares granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options or Performance Shares were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The amount recognised as an expense is adjusted to reflect the actual number of share options or Performance Shares that vest except where forfeiture is only due to total shareholder returns or market prices not achieving the threshold for vesting.

When the Company grants options over its shares to employees of subsidiaries, the fair value at Grant Date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the Grant.

## (q) Provisions

Provisions are recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

### (i) Provision for project closure

At the completion of some projects the consolidated entity may have a liability for severance, maintenance and defects and demobilisation costs. An assessment is undertaken on the probability that such expenses will be incurred in the normal business of contracting services and is provided for in the financial statements.



## (r) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Construction revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

Revenue is recognised in the income statement in proportion to the work performed or stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. In addition, for construction contracts, the following specific recognition criteria are applied:

- For cost reimbursable and alliance contracts, where profit is reliably measurable from the outset, contract revenue and expenses are recognised in the income statement in proportion to the costs incurred.
- For all other construction contracts, contract revenue and expenses are progressively recognised, over the balance of the contract, based on the percentage cost of completion. Profit earned is only recognised after reaching a minimum of 15 per cent completion. Percentage of completion is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract. Cost includes all costs directly related to specific contracts. On an individual contract where a loss is deemed to be unavoidable on completion, the projected loss is recognised immediately.

Mining and maintenance services revenue is recognised when the services are provided.

## (s) Expenses

### (i) Operating lease payments

Payments under operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight line basis over the term of the lease.

### (ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## (iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, and dividend income. Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

## (iv) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

## (t) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising from the following are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## (t) Income tax (cont.)

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### (i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Macmahon Holdings Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

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

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

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

### (ii) Nature of tax funding arrangements and tax sharing arrangements

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

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

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

## (u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## (v) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## (w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

## (x) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and performance shares granted to employees and directors.

## (y) Discontinued operations

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

## (z) Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

- Assessment of projects on a percentage of completion basis, in particular with regard to accounting for claims and variations, the timing of profit recognition and the amount of profit recognised;
- Lease classification - determining whether the significant risks and rewards of ownership have transferred in a sale or lease transaction;
- Estimation of the economic life of property, plant and equipment;
- Testing for impairment; and
- Measurement of share based payments.

## 2. Financial risk management

The Company and consolidated entity have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk and Opportunity Management Steering Committee, which is responsible for the management of the risk system which identifies, assesses, monitors and manages the material risk throughout the Company and consolidated entity. The system includes the systems internal compliance and control systems. The committee reports regularly to the Board on its activities.

The risk management system is used to identify and analyse the risks faced by the Company and consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and consolidated entity's activities. The Company and consolidated entity, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

### Credit risk

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

### Trade and other receivables

The Company's and consolidated entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the consolidated entity's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 26.8 per cent (2007: 21.5 per cent) of the consolidated entity's revenue is attributable to sales transactions with a single customer. Geographically, the concentration of credit risk is in Australasia.

Under the Company's systems and procedures each new customer is analysed individually for creditworthiness before the consolidated entity's standard payment and delivery terms and conditions are offered. The exposure to credit risk is monitored on an ongoing basis.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## **Trade and other receivables (cont.)**

The consolidated entity's review includes external ratings, when available, and in some cases bank references.

Credit risk is minimised by entering into credit insurance for customers considered to be at risk.

More than 56 per cent (2007: 60 per cent) of the consolidated entity's trade receivables exposed to credit risk are from customers who have been transacting with the consolidated entity for over three years.

The Company and consolidated entity have established a process to review for impairment that represents their estimate of incurred losses in respect of trade and other receivables. There has been no impairment charge made in the current period (2007: nil).

## **Cash and cash equivalents**

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

## **Guarantees**

The consolidated entity policy is to provide financial guarantees only to subsidiaries. Details of outstanding guarantees are provided in note 28.

## **Liquidity risk**

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

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In addition, the consolidated entity maintains the following lines of credit:

- \$150 million that can be drawn down to meet short-term financing needs. The facility is also used for Bank Guarantee facilities, and is currently undrawn by \$64.7m million. The facility matures in October 2010.
- \$230 million domestic and US\$50 million international operating lease facilities. The facilities mature in October 2009.

## **Market risk**

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

The consolidated entity enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally the consolidated entity seeks to apply hedge accounting in order to manage volatility in profit or loss.

## **Currency risk**

The consolidated entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than respective functional currencies of consolidated entities, primarily of the Australian dollar (AUD), but also the New Zealand dollar (NZD) and the Malaysian ringgit (MYR). The currencies in which these transactions primarily are denominated are AUD, NZD and MYR.

The consolidated entity is exposed to foreign currency risk on plant and equipment purchases that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily USD, EUR and JPY.

From time to time the consolidated entity hedges its plant and equipment purchases denominated in a foreign currency when a firm commitment is made. The consolidated entity uses forward exchange contracts to hedge its foreign currency risk. Historically, most of the forward exchange contracts have had maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity and generally relate to changes in delivery date of major plant and equipment. No forward exchange contracts have been entered into during the period.

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

## **Interest rate risk**

The consolidated entity's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates.

No interest rate risk hedging has been entered into during the period.

## **Other market price risk**

The consolidated entity is not exposed to any other market price risk.

## Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital. The Board approves the payment of dividends to ordinary shareholders.

The capital structure of the consolidated entity consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 24. The consolidated entity operates globally, primarily through subsidiary companies established in the markets in which the consolidated entity trades. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the consolidated entity's approach to capital management during the year.

## Gearing ratio

The Board monitors the capital structure periodically. As a part of this process the Board considers the cost of capital and the risks associated with each class of capital. The consolidated entity's target gearing ratio is 30 - 50 per cent in line with the industry norm, that is determined as the proportion of net debt to equity. Based on recommendations of the Board the consolidated entity will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year end was as follows:

In thousands of AUD	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>Financial assets</b>				
Debt (i)	149,321	169,415	44,399	44,702
Cash and cash equivalents	(120,098)	(114,644)	(70,843)	(61,503)
Net debt	29,223	54,771	-	-
Equity (ii)	251,000	211,149	237,839	210,787
Net debt to equity ratio	11.6%	25.9%	n/a	n/a

(i) Debt is defined as long and short-term borrowings, as detailed in note 21.

(ii) Equity includes all capital and reserves.

## 3. Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### (a) Business segments

The consolidated entity comprises the following main business segments:

- Mining
- Construction
- Allplant (discontinued)

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

The consolidated entity's share of revenue from joint venture entities is excluded from the income statement in accordance with AASBs. The delivery of a number of projects by the consolidated entity is in the form of joint ventures. Details of the consolidated entity's share of joint venture entities' revenue are provided as additional information.

### (b) Geographical segments

The Mining and Construction segments are managed on a worldwide basis, but operate in two principal geographical areas, Australasia and South East Asia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 3. Segment reporting (cont.)

	MINING		CONSTRUCTION		ALL PLANT (DISCONTINUED OPERATION)		ELIMINATIONS		CONSOLIDATED	
<i>In thousands of AUD</i>	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Segment revenue</b>										
Total external revenue, being total segment revenue	616,380	555,858	584,836	346,913	-	10,159	-	(2,639)	1,201,216	910,291
Add revenue from joint ventures	-	-	63,305	79,063	-	-	-	-	63,305	79,063
Less recoveries from joint ventures	-	-	(20,162)	(23,354)	-	-	-	-	(20,162)	(23,354)
Revenue from group and joint ventures	616,380	555,858	627,979	402,622	-	10,159	-	(2,639)	1,244,359	966,000
<b>Segment profit</b>										
Segment result	54,360	50,576	32,556	10,123	-	5,414	-	-	86,916	66,113
Share of profit of equity accounted investees	-	-	5,540	5,887	-	-	-	-	5,540	5,887
Total segment result	54,360	50,576	38,096	16,010	-	5,414	-	-	92,456	72,000
Unallocated expenses									(17,768)	(12,312)
<b>Profit from operations before financing costs and tax<sup>1</sup></b>									74,688	59,688
Net financing costs									(7,513)	(11,020)
Profit before tax <sup>1</sup>									67,175	48,668
Income tax expense									(17,797)	(15,247)
Gain from sale of discontinued operations (net of tax)									-	11,110
<b>Profit for the year</b>									49,378	44,531
Segment assets	456,572	414,619	83,946	77,779	-	-	-	-	540,518	492,398
Investment in equity accounted investees	-	-	5,886	4,658	-	-	-	-	5,886	4,658
Unallocated assets									83,916	63,093
<b>Total assets</b>									630,320	560,149

<sup>1</sup> Includes operating results of discontinued operations.



# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 3. Segment reporting (cont.)

	MINING		CONSTRUCTION		ALLPLANT (DISCONTINUED OPERATION)		ELIMINATIONS		CONSOLIDATED	
<i>In thousands of AUD</i>	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Segment liabilities	(237,013)	(220,335)	(85,021)	(78,074)	-	-	-	-	(322,034)	(298,409)
Unallocated liabilities									(57,286)	(50,591)
<b>Total liabilities</b>									<b>(379,320)</b>	<b>(349,000)</b>
Depreciation/amortisation	37,710	33,378	2,034	1,435	-	2,023	-	-	39,744	36,836
Unallocated depreciation/amortisation									465	-
<b>Total depreciation/amortisation</b>									<b>40,209</b>	<b>36,836</b>
Segment capital expenditure	36,928	85,963	5,447	4,135	-	785	-	-	42,375	90,883
Unallocated capital expenditure									4,575	-
<b>Total capital expenditure</b>									<b>46,950</b>	<b>90,883</b>

### GEOGRAPHICAL SEGMENTS

	AUSTRALASIA		SOUTH EAST ASIA		CONSOLIDATED	
	2008	2007	2008	2007	2008	2007
Segment revenue	1,195,048	903,869	6,168	6,422	1,201,216	910,291
Revenue from group and joint ventures	1,238,191	959,578	6,168	6,422	1,244,359	966,000
Segment assets	618,519	554,334	11,801	5,815	630,320	560,149
Segment capital expenditure	43,863	90,883	3,085	-	46,950	90,883

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 4. Revenue

*In thousands of AUD*

### CONSOLIDATED

2008

2007

Mining	616,380	549,313
Construction	584,836	353,458
Revenue from continuing operations	1,201,216	902,771
Revenue from discontinued operations	-	7,520
Revenue from external customers	1,201,216	910,291

The consolidated entity's share of revenue from joint venture entities is excluded from the income statement in accordance with AASBs. The delivery of a number of projects by the consolidated entity is in the form of joint ventures. Details of the consolidated entity's share of joint venture entities' revenue are provided below as additional information.

