



Annual Report 2009





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

Operating for more than 45 years, Macmahon has grown to become an ASX/S&P200 company, employing more than 3,000 people across Australia, New Zealand and Asia.

The background of the page is a photograph of a sunset. The sun is a bright, glowing orb on the horizon, casting a warm orange and yellow light across the sky. In the foreground, the dark silhouette of a vehicle, possibly a truck or heavy machinery, is visible on the left side, with its headlight and part of its body in shadow. The horizon line is straight, separating the dark land from the bright sky.

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**Richard (Dick) Carter**  
Chairman

2009 was a challenging year for the Company. The global financial crisis, coupled with declining commodity prices led to reductions in work and a decrease in new business opportunities.

I am disappointed to report a net profit after tax of \$17.2 million for the year, a material decline on the 2008 result and the first decrease in underlying earnings in nine years.

A number of factors contributed to this result, both external and internal to the Company.

Against the backdrop of the global financial crisis, 2009 proved to be a tough year, particularly for our Mining Business. While uncertain times continue to prevail in the resources sector, 2010 is already showing signs of a recovery and it appears that the worst is now behind us.

In light of the Company's weak second half result, the Directors decided not to declare a final dividend.

The interim dividend of 1.5 cents per share represents a payout ratio of just below 50 per cent, which is in line with the Company's dividend guidance. Macmahon expects to resume dividend payments in the 2010 financial year and continues to believe a payout ratio of around 50 per cent is appropriate.

In June the Company raised approximately \$60 million of new equity. The raising was successful, with both the institutional and retail components significantly over subscribed. I would like to take this opportunity to thank our shareholders for their support in making the equity raising a success.

The equity raising was a necessary step towards placing the Company in a stronger position for the future, with the cash raised used to pay down debt and increase working capital flexibility.

The Company is starting to see positive signs on the horizon. Prospects for 2010 are improving with the economic environment beginning to rebound. Macmahon will

continue to focus on internal efficiencies and strengthening its capabilities to ensure it is in the best possible position to benefit from the upturn in the economy.

Macmahon recognises the need for high standards of corporate behaviour and accountability and as such, the Directors support and adhere to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Additionally, at Macmahon, corporate social responsibility is a key priority. The Company is committed to upholding key policies and values relating to the health and safety of employees, environment and the way in which we conduct our business activities.

With such values in mind, the Board was delighted in August 2009 to agree on a new employment contract for Managing Director and Chief Executive Officer, Nick Bowen.

In these volatile times, stability and strength of leadership is an important factor to success. Mr Bowen remains firmly focused on the execution of the Company's strategy and remains committed to the shareholders of Macmahon. Mr Bowen's leadership skills, experience and strategic vision will be pivotal in ensuring Macmahon's continued success in the coming years.

After five years with the Company, Mr Malcolm Kinnaird AC retired from the Macmahon Board in May 2009. Mr Kinnaird's expertise, dedication and knowledge during this time were outstanding and I would like to thank him for his contribution.

Mr Ken Scott-Mackenzie was appointed to the Board in May and brings with him over thirty five years' experience in the engineering, mining and construction sectors in both Australia and overseas, including his most recent role as Chief Executive Office of Bilfinger Berger Australia. We are pleased to have someone of Mr Scott-

Mackenzie's calibre joining the Board, and welcome him to Macmahon.

While we have faced a number of hurdles during the year, the Company has responded quickly and effectively to restructure the business to suit the new environment. We are a resilient Company and I am proud of the way our management team has guided us through the challenges of the past year.

The Company remains committed to delivering improved returns for shareholders and looks forward to delivering an improved operational performance in 2010.

I would like to thank our employees and leadership team for their contribution during the period. Their knowledge and dedication will drive the Company's improvement into 2010 and beyond, and we are highly appreciative of the professionalism and commitment they have demonstrated during a demanding time.

I would also like to thank our clients and suppliers for their ongoing loyalty and support and we look forward to continuing these positive partnerships into the future.

As previously announced, I will be retiring from the Board at the upcoming Annual General Meeting.

The Board has unanimously agreed that Mr Ken Scott-Mackenzie will be appointed Chairman, subject to his re-election at the Annual General Meeting.

I would like to thank the Macmahon management team and the Board for their support over the past eight years.

A handwritten signature in dark ink, appearing to read 'R g Carter'.

**Richard (Dick) Carter**  
Chairman





Rapid Growth Project 5, BHP Billiton Iron Ore, Western Australia





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

The landscape in which we operate shifted dramatically in 2009, with the changes that followed significantly impacting the Company's growth profile.

## Year in review

The past year has seen the Company faced with a number of challenges. Record revenue of \$1.49 billion was achieved, however, profit was considerably lower than the 2008 result.

While the profit result is unsatisfactory, it was in line with earnings guidance provided in April 2009 of between \$15 million to \$20 million. Positively, the last few months have seen a much stronger operating performance from the Company, signalling that we are beginning to turn the corner.

A number of one-off issues combined with the effect of the financial crisis impacted our 2009 results, with the Mining Business hit particularly hard.

Amidst the sharp downturn in the mining and resources sector, several mining contract cancellations and deferrals occurred during the period, resulting in lost earnings and unplanned costs of demobilisation, redundancy and restructuring.

As a result of these project scale backs and cancellations, a number of employees unfortunately had to be made redundant during the period. This was a difficult time for the Company and every effort was made to utilise available resources and redeploy employees where possible.

## Safety performance

While we have experienced a difficult year, it is pleasing to note that the Company recorded an outstanding safety performance for the period, with a 40 per cent improvement in the Total Recordable Injury Frequency Rate and a 60 per cent improvement in the Lost Time Injury Frequency Rate.

This is the best safety performance in the Company's 45 year history and reflects the Company's ongoing focus on safety improvement.

## Order book

Positively, we have continued to win work with \$1.1 billion of new contracts, extensions and scope increases awarded across the business.

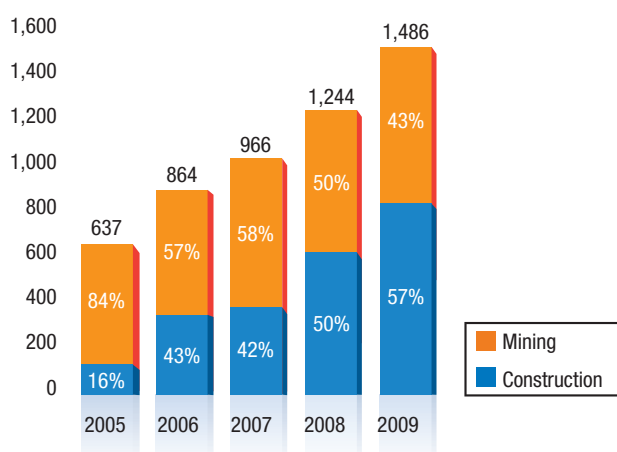
A key win for the Construction Business was the award of the contract to construct the northern rail section of BHP Billiton Iron Ore's \$500 million Rapid Growth Project 5 (RGP5) in the Pilbara region of Western Australia, in joint venture with Leighton Contractors. This project is pivotal in expanding BHP Billiton's rail capacity in this region and also highlights the benefits from the Memorandum of Understanding (MOU) established with Leighton Holdings.

A number of water infrastructure projects were won on the east coast of Australia for government bodies, including the Wyaralong Dam in Queensland and the Blowering Dam upgrade and Nepean Weirs upgrade both in New South Wales.

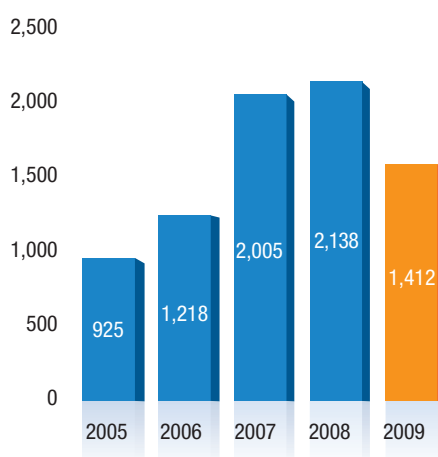
New South Wales is emerging as a key region for Construction, with several rail contracts awarded during the period, adding to the growing portfolio of work in this state.

While new contract opportunities in the mining sector were limited, approximately \$175 million was added to the order book

Revenue (\$million)



Order book (\$million)



as a result of increases in scope across a number of mining contracts.

Our specialised raise drilling group, Australian Raise Drilling (ARD) and engineering group, Combined Resource Engineering (CRE) have continued to expand. During the year, ARD were awarded work in Hong Kong, establishing a presence in this growing market.

### Our people

I would like to take this opportunity to thank our people for their hard work and resilience during a period which has been testing for the Company as a whole. Pleasingly, we have seen a significant reduction in the turnover rate, a factor which has no doubt contributed to our outstanding safety performance.

Our employees are integral to Macmahon's success and the high standard of training is evident through the number of awards our apprenticeship and trainee programs win every year.

We have a quality management team in place, all of whom are dedicated to driving the future improved performance of the Company.

Our Chairman, Dick Carter, will be retiring at the Company's upcoming Annual General Meeting.

Mr Carter joined the Board in October 2001 and was appointed Chairman in December 2004. Mr Carter led Macmahon through a period of significant change and growth and has been instrumental in transforming the Company into a top-tier contractor. On behalf of the Board, I would like to thank Dick for his commitment and contribution to Macmahon, and wish him all the best for his future endeavours.

### Outlook

Looking to the 2010 financial year, we are now seeing our business better placed to manage the new environment. The Company has realigned its structure to ensure that it is best positioned to benefit from opportunities as they arise.

Going forward, Macmahon will generate a greater proportion of its revenue from the Construction Business. This is a result of expected growth in Construction, on the back of increased government spending and opportunities arising in the energy sector. Growth in the Mining Business is unlikely in the short term.

As at 30 June, the Company had over \$950 million of work in hand for 2010.

We have firmly established strategic partnerships which are supporting the business's growth in both the Australian and overseas markets.

As a result, the Company is confident of achieving 2010 revenue of at least \$1.3 billion, with potential upside based on timing of new work. Our strong balance sheet, internal improvements and efficiencies gained through 2009 sees Macmahon well placed to make a solid profit recovery in 2010.



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



# Chief Financial Officer's report



**Ross Carroll**

Chief Financial Officer

2009 was a disappointing year financially for Macmahon. Despite record revenue of \$1.49 billion, the Company recorded net profit after tax of only \$17.2 million, a marked decrease on the 2008 financial year.

A number of factors across both our Mining and Construction businesses contributed to this lower profit performance.

## Construction

The Construction result was negatively impacted by a large and unacceptable loss of \$16 million on one of our projects. This loss was responsible for the significant drop in construction profit before tax to \$29.6 million in 2009. As a result, we revised our tendering and handover procedures and reviewed and improved our risk management systems.

\$ million except where stated	June 09	June 08	Change %
Total Revenue	1,485.6	1,244.4	19
EBIT	29.8	74.7	(60)
Profit Before Tax	20.9	67.2	(69)
Profit After Tax and Minorities	17.2	48.8	(65)
Profit After Tax Margin %	1.2	3.9	(69)
Earnings Per Share – Basic (cents per share)	3.07	9.20	(67)
Dividends Per Share (cents per share)	1.5	5.5	(73)
Interest cover (x times)	3.4	9.9	(66)
Return on equity %	5.9	19.4	(70)
Return on capital %	7.3	19.9	(63)

Excluding the impact of this one project, construction had a strong result with revenue increasing by 34 per cent to \$841 million.

## Mining

Within Mining, it was a story of two halves. A solid order book position going into the 2009 financial year led to revenue growth across coal and mining services in the first half.

However, the second half was hit hard by the downturn in the mining sector and wet weather in the Bowen Basin, Queensland's key coal region.

During this period we experienced five site closures, which incurred significant associated costs including redundancy payments.

Despite maintaining revenue at the same level as in 2008, these one-off costs resulted

in Mining's profit before tax dropping to \$11.7 million.

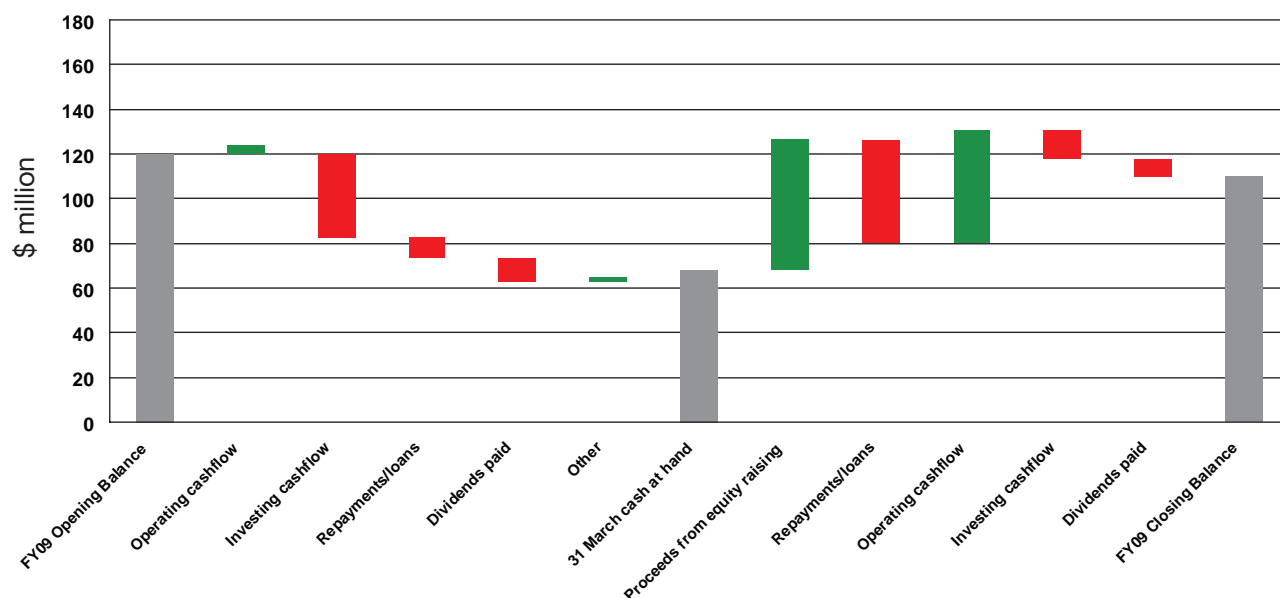
We are, however, pleased to report that the Mining Business has recovered from these lows and improved profitability, with all contracts now profitable.

## Capital Expenditure

Capital expenditure totalled \$43 million for the year, with an additional \$13.3 million for equipment components. A further \$64.2 million of equipment was financed on operating lease. The majority of the expenditure was on equipment for mining projects, the bulk of which was ordered prior to the downturn in the mining sector.

Following the cancellation of a number of projects surplus equipment was redeployed to other sites and hired equipment was returned.