*In thousands of AUD*

### CONSOLIDATED

2008

2007

#### Revenue - group and joint ventures

Revenue - group	1,201,216	910,291
Revenue - joint ventures	63,305	79,063
Less recoveries from joint ventures	(20,162)	(23,354)
Revenue - group and joint ventures	1,244,359	966,000

## 5. Other income

*In thousands of AUD*

### CONSOLIDATED

2008

2007

### THE COMPANY

2008

2007

Net gain on disposal of plant and equipment	1,187	3,627	-	-
Other	544	520	418	125
	1,731	4,147	418	125

## 6. Expenses

*In thousands of AUD*

### CONSOLIDATED

2008

2007

### THE COMPANY

2008

2007

#### Personnel expenses

Employee benefits expense includes the following:

Contributions to defined contribution plans	38,573	25,296	-	-
Expenses related to defined benefit plans	248	234	-	-
Share based payment expense	1,614	1,447	855	891

Other expenses in the consolidated entity include an increase in the provision for project closure costs of \$7,974,000 (2007: increase of \$568,000).

Other expenses in the Company include a reversal of impairment losses on intercompany receivables of \$9,585,652 (2007: reversal of impairment loss of \$8,797,796) and a reversal of impairment losses on investments in controlled entities of \$7,958,998 (2007: nil).

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 7. Net financing costs

*In thousands of AUD*

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Interest income	5,253	3,470	4,931	3,292
Dividend income	-	-	35,000	30,500
Financial income	5,253	3,470	39,931	33,792
Interest expense	(12,766)	(13,901)	(4,218)	(4,004)
Financial expenses	(12,766)	(13,901)	(4,218)	(4,004)
Net financing (costs)/income	(7,513)	(10,431)	35,713	29,788

## 8. Discontinued operation

On 30 November 2006, the consolidated entity sold the assets and business of its Allplant equipment hire division.

The disposal involved the sale of 100% of the consolidated entity's interest in Allplant Services Pty Ltd (Allplant), after transferring the maintenance services division to a wholly owned subsidiary, Macmahon Contractors Pty Ltd. The effect of the disposal was a decrease in the net assets of the consolidated entity of \$52.6 million excluding cash consideration received of \$70.9 million. The net cash inflow on disposal was \$67.0 million.

Profits attributable to the discontinued operation were as follows:

*In thousands of AUD*

### Results of discontinued operation

	CONSOLIDATED	
	2008	2007
Revenue	-	7,520
Expense	-	(2,106)
Results from operating activities	-	5,414
Financial expenses	-	(589)
Net profit before tax	-	4,825
Income tax expense	-	(1,447)
Profit after tax	-	3,378
Gain on sale of discontinued operation	-	14,479
Tax on gain of sale of discontinued operation	-	(3,369)
Profit for the period	-	14,488
Basic earnings (loss) per share (note 10)	-	2.78
Diluted earnings (loss) per share (note 10)	-	2.73

### Effect of disposal on the financial position of the consolidated entity

*In thousands of AUD*

	2008	2007
Property, plant and equipment	-	54,122
Inventories	-	2,484
Deferred tax liabilities	-	(3,887)
Trade and other payables	-	(158)
Net identifiable assets and liabilities	-	52,561
Consideration received, satisfied in cash	-	70,900
Transaction costs	-	(3,860)
Net cash inflow	-	67,040

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 9. Income tax expense/(benefit)

### Recognised in the income statement

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
<b>Current tax expense</b>					
Current year		16,148	8,156	(1,466)	(3,326)
Adjustments for prior years		-	1,037	-	(435)
		16,148	9,193	(1,466)	(3,761)
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences		1,621	4,064	112	209
Adjustments for prior years		(79)	-	(499)	-
Benefit arising from previously recognised tax losses utilised		107	5,359	-	5,244
		1,649	9,423	(387)	5,453
Total income tax expense/(benefit)		17,797	18,616	(1,853)	1,692
Attributed to:					
Continuing operations		17,797	13,800	(1,853)	(1,677)
Discontinued operations	8	-	4,816	-	3,369
Total income tax expense/(benefit)		17,797	18,616	(1,853)	1,692

### Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Profit from continuing operations	67,175	43,843	47,198	34,269
Profit from discontinued operations	-	19,304	-	14,479
Profit from operations	67,175	63,147	47,198	48,748
Income tax using the domestic corporation tax rate of 30% (2007: 30%)	20,153	18,944	14,159	14,624
Foreign tax rate differential	-	26	-	-
Increase in income tax expense due to:				
Share based payment expense	484	434	256	267
Non-deductible expenses	1	23	1	7
Tax effect of capital gain from sale of Allplant	-	3,369	-	3,369
Decrease in income tax expense due to:				
Non assessable distribution from controlled entities	-	-	(10,500)	(9,150)
Intercompany impairment losses	-	-	(5,263)	(2,639)
Tax effect of accounting profit from sale of Allplant	-	(4,344)	-	(4,344)
Research and development concession	(1,088)	-	-	-
Distribution of APT losses	(542)	-	-	-
Utilisation of foreign income losses not previously recognised	(1,000)	(1,135)	-	-
Other	(132)	262	(7)	(7)
	17,876	17,579	(1,354)	2,127
Under/(over) provided in prior years	(79)	1,037	(499)	(435)
Income tax expense	17,797	18,616	(1,853)	1,692

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 10. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the profit attributable to ordinary shareholders of \$48,755,000 (2007: \$44,510,540) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 530,103,643 (2007: 521,762,791), calculated as follows:

### Profit attributable to ordinary shareholders

<i>In thousands of AUD</i>	CONTINUING OPERATIONS	2008 DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	2007 DISCONTINUED OPERATIONS	TOTAL
Profit attributable to ordinary equity holders	48,755	-	48,755	30,023	14,488	44,511

### Weighted average number of ordinary shares

<i>In thousands of shares</i>	CONSOLIDATED	
	2008	2007
Issued ordinary shares at 1 July	524,543	516,960
Effect of shares issued on exercise of options July 2006	-	1,000
Effect of shares issued on exercise of options August 2006	-	366
Effect of shares issued on exercise of options September 2006	-	415
Effect of shares issued on exercise of options October 2006	-	187
Effect of dividend reinvestment October 2006	-	2,198
Effect of shares issued on exercise of options November 2006	-	33
Effect of shares issued on exercise of options December 2006	-	29
Effect of shares issued on exercise of options January 2007	-	25
Effect of shares issued on exercise of options March 2007	-	67
Effect of dividend reinvestment April 2007	-	409
Effect of shares issued on exercise of options May 2007	-	61
Effect of shares issued on exercise of options June 2007	-	13
Effect of shares issued on exercise of options July 2007	762	-
Effect of shares issued on exercise of options August 2007	217	-
Effect of shares issued on exercise of options September 2007	60	-
Effect of shares issued on exercise of options October 2007	57	-
Effect of dividend reinvestment October 2007	2,955	-
Effect of shares issued on exercise of options November 2007	94	-
Effect of shares issued on exercise of options December 2007	127	-
Effect of shares issued on exercise of options February 2008	81	-
Effect of shares issued on exercise of options March 2008	339	-
Effect of shares issued on exercise of options April 2008	77	-
Effect of dividend reinvestment April 2008	741	-
Effect of shares issued on exercise of options May 2008	8	-
Effect of shares issued on exercise of options June 2008	42	-
Weighted average number of ordinary shares at 30 June	530,103	521,763

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 10. Earnings per share (cont.)

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2008 was based on profit attributable to ordinary shareholders of \$48,755,000 (2007: \$44,510,540) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 537,970,241 (2007: 531,099,010), calculated as follows:

### Weighted average number of ordinary shares (diluted)

<i>In thousands of shares</i>	Note	2008	2007
Weighted average number of ordinary shares at 30 June		530,103	521,763
Effect of share options on issue	22	3,867	5,336
Effect of performance shares	22	4,000	4,000
Weighted average number of ordinary shares (diluted) at 30 June		537,970	531,099

## 11. Cash and cash equivalents

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Bank balances	90,098	73,899	40,843	21,503
Call deposits	30,000	40,745	30,000	40,000
Cash and cash equivalents	120,098	114,644	70,843	61,503

The consolidated entity's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 25.

## 12. Trade and other receivables

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
<b>Current</b>					
Trade receivables	12(i)	73,143	54,314	-	-
Accrued revenue		52,689	40,040	-	-
Other receivables and pre-payments		10,737	4,784	316	143
Loans and receivables		136,569	99,138	316	143
Construction work in progress		44,430	29,838	-	-
		180,999	128,976	316	143
<b>Non-current</b>					
Loans to controlled entities	12(ii)	-	-	178,306	146,934

(i) Trade receivables are shown net of an impairment loss of nil (2007: nil).

(ii) Loans to controlled entities

Loans to controlled entities in the Company's separate financial statements are interest free and have no fixed terms of repayment and are disclosed net of impairment losses of \$93,999,317 (2007: \$103,584,969).



## 12. Trade and other receivables (cont.)

The consolidated entity's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 25.

### Construction work in progress comprises:

*In thousands of AUD*

Contract costs incurred to date:

Gross cost plus profit recognised to date

Less: progress billings received

Net construction work in progress

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Contract costs incurred to date:				
Gross cost plus profit recognised to date	1,306,080	874,742	-	-
Less: progress billings received	(1,261,650)	(844,904)	-	-
Net construction work in progress	44,430	29,838	-	-

## 13. Inventories

*In thousands of AUD*

Raw materials and consumables

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Raw materials and consumables	33,452	34,144	-	-

## 14. Current tax liabilities

The net current tax liability for the consolidated entity of \$11,388,954 (2007: \$5,104,309) and for the Company of \$11,622,763 (2007: \$5,400,848) represents the amount of income taxes payable in respect of current and prior periods.

In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability (asset) initially recognised by the members in the tax-consolidated group.

## 15. Assets classified as available for sale

The investment in APT was written down in full at 30 June 2006.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 16. Investments accounted for using the equity method

The consolidated entity has the following investments in jointly controlled entities:

	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION/ RESIDENCE	OWNERSHIP	
			2008	2007
Active				
Rail Link Joint Venture	Railway Construction	Australia	25%	25%
Ross River Dam Joint Venture	Dam Construction	Australia	50%	50%
Bell Bay Alliance Joint Venture	Pulp Mill Construction	Australia	20%	20%
Southern Improvement Alliance Joint Venture	Railway Construction	Australia	20%	20%
Eyre Peninsula Joint Venture	Railway Construction	Australia	50%	50%
Hale Street Link Joint Venture	Bridge Construction	Australia	33.3%	33.3%
Alkimos Joint Venture	Waste Water Treatment Plant Construction	Australia	30%	30%
Inactive				
Tonkin Highway Joint Venture		Australia	50%	50%
ADrail Joint Venture		Australia	10%	10%
Weeli Joint Venture		Australia	50%	50%
Roe Highway Joint Venture		Australia	50%	50%

There are no investments in equity in any of the above entities. All entities have a 30 June reporting date.

Share of jointly controlled entities' results and financial position:

*In thousands of AUD*

	Revenues (100%)	Expenses (100%)	Profit/(loss) (100%)	Share of joint controlled entity net profit/(loss)	Current assets (100%)	Non-current assets (100%)	Total assets (100%)	Current liabilities (100%)	Non-current liabilities (100%)	Total liabilities (100%)
<b>2008</b>	243,897	(223,642)	20,255	5,540	73,038	-	73,038	64,607	-	64,607
<b>2007</b>	244,088	(233,353)	10,735	5,887	66,740	-	66,740	54,425	-	54,425

*In thousands of AUD*

	<b>CONSOLIDATED 2008</b>	<b>2007</b>
Share of joint venture profit	6,598	4,538
Adjustments:		
- timing differences on recognition of earnings	(1,058)	1,349
Share of joint ventures profits accounted for using the equity method	5,540	5,887

Revenues and recoveries from the jointly controlled entities are disclosed in note 4. Amounts receivable from jointly controlled entities are \$2,114,426 (2007: \$4,429,642) which are unsecured and are in the ordinary course of business.

The jointly controlled entities have no capital expenditure commitments contracted but not provided for or payable as at 30 June 2008 (30 June 2007: nil).

The jointly controlled entities do not have any contingent liabilities, other than bank guarantees disclosed in note 28.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

CONSOLIDATED	ASSETS		LIABILITIES		NET	
	2008	2007	2008	2007	2008	2007
<i>In thousands of AUD</i>						
Intangibles	-	-	-	(28)	-	(28)
Work in progress	-	565	-	-	-	565
Inventories	-	-	(3,078)	(3,678)	(3,078)	(3,678)
Trade and other receivables	-	-	(2,018)	(356)	(2,018)	(356)
Property plant and equipment	-	-	(15,903)	(12,163)	(15,903)	(12,163)
Other creditors and accruals	1,213	738	-	-	1,213	738
Employee benefits	11,450	9,145	-	-	11,450	9,145
Provisions	661	-	-	-	661	-
Tax value of carry forward losses recognised	1,097	1,204	-	-	1,097	1,204
Other items	503	528	-	(381)	503	147
Net tax assets/(liabilities)	14,924	12,180	(20,999)	(16,606)	(6,075)	(4,426)

THE COMPANY	ASSETS		LIABILITIES		NET	
	2008	2007	2008	2007	2008	2007
<i>In thousands of AUD</i>						
Employee benefits	559	-	-	-	559	-
Other items	350	522	-	-	350	522
Tax assets/(liabilities)	909	522	-	-	909	522

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 18. Property, plant and equipment

	CONSOLIDATED						THE COMPANY					
	FREEHOLD LAND	BUILDINGS	LEASEHOLD IMPROVEMENTS	OWNED PLANT AND EQUIPMENT	LEASED PLANT AND EQUIPMENT	TOTAL	FREEHOLD LAND	BUILDINGS	LEASEHOLD IMPROVEMENTS	OWNED PLANT AND EQUIPMENT	LEASED PLANT AND EQUIPMENT	TOTAL
Cost	Balance at 1 July 2006	229	79	200	268,703	442,833	-	-	-	146	-	146
	Acquisitions through business combinations	-	-	-	17,009	-	-	-	-	-	-	-
	Other acquisitions	510	-	1,479	22,662	90,883	-	-	-	-	-	-
	Disposals	-	-	(131)	(55,864)	(111,328)	-	-	-	-	-	-
	Effect of movements in foreign exchange	3	-	-	13	(45)	-	-	-	-	-	-
Balance at 30 June 2007	742	79	1,548	252,523	184,476	439,368	-	-	-	146	-	146
	Balance at 1 July 2007	742	79	1,548	252,523	439,368	-	-	-	146	-	146
	Acquisitions	-	-	936	34,576	46,950	-	-	-	-	-	-
	Disposals	-	-	(118)	(19,332)	(21,995)	-	-	-	-	-	-
	Effect of movements in foreign exchange	-	-	-	(876)	(876)	-	-	-	-	-	-
	Reclassifications and transfers	(330)	-	831	14,221	(14,722)	-	-	-	-	-	-
Balance at 30 June 2008	412	79	3,197	281,112	178,647	463,447	-	-	-	146	-	146

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 18. Property, plant and equipment (cont.)

	CONSOLIDATED						THE COMPANY					
	FREEHOLD LAND	BUILDINGS	LEASEHOLD IMPROVEMENTS	OWNED PLANT AND EQUIPMENT	EQUIPMENT UNDER FINANCE LEASE	TOTAL	FREEHOLD LAND	BUILDINGS	LEASEHOLD IMPROVEMENTS	OWNED PLANT AND EQUIPMENT	EQUIPMENT UNDER FINANCE LEASE	TOTAL
<i>In thousands of AUD</i>												
<b>Depreciation and impairment losses</b>												
Balance at 1 July 2006	-	61	160	149,033	48,191	197,445	-	-	-	146	-	146
Depreciation charge for the year	-	9	347	18,480	17,075	35,911	-	-	-	-	-	-
Impairment loss for the year	-	-	-	476	-	476	-	-	-	-	-	-
Disposals	-	-	(73)	(28,834)	(21,642)	(50,549)	-	-	-	-	-	-
Effect of movements in foreign exchange	-	-	-	285	133	418	-	-	-	-	-	-
Balance at 30 June 2007	-	70	434	139,440	43,757	183,701	-	-	-	146	-	146
Balance at 1 July 2007	-	70	434	139,440	43,757	183,701	-	-	-	146	-	146
Depreciation charge for the year	-	-	656	23,119	16,139	39,914	-	-	-	-	-	-
Disposals	-	-	(31)	(16,355)	(1,109)	(17,495)	-	-	-	-	-	-
Effect of movements in foreign exchange	-	-	-	(610)	-	(610)	-	-	-	-	-	-
Reclassifications and transfers	-	-	28	2,328	(2,356)	-	-	-	-	-	-	-
Balance at 30 June 2008	-	70	1,087	147,922	56,431	205,510	-	-	-	146	-	146
<b>Carrying amounts</b>												
At 30 June 2007	742	9	1,114	113,083	140,719	255,667	-	-	-	-	-	-
At 30 June 2008	412	9	2,110	133,190	122,216	257,937	-	-	-	-	-	-

### Leased plant and machinery

The consolidated entity leases production equipment under a number of finance lease and hire purchase agreements. At the end of each of the leases the consolidated entity may purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 21).

### Security

Freehold land, buildings, leasehold improvements and plant and equipment are subject to a registered charge to secure banking facilities (see note 21).

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 19. Intangible assets

	CONSOLIDATED				THE COMPANY			
<i>In thousands of AUD</i>	GOODWILL	SOFTWARE DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL	GOODWILL	SOFTWARE DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
<b>Cost</b>								
Balance at 1 July 2006	11,044	-	-	11,044	-	-	-	-
Acquisitions through business combinations	9,370	-	1,023	10,393	-	-	-	-
Balance at 30 June 2007	20,414	-	1,023	21,437	-	-	-	-
Balance at 1 July 2007	20,414	-	1,023	21,437	-	-	-	-
Acquisitions through business combinations	1,837	-	-	1,837	-	-	-	-
Acquisitions - internally developed	-	3,074	-	3,074	-	-	-	-
Acquisitions - acquired	-	4,261	1,932	6,193	-	-	1,932	1,932
Balance at 30 June 2008	22,251	7,335	2,955	32,541	-	-	1,932	1,932
<b>Amortisation and impairment losses</b>								
Balance at 1 July 2006	-	-	-	-	-	-	-	-
Amortisation for the year	-	-	925	925	-	-	-	-
Balance at 30 June 2007	-	-	925	925	-	-	-	-
Balance at 1 July 2007	-	-	925	925	-	-	-	-
Amortisation for the year	-	-	295	295	-	-	197	197
Balance at 30 June 2008	-	-	1,220	1,220	-	-	197	197
<b>Carrying amounts</b>								
At 30 June 2007	20,414	-	98	20,512	-	-	-	-
At 30 June 2008	22,251	7,335	1,735	31,321	-	-	1,735	1,735

### Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Underground Mining	6,444	6,444	-	-
Australian Raise Drilling (ARD) and Combined Resource Engineering (CRE)	11,207	9,370	-	-
Maintenance Services	347	347	-	-
MVM Rail	4,253	4,253	-	-
	22,251	20,414	-	-

### Underground Mining, ARD/CRE and Maintenance Services

The recoverable amounts of the Underground Mining, ARD/CRE and Maintenance Services cash-generating units are based on value in use calculations. Those calculations use cash flow projections based on actual operating results and future cash flow projections for the four year business plan which incorporates an estimated annual growth in revenue of approximately 10 per cent. This value exceeds the carrying amount of the units including goodwill. A pre-tax discount rate of 17.6 per cent has been used in discounting the projected cash flows, based on an industry average weighted average cost of capital, which was passed on a possible range of debt leveraging of 30 per cent at a market interest rate of 8.5 per cent.



# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 19. Intangible assets (cont.)

### MVM Rail

The recoverable amount of the MVM Rail cash-generating unit is based on forecasted future cash flows over the next three years which incorporates an estimated annual growth in revenue of approximately 10 per cent. This value exceeds the carrying amount of the unit including goodwill. A pre-tax discount rate of 17.6 per cent has been used in discounting the projected cash flows, based on an industry average weighted average cost of capital, which was passed on a possible range of debt leveraging of 30 per cent at a market interest rate of 8.5 per cent.

## 20. Trade and other payables

*In thousands of AUD*

### Current liabilities

Trade payables and accrued operating expenses  
Other payables

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Trade payables and accrued operating expenses	160,291	126,170	280	1,406
Other payables	8,242	12,676	-	-
	168,533	138,846	280	1,406

### Non-current liabilities

Loans from controlled entities

	-	-	14,914	11,377
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The consolidated entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

## 21. Loans and borrowings

This note provides information about the contractual terms of the consolidated entity's loans and borrowings, which are measured at amortised cost. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 25.

*In thousands of AUD*

### Current liabilities

#### Interest bearing

Hire purchase liabilities  
Finance lease liabilities  
Loan from minority shareholder to MVM

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Hire purchase liabilities	12,644	12,709	-	-
Finance lease liabilities	14,774	18,733	-	-
Loan from minority shareholder to MVM	2,132	2,373	-	-
	3,000	-	-	-
	32,550	33,815	-	-

#### Non-interest bearing

Loan from alliance partner

### Non-current liabilities

#### Interest bearing

Hire purchase liabilities  
Finance lease liabilities  
Term facility

	50,787	54,410	-	-
Finance lease liabilities	21,585	36,488	-	-
Term facility	44,399	44,702	44,399	44,702
	116,771	135,600	44,399	44,702

The loan from the minority shareholder, Comsa to MVM Rail Pty Ltd incurs interest at an annual rate of five per cent and is repayable no later than 31 March 2009.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 21. Loans and borrowings (cont.)

### Financing arrangements

#### Term facility

The controlled entity has a three year facility from October 2007 with each of its three principal bankers, ANZ Banking Group, Caterpillar Financial Australia Limited and HSBC Bank Australia Limited which are secured by fixed and floating charges over the controlled entity's assets and are reviewed on an annual basis. The facilities are used for general corporate requirements and attract variable rates of interest.

#### Loan from alliance partner

Under a contract there is an agreement that the alliance partner will advance funds for working capital. As at 30 June 2008 the amount advanced was \$3 million. There is no interest charged on these funds.