## Cash movement - strong recovery in Q4





## Cash Flow and Balance Sheet

Cash from operations was \$53.4 million, down from \$88.3 million in the prior period, primarily due to lower operating profit and a number of one-off cash costs including project closures, restructuring and redundancy payments.

Following the completion of the \$60 million capital raising in June, the balance sheet is in a strong position with only \$1.8 million of net debt as at 30 June 2009 and gearing sitting at below 1 per cent. The reduced net debt position provides the Company with greater working capital flexibility and leaves it better placed to manage the current market uncertainty.

Over the last three months of the year, we saw a much improved cash flow generation performance from the business and positively this trend has continued into the start of the 2010 financial year. As at 30 June 2009, cash at hand stood at \$109 million.

## Taxation

Company income tax expense decreased by 85 per cent to \$2.7 million. The effective tax rate for the year was 12.7 per cent compared to the previous year's rate of 26.5 per cent.

The lower effective tax rate was primarily due to concessions available from increased research and development expenditure and the government investment allowance.

In light of the low effective tax rate in 2009, the Company does not currently expect to have sufficient franking credits to fully frank an interim 2010 dividend.

## Management Systems

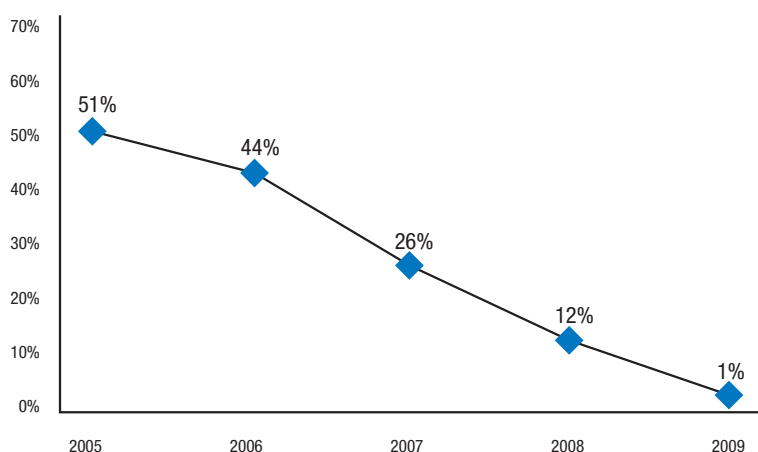
In early July 2009, Macmahon completed the rollout of upgraded business systems. The upgrade provides Macmahon with integrated human resources, financial, job costing, supply chain, equipment and production management systems. The implementation was successful, with the platform now in place for further business process improvement and enhanced quality and timeliness of management information.

Together with our new systems, we are continuing to improve our risk processes. Risk management will never replace good management practices, but we have learned some lessons over the last 12 months that have been incorporated into our risk system and will help improve future performance.

Debt facilities as at 30 June 2009

\$ millions	Total facility	Drawn	Undrawn
Term debt/guarantee facility	150	77.9	72.1
Domestic operating lease facility	230	86.4	143.6
Overseas operating lease	50	-	50
Insurance bonds	115	73.9	41.1

Net debt/equity (%)



# Map of operations

Macmahon has operations throughout Australia, New Zealand and Asia.

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

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

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

Building on its strong reputation and experience in Australia, Macmahon is looking to expand its overseas presence, leveraging on existing relationships with key partners and clients.



## Construction

### Roads

- Earthworks and formation, pavement and surfacing
- Bridges, tunnels and embankments
- Maintenance
- Drainage
- Support infrastructure
- Concrete works

### Rail

- Track laying and maintenance
- Earthworks and concrete works
- Rail and track formation
- Drainage and rehabilitation

### Water infrastructure

- Earthworks and concrete works
- Dams, remediation and spillways
- Water storage, treatment and distribution systems
- Pipelines

### Resource infrastructure

- Earthworks
- Concrete foundation and infrastructure
- Access and haul roads
- Tailings and dams
- Drainage, services and installation
- Camps and permanent buildings

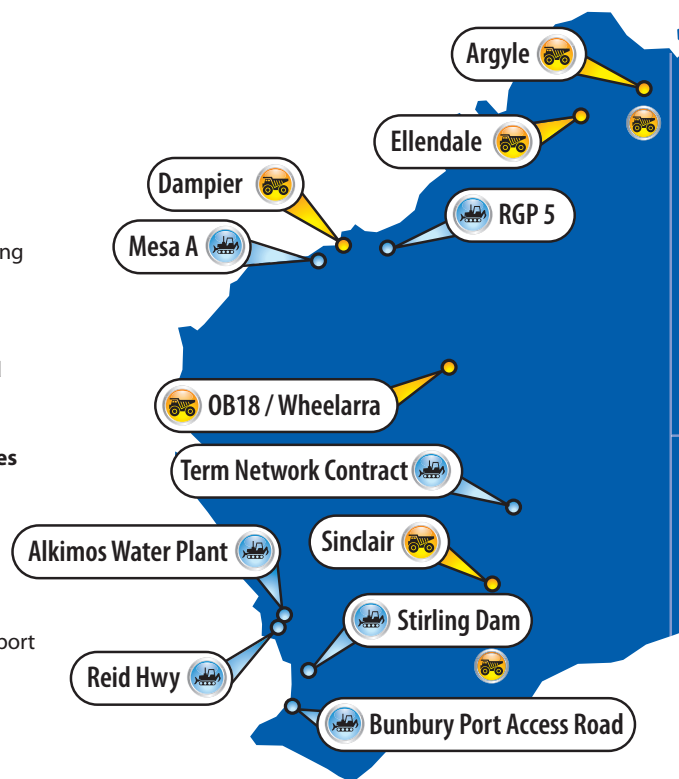
## Mining

### Open cut

- Mine project management
- Drill and blast
- Load and haul
- Crushing, screening and stacking operations
- Heap leach management
- Tailings dam construction
- Materials handling, design and construction

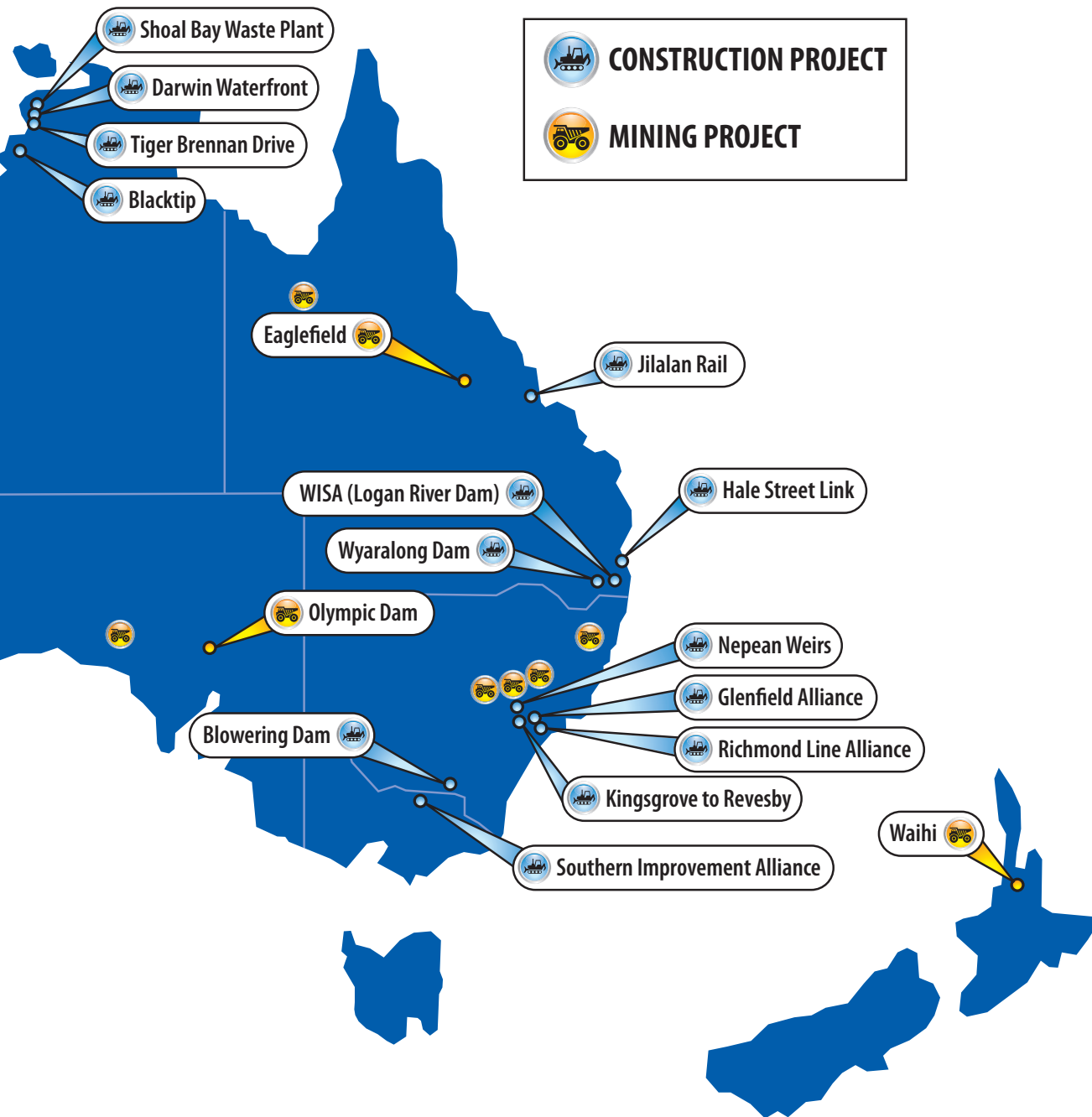
### Underground and mining services

- Project evaluation and review
- Management and operation
- Mining and development
- Technical support services
- Mine refurbishment
- Cable bolting and ground support
- Production drilling
- Shotcreting
- Materials handling systems
- Process plants
- Pumping systems
- Shaft sinking and equipping
- Raise boring





Hong Kong Drainage Project



## Strategy and outlook

The Company maintains a long term strategy to ensure Macmahon is an established leading contractor in Australia and overseas.

### Strategy

Despite a year which has been weighed down by one-off issues, the Company has maintained a focus on its underlying strategy of diversifying and growing its core businesses.

This long term strategy has seen the Company transform over time from a predominantly Western Australian based mining contractor with a limited portfolio of construction work, to one of the nation's leading contractors across both mining and construction. Macmahon has operations throughout Australia, Asia and New Zealand, with infrastructure work now spanning a variety of disciplines.

The Construction Business will maintain its focus on the east coast infrastructure market, expanding on its growing range of rail, water infrastructure and road contracts. The business will continue to pursue large-scale construction projects in joint venture with strategic partners, including Leighton Holdings.

The Mining Business is focused on securing and growing its client base, extending key contracts and ongoing operating and capital cost management. Although competitive pressure is emerging, the Company will maintain strong financial discipline on its projects and tenders and ensure only profitable work is targeted.

The Company will look to add to its current portfolio of overseas work, with the Company recently increasing its business development activities in Asia, Africa and the Middle East.

Additionally, Macmahon is looking to leverage its construction and underground expertise on underground civil projects, to deliver a complete solution to its clients.

### Construction outlook

The Federal Government has committed to substantial capital works programs, with numerous public infrastructure projects beginning to emerge. Prospects for the construction sector remain strong, with an extra \$22 billion in infrastructure spending announced in the May 2009 Federal budget.

The Federal Government has allocated \$8.5 billion towards projects on metropolitan rail networks, roads and port infrastructure in 2009 - 2010.

Over the next six years, more than \$27 billion has been committed towards road infrastructure, as part of the Building Australia Fund and Nation Building Program. This is the biggest road investment program in Australia's history.

Although the resource infrastructure sector has seen some softening in growth as a result of the downswing in mining activity, substantial opportunities remain, including within the energy sector.

In Western Australia alone, there are currently resource projects of circa \$80 billion

underway, including BHP Billiton's Rapid Growth iron ore projects and the Gorgon liquefied natural gas project.

### Mining outlook

While the short term outlook for the mining industry remains uncertain, signs of optimism are beginning to appear with the return of growth in China's demand for commodity imports such as coal, iron ore and copper.

The demand for specialised underground services remains sound and Macmahon sees this as an area for future growth. The specialised underground businesses of ARD and CRE continue to grow and add to Macmahon's service offering.

Opportunities are still emerging with iron ore, uranium and thermal coal projects providing potential stimulus for growth. With the recovery in many base metals prices, including nickel and copper, prospects within the underground sector are also improving.

### Business outlook

Macmahon remains committed to delivering its long term strategic goals and cementing its position as a tier one contractor. The Construction Business is expected to benefit from increased government spending on infrastructure and Mining is positioning itself for a recovery in the resources market.

Macmahon strategic transformation

	2000-2004	2005-2008	2009-2010+
<b>Product</b>	Strong mining	Strong mining/growth in construction	Tier 1 construction & mining
<b>Geography</b>	Western Australia	WA & emerging eastern states	Australia wide and emerging international
<b>Balance Sheet</b>	Survival, high gearing	Growth, reducing gearing	Strong, low gearing
<b>Alliances</b>	None	Few	Many
<b>Management Capabilities</b>	Lean	Strengthened senior management team	Strong management aligned to product & geographical spread
<b>Systems</b>	Lean	Development of internal systems	Established internal systems
<b>Growth</b>	Organic	Organic + bolt-on acquisitions	Organic + consider acquisitions





Mamre Road Bridge, NSW Road Transport Authority, New South Wales





## Construction overview

The Construction Business experienced a mixed year, delivering a 34 per cent increase in revenue of \$841 million. However profit before tax decreased 22 per cent to \$29.6 million.

This reduction in profit is attributed to losses associated with one underperforming contract, which is now complete.

The Construction Business continued to win important infrastructure projects despite the tough times experienced due to the world wide economic downturn. While the landscape of the construction industry has changed dramatically over the past 12 months, the business is in a strong position as we prepare for the next phase of growth.

A major highlight for the year was the award and commencement of the northern section of the RGP5 Rail Duplication for BHP Billiton Iron Ore. This contract, in joint venture with Leighton Contractors and totalling over \$500 million builds on the strong relationship with BHP Billiton. The project requires the duplication of 220 kilometres of existing railway line, between Port Hedland and Shaw Siding in Western Australia.

## Key achievements

- A flagship project for Macmahon, the Mitchell Freeway Extension was completed during the year.

The success of the project culminated with Macmahon winning the 2008 WA Engineering Excellence Award in the Management of Engineering category. It was also the first WA project to win the Australasian Award from the International Association for Public Participation (IAP2), an award which recognises the extent community views have influenced multi-million dollar developments.