#### Leasing facilities

The consolidated entity's lease liabilities are secured by the leased assets and in the event of default, the leased assets revert to the lessor.

### Hire purchase liabilities

Hire purchase liabilities of the consolidated entity are payable as follows:

	2008			CONSOLIDATED 2007		
	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
<i>In thousands of AUD</i>	2008	2008	2008	2007	2007	2007
Less than one year	17,085	4,441	12,644	16,695	3,986	12,709
Between one and five years	57,472	7,281	50,191	55,046	9,623	45,423
More than five years	600	4	596	9,285	298	8,987
	75,157	11,726	63,431	81,026	13,907	67,119

### Finance lease liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

	2008			CONSOLIDATED 2007		
	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
<i>In thousands of AUD</i>	2008	2008	2008	2007	2007	2007
Less than one year	16,852	2,078	14,774	22,149	3,416	18,733
Between one and five years	23,346	1,761	21,585	39,343	3,682	35,661
More than five years	-	-	-	856	29	827
	40,198	3,839	36,359	62,348	7,127	55,221

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 22. Employee benefits

### Current

*In thousands of AUD*

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Liability for long service leave	6,157	5,470	265	-
Liability for annual leave	22,081	16,822	277	-
Provision for bonuses	5,669	4,481	1,312	-
Other employee benefits	1,189	1,192	-	-
Total current employee benefits	35,096	27,965	1,854	-

### Non-current

*In thousands of AUD*

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Liability for long service leave	1,925	941	8	-
Total non-current employee benefits	1,925	941	8	-

Accrued wages and salaries between the last pay date and 30 June 2008 of \$8,060,710 (2007: \$4,529,117) are included within the trade payables and accrued operating expenses balance as disclosed in note 20.

### Superannuation

Trustco is the Trustee of the Macmahon Employees Superannuation Fund ("the Fund") and is responsible for all areas of compliance with regard to the Fund. All members of the now closed Defined Benefit section have been invited to transfer their entitlement to the accumulation section of the Fund. At 30 June 2008, only 10 of the Defined Benefit members have not taken advantage of this option.

Members of the old Defined Benefit section of the Fund will continue to have their benefits assessed against the Defined Benefit section of the Fund to ensure that at any time when a condition of release is satisfied a member is not disadvantaged (as outlined in the Deed of Guarantee). The consolidated entity has entered into a Deed of Guarantee with each of these members to ensure that they are not disadvantaged by the transfer.

An actuarial assessment of the Defined Benefit section as at 30 June 2008 was undertaken by M Wilson F.I.A.A. of The Australian Superannuation Group (WA) Pty Ltd. The accumulation section of the Fund has over 4,363 members at 30 June 2008. Members can choose both death and total and permanent disablement cover within the fund. The Australian Superannuation Group (WA) Pty Ltd is the Funds administrator. Lumley Life and Hanover Re underwrite the insured benefits of the Fund.

All assets are invested with professional investment managers via Australian Retirement Managers who act as asset consultants to the Fund. The Fund has equal representation of both employer and member representatives by way of the policy committee which meets regularly to discuss any issues.

Based on the 30 June 2008 assessment by the fund's actuary, the Defined Benefit section of the Fund has adequate net assets to meet vested benefits, as at 30 June 2008.

*In thousands of AUD*

	CONSOLIDATED	
	2008	2007
Fair value of plan assets	2,861	1,730
Present value of net obligations	2,126	1,733
	735	(3)

The differences between the accrued benefits and the net market value of plan assets are recognised in the financial statements in accordance with accounting policy 1 (p) (ii). The amount recognised as current service expense in respect of the Defined Benefit section of the Fund during the year was \$247,803 (2007: \$234,049).

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 22. Employee benefits (cont.)

### Share based payments

- i) The consolidated entity had an established Executive Option Scheme ("2000 Scheme"), approved by shareholders at the 2000 Annual General Meeting and renewed and approved by shareholders at the 2003 Annual General Meeting. The 2000 Scheme entitles executives and certain directors to purchase shares in the entity. The main terms of the options that were granted under the Scheme are as follows:
- a) Each option entitles the holder, upon exercise, to be allotted one fully paid ordinary share in the capital of the Company.
  - b) The exercise price of the options must not be less than the greater of a defined fixed price and 125 per cent of the weighted average market sale price of shares quoted on ASX calculated over the seven business days on which trades in shares are recorded immediately preceding the date of the invitation to participate in the Incentive Plan ("Grant Price").
  - c) Options shall be exercisable within such period(s) or upon such event(s) as the directors specify, provided the maximum exercise period is five years and no option may be exercised before the expiration of eighteen months from its grant subject to certain exceptions. One half of the number of options granted to an eligible person ("first tranche") may only be exercised if on the business day immediately preceding the date of exercise of the first tranche the share price is at least 1.5 x the grant price, and the balance of that eligible person's holding ("second tranche") may only be exercised if on the business day immediately preceding the date of exercise of the second tranche the share price is at least 2 x the grant price.
  - d) Options shall lapse upon the holder ceasing to be an eligible person for any reason. If this occurs because of death, permanent incapacity, and retirement or at the end of a contract of service, a maximum period of 180 days is allowed to exercise those options that are exercisable.
  - e) Options may be exercised by the holder delivering to the Company before the expiry date a notice specifying the number of options to be exercised, an option certificate covering that number of Options and payment for the exercise price.
  - f) Options may only be transferred to an associate (as defined in Section 139GE of the Income Tax Assessment Act, 1936) of a holder (unless otherwise determined by the directors of the Company). Otherwise options will remain non transferable until such time as they have been exercised. Shares issued upon the exercise of Options shall rank equally in all respects with existing shares. The options will not entitle the holder to dividends until the options are exercised.
  - g) At 30 June 2008 the following options under this scheme are outstanding:
    - i) 1,071,429 options at 42 cents; and
    - ii) 1,950,000 options at 61cents.
- ii) At the 2005 Annual General Meeting the shareholders approved a new Executive Option Scheme ("2005 Scheme"). A summary of the main aspects of the options issued under the 2005 Scheme are as follows:
- a) Each option entitles the holder, upon exercise, to be allotted one fully paid ordinary share in the Company.
  - b) The options are exercisable in writing by the holder to the Company at any time up to the expiry date or prior to the options lapsing, subject to paragraphs (c) and (f) below.
  - c) The options are exercisable in four equal tranches on the 2nd, 3rd, 4th and 5th anniversary of the date of grant. Whether or not options comprised in a tranche may be exercised will depend on whether the performance hurdles for exercise have been met; briefly these are that the Total Shareholder Return (TSR) has been at least 15 per cent per annum compound for all of the measurement periods preceding the date the options become eligible for exercise.
  - d) The performance hurdles are cumulative. For example, this means that if the performance hurdle for the first two measurement periods are not met, the first tranche cannot be exercised. However, in the succeeding measurement periods if the cumulative TSR over the subsequent measurement point is more than the 15 per cent annual compounded return, then all unexercised tranches which have passed their exercise date, can be exercised.
  - e) Options that are exercisable may be exercised by the holder delivering to the Company before the expiry date a notice specifying the number of options to be exercised, a certificate covering that number of options and payment of the exercise price.

## 22. Employee benefits (cont.)

- f) The holder may only exercise all the exercisable options that holder wants to exercise on one occasion; and deliver the written notice referred to in paragraph (e) above within the last week of any calendar month following the date when the options become exercisable.
- g) Shares issued upon the exercise of options will rank equally in all respects with existing shares.
- h) Each option will only entitle the holder to participate in new (other than bonus issue or similar transaction) issues of shares or other securities of the Company on the prior exercise of the option (if exercisable) in which case the holder shall be given written notice of the terms of issue to shareholders at least ten business days (being days on which banks are open for business in Perth, Western Australia) before the record date for the issue, to exercise the option.
- i) The unexercised options will not entitle the holder to dividends until the options are exercised.
- j) Options will not be quoted on ASX. Application for listing will be made for shares allotted pursuant to the exercise of options.
- k) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the terms of options will be reconstructed (as appropriate) in a manner which is consistent with the ASX Listing Rules.
- l) As at 30 June 2008 the following options under this scheme are outstanding:
  - i) 6,816,812 options at 60 cents;
  - ii) 1,500,000 options at 79.5 cents;
  - iii) 2,000,000 options at 84 cents; and
  - iv) 1,637,000 options at 82 cents.
- iii) The CEO has a contract of employment with the Company from 1 December 2005 to 30 June 2009 that provides for inter alia a performance related long-term incentive (LTI). Under the LTI, the CEO was issued with 4 million unlisted Performance Shares (CEO Performance Shares) for nil consideration on 2 December 2005. The CEO Performance Shares are convertible into the Company's ordinary shares conditional upon the Company's Total Shareholder Return meeting or exceeding those of Downer EDI Limited, Leighton Holdings Limited, Clough Limited, Transfield Services Limited, United Group Limited, Ausdrill Limited and Monadelphous Limited and the CEO remaining in office until and including 30 June 2008. The LTI was approved by the shareholders at the 2005 Annual General Meeting.
- iv) **Number of share options (outstanding at year end)**

The number and weighted average exercise prices of share options is as follows:

	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS
<i>In thousands of options</i>	2008	2008	2007	2007
Outstanding at 1 July	0.65	20,022,250	0.59	22,328,750
Cancelled/lapsed during the period	0.65	(1,423,124)	0.61	(3,231,000)
Exercised during the period	0.58	(3,648,885)	0.49	(3,075,000)
Granted during the period	0.60	25,000	0.83	3,999,500
Outstanding at 30 June	0.66	14,975,241	0.65	20,022,250
Exercisable at 30 June		4,440,866		5,775,000

The options outstanding at 30 June 2008 have an exercise price in the range of 42 cents to 84 cents.

During the financial year 3,648,885 share options were exercised (2007: 3,075,000). The weighted average share price at the dates of exercise was \$1.56.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 22. Employee benefits (cont.)

### Share based payments (cont.)

#### v) *Unvested Unlisted Performance Shares (outstanding at year end)*

*In thousands of shares*

	2008	2007
Balance at 1 July	4,000	4,000
Incentive shares issued to CEO	-	-
Balance at 30 June	4,000	4,000

The conditions for conversion of the performance shares to ordinary shares were exceeded and the performance shares were converted to ordinary shares on 9 July 2008.

The fair value of services received in return for share options granted is based on the fair value of options granted, measured using a Monte Carlo simulation model or a binominal model, incorporating the probability of the relative total shareholder return vesting condition being met, with the following inputs:

Fair value of share options and assumptions	EXECUTIVE OPTIONS	EXECUTIVE OPTIONS	CFO OPTIONS
	2008	2007	2007
Fair value at measurement date	\$0.65 - \$0.70	\$0.21 - \$0.24	\$0.20 - \$0.23
Valuation model	Monte Carlo	Monte Carlo	Monte Carlo
Share price	\$1.28	\$0.82	\$0.84
Exercise price	\$0.60	\$0.82	\$0.84
Expected volatility	35%	35%	35%
Option life (years)	2.40 - 3.90	4.30 - 5.50	4.00 - 5.30
Dividend yield	2.77%	2.40%	2.40%
Risk-free interest rate	6.28% - 6.30%	6.04% - 6.09%	5.68% - 5.73%

### Employee benefits expense

*In thousands of AUD*

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Shares and share options granted in 2005 - equity settled	310	164	34	96
Shares and share options granted in 2006 - equity settled	1,065	1,156	696	694
Shares and share options granted in 2007 - equity settled	239	127	125	101
Total expense recognised within employee benefits expense	1,614	1,447	855	891



# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 23. Provisions

The provision for project closure represents the present value of the costs that will be required under the consolidated entity's project closure obligations per accounting policy 1(q).

<i>In thousands of AUD</i>	CONSOLIDATED	
	2008	2007
Current	6,354	655
Non-current	-	100
Total	6,354	755

  

<b>Consolidated</b>	
Balance at 1 July 2007	755
Provisions made during the year	9,668
Provisions used during the year	(2,375)
Provisions reversed during the year	(1,694)
Balance at 30 June 2008	6,354

## 24. Capital and reserves

### Reconciliation of movement in capital and reserves

#### Attributable to equity holders of the parent

<i>In thousands of AUD</i>	SHARE CAPITAL	TRANSLATION RESERVE	HEDGING RESERVE	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	TOTAL	MINORITY INTEREST	TOTAL EQUITY
Balance at 1 July 2006	224,221	(414)	(411)	(52,528)	170,868	1,051	171,919
Total recognised income and expense	-	106	411	44,511	45,028	20	45,048
Equity settled transactions	-	-	-	1,447	1,447	-	1,447
Shares issued	5,741	-	-	-	5,741	-	5,741
Dividends to shareholders	-	-	-	(13,006)	(13,006)	-	(13,006)
Balance at 30 June 2007	229,962	(308)	-	(19,576)	210,078	1,071	211,149

  

Balance at 1 July 2007	229,962	(308)	-	(19,576)	210,078	1,071	211,149
Total recognised income and expense	-	(920)	-	48,755	47,835	623	48,458
Equity settled transactions	-	-	-	1,614	1,614	-	1,614
Shares issued	10,918	-	-	-	10,918	-	10,918
Dividends to shareholders	-	-	-	(21,139)	(21,139)	-	(21,139)
Balance at 30 June 2008	240,880	(1,228)	-	9,654	249,306	1,694	251,000

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 24. Capital and reserves (cont.)

### Reconciliation of movement in capital and reserves

#### The Company

*In thousands of AUD*

	SHARE CAPITAL	ACCUMULATED LOSSES	TOTAL EQUITY
Balance at 1 July 2006	224,221	(54,672)	169,549
Total recognised income and expense	-	47,056	47,056
Equity settled transactions	-	1,447	1,447
Shares issued	5,741	-	5,741
Dividends to shareholders	-	(13,006)	(13,006)
Balance at 30 June 2007	229,962	(19,175)	210,787
Balance at 1 July 2007	229,962	(19,175)	210,787
Total recognised income and expense	-	49,051	49,051
Equity settled transactions	-	1,614	1,614
Shares issued	10,918	-	10,918
Dividends to shareholders	-	(21,139)	(21,139)
Balance at 30 June 2008	240,880	10,351	251,231

#### Share capital

*In thousands of shares*

	THE COMPANY NUMBER OF ORDINARY SHARES	
	2008	2007
On issue at 1 July	524,543	516,960
Issued during the year	10,785	7,583
On issue at 30 June - fully paid	535,328	524,543

The consolidated entity has also issued share options and unvested performance shares (refer note 22).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 24. Capital and reserves (cont.)

### Dividends

Dividends recognised in the current year by the consolidated entity are:

<i>In thousands of AUD</i>	CENTS PER SHARE	TOTAL AMOUNT	FRANKED/ UNFRANKED	DATE OF PAYMENT
<b>2008</b>				
Interim 2008 ordinary	2.0	10,627	Franked	4 April 2008
Final 2007 ordinary	2.0	10,512	Franked	9 October 2007
		<u>21,139</u>		

### 2007

Interim 2007 ordinary	1.0	5,224	Franked	4 April 2007
Final 2006 ordinary	1.5	7,782	Franked	6 October 2006
Total amount		<u>13,006</u>		

Franked dividends declared or paid during the year were fully franked at the tax rate of 30% (2007: 30%).

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for. The declaration and subsequent payment of dividends has no income tax consequences.

<i>In thousands of AUD</i>	CENTS PER SHARE	TOTAL AMOUNT	FRANKED/ UNFRANKED	DATE OF PAYMENT
Final 2008 ordinary	3.5	18,736	Franked	10 October 2008

The financial effect of these dividends has not been recognised in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports.

### Dividend franking account

<i>In thousands of AUD</i>	THE COMPANY	
	2008	2007
30% franking credits available to shareholders of Macmahon Holdings Limited for subsequent financial years	13,601	6,462

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$8,029,913 (2007: \$4,505,290).

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 25. Financial instruments

### Credit risk

#### Exposure to credit risk

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at the reporting date was:

<i>In thousands of AUD</i>	CARRYING AMOUNT	
	2008	2007
Receivables	136,569	99,138
Cash and cash equivalents	120,098	114,644
	256,667	213,782

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

<i>In thousands of AUD</i>	CARRYING AMOUNT	
	2008	2007
Loans and receivables	178,306	147,077
Cash and cash equivalents	70,843	61,503
	249,149	208,580

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

<i>In thousands of AUD</i>	CARRYING AMOUNT	
	2008	2007
Australasia	135,120	97,964
South East Asia	1,019	1,059
Europe	430	115
	136,569	99,138

The Company's maximum exposure to credit risk for receivables at the reporting date by geographic region was:

<i>In thousands of AUD</i>	CARRYING AMOUNT	
	2008	2007
Australasia	173,200	141,971
South East Asia	5,106	5,106
	178,306	147,077

All of the Company's receivables are with subsidiaries.

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

<i>In thousands of AUD</i>	CARRYING AMOUNT	
	2008	2007
Mining customers	97,263	72,899
Construction customers	28,569	21,455
Others	10,737	4,784
	136,569	99,138

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 25. Financial instruments (cont.)

### Credit risk (cont.)

#### Exposure to credit risk (cont.)

The consolidated entity's most significant customer, a mining and construction customer, accounts for \$14,195,823 of the trade receivables carrying amount at 30 June 2008 (2007: \$8,887,069). Two subsidiaries account for \$107,773,173 and \$41,913,502 (2007: \$117,707,247 and \$11,229,205) of the Company's receivables carrying amount.

#### Impairment losses

None of the Company's receivables are past due (2007: nil). The ageing of the consolidated entity's trade receivables at the reporting date was:

<i>In thousands of AUD</i>	GROSS 2008	IMPAIRMENT 2008	GROSS 2007	IMPAIRMENT 2007
Past due 0-30 days	19,273	-	9,900	-
Past due 31-120 days	6,070	-	6,221	-
Past due more than 120 days	1,765	-	3,289	-

Based on historic default rates, the consolidated entity believes that no impairment allowance is necessary in respect of trade receivables as all customers have a good credit history with the consolidated entity.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the consolidated entity is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable and is written off against the financial asset directly. At 30 June 2008 the consolidated entity does not have any collective impairments on its trade receivables (2007: nil).

### Liquidity risk

The following are contractual maturities of financial liabilities including estimated interest payments.

#### CONSOLIDATED 30 JUNE 2008

*In thousands of AUD*

##### Non-derivative financial liabilities

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	12 MONTHS OR LESS	1-5 YEARS	MORE THAN 5 YEARS
Term facility	44,399	(54,448)	(4,110)	(50,338)	-
Hire purchase liabilities	63,431	(75,157)	(17,085)	(57,472)	(600)
Finance lease liabilities	36,359	(40,198)	(16,852)	(23,346)	-
Loan from minority shareholder	2,132	(2,158)	(2,158)	-	-
Loan from alliance partner	3,000	(3,000)	(3,000)	-	-
Trade and other payables	168,533	(168,533)	(168,533)	-	-
	317,854	(343,494)	(211,738)	(131,156)	(600)

#### CONSOLIDATED 30 JUNE 2007

*In thousands of AUD*

##### Non-derivative financial liabilities

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	12 MONTHS OR LESS	1-5 YEARS	MORE THAN 5 YEARS
Term facility	44,702	(49,514)	(3,602)	(45,912)	-
Hire purchase liabilities	67,119	(81,026)	(16,695)	(55,046)	(9,285)
Finance lease liabilities	55,221	(62,348)	(22,149)	(39,343)	(856)
Loan from minority shareholder	2,373	(2,373)	(2,373)	-	-
Trade and other payables	138,846	(138,846)	(138,846)	-	-
	308,261	(334,107)	(183,665)	(140,301)	(10,141)

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 25. Financial instruments (cont.)

### Liquidity risk (cont.)

#### COMPANY 30 JUNE 2008

*In thousands of AUD*

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	12 MONTHS OR LESS	1-5 YEARS	MORE THAN 5 YEARS
Trade and other payables	15,194	(15,194)	(280)	-	(14,914)

#### 30 JUNE 2007

Trade and other payables	12,783	(12,783)	(1,406)	-	(11,377)
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### Currency risk

#### Exposure to currency risk

The consolidated entity's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

*In thousands of AUD*

	NZD 30 JUNE 2008	MYR	NZD 30 JUNE 2007	MYR
Trade receivables	4	1,449	8	1,174
Trade payables	(838)	(437)	(2,567)	(327)
Gross balance sheet exposure	(834)	1,012	(2,559)	847

The Company's exposure to foreign currency risk is nil (2007: nil).

The following significant exchange rates applied during the year:

	AVERAGE RATE 2008	2007	REPORTING DATE SPOT RATE 2008	2007
NZD	1.1666	1.1151	1.2609	1.1025
MYR	2.9771	2.8676	3.1434	2.9293

### Sensitivity analysis

A 10 per cent strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	CONSOLIDATED EQUITY	PROFIT OR LOSS	COMPANY EQUITY	PROFIT OR LOSS
<i>Effect in thousands of AUD</i>				
<b>30 JUNE 2008</b>				
NZD	(706)	217	-	-
MYR	(620)	170	-	-
<b>30 JUNE 2007</b>				
NZD	(993)	213	-	-
MYR	(524)	195	-	-

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 25. Financial instruments (cont.)