- The delivery of the 90 kilometre Karratha to Tom Price Road Stage 2, linking the Pilbara mining town of Karratha to the Millstream Chichester National Park, was another highlight for the year and was recognised for several achievements, including winning the Engineering for Regional Communities category at the 2008 WA Engineering Excellence Awards.
- Another noteworthy achievement was the successful, on-time delivery of the Darwin City Waterfront in the Northern Territory. The design and construct project now connects the Darwin Harbour with the redevelopment of a 25 hectare former industrial site and has transformed the area into a vibrant business, tourism and recreation hub.

\$ millions	2009	2008	Change %
Revenue	840.7	628.0	34
PBT	29.6	38.1	(22)
PBT Margin %	3.5	6.1	(43)
Order book	884	974	(9)
Lost time injury frequency rate	0.4	1.5	73
Total recordable injury frequency rate	3.7	7.9	53
Employee numbers	1,311	1,137	15

The award of this contract highlights Macmahon's growing reputation as a top tier contracting company and shows our capability to undertake large scale projects.

Furthermore, the rapid progress of the Coal Stream Alliance at the Jilalan Rail Yard has been extremely pleasing, together with the progress being made at the Hale Street Link project. These projects, both located in Queensland, are due to finish in the second half of the 2010 financial year.

Another pleasing aspect for the year was the continued expansion of the portfolio of work on the east coast of Australia, with the award of seven construction contracts during the past ten months. Perhaps even more satisfying is that these projects are across a variety of disciplines, including rail, roads and water.

MVM Rail, our 60 per cent owned rail services subsidiary, continues to gain strength and recognition in the rail construction industry, evidenced through the award of numerous rail contracts during the year.

## Safety

Construction achieved some exceptional safety results over the last 12 months and these exemplify our company's dedication and diligence to safe work practices no matter what the working environment may be. As a result of our continued focus on safety, the Division's 12 month safety frequency numbers continue to improve at an outstanding rate.

## Key project wins

- The award of the \$89 million Tiger Brennan Drive project strengthened the growing presence that Macmahon has in the Northern Territory. The project will see up to 200 people employed, with a focus on maximising Indigenous employment opportunities and business.
- The award of two important road projects in Western Australia, the \$78 million Reid Highway and \$40 million Bunbury Port Access Road, builds on the already strong relationship between Macmahon and Main Roads Western Australia.

- Two key rail contracts were won, the \$200 million Glenfield Transport Interchange Alliance and the \$236 million Richmond Line Alliance, both in New South Wales and for government bodies.
- Macmahon was awarded three major government water infrastructure projects on the east coast of Australia. These projects, designed to improve regional water supplies, include the \$100 million Wyaralong Dam Alliance in Queensland, as well as the \$16 million Nepean River Weirs Upgrade and the \$29 million Blowering Dam projects, both in New South Wales.

These wins underpin Macmahon's position as a leading contractor in delivering water storage infrastructure projects across Australia and demonstrate the Company's ongoing success in the east coast construction market.

## Outlook

The industry we operate in has not been immune from the tough economic times experienced throughout the world over the past year and while the market has tightened dramatically, the Construction Business has continued to win new projects and build on existing relationships which place us at the forefront of the construction industry.

In facing the challenges during the past year, the business has become more flexible and streamlined which will help maximise our efficiency as an organisation.

Looking forward to the next 12 months, the Construction Business remains committed to winning larger contracts with a particular focus on joint venture partnerships.

With the unprecedented Government spending on key infrastructure, in particular transport (road and rail) and water supply, we remain focused on continuing to grow our operations in this area.





Hale Street Link, Brisbane City Council, Queensland

## Mining overview

The Mining Business endured a year which was heavily impacted in the second half by the global financial crisis. The world wide economic downturn led to a drop in commodity prices and saw a pull back occur across the resource sector.

The fall in commodity prices resulted in a marked reduction in production and volume demand, with a number of mining houses either cancelling projects or downsizing work loads to better reflect the changed market conditions.

From January 2009 to June 2009 the Mining Business saw the closure, deferral or slowdown of a number of its key mining operations.

In December, the business was advised of significant changes at the Argyle Diamond mine. Argyle Diamonds, a fully owned subsidiary of Rio Tinto, decided to slowdown their development and production activities as a result of the deterioration in diamond prices.

Other significant project changes were the unexpected termination of two coal pre-stripping contracts for the BHP Billiton Mitsubishi Alliance (BMA) in May and June 2009.

### Case Study

## Newman

Macmahon has a dedicated Community Relations Office in Western Australia, located in Newman, in the East Pilbara region of Western Australia. Over \$60,000 has been committed to supporting the Newman community over the last financial year.

Operating for the past six years, the Community Relations team support a wide range of activities in the remote town, including:

- Activities supporting the education, skill development, esteem and well-being of young people and children.
- Activities that include capacity building programs and initiatives directly involving Indigenous Australians and Indigenous communities.
- Activities relating to recreation and encouraging greater community involvement and enhancement in target communities.
- Activities supporting community safety, health and recreation, as well as environmental projects.

\$ millions	2009	2008	Change %
Revenue	644.9	616.4	5
PBT	11.7	46.4	(75)
PBT Margin %	1.8	7.5	(76)
Order book	528	1,164	(55)
Lost time injury frequency rate	1.2	2.8	57
Total recordable injury frequency rate	10.8	17.4	38
Employee numbers	1,648	2,337	(29)

The open cut iron ore mines of Orebody 18 and Wheelarra located in Western Australia continued to perform well. The BHP Billiton owned mines were awarded to Macmahon in 2005, and since then, Macmahon has generated impressive results both on and off site, becoming an integral part of the Newman community.

While the business is smaller than at this time last year, the quality of the remaining contracts is very high. Furthermore, we are seeing an increase in tendering activities, signalling an improved outlook for the 2011 fiscal year.

## Safety and training

Key safety milestones include the Argyle Tails and Kanthan projects achieving six years and five years Lost Time Injury free respectively and the Ellendale Diamond Mine reaching 1000 days Lost Time Injury free.

The Mining Business was recognised at the Chamber of Minerals and Energy of Western Australia's Safety and Health Innovation Awards, winning the systems category for its Crusher Maintenance Work Safety System. Developed at the Orebody 18 site in the Pilbara Region of Western Australia, the crusher system was acknowledged for its ability to perform a major maintenance function, such as a shut down, as a single event rather than a series of discrete operations.

The Argyle Underground project was awarded Rio Tinto's Chief Executive's Safety Award for most improved site globally. This is a major safety achievement and demonstrates the Company's ongoing commitment to achieve a zero harm workplace.

Furthermore, Macmahon won the Training Initiative category at the Western Australian Training Awards for its Indigenous Traineeship Program in 2008. Post June 2009, Macmahon, in conjunction with BHP Billiton Iron Ore, was named a finalist in this category for their Indigenous Mining Skills Program, based in Newman.

## Key project wins

Despite the shortage in new work opportunities, various contract awards, extensions and scope expansions occurred during the period, totalling \$175 million.

Positively, our strategy to expand geographically has resulted in our specialised raise drilling business, ARD, winning work overseas. ARD was awarded a \$10 million drainage project in Hong Kong, to construct 24 raise bored shafts for the Dragages – Nishimatsu joint venture. This work is part of a major storm water drainage project and will see Macmahon draw on its experience of construction of deep mining shafts.

## Outlook

The Mining Business has recently seen an increase in tendering enquiries as activity in the sector begins to rebound.

Opportunities are still emerging with iron ore, uranium and thermal coal projects providing potential stimulus for growth. Prospects within the underground sector are also improving.

Additionally, we are actively targeting overseas opportunities with key clients such as Lafarge. Hong Kong and Indonesia are also emerging as areas of interest for the business, both in the specialist underground services and open cut mining sectors.

We will focus on securing and growing our client base, extending core contracts and ongoing operating and capital cost management. Despite competitive pressure, we will maintain strong financial discipline on projects and tenders.





Orebody 18, BHP Billiton Iron Ore, Western Australia





Hale Street Link, Brisbane City Council – Queensland



Jilalan Rail Yard Upgrade, Queensland Rail – Queensland



Bunbury Port Access Road, Main Roads WA – Western Australia



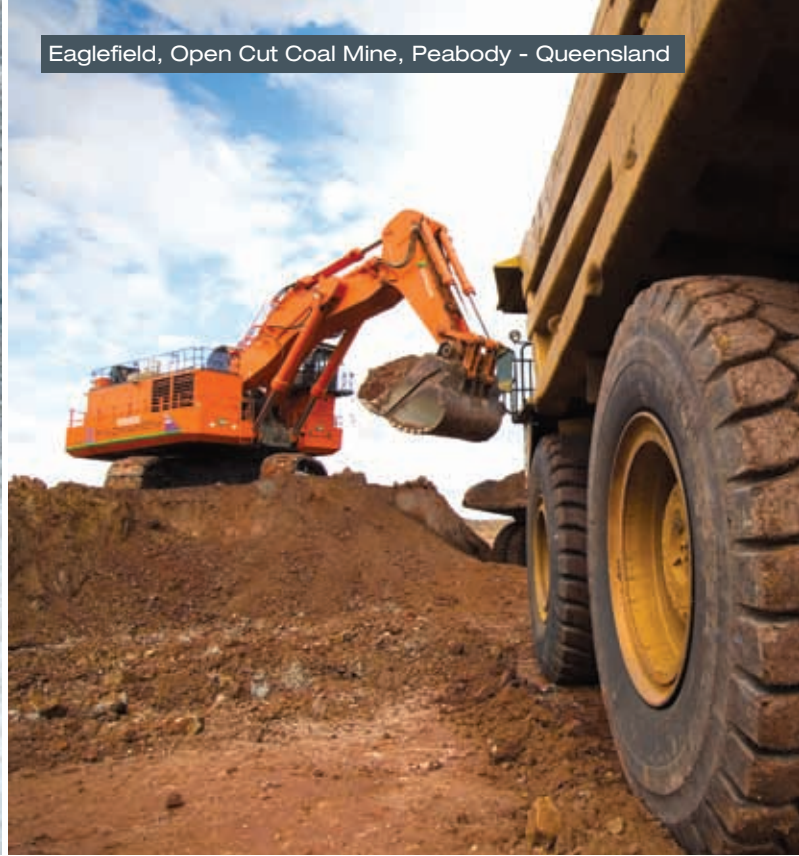
Darwin Waterfront Development, Darwin Cove Convention Centre – Northern Territory



Kanthan, Quarry, Lafarge – Malaysia

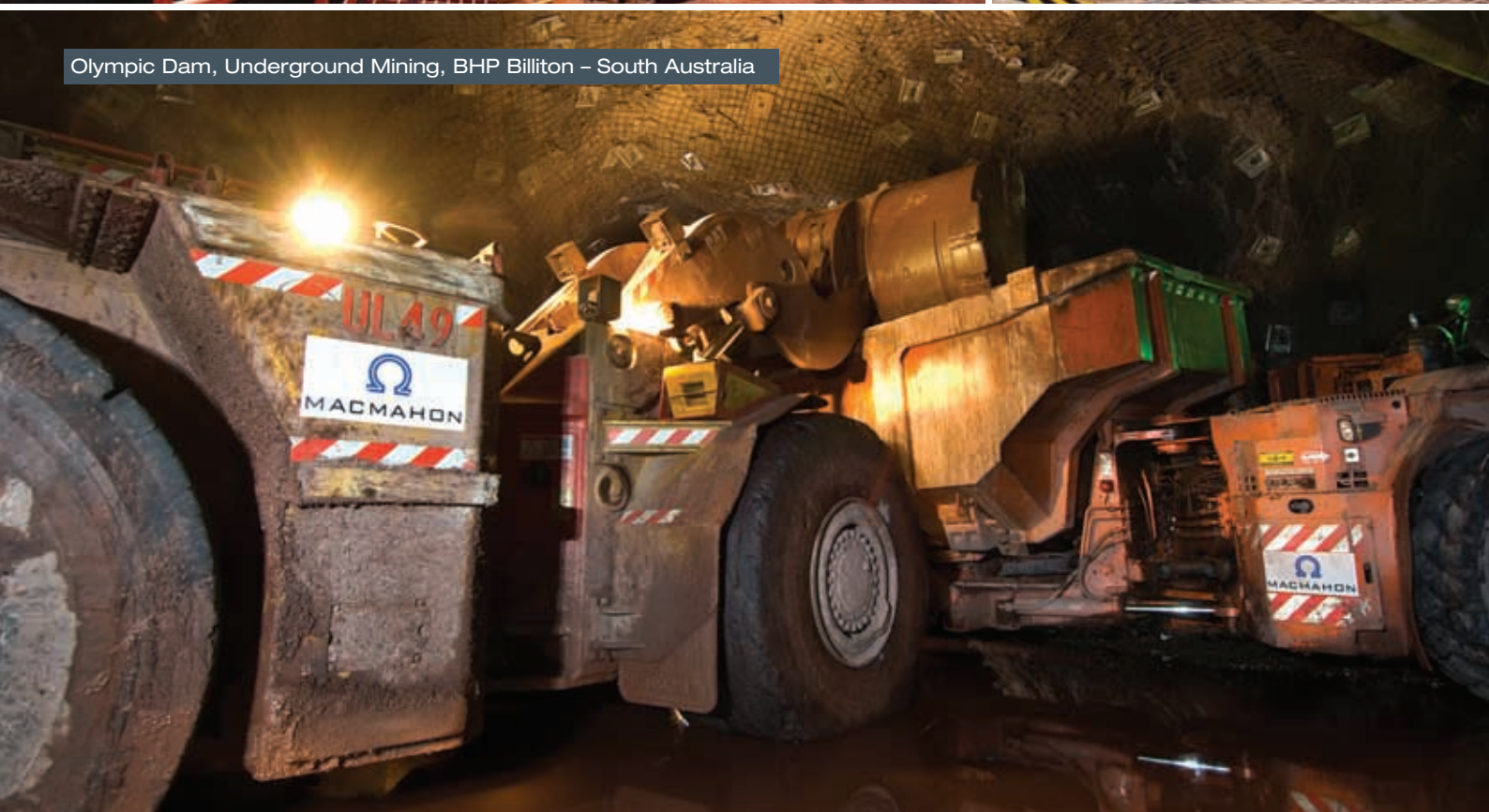


Eaglefield, Open Cut Coal Mine, Peabody – Queensland



Orebody 18, Crushing, Drill and Blast works, BHP Billiton Iron Ore – Western Australia

Olympic Dam, Underground Mining, BHP Billiton – South Australia





The safety and health of our employees remains a key priority for Macmahon. The Company is committed to providing a safe working environment for all employees and has experienced strong improvement in its safety performance.

## Safety and health

The Company recorded an excellent safety performance for the period, with a 40 per cent improvement in the Total Recordable Injury Frequency Rate and a 60 per cent improvement in the Lost Time Injury Frequency Rate.

## People

As at 30 June 2009, the Company employed a workforce of more than 3,000 across its operations in Australia, New Zealand and Asia.