### Currency risk (cont.)

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

#### Profile

At the reporting date, the interest rate profile of the Company's and the consolidated entity's interest-bearing financial instruments was:

<i>In thousands of AUD</i>	CONSOLIDATED CARRYING AMOUNT		COMPANY CARRYING AMOUNT	
	2008	2007	2008	2007
<b>Fixed rate instruments</b>				
Financial assets	-	-	-	-
Financial liabilities	(101,922)	(124,713)	-	-
	(101,922)	(124,713)	-	-
<b>Variable rate instruments</b>				
Financial assets	120,098	114,644	70,843	61,503
Financial liabilities	(44,399)	(44,702)	(44,399)	(44,702)
	75,699	69,942	26,444	16,081

### Fair value sensitivity analysis for fixed rate instruments

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

<i>Effect in thousands of AUD</i>	CONSOLIDATED				COMPANY			
	PROFIT OR LOSS		EQUITY		PROFIT OR LOSS		EQUITY	
	100BP INCREASE	100BP DECREASE	100BP INCREASE	100BP DECREASE	100BP INCREASE	100BP DECREASE	100BP INCREASE	100BP DECREASE
<b>30 JUNE 2008</b>								
Variable rate instruments	757	(757)	-	-	264	(264)	-	-
Cash flow sensitivity	757	(757)	-	-	264	(264)	-	-
<b>30 JUNE 2007</b>								
Variable rate instruments	699	(699)	-	-	161	(161)	-	-
Cash flow sensitivity	699	(699)	-	-	161	(161)	-	-



# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 25. Financial instruments (cont.)

### Fair values

#### Fair values versus carrying amounts

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

#### CONSOLIDATED

*In thousands of AUD*

	30 JUNE 2008		30 JUNE 2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Receivables	136,569	136,569	99,138	99,138
Cash and cash equivalents	120,098	120,098	114,644	114,644
Term facility	(44,399)	(42,186)	(44,702)	(42,626)
Hire purchase liabilities	(63,431)	(58,686)	(67,119)	(64,886)
Lease liabilities	(36,359)	(33,773)	(55,221)	(52,373)
Loan from minority shareholder	(2,132)	(2,132)	(2,373)	(2,373)
Loan from alliance partner	(3,000)	(3,000)	-	-
Trade and other payables	(168,533)	(168,533)	(138,846)	(138,846)
	(61,187)	(51,643)	(94,479)	(87,322)

#### COMPANY

	30 JUNE 2008		30 JUNE 2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Receivables	316	316	143	143
Loans from subsidiaries	179,213	179,213	146,934	146,934
Trade and other payables	(15,194)	(15,194)	(12,783)	(12,783)
	164,335	164,335	134,294	134,294

#### Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the forward yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2008	2007
Loans and borrowings	9.85%	8.05%
Hire purchase	9.68%	8.29%
Finance leases	9.68%	8.29%

## 26. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Offices and industrial workshop facilities				
Less than one year	5,874	3,196	-	-
Between one and five years	27,074	11,498	-	-
More than five years	31,597	16,994	-	-
Plant and equipment facilities				
Less than one year	4,794	-	-	-
Between one and five years	22,606	-	-	-
More than five years	390	-	-	-
	92,335	31,688	-	-

During the year ended 30 June 2008, \$4,656,940 was recognised as an expense in the income statement in respect of operating leases (2007: \$3,144,564).

Operating leases relate to premises and plant and equipment.

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

During the year the consolidated entity entered into a new operating lease facility for plant and equipment. The new operating lease facility included a \$230 million domestic facility and a US\$50 million international facility. The leases typically run for a term of three to five years with an option to extend for up to one to two years after that date. As at 30 June 2008 the domestic operating lease facility was drawn down by \$22 million and the overseas facility had not been drawn down. The consolidated entity has an option to purchase the assets at the expiry of their lease period.

The operating lease facility is subject to a covenant package considered standard for this type of facility. The facility is used primarily for new or near new equipment.

## 27. Capital commitments

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
<b>Capital expenditure commitments</b>				
<b>Plant and equipment</b>				
Contracted but not provided for and payable:				
Within one year	50,331	6,002	-	-
	50,331	6,002	-	-

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 28. Contingencies

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement. The following identifiable contingencies exist at 30 June 2008:

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Bank guarantees <sup>1</sup>	42,170	49,603	-	-
Insurance performance bonds in favour of clients <sup>1</sup>	56,623	42,849	-	-
Unsecured bank guarantees <sup>2</sup>	-	-	99,791	119,690

1 Bank guarantees and insurance bonds are issued in the normal course of business to clients to guarantee the performance of Macmahon under contracts and the period of each guarantee varies by contract agreement.

2 Unsecured guarantees by the Company in respect of lease and hire purchase commitments of controlled entities.

## 29. Other financial assets

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Investments in controlled entities - at cost	-	-	72,320	72,632
Less: impairment losses	-	-	(102)	(8,061)
	-	-	72,218	64,571

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 29. Other financial assets (cont.)

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		2008	2007
<b>Parent entity</b>			
Macmahon Holdings Limited	Australia	n/a	n/a
<b>Subsidiaries</b>			
<b>Directly Controlled by Macmahon Holdings Ltd</b>			
Macmahon Contractors Pty Ltd	Australia	100%	100%
Macmahon Underground Pty Ltd	Australia	50%	50%
Macmahon Underground Unit Trust	Australia	100%	100%
Macmahon Properties Pty Ltd	Australia	100%	100%
Macmahon Rail Holdings Pty Ltd	Australia	100%	100%
Macmahon (Southern) Pty Ltd	Australia	100%	100%
Thomco (No. 2020) Pty Ltd	Australia	100%	100%
Macmahon Mining Services Pty Ltd	Australia	100%	100%
Macmahon Construction Pty Ltd	Australia	100%	100%
Macmahon Civil Construction Pty Ltd	Australia	100%	-
Doorn-Dijl Yoordaning Mining and Construction Pty Ltd	Australia	100%	-
<b>Directly Controlled by Macmahon Contractors Pty Ltd</b>			
Macmahon Contractors (WA) Pty Ltd	Australia	100%	100%
Macmahon Contractors (NZ) Ltd	New Zealand	100%	100%
Leo & Green Pty Ltd	Australia	100%	100%
Macmahon Contracting International Pte Ltd	Singapore	100%	100%
PT Macmahon Indonesia	Indonesia	1%	-
Burnett River Dam	Australia	100%	100%
Millstream	Australia	100%	100%
<b>Directly Controlled by Macmahon (Southern) Pty Ltd</b>			
Macmahon Underground Pty Ltd	Australia	50%	50%
Macmahon Malaysia Pty Ltd	Australia	100%	100%
MVM Rail Pty Ltd	Australia	60%	60%
<b>Directly Controlled by Macmahon Rail Holdings Pty Ltd</b>			
Macmahon Rail Investments Pty Ltd	Australia	100%	100%
Macmahon Rail Operations Pty Ltd	Australia	100%	100%
<b>Directly Controlled by Thomco (No. 2020) Pty Ltd</b>			
Thomco (No. 2021) Pty Ltd	Australia	100%	100%
Thomco (No. 2022) Pty Ltd	Australia	100%	100%
<b>Directly Controlled by Macmahon Malaysia Pty Ltd</b>			
Macmahon SDN BHD	Malaysia	100%	100%
<b>Directly Controlled by Macmahon SDN BHD</b>			
Macmahon Constructors SDN BHD	Malaysia	100%	100%
<b>Directly Controlled by MVM Rail Pty Ltd</b>			
MVM (Malaysia) Sdn Bhd	Malaysia	60%	60%
<b>Directly Controlled by Macmahon Contracting International Pte Ltd</b>			
PT Macmahon Indonesia	Indonesia	99%	-

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 29. Other financial assets (cont.)

### Associates - non active

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST		CARRYING AMOUNT OF INVESTMENT	
		2008	2007	2008	2007
Bluff Harbour Pty Ltd	Australia	50%	50%	(a)	(a)
Encounter Lakes Pty Ltd	Australia	50%	50%	(a)	(a)

(a) Equity accounting for these investments has been suspended because the consolidated entity's share of losses since acquisition is greater than its cost. The carrying amount of the investments is zero.

There are no expenditure commitments, contingent liabilities or capital commitments for the above associates.

## 30. Business combination

### a) Prior year acquisition - Australian Raise Drilling Pty Ltd and Combined Resource Engineering Pty Ltd

On 1 September 2006 the Consolidated entity acquired the businesses of Australian Raise Drilling (ARD) and Combined Resource Engineering (CRE) through a new wholly owned subsidiary "Macmahon Mining Services Pty Ltd" for \$29 million. The businesses specialise in providing services to the mining industry. ARD provides vertical and horizontal raise drilling of large diameter shafts for mine ventilation, access and mine development. CRE provides engineering design, manufacture and installation of underground mine infrastructure.

In the 10 months to 30 June 2007, the subsidiary contributed operating profit after tax of \$4.69 million after amortisation of intangibles of \$0.92 million. If the acquisition had occurred on 1 July 2006, management estimates that consolidated revenue would have been \$921.5 million, and consolidated profit after tax would have been \$45.3 million for the 12 months ended 30 June 2007.

The details of the net identifiable assets acquired and goodwill are as follows:

*In thousands of AUD*

Purchase consideration	
Cash paid	27,250
Direct costs relating to the acquisition	2,000
Purchase consideration (excluding contingent consideration)	29,250
Fair value of net identifiable assets acquired (refer below)	20,950
Goodwill	8,300
Add: contingent consideration - 2007	1,070
- 2008	1,837
Total goodwill	11,207

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's workforce and the synergies expected to be achieved from integrating the businesses into the consolidated entity's existing mining business.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 30. Business combination (cont.)

### Assets and liabilities acquired

The balances of the assets and liabilities arising from the acquisition are as follows:

<i>In thousands of AUD</i>		ACQUIREE'S CARRYING AMOUNT	FAIR VALUE
Plant and equipment	(i)	2,651	17,009
Identifiable intangibles	(ii)	-	1,023
Inventories		1,911	2,068
Deferred tax assets		-	437
Work in progress		2,175	2,175
Employee entitlements		(1,455)	(1,455)
Deferred tax liabilities		-	(307)
Net assets		5,282	20,950

(i) The vendor had prepared special purpose financial reports with major plant and equipment being carried at a minimal written down value at the acquisition date. As part of the acquisition due diligence, the Directors engaged an independent valuation expert to provide an indicative fair value of the major plant and equipment so as to ensure that assets were brought to account in the books of the consolidated entity at fair value.

(ii) Majority of identifiable intangible assets will be amortised within 12 months.

(iii) Contingent consideration; an amount of \$1.4 million (2007: \$1.07 million) has been accrued in respect of the potential earn-out increasing the value of goodwill.