As a result of the cancellation of a number of mining contracts, Macmahon unfortunately had to make around 800 employees redundant, although every effort was made to utilise available resources and redeploy employees where possible.

The employee turnover rate has improved significantly during the year, with the three month rolling average at June 2009 down to 20 per cent for wages employees and 11 per cent for staff. The stable workforce has led to increased productivity and improvements in safety performance.

## Training

The Company continues to focus on the ongoing development of all employees as a key retention strategy, with a range of development opportunities being offered including traineeships, apprenticeships and graduate programs.

Macmahon currently has 100 apprentices undertaking its award winning Apprenticeship Program. More than 90 per cent of the fourth year apprentices completing the 2008 program elected to continue their careers with Macmahon.

The Company's Graduate Program continues to be a success, with 59 graduates currently working in the business. Macmahon offers focused development initiatives to ensure that each of the young professionals receive a broad range of experience across a variety of project operations.

The Indigenous Mining Skills Program (IMSP) is into its seventh year and achieving excellent outcomes. The IMSP, run in conjunction with Pilbara TAFE and BHP Billiton Iron Ore, is a pre-employment program for Indigenous people, designed to enhance and improve the participants' skills for use in the mining industry.

This program, along with a number of other strategies, has seen Macmahon increase its Indigenous employee numbers to more than 100.

## Key awards won during the year:

- NT Civil Construction Federation (CCF)
  - Highly Commended Runner-Up Apprentice of the Year
  - Indigenous Apprentice of the Year
  - Winner of the Earth Award – Blacktip Project
- Awarded Safest Contractor of the Year by Lafarge
- Master Builders Association Award – Excellence in Building Award (Civil Projects Greater Than \$4 million) – Kingston Waterfront
- Master Builders Association Award – Environmental Management of A Civil Project – Kingston Waterfront

### Case Study

## Apprentice program

The ongoing commitment at Macmahon to train tomorrow's leaders has again been recognised in the Minister's Awards for Excellence for Employers of Australian Apprentices.

Presented by the Hon. Julia Gillard MP, Federal Minister for Education, Employment and Workplace Relations, in Canberra in August 2009, Macmahon won the award for the Perth and Central Queensland Regions, while being named runner-up for the Northern Australia Region.

An Australian Government initiative, the Minister's Awards for Excellence recognise and reward organisations and individuals who make an outstanding contribution towards the training of apprentices.

Since 2006, Macmahon has been the recipient of five Minister's Awards and a finalist twice in four separate Australian regions.



The Hon. Julia Gillard, Federal Minister for Education, Employment and Workplace Relations (middle, left) is joined by Ryan Mackintosh (left), Jason Cullen and Kane Brittain.

Apprentice Coordinator Jason Cullen said this recognition was testament to the commitment Macmahon placed on specialised training for the Company's future.

"The wins in Perth and Central Queensland, and runner-up award in Northern Australia, showcase the high standard of work put in by our supervisors, tradespeople and, of course, the apprentices themselves."

### Macmahon Apprentice Awards

2009	Perth	Winner
2009	Central Queensland	Winner
2009	Northern Australia	Finalist
2008	Northern WA	Winner
2008	Central Queensland	Finalist
2008	Perth	Winner
2008	Central Queensland	Winner



## Case Study

### Safety innovation

During the period, Macmahon developed an innovative robotic shotcrete shaft liner at its Western Australian workshop that is taking safety and quality to new levels.

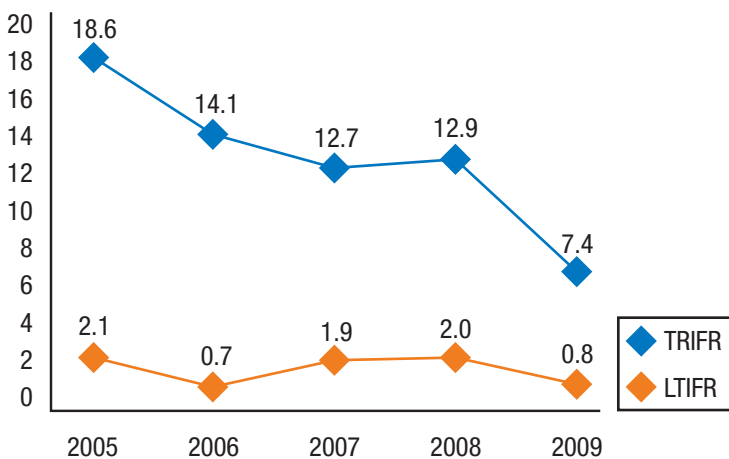
The robotic shaft liner was designed to spray shotcrete linings in vertical or inclined shafts. Operations Manager Rory Burke said Macmahon clients would see a vast array of advantages in terms of safety and quality through the use of the shaft liner.

"By applying intelligent engineering solutions, the risk of hazards to operators working on the surface around open holes and moving hose lines has been reduced," he said.

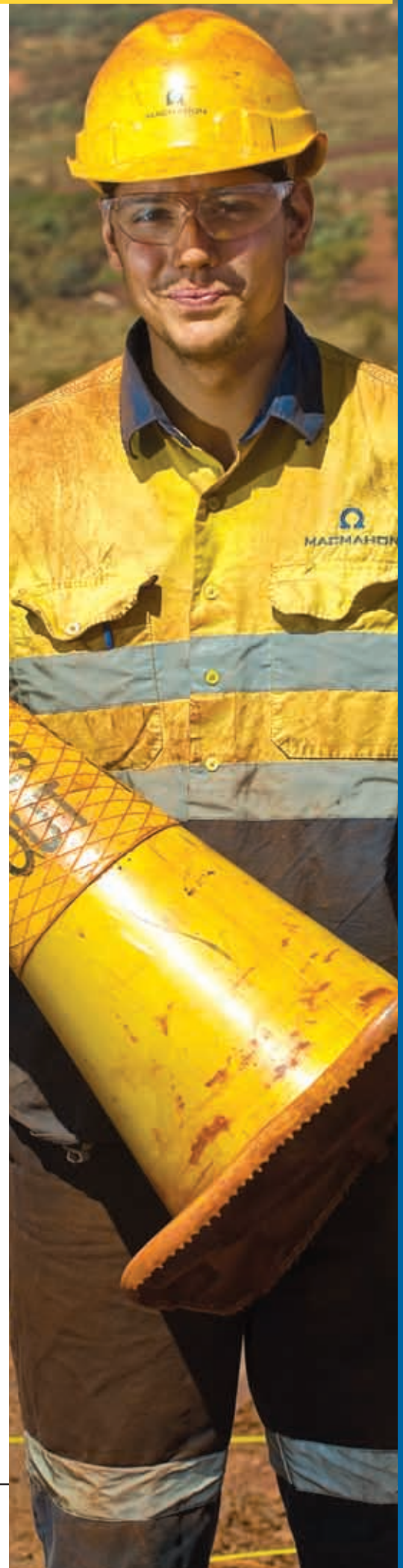
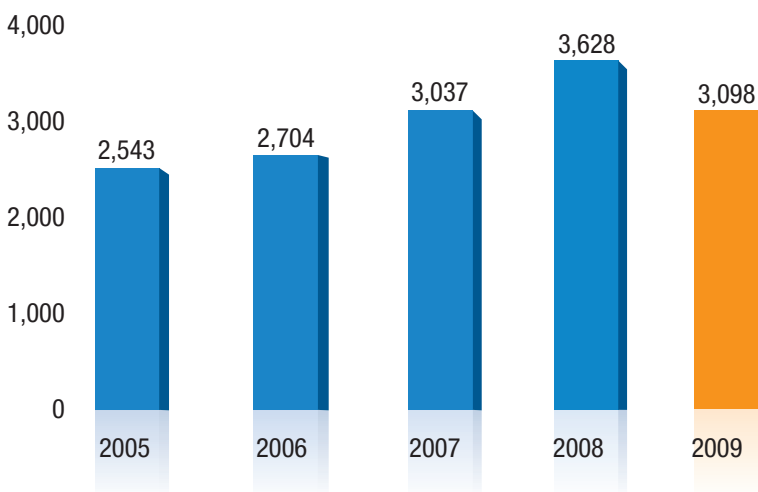


Additionally, the intelligent design has significantly reduced the hazards associated with working around moving lines with the use of hose reels and guarding.

Total Recordable Injury Frequency Rate (TRIFR) and Lost Time Injury Frequency Rate (LTIFR)



Employee numbers



Macmahon has projects across a variety of locations, operating in both remote communities as well as in populated urban environments.

As such, Macmahon recognises the importance of partnering closely with the local community to ensure positive outcomes are achieved for all.

An important part of working successfully with the community is effectively managing all environmental aspects associated with projects. This is reflected in Macmahon's implementation of strong management practices, new and innovative technology and strategies designed to maintain the efficient use of resources.



## Case Study

### Hale Street Link

Macmahon was awarded the Hale Street Link project in 2007, in an alliance with Brisbane City Council, Bouygues, Seymour Whyte and Hyder Consulting.

To support ongoing construction activity, the Alliance communications team has been taking the 'Project to the People', showcasing the design, construction progress and key features to the public. The team's aim has been to raise awareness of the project and educate people on upcoming construction impacts.

On a day to day basis the communications team focuses on managing key stakeholders located in the construction impact zone, forming key relationships with businesses and residents in the area.

For the broader public and motorists in the area extensive media, advertising and community relations campaigns are being carried out to limit potential impacts. The team is encouraging people to sign up for SMS or email alerts to ensure they have the most up to date project information.

## Case Study

### Nepean Weirs upgrade

Macmahon were recently selected by the Sydney Catchment Authority to undertake sensitive upgrading works on nine Nepean River Weirs to enable the Authority to meet its objectives of:

- Providing for a new regime of controlled environmental flow releases from Upper Nepean Dams
- Overcome existing barriers to fish passage along the Upper Nepean River

All works are to be carried out in such a manner as to minimise the risk of adverse environmental impacts on the river and its surrounds.

The provision of increased environmental flows and fish ways will promote a healthier population of native fish species in the river including the endangered Eastern Macquarie Perch which migrates upstream to spawn in spring and summer.

Other significant concerns to the construction team are that several of



the weirs were constructed around the first decade of the 20th century and are heritage listed. Considerable care is required to ensure minimal impact to the existing weir structure during construction work.

Detailed work method statements for each weir are prepared before the commencement of work to ensure adverse impacts to the surrounding environment are minimised. Such methods will frequently involve the use of cofferdams or silt curtains downstream of the works which prevent silt or debris leaving the construction area.

At the completion of works all construction work sites are rehabilitated to restore the surrounding area as close as possible to its original condition.

## Case Study

### Tiger Brennan Drive

Macmahon have developed a working partnership with the Larrakia Development Corporation, who is lending a hand to improve the aesthetics of the \$89 million Tiger Brennan Drive Extension project in Darwin in the Northern Territory.

The Larrakia Development Corporation is undertaking a landscaping contract on the major road project, which was awarded to Macmahon in 2008.

The primary role of the the Larrakia Development Corporation is to assist all Larrakia (the traditional owners of Darwin) in developing businesses and gaining meaningful employment.

The Corporation's Chief Executive Officer, Greg Constantine, said working on a landmark construction project in cooperation with local partners was an excellent outcome for the Larrakia people and is providing substantial commercial benefits.

"It's a good thing for Larrakia people to get a commercial gain from working on their own country. This is an ideal project for the Larrakia Development Corporation to take



on and we are enjoying working closely with Macmahon," Mr Constantine said.

Mr Constantine said the Larrakia Development Corporation is working with landscape architects on a landscaping masterplan which features a spectacular display of cycads harvested from the new road alignment prior to commencement of the clearing operation.

Described as 'live public art', the cycad-themed exhibit will provide a vibrant entrance statement to the new interchange.

Started in November 2008, stage two of the Tiger Brennan Drive Extension involves the construction of 7.5km of road works to extend Tiger Brennan Drive from Berrimah Road to the Stuart Highway, together with a long-awaited overpass at the Stuart Highway and Roystonea Avenue intersection.





From left to right: Larrakia Development Corporation Chief Executive Greg Constantine and Macmahon General Manager - Northern Territory, Robert Wilson







Macmahon is proud to  
partner with its clients to  
deliver outstanding results.



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 2009 and the auditor's report.

## 1. Directors

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

R J Carter (Chairman-Non-executive)  
N R Bowen (Chief Executive Officer and Managing Director)  
B L Cusack (Non-executive)  
M A Kinnaird AC (Non-executive) (appointed 25 June 2004 and retired 31 May 2009)  
B R Ford (Non-executive)  
J C Massey (Non-executive)  
V A Vella (Non-executive)  
K B Scott-Mackenzie (Non-executive) (appointed 12 May 2009)

Details relating to each Director's qualifications, experience and special responsibilities, as at the date of this report, are set out below.



**Richard (Dick) Carter, Age 66**  
CitWA, BCom, FTSE, FAusIMM, FAICD, FAIM  
[Independent Non-executive Chairman](#)

Mr Carter joined the Board as a Non-executive Director in October 2001 and was appointed Chairman in December 2004. 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. He is also currently a Non-executive Director of Energy Resources of Australia Limited (appointed November 1999) and Marion Energy Limited (appointed March 2008).

Mr Carter's other appointments include Chairman of the Advisory Board of Zeal Consulting Pty Ltd, and not-for-profit organisations; Prahran Mission – Uniting Care, UCA Cash Management Fund Limited, UCA Growth Fund Limited and Uniting Growth Fund Limited.

Mr Carter was formerly a Non-executive Director and Chairman of Consolidated Minerals Limited from December 2005 to February 2008.

As well as being Chairman of the Company, Mr Carter is also Chairman of the Board's Remuneration Committee and a member of the Board's Audit Committee.



**Nick Bowen, Age 48**  
BE (Mining, Hons), FAICD, MAusIMM  
[Chief Executive Officer and Managing Director](#)

Mr Bowen joined the Board as Chief Executive Officer and Managing Director in February 2000. He has 26 years experience in the contracting industry. His experience covers open cut mining, underground mining and civil engineering in Australia and overseas.

Mr Bowen is currently a member of the Executive Council of the Chamber of Minerals and Energy of WA (appointed 2001) and a Director of the Australian Constructors Association Limited (appointed February 2000).



**Barry Cusack, Age 67**  
BE (Hons), M.Eng.Sc, FTSE, FAusIMM, FAIM, MAICD  
[Independent Non-executive Deputy Chairman from 22 September 2009](#)

Mr Cusack joined the Board as a Non-executive Director in June 2002 and was appointed Deputy Chairman on 22 September 2009. Mr Cusack is an honorary life member of the Chamber of Minerals and Energy of Western Australia Inc. He joined CRA Limited (now Rio Tinto Limited) 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).