## 31. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
<b>Cash flows from operating activities</b>					
Profit for the year		49,378	44,531	49,051	47,056
Adjustments for:					
Depreciation and amortisation	18 & 19	40,209	36,836	197	-
Interest expense		12,766	14,490	4,218	4,004
Share of profit of joint controlled entities	16	(5,540)	(5,887)	-	-
Impairment loss (reversal of)		-	476	(17,545)	(8,798)
Gain on sale of plant and equipment		(1,187)	(5,787)	-	-
Gain on sale of discontinued operation	8	-	(14,479)	-	(14,479)
Equity-settled share-based payment expense	22	1,614	1,447	855	891
Income tax expense	9	17,797	18,616	(1,853)	1,692
<b>Operating profit before changes in working capital and provisions</b>		<b>115,037</b>	<b>90,243</b>	<b>34,923</b>	<b>30,366</b>
Net cash received from jointly controlled entities		4,312	7,753	-	-
(Increase)/decrease in trade and other receivables		(52,023)	(13,614)	(173)	(53)
(Increase)/decrease in inventories		692	(12,297)	-	-
Increase/(decrease) in trade and other payables		29,298	17,693	(1,125)	860
Increase/(decrease) in employee benefits and provisions		13,714	(725)	1,880	-
Interest paid		(12,766)	(14,490)	(4,218)	(4,004)
Income tax paid		(9,978)	(5,832)	(9,978)	(5,832)
<b>Net cash provided by operating activities</b>		<b>88,286</b>	<b>68,731</b>	<b>21,309</b>	<b>21,337</b>

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 32. Related parties

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

### NON-EXECUTIVE DIRECTORS

Non-executive Chairman	R J Carter
Non-executive Directors:	B L Cusack
	M A Kinnaird AO
	B R Ford
	J C Massey (appointed 1 September 2007)
	V A Vella (appointed 21 November 2007)

### EXECUTIVE DIRECTOR

N R Bowen (Chief Executive Officer & Managing Director)

### KEY EXECUTIVES

R A Carroll	(Chief Financial Officer)
M A Hine	(Executive General Manager Mining)
W A Rooney	(Executive General Manager Construction, ceased 24 June 2008)
P F Doyle	(Executive General Manager Construction, appointed 15 April 2008)
N J Wilson	(Executive General Manager Health, Safety, Environment and Quality)
M A Narustrang	(Executive General Manager People and Organisational Development, appointed 19 May 2008)
P S Hatt	(Executive General Manager Strategic Development and Risk, ceased 29 February 2008)

Compensation for key management personnel included within employee benefit expenses is as follows:

<i>In AUD</i>	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Short-term employee benefits	5,275,494	4,719,168	3,965,553	3,368,221
Post-employment benefits	517,613	346,222	293,628	147,382
Long-term employee benefits	217,875	305,000	189,797	184,500
Share based payments	942,005	1,029,771	838,334	891,107
Termination payments	-	-	-	-
	6,952,987	6,400,161	5,287,312	4,591,210

### Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' compensation is provided in the remuneration report section of the director's report on pages 8 to 26.

Apart from the details disclosed in this note, no director or executive has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' or executives' interests existing at year end.



# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 32. Related parties (cont.)

### Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Macmahon Holdings Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2008	HELD AT 1 JULY 2007	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES <sup>1</sup>	HELD AT 30 JUNE 2008	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2008
<b>Directors</b>							
R J Carter	1,000,000	-	-	-	1,000,000	-	1,000,000
N R Bowen	-	-	-	-	-	-	-
B L Cusack	-	-	-	-	-	-	-
M A Kinnaird	1,000,000	-	-	-	1,000,000	-	1,000,000
B R Ford	-	-	-	-	-	-	-
J C Massey	-	-	-	-	-	-	-
V A Vella	-	-	-	-	-	-	-
<b>Executives</b>							
R A Carroll	2,000,000	-	-	-	2,000,000	-	-
P S Hatt	500,000	-	(200,000)	(300,000)	-	100,000	-
M A Hine	2,200,000	-	-	-	2,200,000	500,000	700,000
W A Rooney	1,150,000	-	(587,500)	-	562,500	187,500	-
N J Wilson	900,000	-	(228,571)	-	671,429	100,000	371,429
P F Doyle	-	-	-	-	-	-	-
M A Narustrang	-	-	-	-	-	-	-
2007	HELD AT 1 JULY 2006	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES <sup>1</sup>	HELD AT 30 JUNE 2007	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2007
<b>Directors</b>							
R J Carter	1,000,000	-	-	-	1,000,000	-	1,000,000
N R Bowen	-	-	-	-	-	-	-
B L Cusack	1,000,000	-	(1,000,000)	-	-	-	-
D J Humann	-	-	-	-	-	-	-
M A Kinnaird	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
B R Ford	-	-	-	-	-	-	-
<b>Executives</b>							
R L Blair	1,125,000	-	(500,000)	(625,000)	-	-	-
R A Carroll	-	2,000,000	-	-	2,000,000	-	-
P S Hatt	1,000,000	-	(500,000)	-	500,000	200,000	100,000
M A Hine	2,400,000	-	(200,000)	-	2,200,000	400,000	200,000
W A Rooney	1,150,000	-	-	-	1,150,000	400,000	400,000
N J Wilson	900,000	-	-	-	900,000	200,000	500,000

<sup>1</sup> Other changes relate to options that were cancelled during the year.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 32. Related parties (cont.)

### Movements in shares

The movement during the reporting period in the number of ordinary shares in Macmahon Holdings Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2008	HELD AT 1 JULY 2007	PURCHASES <sup>1</sup>	RECEIVED ON EXERCISE OF OPTIONS/ GRANTED	NET CHANGE OTHER <sup>2</sup>	HELD AT 30 JUNE 2008
<b>Directors</b>					
R J Carter	245,253	-	-	-	245,253
N R Bowen	12,385,135	1,684,442	-	(3,536,748)	10,532,829
B L Cusack	1,000,000	-	-	(250,000)	750,000
M A Kinnaird	241,815	3,809	-	-	245,624
B R Ford	56,000	44,000	-	-	100,000
J C Massey	-	40,000	-	-	40,000
V A Vella	-	30,442	-	-	30,442
<b>Executives</b>					
R A Carroll	30,000	-	-	-	30,000
P S Hatt	540,833	-	200,000	(40,833)	700,000
M A Hine	-	-	-	-	-
W A Rooney	14,553	448	587,500	(302,000)	300,501
N J Wilson	-	-	228,571	(228,571)	-
P F Doyle	-	-	-	-	-
M A Narustrang	-	-	-	-	-
2007	HELD AT 1 JULY 2006	PURCHASES <sup>1</sup>	RECEIVED ON EXERCISE OF OPTIONS/ GRANTED	NET CHANGE OTHER <sup>2</sup>	HELD AT 30 JUNE 2007
<b>Directors</b>					
R J Carter	245,253	-	-	-	245,253
N R Bowen	12,385,135	-	-	-	12,385,135
B L Cusack	-	-	1,000,000	-	1,000,000
D J Humann	-	-	-	-	-
M A Kinnaird	234,997	6,818	-	-	241,815
B R Ford	-	56,000	-	-	56,000
<b>Executives</b>					
R L Blair	787,239	28,736	500,000	(661,681)	654,294
R A Carroll	-	30,000	-	-	30,000
P S Hatt	40,833	-	500,000	-	540,833
M A Hine	-	-	200,000	(200,000)	-
W A Rooney	14,144	409	-	-	14,553
N J Wilson	-	-	-	-	-

<sup>1</sup> Including DRP and rights issue.

<sup>2</sup> Sale of shares.

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 32. Related parties (cont.)

### Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 29), jointly controlled entities (see note 16) and with its key management personnel.

### Other related party transactions

#### Subsidiaries

Loans are made by the Company to wholly owned subsidiaries for capital purchases. Loans outstanding between the Company and its controlled entities are non-interest bearing, repayable on demand but are not expected to be recalled within 12 months. During the year ended 30 June 2008, such loans provided to subsidiaries totalled \$32,819,000 (2007: \$33,593,000).

## 33. Auditors' remuneration

*In AUD*

#### Audit services

KPMG Australia

Audit and review of financial reports

Additional costs in respect of prior years

Other regulatory audit services

Overseas KPMG firms

Audit and review of financial reports

Other auditors

Audit and review of financial reports

#### Other services

KPMG Australia

Taxation services

Employee migration services

System implementation assurance

Other

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Audit and review of financial reports	432,000	341,100	118,000	107,609
Additional costs in respect of prior years	110,000	125,000	-	-
Other regulatory audit services	11,000	-	-	-
Audit and review of financial reports	55,800	46,802	-	-
Audit and review of financial reports	-	5,799	-	-
	608,800	518,701	118,000	107,609
Taxation services	30,000	-	30,000	-
Employee migration services	109,135	-	109,135	-
System implementation assurance	32,204	-	32,204	-
Other	15,371	-	9,850	-
	186,710	-	181,189	-

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 34. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' report.

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

The subsidiaries subject to the deed are:

- Macmahon (Southern) Pty Ltd
- Macmahon Mining Services Pty Ltd

Macmahon (Southern) Pty Ltd and Macmahon Mining Services Pty Ltd became party to the Deed on 16 June 2008, by virtue of a Deed of Assumption.

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2008 is set out as follows.

### Summarised income statement and retained profits

*In thousands of AUD*

	CONSOLIDATED 2008
Profit before tax	50,194
Income tax expense	(382)
Profit after tax	49,812
Retained profits at beginning of the year	(19,136)
Dividends recognised during the year	(21,139)
Equity settled transactions	1,614
Retained profits at end of year	11,151
Attributable to:	
Equity holders of the Company	49,812
Minority interest	-
Profit for the year	49,812

# Notes to the Consolidated Financial Statements (cont.)

For the year ended 30 June 2008

## 34. Deed of cross guarantee (cont.)

### Balance Sheet

In thousands of AUD

**CONSOLIDATED  
2008**

#### Assets

##### Current assets

Cash and cash equivalents  
Trade and other receivables  
Inventories

71,712  
19,747  
2,537

##### Total current assets

93,996

##### Non-current assets

Trade and other receivables  
Deferred tax assets  
Property, plant and equipment  
Other financial assets  
Intangible assets

163,858  
498  
18,299  
48,820  
12,942

##### Total non-current assets

244,417

##### Total assets

338,413

#### Liabilities

##### Current liabilities

Trade and other payables  
Interest-bearing loans and borrowings  
Employee benefits  
Current tax liabilities  
Provisions

9,052  
34  
3,512  
11,625  
18

##### Total current liabilities

24,241

##### Non-current liabilities

Trade and other payables  
Interest-bearing loans and borrowings  
Employee benefits

17,405  
44,497  
8

##### Total non-current liabilities

61,910

##### Total liabilities

86,151

##### Net assets

252,262

#### Equity

Issued capital  
Reserves  
Retained earnings

240,880  
231  
11,151

##### Total equity attributable to equity holders of the parents

252,262

##### Minority interest

-

##### Total equity

252,262

## 35. Subsequent events

On 20 August 2008 Macmahon announced that it had increased the consideration under its takeover offer for Ausdrill Limited to 1.65 Macmahon shares for each Ausdrill share. The amount of the increased offer is final, and will not be further increased in the absence of a competing proposal. If the offer is successful, Macmahon will issue approximately 142,308,000 new ordinary shares based on 50.1% of acceptances being achieved and up to a maximum of approximately 284,048,000 shares if 100% of acceptances are achieved. Macmahon's offer is currently due to close on 16 September 2008.

The final 2008 dividend was declared after the reporting date, refer note 24.