Mr Cusack is currently a Non-executive Director of Toll Holdings Limited (appointed October 2007) and a Director and Chairman of OZ Minerals Limited (appointed April 2002). Mr Cusack was also a Non-executive Director of Smorgon Steel Group Ltd from June 2002 to August 2007.

Mr Cusack was Chairman of the Board's Audit Committee to 22 September 2009 and is now a member of the Board's Audit Committee. Mr Cusack is also a member of the Board's Remuneration Committee.





**Barry Ford, Age 65**

B.Econ (Adel), CPA

[Independent Non-executive Director](#)

Mr Ford joined the Board as a Non-executive Director in July 2006. 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 later Director of Finance and Strategic Planning 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).

Mr Ford is Chairman of Think Tank Group Pty Limited (appointed March 2006).

Mr Ford is a member of the Board's Audit Committee and Chairman of the Risk & Opportunity Management Steering Committee.



**John Massey, Age 63**

BCom, CPA, FAICD (Life), FAIM

[Independent Non-executive Director](#)

Mr Massey joined the Board as a Non-executive Director in September 2007. Mr Massey became a Company 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. Mr Massey is also a member of the Board of Governors of the Committee for the Economic Development of Australia (CEDA).

Mr Massey is currently the Chairman of Cardno Limited (appointed July 2004) and has been a Non-executive Director of that company since March 2004. Mr Massey is also a Non-executive Director of the Stockyard/ Kerwee Beef Group (appointed August 2008). Mr Massey's previous appointments include the positions of Non-executive Director of the South East Queensland Water Corporation Limited from 2006 to 2007, Chairman and Director of Ventracor Limited from July 1998 to April 2008 and Chairman and Director of Symbiosis Group Limited from December 2004 to October 2008.

Mr Massey was a member of the Board's Audit Committee to 22 September 2009 and is now Chairman of the Board's Audit Committee.



**Vyrl Vella, Age 61**

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

[Non-Independent Non-executive Director](#)

Mr Vella joined the Board as a Non-independent Non-executive Director in November 2007. Mr Vella has 39 years experience in the civil engineering, building, property and construction industries. During Mr Vella's 34 years with the Leighton Group he held various positions including General Manager NSW, Director of Leighton Contractors Pty Ltd, Founding Director of Welded Mesh Pty Ltd, Managing Director of Leighton Properties and Associate Director of Leighton Holdings. Mr Vella is 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.

Mr Vella is currently a Non-executive Director of Devine Limited (appointed April 2007) and Chairman of the Supervisory Board for the Airport Link Project in Queensland (appointed 2008).

Mr Vella is a member of the Board's Remuneration Committee.



**Kenneth Scott-Mackenzie, Age 59**

BE (Mining), Diploma of Law (BAB), GAICD

[Independent Non-executive Director](#)

Mr Scott-Mackenzie joined the Board as a Non-executive Director in May 2009. Mr Scott-Mackenzie has more than 35 years experience in the engineering, mining and construction sectors in both Australia and overseas. He has a Bachelor of Engineering (Mining) degree and is a solicitor of the Supreme Court of New South Wales. He is also a graduate of the Australian Institute of Company Directors.

Mr Scott-Mackenzie was the Chief Executive Officer of Bilfinger Berger Australia Pty Ltd from 2005 to April 2009, during which time he was the Vice President of the Australian Contractors Association. Prior to his appointment to Bilfinger Berger Australia, he held a number of positions at Abigroup Limited, including Chief Executive Officer from 2004 to 2005 and General Manager of Infrastructure from 1992 to 1998. During his time at Abigroup, Mr Scott-Mackenzie was responsible for the development of the company's highly successful infrastructure division, and had primary responsibility for Abigroup's involvement in the \$560 million M2 Motorway, the \$280 million Sydney SuperDome (Acer Arena) and the \$2.3 billion WestLink M7.

Mr Scott-Mackenzie is a member of the Board's Remuneration Committee, and became a member of the Board's Audit Committee on 22 September 2009.

## Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of Board committees) held during the financial year and the number of meetings attended by each Director:

No. Of Meetings Held	Standard Board Meetings		Special Board Meetings <sup>3</sup>		Audit Committee		Remuneration Committee	
	A <sup>1</sup>	B <sup>2</sup>	A	B	C	B	C	B
RJ Carter	8	8	8	8	3	3	3	3
NR Bowen	8	8	8	8	*	*	*	*
BL Cusack	8	8	8	7	3	3	3	3
MA Kinnaird <sup>1</sup>	7	7	7	7	*	*	3	3
BR Ford	8	8	8	8	3	3	*	*
JC Massey	8	8	8	8	3	3	*	*
VA Vella	8	8	8	7 <sup>4</sup>	*	*	1	1
KB Scott-Mackenzie <sup>2</sup>	2	2	1	1	*	*	1	1

1 Mr Kinnaird retired 31 May 2009.

2 Mr Scott-Mackenzie was appointed 12 May 2009.

3 Special Board meetings were held during the financial year due to corporate activities.

4 Mr Vella did not attend a special Board meeting due to a conflict of interest.

Note:

**A** – number of meetings held during the time the Director held office during the year.

**B** – number of meetings attended.

**C** – number of meetings held during the time the Director was a member of the relevant committee.

\* – not a member of the relevant committee.

## 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 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. Principal activities

The principal activities of the consolidated entity consist of the provision of civil construction and contract mining services.

There were no significant changes in the nature of the activities of the consolidated entity during the financial year under review.

## 4. Review of operations

A review of and information about, the operations of the consolidated entity during the financial year and of the results of those operations is contained in the Review of Operations on pages 2 to 23, which forms part of this Directors' Report.

## 5. Dividends

Dividends paid or declared by the Company to members since 1 July 2008 were:

Declared or paid during the year 2009	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
Interim 2009	1.50	8,195	Franked	7 April 2009
Final 2008	3.50	18,928	Franked	10 October 2008
Total amount		27,123		

Each of the Interim 2009 and Final 2008 dividends were fully franked. Further information is set out in note 24 to the Financial Statements.

### Declared after end of year

The Directors have not declared a final dividend for the year ended 30 June 2009.



## 6. Events subsequent to reporting date

On 28 July 2009, the Company entered into an interim variation with its financiers regarding the Company's term debt and guarantee facilities. The interim variation has been entered into as part of negotiations with the Company's financiers for an extension and re-structure of the debt and guarantee facilities. The key impact of the interim variation is a reduction in the aggregate limit under the facility from \$150 million to \$125 million. Other changes include modifications to the basis of covenant calculations at 30 June 2009 and 31 December 2009, together with a change in margins. No binding commitment to extend or re-structure the debt and guarantee facilities is made on the part of either the Company or its financiers.

As at the date of this Directors' Report, the Directors are not aware of any other matters of circumstance that have arisen in the interval between the end of the financial year under review and the date of this Directors' Report that, in the opinion of the Directors has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## 7. Likely developments, future business strategies and prospects

Some information regarding the likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is included in the Review of Operations on pages 2 to 23, which forms part of this Directors' Report.

All information that members of the Company would reasonably require to make an informed assessment of the consolidated entity's operations, financial position, and business strategies and prospects for future financial years, is included in the Review of Operations on pages 2 to 23 and the financial statements on pages 47 to 98.

## 8. Significant changes in the state of affairs

Information about changes in the state of affairs of the consolidated entity is contained in the Review of Operations on pages 2 to 23 and the financial information sections of this Annual Report on pages 47 to 98, which form part of this report.

As announced on 15 June 2009, the Company successfully completed a one for five entitlement offer and institutional placement of new shares in the Company during the financial year, which raised net proceeds of approximately \$58 million and resulted in the issue of 187,389,451 new shares in the Company to existing and new members.

In the opinion of the Directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

## 9. Environmental regulation

The consolidated entity's operations are subject to a range of Commonwealth, State and Territory laws governing the protection of the environment.

The consolidated entity conducts its operations in accordance with the Macmahon Environmental Management System, which is designed to ensure the consolidated entity complies with these environmental regulations. This system is certified to the International Standard ISO14001 and is subject to regular external third party and internal audits. The consolidated entity's overall environmental performance against this system is assessed during these audits as well as during regular business unit and senior management meetings and reviews. The consolidated entity'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).

In the financial year under review 15 mining operations and 16 construction projects were subject to regular internal environmental audits. All major corrective actions raised during these audits were closed out. All minor actions are reviewed and subject to rectification prior to the next audit being undertaken. Half yearly third party verification audits were conducted during the reporting period of a number of selected projects. All major corrective actions have been closed out and all minor actions closed out and verified during the recertification audit undertaken in August 2009.

No breaches of environmental regulations have been notified by any government agency in respect of the consolidated entity's operations during the financial year under review.

## 10. Corporate Governance

In recognising the need for high standards of corporate behaviour and accountability, the Directors support and have adhered to the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Company's corporate governance statement is on pages 40 to 45 of this Annual Report.

## 11. Remuneration Report (Audited)

### 11.1 Remuneration policies

The Board reviews the remuneration packages and policies applicable to the executives and the Directors of the Company and the consolidated entity. The Board, in consultation with the Remuneration Committee, also sets the total rewards strategy for the Company and the consolidated entity 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. Information about fees paid to other Non-executive Directors of comparable companies is considered by the Remuneration Committee and the Board. Additional fees may be paid for participation on Board Committees and for the position of Chairperson. The maximum aggregate amount of annual fees that can be paid to Non-executive Directors is currently \$1,100,000 as approved by members at the 2008 Annual General Meeting.

Non-executive Directors do not receive performance-related remuneration nor any termination or retirement benefits.

#### Executive remuneration

Remuneration packages are set at levels that are intended to attract and retain executives of suitable experience and qualifications. As Chief Executive Officer, 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 shares in the Company 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 in this 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.

The Company's remuneration policy is overseen by the Board, in consultation with the Remuneration Committee. The Board approves the key performance indicators ("KPIs") for the Chief Executive Officer and his direct reports, and the payment of any cash bonuses that may be payable as a result of the achievement of the KPIs. For other executives, annual KPIs are set by the Chief Executive Officer.

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 both short-term and long-term incentive plans in addition to their fixed remuneration. Consequently, executives' remuneration consists of one or more of the following elements:

- fixed remuneration (salary and superannuation);
- short-term incentive cash bonus based on performance; and
- participation in long-term incentive option/equity schemes.

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 consolidated entity'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.

- Each executive is assigned a range of key performance indicators for the financial year. The KPIs include financial, safety and strategic elements.
- The KPIs are set each year to align performance with achieving and exceeding budgets set by the Company.
- Up to 80% of an individuals' KPIs are calculated on outcomes based on actual financial performance and safety performance, with the remaining KPIs calculated on outcomes based on specific individual targets.
- Preliminary hurdles relating to profitability and performance must be achieved prior to assessment of performance against KPIs and a final award being determined.

The STI plan included a deferred component for the 2006, 2007 and 2008 financial year which was applicable to the Company's key employees (other than the Chief Executive Officer). Future payments under the STI plan will not include a deferred bonus. Amounts previously allocated under the deferred scheme will continue to be held in a pool until eligibility criteria are met. Interest will continue to accrue for the benefit of the relevant executives on the amount in this account every 12 months based on the 180 day bank bill swap rate.

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 Chief Executive Officer, Performance Shares have been awarded, and were converted to ordinary shares on 9 July 2008, upon the KPIs specified in his employment contract being exceeded. No further Performance Shares have been issued to, or are held by, the Chief Executive Officer. Other executives may be invited to participate in the LTI at the discretion of the Board.

## 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.

	2009	2008	2007	2006	2005
Net profit attributable to equity holders of the parent (\$m)	17.2	48.8	44.5	7.5	15.9
Net profit (normalised \$m)	17.2	48.8	33.4	27.4	15.9
Dividends declared (cents)	1.50	5.5	3.0	2.0	1.0
Share price at 30 June (cents)	0.34	166.5	129.0	80.0	45.5
Return on equity (%)	5.9	19.4	21.1	4.4	13.2
Return on equity (%) (normalised profit)	5.9	19.4	15.8	15.9	13.2
Basic Earnings per share (cents)	3.07	9.20	8.54	1.50	4.18
Basic Earnings per share (cents) (normalised profit)	3.07	9.20	6.41	5.49	4.18
Order book (\$m)	1,412	2,138	2,005	1,218	925
New contracts and extensions (\$m)	760	1,377	1,753	1,100	739
Lost time injury frequency rate	0.8	2.0	1.9	0.7	2.1
Total recordable injury frequency rate	7.4	12.9	12.7	14.0	18.6

In the current year, the Company did not achieve its financial targets. The Company did however exceed all of its safety targets, with the group delivering its best safety performance in its 45 year history. Taking into consideration that excellent safety performance is one of the Company's critical factors in being able to operate and win business and notwithstanding the lower than planned financial outcome, the Board has determined that short term cash bonuses should be paid to executives in respect of the bonus component relating to safety performance. Furthermore the Board has determined that short term cash bonuses should also be paid to those executives who have met and exceeded their individual financial key performance indicators.

Given current adverse market conditions the Company capped staff salaries at their current levels earlier in the year. Furthermore, the Chief Executive Officer's salary has not been increased since 1 December 2007.

## Employment agreements of executives

### Service contracts

Remuneration and other terms of employment for the Key Management Personnel who were executives of the Company and the Group as at 30 June 2009 are formalised in contracts. A summary of each contract is as follows:

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

Mr Bowen commenced on 17 January 2000 and entered into a new service contract with the Company effective from 1 July 2009. The Contract is ongoing and has no fixed term. The components of Mr Bowen's new remuneration package include:

- A salary package (including superannuation) of \$1,150,000 per annum.
  - A STI based on a number of KPIs specified in his contract (including safety, earnings per share, profit after tax, order book and return on equity elements). Achievement of all KPIs can deliver a cash bonus of 150% of the salary (base and superannuation).
  - The contract can be terminated by either party with 6 months notice or payment in lieu.
  - A LTI, which subject to shareholder approval and Mr Bowen accepting the grant, will entitle the Chief Executive Officer to be granted 12 million Performance Rights for nil consideration. If vested, the Performance Rights may be exercised by Mr Bowen, upon which the Company will issue one ordinary share per Performance Right to him for nil cash consideration. Vesting of the Performance Rights is dependent on the criteria detailed below, based on the following periods:
    - 6 million Class A Performance Rights – 1 July 2009 to 1 July 2011
    - 3 million Class B Performance Rights – 1 July 2009 to 1 July 2012
    - 3 million Class C Performance Rights – 1 July 2009 to 1 July 2013
  - Provided Mr Bowen remains as Managing Director of the Company each class of Performance Rights will vest immediately following the end of the relevant period referred to above, if the following criteria are met in respect of that relevant period:
    - One third of the Performance Rights: The Company's Total Shareholder Return ("TSR") will be compared to the mean TSR of a reference group of peer companies and the companies comprised in the S&P/ASX 200 index as at 1 July 2009 ("Reference Group"). The relevant Performance Rights will vest if the Company's TSR is equal to or greater than the mean Reference Group TSR. The TSR growth will be calculated based on the one month average TSR index, as at the start and end of the relevant period.
    - Two thirds of the Performance Rights: The Company's TSR will be compared to the TSR of the constituents of each sub-group within the Reference Group for the purpose of determining the Company's rank. The rank within each sub-group will be converted to a percentile rating. The average percentile rating of the two sub-groups will be used to determine the proportion of the relevant Performance Rights that vest as per the scale below. The TSR growth will be calculated based on the one month average TSR index, as at the start and end of the relevant period.
- | Percentile            | Proportion of Performance Rights vesting |
|-----------------------|--|
| Below or equal to 50% | 0%                                       |
| 80th and above        | 100%                                     |
| Between 50th and 80th | Pro rata between 0% and 100%             |
- The peer group of companies for the above purposes is Ausdrill Limited, Clough Limited, Downer EDI Limited, Leighton Holdings Limited, Monadelphous Group Limited, NRW Holdings Limited, Transfield Services Limited and United Group Limited.
  - Shareholder approval for the grant of the above Performance Rights to Mr Bowen will be sought at the forthcoming 2009 Annual General Meeting.

#### Note:

1. The Performance Rights are non-transferable and do not carry any right to vote or entitlement to dividends. The ordinary shares issued upon exercise of Performance Rights will rank pari passu with all other shares then on issue. The Performance Rights will not be quoted on the ASX.
2. Mr Bowen's service contract for the 2009 financial year included a salary of \$1,150,000 with an STI that could deliver a cash bonus of 100% of the salary.



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

Mr Carroll commenced on 6 November 2006 and has an ongoing employment contract with the Company. The components of Mr Carroll's remuneration package include:

- A current total fixed remuneration (including superannuation) of \$627,048 per annum.
- A STI based on a number of KPIs determined by the Chief Executive Officer in consultation with the Board.
- Achievement of all KPIs 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.

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

Mr Doyle commenced on 15 April 2008 and has an ongoing employment contract with the Company. The components of Mr Doyle's remuneration package include:

- A current total fixed remuneration (including superannuation) of \$669,500 per annum.
- A STI based on a number of KPIs determined by the Chief Executive Officer in consultation with the Board.
- Achievement of all KPIs 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.

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

Mr Wilson commenced on 7 May 2003 and has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The components of Mr Wilson's remuneration package include:

- A current total fixed remuneration (including superannuation) of \$401,121 per annum.
- A STI based on a number of KPIs determined by the Chief Executive Officer in consultation with the Board.
- Retrenchment/severance benefit based on 2 weeks salary for each completed year of service.
- Achievement of all KPIs 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.

### **Mark Hamilton, Construction Manager- Queensland**

Mr Hamilton commenced on 1 March 2005 and has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The components of Mr Hamilton's remuneration package include:

- A current total fixed remuneration (including superannuation) of \$410,550 per annum.
- A STI based on a number of KPIs determined by the Executive General Manager Construction and approved by the Chief Executive Officer.
- Retrenchment/severance benefit based on 2 weeks salary for each completed year of service.
- Achievement of all KPIs can deliver a cash bonus of up to 40% of the salary (base and superannuation).
- The contract can be terminated by either party with 4 weeks notice or payment in lieu.

## 11.2 Directors' and executive officers' remuneration (Consolidated)

Details of the nature and amount of each major element of remuneration of each Director and each of the consolidated entity's key management personnel and highest remunerated executives are:

		Short-term				Post employment <sup>11</sup>	Other long term <sup>4</sup>		Share-based payments		S300A (1)(e)(i) Proportion of remuneration performance related	S300A (1)(e) (vi)Value of options as proportion of remuneration
	Year	Salary & fees \$	STI cash bonus (A) \$	Non-cash benefits \$	Total \$	Superannuation benefits \$	Deferred Bonus Scheme \$	Termination benefits <sup>12</sup> \$	Value of options (B) \$	Total \$	%	%
Directors												
Non-executive												
R J Carter, Chairman	2009	220,184	-	-	220,184	19,817	-	-	-	240,001	-	
	2008	184,404	-	-	184,404	15,771	-	-	-	200,175	-	
B L Cusack	2009	117,461	-	-	117,461	10,572	-	-	-	128,033	-	-
	2008	97,707	-	-	97,707	8,463	-	-	-	106,170	-	-
B R Ford	2009	2,918	-	-	2,918	107,083	-	-	-	110,001	-	-
	2008	3,593	-	-	3,593	89,907	-	-	-	93,500	-	-
M A Kinnaird <sup>1</sup>	2009	94,279	-	-	94,279	-	-	-	-	94,279	-	-
	2008	96,437	-	-	96,437	-	-	-	20,426	116,863	-	17
J C Massey	2009	80,243	-	-	80,243	29,757	-	-	-	110,000	-	-
	2008	57,505	-	-	57,505	19,398	-	-	-	76,903	-	-
V A Vella	2009	92,762	-	-	92,762	8,349	-	-	-	101,111	-	-
	2008	50,172	-	-	50,172	4,516	-	-	-	54,688	-	-
KB Scott-Mackenzie <sup>2</sup>	2009	16,309	-	-	16,309	1,468	-	-	-	17,777	-	-
	2008	-	-	-	-	-	-	-	-	-	-	-
Director - Executive												
N R Bowen, Chief Executive Officer	2009	1,100,000	230,000	8,972	1,338,972	50,000	-	-	-	1,388,972	17	-
	2008	1,042,820	803,801	11,393	1,858,014	50,787	-	-	560,085 <sup>3</sup>	2,468,886	33	23 <sup>3</sup>

1 M A Kinnaird retired on 31 May 2009.

2 K B Scott-Mackenzie was appointed on 12 May 2009.

3 Relates to Performance Shares - refer to paragraph 11.4.1 for details.

4 These amounts are the deferred bonus payable under the Deferred Bonus Scheme as detailed in paragraph 11.1 above.

5 P S Hatt resigned on 29 February 2008.

6 M A Hine resigned on 20 March 2009.

7 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 received any entitlements under his contract including Annual Leave.

8 M A Narustring resigned on 9 April 2009.

9 The amount of \$10,830 relates to the finalisation of salary sacrifice arrangements.

10 This amount includes a \$50,000 sign on bonus which was paid on 16 May 2008.

11 Post employment benefits include superannuation only.

12 Termination benefits may include contractual notice, ex gratia payment, salary sacrifice arrangements and leave entitlements.



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

- A) The STI bonus is calculated based on performance during the financial year using the criteria set out in paragraph 11.1. The amount was finally determined on 11 August 2009 after performance reviews were completed and approved by the Board.
- B) The fair value of the options is calculated at the date of grant using the Monte Carlo model and the expense is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed as remuneration 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:

	2009 Executive Options <sup>1</sup>	2008 Executive Options <sup>1</sup>
Fair value at measurement date	\$0.53 - \$0.57	\$0.65 - \$0.70
Valuation Model	Monte Carlo	Monte Carlo
Share price	\$1.66	\$1.28
Exercise Price	\$1.62	\$0.60
Expected life (years)	4.2 - 5.5	2.4 - 3.9
Company volatility	40%	35%
Dividend yield	2.6%	2.77%
Risk free interest rate	6.26% - 6.33%	6.28% - 6.30%

<sup>1</sup> Options were issued at various dates. Fair values and assumptions above relate to those new options issued during the period, and were provided by independent valuers.

### 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 11.1.

### 11.3 Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each Director of the Company and each of the Company executives and key management personnel are detailed below.

#### Short term incentive bonus

The Company & Consolidated	Included in remuneration \$ (A)	% vested in year	% forfeited in year (B)
N R Bowen	230,000	100	80.00
R A Carroll	75,000	100	80.07
N J Wilson	35,000	100	78.19
P F Doyle	75,000	100	77.60
M H Hamilton	95,000	100	42.15

(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 2009 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

### 11.4 Equity instruments

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

### 11.4.1 Analysis of share-based payment granted as remuneration

Details of vesting profile of the options granted as remuneration to each Director of the Company and each of the named Company executives and key management personnel is detailed below.

#### Options

Executives	Options granted		% vested in year	% Forfeited in year (A)	Financial years in which grant vests	Value yet to vest \$	
	Number	Date				Min (B)	Max (C)
R A Carroll	2,000,000	08/09/2006	25	Nil	2009 - 2012	-	320,000
M A Hine <sup>1</sup>	500,000	14/02/2006	25	100	2008-2011	-	-
M A Hine <sup>1</sup>	1,500,000	23/06/2006	Nil	100	2008-2011	-	-
N J Wilson	400,000	14/02/2006	25	Nil	2008 - 2011	-	57,000
F P Doyle	500,000	14/07/2008	Nil	Nil	2010-2013	-	277,500
M A Narustrang <sup>2</sup>	250,000	14/07/2008	Nil	100	2010-2013	-	-
M H Hamilton	100,000	14/02/2006	25	Nil	2008-2011	-	21,750

1 M A Hine resigned 20 March 2009.

2 M A Narustrang resigned 9 April 2009.

(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 2009.

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

	Number	Date	% vested in year <sup>2</sup>	Forfeited in year	Financial years in which grant vested
<b>A Class</b>					
N R Bowen	2,000,000	02/12/2005	100	Nil	2009
<b>B Class</b>					
N R Bowen	2,000,000	02/12/2005	100	Nil	2009

1 N R Bowen was issued with 2,000,000 A Class Performance Shares and 2,000,000 B Class Performance Shares pursuant to his service contract dated 2 December 2005. Details of these shares were disclosed in the notice of the 2005 Annual General Meeting. The conditions for conversion of these Performance Shares to ordinary shares were met on 30 June 2008 and they 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. The Total Shareholder Return of the Company over the period specified above was 214%. This condition was met as the Total Shareholder Return of the peer group of listed companies over the same period was 121%.

1.2 N R Bowen remaining as Chief Executive Officer 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. The Total Shareholder Return of the Company over the period specified above was 214%. This condition was met as the Total Shareholder Return of the peer group of listed companies over the same period was 133%.

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

2 Both the A Class and B Class Performance Shares vested on 1 July 2008 and were converted into ordinary shares on 9 July 2008.

As all of the A Class and B Class Performance Shares have vested and been converted into ordinary shares, all Performance Shares have ceased to exist and have no minimum or maximum value.



### 11.4.2 Options and rights over equity instruments granted as compensation

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

	Number of options granted during 2009	Grant date	Number of options vested (v)/ exercised (e) during 2009	Fair value per option at grant date (\$)	Exercise price per option granted (g) / vested (v) (\$)	Expiry date of option granted in 2009	Expiry date of option vested / exercised
<b>Directors</b>							
R J Carter	-	31/10/2003	1,000,000(e) <sup>2</sup>	0.11	0.42(v)	-	30/10/2008
<b>Executives</b>							
M A Hine <sup>3</sup>	-	14/02/2006	125,000(v) <sup>1</sup>	0.30	0.60(v)	-	14/08/2011
M A Hine <sup>3</sup>	-	23/06/2006	375,000 (v) <sup>1</sup>	0.25	0.795 (v)	-	22/12/2011
M A Hine <sup>3</sup>	-	11/01/2005	200,000 (e) <sup>2</sup>	0.11	0.61 (v)	-	15/01/2010
N J Wilson	-	26/03/2004	71,429 (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
R A Carroll	-	08/09/2006	500,000 (v) <sup>1</sup>	0.20-0.23	0.84(v)	-	07/03/2012
P F Doyle	500,000 <sup>1</sup>	14/07/2008	Nil	0.53-0.57	1.62(g)	14/07/2014	-
M A Narustrang <sup>4</sup>	250,000 <sup>1</sup>	14/07/2008	Nil	0.53-0.57	1.62(g)	14/07/2014	-
M H Hamilton	-	14/02/2006	25,000(v) <sup>1</sup>	0.30	0.60(v)	-	14/08/2011

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; briefly these are that the Total Shareholder Return (TSR) has been at least 15% per annum compound for all of the measurement periods preceding the date the options become eligible for exercise. The performance hurdles are cumulative. For example, this means that if the performance hurdle for the first 2 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% annual compounded return, then all unexercised tranches which have passed their exercise date, can be exercised.

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 M A Hine resigned 20 March 2009.

4 M A Narustrang resigned 9 April 2009.

	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
M A 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
M H Hamilton	-	14/02/2006	25,000(v) <sup>1</sup>	0.30	0.60(v)	-	14/08/2011

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; briefly these are that the Total Shareholder Return (TSR) has been at least 15% per annum compound for all of the measurement periods preceding the date the options become eligible for exercise. The performance hurdles are cumulative. For example, this means that if the performance hurdle for the first 2 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% annual compounded return, then all unexercised tranches which have passed their exercise date, can be exercised.

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 29 February 2008.

### 11.4.3 Shares issued as a result of the exercise of options by key management personnel during the year

Shares issued as a result of the exercise of options by key management personnel during the year is set out in note 31 to the Financial Statements.

### 11.5 Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Director and each of the named Company executives and key management personnel is detailed below.

#### Value of Options

	Granted in year \$ (A)	Exercised in year \$ (B)	Forfeited in year \$ (C)	Total value in year \$
<b>Directors</b>				
M A Kinnaird <sup>1</sup>	-	-	100,000	100,000
R J Carter	-	1,330,000	-	1,330,000
<b>Executives</b>				
N J Wilson	-	100,850	-	100,850
M A Hine <sup>2</sup>	-	244,380	506,250	750,630
P F Doyle	277,500	-	-	277,500
M A Naurstrang <sup>3</sup>	138,750	-	138,750	277,500
M H Hamilton	-	-	-	-
<b>Total</b>	<b>416,250</b>	<b>1,675,230</b>	<b>745,000</b>	<b>2,836,480</b>

1 M A Kinnaird retired 31 May 2009.

2 M A Hine resigned 20 March 2009.

3 M A Naurstrang resigned 9 April 2009.

(A) On the 14 July 2008 options were granted to the following executives:

- ☐ Patrick F Doyle 500,000 options
- ☐ Michelle A Naurstrang 250,000 options

There were no other options granted to the Directors or the named company executives and key management personnel 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.

### 11.6 Board policy in relation to limiting exposure to risk in securities

The Board has adopted a Directors, Officers & Employees Trading in Macmahon Shares Policy that, among other things, prohibits executives from entering into transactions that limit the economic risk of participating in unvested employee entitlements. The Company Secretary monitors and ensures compliance with this policy.



## 12. Directors' interests

The relevant interest of each Director in shares of the Company, and rights or options over such shares at the date of this report is as follows:

### Macmahon Holdings Limited

	Ordinary Shares	Options over ordinary shares
R J Carter	1,494,304	-
N R Bowen	17,389,604	-
B L Cusack	900,000	-
M A Kinnaird <sup>1</sup>	245,624	-
B R Ford	122,782	-
J C Massey	120,000	-
V A Vella	193,378	-
K B Scott-Mackenzie <sup>2</sup>	50,000	-

<sup>1</sup> M A Kinnaird retired 31 May 2009.