# Directors' Declaration

For the year ended 30 June 2008

1. In the opinion of the directors of Macmahon Holdings Limited ("the Company"):
  - a) the financial statements and notes and the remuneration disclosures that are contained in the remuneration report in the directors' report, set out on pages 8 to 26, are in accordance with the Corporations Act 2001, including:
    - i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2008 and of their performance, for the year ended on that date; and
    - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1 (a);
  - c) the remuneration disclosures that are contained in the remuneration report in the directors report comply with Australian Accounting Standard AASB 124 Related Party Disclosure, the Corporations Act 2001 and the Corporations Regulations 2001; and
  - d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in note 34 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008 under Section 295A of the Corporations Act 2001.

Dated at Perth this 29 day of August 2008.

Signed in accordance with a resolution of the directors:



**Nick Bowen**  
Director



## **Independent auditor's report to the members of Macmahon Holdings Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Macmahon Holdings Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 35 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.



# Independent Audit Report (cont.)

For the year ended 30 June 2008



## *Auditor's opinion*

In our opinion:

- (a) the financial report of Macmahon Holdings Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the Company and the consolidated entity also complies with International Financial Reporting Standards as disclosed in note 1(a).

## **Report on the remuneration report**

We have audited the Remuneration Report included in section 3.4 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

## *Auditor's opinion*

In our opinion, the remuneration report of Macmahon Holdings Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

D P McComish  
Partner

Perth  
29 August 2008

## Shareholding summary

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

The following details of shareholders of Macmahon Holdings Limited have been taken from the Share Register on 22 August 2008.

- (a) The twenty largest shareholders held 65.69% of the Ordinary Shares.
- (b) There were 9,759 ordinary shareholders as follows:

SIZE OF HOLDINGS	ORDINARY SHARES
1 - 1,000	943
1,001 - 5,000	3,117
5,001 - 10,000	2,102
10,001 - 100,000	3,340
100,001 and over	257
	<hr/> 9,759

The number of shareholders holding less than a marketable parcel of ordinary shares is 189.

## Twenty largest shareholders

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD
Leighton Holdings Investments Pty Limited	83,435,329	15.47
National Nominees Limited	60,512,894	11.22
ANZ Nominees Limited Cash Income A/C	48,397,207	8.97
JP Morgan Nominees Australia Limited	35,487,981	6.58
HSBC Custody Nominees Australia	31,253,639	5.79
Mr Nicholas Ronald Bowen	14,532,829	2.69
Citicorp Nominees Pty Limited	13,795,110	2.56
UBS Nominees Pty Ltd	10,474,496	1.94
Cogent Nominees Pty Limited	9,431,320	1.75
Bainpro Nominees Pty Limited	9,117,028	1.69
HSBC Custody Nominees Australia	6,397,043	1.19
Warbont Nominees Pty Ltd Unpaid Entrepot A/C	6,149,814	1.14
Mr Conway Jeffrey Jones	5,312,625	0.98
Citicorp Nominees Pty Ltd Commonwealth Bank Off Super A/C	4,144,081	0.77
Citicorp Nominees Pty Limited CFSIL CFS WS Small COMP A/C	3,633,853	0.67
Dalran Pty Ltd Smith Family A/C	3,000,000	0.56
Bond Street Custodians Limited Macquarie Alpha Opport A/C	2,601,302	0.48
ANZ Nominees Limited SL Cash Income A/C	2,434,602	0.45
Cogent Nominees Pty Limited SMP Accounts	2,170,932	0.40
Bond Street Custodians Limited Macq Aus Long Short EQ A/A	2,096,318	0.39
	<hr/> 354,378,403	<hr/> 65.69

## Substantial shareholders

As at 22 August 2008, the register of substantial shareholders disclosed the following information:

HOLDERS GIVING NOTICE	NUMBER OF ORDINARY SHARES IN WHICH INTEREST IS HELD
Leighton Holdings Limited	83,435,329
Acorn Capital Limited	33,845,267

## Voting rights

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

## Ordinary shares

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

# Summary of Consolidated Results

For the year ended 30 June 2008

## Statistical summary

	2008	2007	2006	2005	2004
<b>Profit and loss (\$m)</b>					
Operating Revenue	1,201.2	910.3	804.0	555.4	372.1
Joint venture revenue	63.4	79.1	90.7	115.8	62.0
Joint venture recoveries	(20.2)	(23.4)	(31.0)	(33.9)	(13.3)
Total revenue	1,244.4	966.0	863.7	637.3	420.8
EBITDA	114.4	96.5	81.7	57.7	41.8
Depreciation and amortisation	(39.7)	(36.8)	(34.8)	(30.3)	(23.1)
EBIT (underlying)	74.7	59.7	46.9	27.4	18.7
Non-recurring items <sup>1</sup>	-	14.5	(19.9)	-	-
EBIT	74.7	74.2	27.0	27.4	18.7
Net financing costs	(7.5)	(11.1)	(8.1)	(6.7)	(6.5)
Operating profit	67.2	63.1	18.9	20.7	12.2
Tax expense	(17.8)	(18.6)	(11.4)	(4.8)	(0.6)
NPAT attributable to Macmahon	49.4	44.5	7.6	15.9	11.6
Minority interest	(0.6)	-	(0.1)	-	-
NPAT	48.8	44.5	7.5	15.9	11.6
Non-recurring items (net of tax) <sup>1</sup>	-	(11.1)	19.9	-	-
Underlying NPAT	48.8	33.4	27.4	15.9	11.6
<b>Balance sheet (\$m)</b>					
Plant and equipment	257.9	255.7	245.4	153.2	126.0
Investment (APT)	-	-	-	29.6	27.2
Total assets	630.2	559.8	486.7	323.9	247.1
Net assets	251.0	211.1	171.9	120.8	99.4
Net debt	29.2	54.8	75.0	61.3	51.5
<b>Cash flow (\$m)</b>					
EBITDA	114.4	96.5	81.7	57.7	41.8
Net interest paid	(7.5)	(11.0)	(8.1)	(6.7)	(5.9)
Income tax (paid)/refund	(10.0)	(5.8)	(1.5)	(1.8)	0.6
Miscellaneous	(0.2)	10.5	(0.3)	1.4	0.1
Working capital and provisions decrease/(increase)	(8.0)	(21.5)	(3.6)	(1.2)	14.8
Operating cash flow including JV	88.7	68.7	68.2	49.4	51.4
Investing and financing cash flows (net)	(82.3)	(41.3)	(20.3)	(42.4)	(13.5)
Effect of exchange rates on assets	(0.9)	(0.1)	(0.5)	0.2	-
Cash at beginning of FY	114.6	87.4	40.0	32.9	(5.0)
Closing cash balance	120.1	114.6	87.4	40.1	32.9

For the year 2004 the figures are based on published financial information and have not been restated in line with changes in financial reporting standards.

<sup>1</sup> Non-recurring items

- 2006 includes the impairment of investment in Asia Pacific Transport (APT).
- 2007 includes the profit on the sale of Allplant.

## Glossary

<b>EBIT</b>	Earnings before net interest expense and tax expense
<b>EBITDA</b>	Earnings before net interest expense, tax expense, depreciation and amortisation
<b>EV</b>	Enterprise Value, being market capitalisation plus net debt
<b>LTIFR</b>	Lost Time Injury Frequency Rate
<b>TRIFR</b>	Total Recordable Injury Frequency Rate
<b>NPAT</b>	Net Profit After Tax

# Summary of Consolidated Results (cont.)

For the year ended 30 June 2008

## Statistical/ratio summary

	2008	2007 <sup>1</sup>	2006 <sup>1</sup>	2005	2004
<b>People and safety</b>					
Number of employees	3,628	3,037	2,757	2,543	1,686
LTIFR	2.0	1.9	0.7	2.1	2.9
TRIFR	12.9	12.7	14.0	18.6	22.1
<b>Order book</b>					
Work in hand (\$m)	2,138	2,005	1,218	925	784
New contracts and extension (\$m)	1,377	1,753	1,100	739	862
<b>Profit and loss ratios</b>					
Revenue growth (%)	28.8	11.8	35.5	51.4	(12.1)
NPAT/Total revenue (%)	3.9	3.5	3.2	2.5	2.8
EBITDA/Total revenue (%)	9.2	10.0	11.8	9.1	9.9
EBIT/Total revenue (%)	6.0	6.2	5.4	4.3	4.4
EV/EBITDA	8.0	7.6	6.0	4.1	3.6
Net interest cover (x)	9.9	5.4	5.8	4.1	3.1
Basic EPS (cents)	9.20	6.41	5.49	4.18	3.51
Diluted EPS (cents)	9.06	6.29	5.45	4.15	3.42
<b>Balance sheet ratios</b>					
Gearing (net debt/equity) (%)	11.6	26.0	43.6	50.7	51.8
ROC (%)	17.4	14.9	15.9	12.8	11.7
ROE (%)	19.4	15.8	15.9	13.2	11.7
ROA (%)	7.7	6.0	5.6	4.9	4.7
NTA per share (\$)	0.41	0.36	0.31	0.30	0.25
<b>Cash flow ratios</b>					
Operating cash flow per share (c)	16.57	13.10	13.19	13.02	13.74
EBITDA per share (c)	21.37	18.38	15.80	15.21	11.19
<b>Shareholders</b>					
Shares on issue (m) @ 30 June	535.3	524.5	517.0	379.3	374.0
Share price @ 30 June (c)	166.5	129.0	80.0	45.5	27.0
Dividend declared (c)	5.5	3.0	2.0	1.0	0.5
Percentage franked (%)	100	100	100	100	100
Market capitalisation (\$m)	891	677	414	173	101
Enterprise value (EV)	920.5	731.5	489.0	234.0	153.0
Price/NTA (x)	4.1	3.5	2.6	1.5	1.1

For the year 2004 the figures are based on published financial information and have not been restated in line with changes in financial reporting standards.

<sup>1</sup> All statistics are calculated on underlying profit; that is excluding the Allplant sale in 2007 and the impairment of the investment in Asia Pacific Transport (APT) in 2006.

## Glossary (cont.)

<b>NTA</b>	Net Tangible Assets
<b>ROC</b>	Return on capital - EBIT/Average Capital Employed, where Capital Employed is Total Tangible Assets less Payables less Bank Overdraft
<b>ROE</b>	Return on Equity - NPAT/Net Assets at year end
<b>ROA</b>	Return on Assets - NPAT/Total Assets at year end

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## Calendar of events

### 10 October 2008

Final dividend payment

### 7 November 2008

Annual General Meeting

### February 2009

Release of half year results

### August 2009

Release of full year results

## Offices and officers

### Company Secretaries

E V Gregoriadis

K A Gunellas

### Principal Registered Office

Level 3, 263 Adelaide Terrace

Perth WA 6000

Telephone: +61 (08) 9365 1111

Facsimile: +61 (08) 9365 1199

### Locations of Share Registries

#### Computershare Investor Services Pty Ltd

Level 2, 45 St George's Terrace

Perth WA 6000

### Securities Exchange

The Company is listed on the Australian Securities Exchange.

The Company is listed as "Macmahon" with an ASX code of "MAH".

### Other information

Macmahon Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

## Feedback

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

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