<sup>2</sup> K B Scott-Mackenzie was appointed 12 May 2009.

No Director holds any relevant interest in shares of any related body corporate of the Company nor any debentures of, nor interests in a registered scheme made available by, the Company or any of its related bodies corporate, nor any rights or options over such instruments.

## 13. 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
15/01/2010	0.610	525,000
14/08/2011	0.600	5,079,874
07/03/2012	0.840	2,000,000
19/04/2013	0.820	1,235,750
14/07/2014	1.620	1,100,000
<b>Total</b>		<b>9,940,624</b>

All of the above options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on the Company's share price reaching a certain level. Upon valid exercise of an option, the Company will issue one ordinary share to the holder. 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 nor in any interest issue of any registered scheme.

### 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)
1,071,429	0.42
325,000	0.61
165,438	0.60

## 14. Indemnification and insurance of officers and executives

### Indemnification

Under the Company's constitution and subject to section 199A of the Corporations Act 2001 (Cth), the Company indemnifies each of the Directors, each of the Company Secretaries and every other person who is an officer of the Company and its wholly owned subsidiaries against:

- any liability incurred as an officer of the Company (as the case may be) by that person to any person other than the Company or a related body corporate of the Company, unless that liability arises out of conduct involving a lack of good faith or is a liability for a pecuniary penalty order under certain provisions of the Corporations Act 2001 (Cth); and
- costs and expenses incurred in defending civil or criminal proceedings subject to certain conditions.

The above indemnity is a continuing indemnity and applies in respect of all acts done by a person while an officer of the Company or its wholly owned subsidiaries even though the person is not an officer at the time the claim is made.

The Company has entered into a Deed of Indemnity, Access and Insurance ("Deed") with each current and former officer of the Company and its subsidiaries, including each Director and Company Secretary and persons who previously held those roles. Under each Deed, to the extent permitted by law and to the extent and in the amount that the officer is not indemnified under any other indemnity, including an indemnity contained in any insurance policy, the Company indemnifies the relevant officer against all liabilities of any kind (including liabilities for legal expenses) incurred by the officer arising out of:

- the discharge of his or her duties as an officer of the Company or a subsidiary of the Company, or as an officer of any corporation in which the Company holds securities ("Related Corporation") where the officer is representing the interests of the Company in relation to that Related Corporation; and
- the conduct of the business of the Company or a subsidiary of the Company, or a Related Corporation where the officer is representing the interests of the Company in relation to that Related Corporation.

No amount has been paid under any of these indemnities during the financial year under review.

### Insurance premiums

During the financial year, the Company paid an insurance premium for directors' and officers' liability and legal expenses insurance policies, which cover all Directors, Company Secretaries and other 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 the Company or its related entities, 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.

Since the end of the previous financial year the Company has paid insurance premiums of \$193,684 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.

The current Directors and Company Secretaries are named on pages 24 to 26 of this Directors' Report. The Company's current auditor is KPMG. The Company's executives named on pages 30 and 31 of this Directors' Report and Senior Managers are also considered to be officers of the Company for these purposes, and may benefit from the above indemnities and insurance.



## 15. Non-audit services

During the year KPMG, the Company's auditor, performed services in addition to its statutory duties. Details of the amounts paid to KPMG for these services are set out in note 8 to the Financial Statements. The Directors have considered those non-audit services provided during the year by the auditor and are satisfied that:

- the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth); and
- the provision of those non-audit services during the year by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 (Cth) for the following reasons:
  - KPMG's services have not involved partners or staff acting in a managerial or decision making capacity within the consolidated entity or being involved in the processing or originating of transactions;
  - KPMG's non-audit services have only been provided where the Company is satisfied that the related function or process will not have a material bearing on the audit procedures;
  - KPMG's partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes;
  - a description of all non-audit services undertaken by KPMG and the related fees have been reported to the Board to ensure complete transparency in relation to the services provided; and

the declaration required by section 307C of the Corporations Act 2001 (Cth) confirming independence has been received from KPMG.

## 16. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 46 and forms part of this Directors' Report.

## 17. Rounding

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 to the nearest one thousand dollars, unless otherwise stated.

This report is signed pursuant to a resolution of the Directors:



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Nick Bowen  
Director

Dated at Perth this 22nd day of September 2009

# Corporate governance statement

The Board of Macmahon ("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 and Executive Management 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 *Corporate Governance Principles and Recommendations* (2nd edition, 2008) ("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.

## Principle 1: Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

**Recommendation 1.1:** Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Company has established and disclosed (on its website) its Board Charter in accordance with this recommendation. The Board Charter establishes the relationship between the Board and management and describes their respective functions and responsibilities.

**Recommendation 1.2:** Companies should disclose the process for evaluating the performance of senior executives.

The Board undertakes a review of the Chief Executive Officer's performance, at least annually. Targets are approved by the Board after they have been established between the Board's Remuneration Committee and the Chief Executive Officer. These targets are aligned to overall business goals and the Company's requirements of the position.

All senior executives of Macmahon are subject to a formal annual performance evaluation. Performance targets which reflect overall business goals and the Company's requirements of the position are set each year for senior executives by his or her superior. The Chief Executive Officer carries out an informal assessment of progress for each senior executive each half year. The Chief Executive Officer, in conjunction with the Remuneration Committee, carries out a full evaluation of each executive's performance against the agreed targets once a year. Performance pay components of executives' packages are dependent on the outcome of the evaluation.

Performance evaluation for senior executives was carried out in accordance with this process during the reporting period.

**Recommendation 1.3:** Companies should provide the information indicated in the *Guide to reporting on Principle 1*.

The Company has included the information indicated in the Guide to reporting on Principle 1 in the Corporate Governance Statement. The Company also places the material that the Guide specifies should be made publicly available on its website in accordance with this recommendation.

## Principle 2: Structure the Board to add value

Companies should have a board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

**Recommendation 2.1:** A majority of the board should be independent directors.

The Company has a majority of independent directors.

The Board currently comprises six Non-executive Directors including the Chairman and Deputy Chairman, and one Executive Director.

The Directors in office at the date of this report, the year of each Director's appointment and each Director's status as an independent, Non-executive or Executive Director are set out on pages 24 and 25 in the Directors' Report.

In assessing the independence of each Director, the Board considers, amongst other things, whether the Director:

- is a substantial shareholder of the Company (as defined by the Corporations Act) or an officer of, or otherwise associated directly with a substantial shareholder of the Company;
- within the last three years has been employed in an executive capacity by the Company or another group member or been a Director after ceasing to hold any such employment;
- within the last three years has been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company or another group member other than as a Director of the Company;

- has a material contractual relationship with the Company or another group member other than as a Director of the Company;
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Applying the above criteria, the Board has determined that Mr Richard Carter, Mr Barry Cusack, Mr Barry Ford, Mr John Massey and Mr Kenneth Scott-Mackenzie are independent Directors.

The Board has determined that Mr Vyrl Vella is not an independent Director. 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.

The Company has established and disclosed (on its website) a Board Conflict of Interest Policy to ensure an appropriate procedure is followed where:

- a Director may have a material personal interest in a matter that is or is to be under consideration by the Board; or
- a Director has a financially material relationship or other material association with another entity, and that entity or a related entity of that entity has or may have a material interest in a matter that is or is likely to be under consideration by the Board.

**Recommendation 2.2:** The chair should be an independent director.

The Board has determined that the Company's Chairman, Mr Richard Carter is an independent Director.

**Recommendation 2.3:** The roles of the chair and chief executive officer should not be exercised by the same individual.

The roles of Chairman of the Board and Chief Executive Officer are held by different individuals.

**Recommendation 2.4:** The board should establish a nomination committee.

The Board has not formed a separate nomination committee. Given the size of the Company and the Board, the Board considers a nomination committee is not warranted. The Board as a whole fills the role of a Nomination Committee. To assist the Board to carry out the nomination committee function, it has documented and formalised its nomination related responsibilities in its Board Charter.

The Board considered nomination related matters in accordance with its Board Charter during the reporting period as required.

**Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Board undertakes an annual evaluation of its effectiveness as a whole and in committee against a broad range of good practice criteria. The Chairman reviews the individual performance of each Board member prior to each Director being considered for re-election and may use the assistance of an external facilitator.

The Chairman's performance is evaluated periodically by the Board. The Board may involve an external facilitator for this purpose.

During the reporting period an evaluation of the performance of the Board, its committees and individual Directors was carried out in accordance with the process outlined above, including the involvement of an external facilitator.

**Recommendation 2.6:** Companies should provide the information indicated in the *Guide to Reporting on Principle 2*.

The Company has included the information indicated in the Guide to reporting on Principle 2, so far as that guide is applicable to the Company, either in this Corporate Governance Statement or, in respect of information regarding the skills, experience and expertise of its Directors and their periods of office, in the Directors Report on pages 24 and 25. The Company also places the material that the Guide specifies should be made publicly available on its website, other than a charter for a nomination committee (as the Board has not established a nomination committee for the reasons outlined under recommendation 2.4 above).

In determining the independence of Directors, materiality is assessed on a case-by-case basis with consideration of the nature, circumstances and activities of the Directors having regard to the guidelines the Board uses to assess the independence of Directors under recommendation 2.1, rather than by applying general materiality thresholds.

It is a policy of the Board that each Director has the right to seek independent professional advice at the company's expense, subject to prior approval of the Chairman which will not be unreasonably withheld.

The Board's policy and procedure for the selection, nomination and appointment of new Directors and the re-election of incumbent Directors is as follows.

The Board oversees the appointment and induction process for Directors and the selection, appointment and succession planning process of the Company's Chief Executive Officer. 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.

When Directors are due for re-election, the Board does not endorse the reappointment of a Director who is not satisfactorily performing the role.

## Principle 3: Promote ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making.

**Recommendation 3.1:** Companies should establish a code of conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has established and disclosed (on its website) its Code of Conduct in accordance with this recommendation. It is a policy of the Board that the Code of Conduct applies to Directors, officers, employees and consultants of the Company. The Code of Conduct is regularly reviewed and updated as necessary to ensure it reflects the high ethical standards of conduct necessary to maintain confidence in the Company's integrity.

The Company has also established and disclosed (on its website) its Whistleblower Policy.

**Recommendation 3.2:** Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Company has established and disclosed (on its website) its Trading in Shares Policy in accordance with this recommendation. The policy reinforces the requirements of the Corporations Act 2001 in relation to insider trading. The policy prohibits directors, officers and employees from dealing in Macmahon's securities in the four week period leading up to the profit announcement in respect of each June and December half year period, prior to any announcement in relation to any material change in Macmahon's financial performance or a major contract, and at any time they are in possession of unpublished information concerning Macmahon's financial position, strategy or operations, which, if made public, would be likely to have a material impact on the price of Macmahon's securities.

**Recommendation 3.3:** Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

The Company makes the relevant material, being its Trading in Shares Policy, available on its website, in accordance with this recommendation.

## Principle 4: Safeguard integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

**Recommendation 4.1:** The board should establish an audit committee.

The Board has established an Audit Committee. The responsibilities of the Audit Committee are set out in the Audit Committee Charter, which is available on the Company's website.

**Recommendation 4.2:** The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the Board
- has at least three members

The Audit Committee established by the Board is structured in accordance with this recommendation.

The members of the Audit Committee as at the date of this report are:

- Mr John Massey (Chairman), independent Non-executive Director
- Mr Richard Carter, independent Non-executive Director
- Mr Barry Cusack, independent Non-executive Director
- Mr Barry Ford, independent Non-executive Director
- Mr Kenneth Scott-Mackenzie, independent Non-executive Director (member from 22 September 2009)

Details of the relevant skills and qualifications of these Directors are set out in the Directors' Report on pages 24 and 25. The Board considers that each of them is suitably qualified to be a member of the Audit Committee based on their financial expertise and industry experience.

The external auditor, the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller are invited to attend Audit Committee meetings at the discretion of the Audit Committee.

The number of Audit Committee meetings that were held during the reporting period and the attendance of the Committee members at those meetings are set out on page 26 of the Directors Report.

**Recommendation 4.3:** The audit committee should have a formal charter.

The Audit Committee has a formal charter which is disclosed on the Company's website.

**Recommendation 4.4:** Companies should provide the information indicated in the *Guide to reporting on Principal 4*.

The Company makes the relevant material, being the formal charter of the Audit Committee and information on procedures for the selection and appointment of the external auditor and rotation of external audit engagement partners, available on its website, in accordance with this recommendation.

## Principle 5: Make timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the company.

**Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company's Continuous Disclosure Policy is available on the Company's website. This policy sets out the Company's procedures to enable accurate, timely, clear and adequate disclosure to the market in accordance with the Listing Rules. The Board regularly reviews its disclosure practices to ensure the market is kept informed of price sensitive or significant information in accordance with the Listing Rules. The Company Secretary is responsible for communications with, and coordinating disclosure of information to, the ASX in a timely manner. The Board and Chief Executive Officer determine whether information is to be disclosed to the ASX and both the Company Secretary and Chief Financial Officer are responsible for monitoring compliance with the Continuous Disclosure Policy on a daily basis.

**Recommendation 5.2:** Companies should provide the information indicated in the *Guide to reporting on Principle 5*.

The Company makes the relevant material, being its Continuous Disclosure Policy, available on its website, in accordance with this recommendation.

## Principle 6: Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

**Recommendation 6.1:** Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company's Investor Communications Policy, which is available on the Company's website, is as follows.

### 1. Introduction

Macmahon will communicate all major activities affecting operations to investors through the Annual Report, half year and full year results announcements, formal disclosures to the ASX (i.e. company announcements), letters to shareholders when appropriate, the Company website and the Annual General Meeting ("AGM"). The AGM also provides an important opportunity for investors to ask questions, express views and respond to Board proposals.

Periodical reviews of communication systems to take advantage of new technologies will further enhance Macmahon's ability to communicate effectively with its investors.

### 2. Company Announcements

Macmahon will endeavour to post all announcements made to the ASX on its website on the day the announcement is made. This includes all announcements made under Macmahon's Continuous Disclosure Policy and all analyst presentations.

Where Macmahon is unable to place an announcement on its website on the same day that the announcement is made Macmahon will endeavour to post the announcement on its website as soon as is reasonably practicable thereafter.

### 3. Notices of Meeting and Explanatory Information

Macmahon posts the full text of each Notice of Meeting (including any accompanying explanatory information) on its website at the time the Notice is sent to shareholders.

### 4. Historical Information

Macmahon ensures that the above information is posted and maintained on its website for at least three years from the date of release.

## 5. Notices of Meeting

Macmahon prepares its notices of meeting by utilising plain English and using a structure and format that is readable and ensures ease of understanding for shareholders.

**Recommendation 6.2:** Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

The Company makes the relevant material, being its Investor Communication Policy, on its website in accordance with this recommendation.

## Principle 7: Recognise and Manage risk

Companies should establish a sound system of risk oversight and management and internal control.

**Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Company has established and disclosed (on its website) its Risk Management Policy in accordance with this recommendation. 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. Implementation of the risk management system and day-to-day management of risk is the responsibility of the Chief Executive Officer, with the assistance of senior management, as required.

Further, the Board has formed a Risk & Opportunity Management Steering Committee. The Risk & Opportunity Management Steering Committee Charter is also available on the Company's website. This Committee assists the Board and management to ensure the Company's material business risks are being managed within a structured risk management framework designed to ensure the material business risks confronting the Group are identified, managed and reported effectively. The Committee's principal function is to provide oversight and monitor the implementation of risk management policy including internal compliance and control systems.

**Recommendation 7.2:** The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Board has established a formal risk management system under which risks are reported to management throughout the Company with significant risks being reported to the Board.

The Chief Executive Officer is required to report on the progress of, and on all matters associated with risk management as a standing item at each Board meeting. The Chief Executive Officer reports to the Board as to the effectiveness of the Company's management of its material business risks regularly.

The Chief Executive Officer reported to the Board in accordance with the systems and procedures outlined above during the reporting period.

**Recommendation 7.3:** The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Chief Executive Officer and Chief Financial Officer confirm in writing to the Board that the declaration provided in accordance with s295A of the Corporations Act 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 either directly or through delegation to senior executives and that such systems are operating effectively and efficiently in all material respects in relation to financial reporting risks.

The Chief Executive Officer and Chief Financial Officer have provided a declaration for the reporting period in accordance with s295A of the Corporations Act and have provided the Board with the confirmations described above in respect of that period.

**Recommendation 7.4:** Companies should provide the information indicated in the *Guide to reporting on Principle 7*.

The Company has included the information indicated in the Guide to reporting on Principle 7 in this Corporate Governance Statement. The Company also places the material that the Guide specifies should be made publicly available on its website, in accordance with this recommendation.



## Principle 8: Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

**Recommendation 8.1:** The board should establish a remuneration committee.

The Board has established a Remuneration Committee. The responsibilities of the Remuneration Committee are set out in the Remuneration Committee Charter, which is available on the Company's website.

The members of the Remuneration Committee at the date of this report are:

- Mr Richard Carter (Chairman), independent Non-executive Director
- Mr Barry Cusack, independent Non-executive Director
- Mr Kenneth Scott-Mackenzie, independent Non-executive Director (member from 12 May 2009)
- Mr Vyiril Vella, Non-independent Non-executive Director (member from 12 May 2009)

The number of Committee meetings that were held during the reporting period and the attendance of the Committee members at those meetings are set out on page 26 of the Directors Report.

**Recommendation 8.2:** Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Company's Non-executive Directors Remuneration Policy is available on the Company's website. The Company's Non-executive Directors receive fees as remuneration for acting as a Director of the Company and, if applicable, acting as a member of a standing Committee of the Board. Non-executive Directors are not entitled to participate in equity schemes of the Company and are not entitled to receive performance-based bonuses. Further details regarding Non-executive Directors' remuneration are set out in the Remuneration Report on pages 28 to 36.

The Company's Senior Executives Remuneration Policy is available on the Company's website. The Company's senior executives are remunerated in accordance with the principles described in that policy, which provides that senior executive remuneration is to consist of elements of fixed salary, short-term incentives based on performance, participation in long-term incentive equity schemes and other benefits including superannuation. Further details regarding senior executive remuneration are set out in the Remuneration Report on pages 28 to 36.

**Recommendation 8.3:** Companies should provide the information indicated in the *Guide to reporting on Principle 8*.

The Company has included the information in the Guide to reporting on Principle 8 in this Corporate Governance Statement. The Company also places the material that the Guide specifies should be made publicly available on its website, in accordance with this recommendation.

The Company has not established any schemes for the provision of retirement benefits, other than statutory superannuation, for Non-executive Directors.

It is the Company's policy to prohibit executives from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.



*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 2009 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 stylized signature of the KPMG firm, written in a cursive script.

KPMG

A handwritten signature of Denise McComish in cursive script.

Denise McComish  
*Partner*

Perth

22 September 2009

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 2009

*In thousands of AUD*

	Note	Consolidated		The Company	
		2009	2008	2009	2008
Revenue	3 & 4	1,358,490	1,201,216	-	-
Other income	5	1,825	1,731	46	418
		<b>1,360,315</b>	<b>1,202,947</b>	<b>46</b>	<b>418</b>
Materials and consumables used		(605,439)	(515,831)	-	(1)
Employee benefits expense		(483,830)	(440,840)	(2,324)	(3,992)
Subcontractor costs		(145,094)	(92,156)	-	-
Depreciation and amortisation expenses	18 & 19	(43,840)	(40,209)	(455)	(197)
Equipment and office expenses relating to operating leases	26	(20,942)	(4,657)	-	-
Other expenses	6	(44,995)	(40,106)	(11,703)	15,257
<b>Results from operating activities</b>		<b>16,175</b>	<b>69,148</b>	<b>(14,436)</b>	<b>11,485</b>
Financial Income	7	2,376	5,253	40,079	39,931
Financial Expenses	7	(11,243)	(12,766)	(3,650)	(4,218)
Net financing (costs) / income		(8,867)	(7,513)	36,429	35,713
Share of profit of jointly controlled entities accounted for using the equity method	16	13,622	5,540	-	-
<b>Profit before income tax</b>		<b>20,930</b>	<b>67,175</b>	<b>21,993</b>	<b>47,198</b>
Income tax (expense) / benefit	9	(2,651)	(17,797)	1,578	1,853
<b>Profit for the year</b>		<b>18,279</b>	<b>49,378</b>	<b>23,571</b>	<b>49,051</b>
<b>Attributable to:</b>					
Equity holders of the Company		17,156	48,755	23,571	49,051
Minority interest		1,123	623	-	-
<b>Profit for the year</b>		<b>18,279</b>	<b>49,378</b>	<b>23,571</b>	<b>49,051</b>
<b>Earnings per share</b>					
For profit attributable to ordinary equity holders of the Company					
Basic (cents per share)	10	3.07	9.20		
Diluted (cents per share)	10	3.06	9.06		

The notes on pages 51 to 98 are an integral part of these consolidated statements.



# Statements of recognised income and expense

for the year ended 30 June 2009

*In thousands of AUD*

	Note	Consolidated		The Company	
		2009	2008	2009	2008
Foreign currency translation differences for foreign operations	24	940	(920)	-	-
Net income recognised directly in equity		940	(920)	-	-
Profit for the year		18,279	49,378	23,571	49,051
<b>Total recognised income and expense for the year</b>	24	<b>19,219</b>	<b>48,458</b>	<b>23,571</b>	<b>49,051</b>
Attributable to:					
Equity holders of the Company		18,096	47,835	23,571	49,051
Minority interest		1,123	623	-	-
<b>Total recognised income and expense for the year</b>		<b>19,219</b>	<b>48,458</b>	<b>23,571</b>	<b>49,051</b>

Other movements in equity raising 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 notes on pages 51 to 98 are an integral part of these consolidated statements

In thousands of AUD

In thousands of AUD	Note	Consolidated		The Company	
		2009	2008	2009	2008
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	11	109,286	120,098	88,850	70,843
Trade and other receivables	12	158,644	180,999	180	316
Inventories	13	38,694	33,452	-	-
Current tax receivables	14	6,606	268	6,606	-
<b>Total current assets</b>		<b>313,230</b>	<b>334,817</b>	<b>95,636</b>	<b>71,159</b>
<b>Non-current assets</b>					
Trade and other receivables	12	-	-	182,888	178,306
Other financial assets	29	-	-	62,279	72,218
Investments accounted for using the equity method	16	7,457	5,886	-	-
Deferred tax assets	17	876	359	5,389	909
Property, plant and equipment	18	268,734	257,937	-	-
Intangible assets	19	42,477	31,321	1,440	1,735
<b>Total non-current assets</b>		<b>319,544</b>	<b>295,503</b>	<b>251,996</b>	<b>253,168</b>
<b>Total assets</b>		<b>632,774</b>	<b>630,320</b>	<b>347,632</b>	<b>324,327</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	20	154,934	168,533	1,022	280
Loans and borrowings	21	26,610	32,550	-	-
Employee benefits	22	34,192	35,096	1,431	1,854
Current tax liabilities	14	2,885	11,657	-	11,623
Provisions	23	7,067	6,354	-	18
<b>Total current liabilities</b>		<b>225,688</b>	<b>254,190</b>	<b>2,453</b>	<b>13,775</b>
<b>Non-current liabilities</b>					
Trade and other payables	20	-	-	2	14,914
Deferred tax liabilities	17	9,318	6,434	-	-
Loans and borrowings	21	84,524	116,771	29,585	44,399
Employee benefits	22	2,240	1,925	5	8
<b>Total non-current liabilities</b>		<b>96,082</b>	<b>125,130</b>	<b>29,592</b>	<b>59,321</b>
<b>Total liabilities</b>		<b>321,770</b>	<b>379,320</b>	<b>32,045</b>	<b>73,096</b>
<b>Net assets</b>		<b>311,004</b>	<b>251,000</b>	<b>315,587</b>	<b>251,231</b>
<b>Equity</b>					
Issued capital	24	308,283	240,880	308,283	240,880
Reserves	24	(288)	(1,228)	-	-
Retained earnings	24	192	9,654	7,304	10,351
<b>Total equity attributable to equity holders of the Company</b>		<b>308,187</b>	<b>249,306</b>	<b>315,587</b>	<b>251,231</b>
<b>Minority interest</b>	24	<b>2,817</b>	<b>1,694</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>311,004</b>	<b>251,000</b>	<b>315,587</b>	<b>251,231</b>

The notes on pages 51 to 98 are an integral part of these consolidated statements.

# Statements of cash flows

for the year ended 30 June 2009

In thousands of AUD

	Note	Consolidated		The Company	
		2009	2008	2009	2008
<b>Cash flows from operating activities</b>					
Receipts from customers		1,517,825	1,270,439	186	287
Payments to suppliers and employees		(1,452,882)	(1,168,974)	(3,439)	(4,713)
Receipts from joint venture entities		12,051	4,312	-	-
<b>Cash generated from operations</b>		<b>76,994</b>	<b>105,777</b>	<b>(3,253)</b>	<b>(4,426)</b>
Interest paid		(11,243)	(12,766)	(3,650)	(4,218)
Dividends received		-	-	38,000	35,000
Interest received		2,376	5,253	2,079	4,931
Income taxes paid		(14,733)	(9,978)	(14,733)	(9,978)
<b>Net cash provided by operating activities</b>	30	<b>53,394</b>	<b>88,286</b>	<b>18,443</b>	<b>21,309</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		3,531	5,686	-	-
Payment for property, plant and equipment <sup>1</sup>		(28,022)	(37,253)	-	-
Payment for major component parts		(13,300)	-	-	-
Payment for other intangibles		(11,151)	(9,267)	(160)	(1,932)
Payment of contingent consideration		(1,607)	(1,448)	-	-
Loans from / (to) related parties		-	-	(24,940)	487
<b>Net cash used in investing activities</b>		<b>(50,549)</b>	<b>(42,282)</b>	<b>(25,100)</b>	<b>(1,445)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of equity securities (net of share issue costs)		58,399	1,753	58,399	1,753
Proceeds from borrowings		75,000	56,072	75,000	45,000
Repayment of borrowings and finance lease / hire purchase liabilities		(128,139)	(85,863)	(89,814)	(45,303)
Dividends paid		(18,921)	(11,974)	(18,921)	(11,974)
<b>Net cash provided by / (used in) financing activities</b>		<b>(13,661)</b>	<b>(40,012)</b>	<b>24,664</b>	<b>(10,524)</b>
Net increase / (decrease) in cash and cash equivalents		(10,816)	5,992	18,007	9,340
Effect of exchange rate changes on the balance of cash held in foreign currencies		4	(538)	-	-
Cash and cash equivalents at beginning of year		120,098	114,644	70,843	61,503
<b>Cash and cash equivalents at end of year</b>	11	<b>109,286</b>	<b>120,098</b>	<b>88,850</b>	<b>70,843</b>

<sup>1</sup> The consolidated entity acquired plant and equipment on finance leases and hire purchase agreements amounting to \$14,951,731 (2008: \$9,697,000) during the year which has been excluded from the cash flow.

The notes on pages 51 to 98 are an integral part of these consolidated statements.



## 1. Significant accounting policies

### Reporting entity

Macmahon Holdings Limited ("the Company") is a company domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2009 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 consolidated entity primarily is involved in providing services to both mining and construction sectors. The address of the Company's registered office is Level 3, 27 – 31 Troode Street, West Perth, Western Australia, 6005.

### (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 International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial report was authorised for issue by the Board of Directors on 21 September 2009.

### (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* (2008) 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, will be applied prospectively and therefore will have no impact on prior periods in the consolidated entity's 2010 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* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in a income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the consolidated entity's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The consolidated entity plans to provide total comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.
- 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.
- Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the consolidated entity in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the consolidated entity loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB127, which become mandatory for the consolidated entity's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements. The amendments 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 amendments on the consolidated entity's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions & Cancellations* change 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 with retrospective application. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.
- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amendments.

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 consolidated financial statements have been prepared on the historical cost basis except for defined benefit plan assets and liabilities and available for sale financial assets which are stated at their fair value.

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.

Prior year comparatives have been reclassified where necessary to comply with current year presentation.

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, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### **(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.

##### ***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 measured at fair value are retranslated to Australian dollars at the exchange rates at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

## (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the balance sheet date. The income 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) 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 (l)). Cost includes expenditure that is directly attributable to the acquisition of the asset. 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 re-assessments 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 machine 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

## (g) 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 (l)).

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

### (ii) Software development costs

Software development activities involve 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 (see accounting policy (l)).

### (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 (l)).

### (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

## (h) 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.

## (i) 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 (p)) 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 (l)).

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.

## (j) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less 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 sale, and a reasonable profit margin.

## (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

## (l) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (j)) and deferred tax assets (see accounting policy (r)), 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.

**(m) 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.

**(n) 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 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. An economic benefit is available to the consolidated entity if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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 employee benefits**

The consolidated entity's net obligation in respect of long term employee 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 plus related on-costs. 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) Termination benefits**

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

**(v) 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 twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

**(vi) 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 share option programmes which provide benefits to executives and other employees.

The fair value of options 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. The fair value of the options granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options 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 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.

**(o) Provisions**

Provisions are recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation

that can be estimated reliably 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.

**(p) 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 based on the percentage cost of completion. Profit earned is only recognised after reaching a minimum of 15% 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.

The consolidated entity currently has claims outstanding with clients which have not been included as revenue in this financial report. This is due to negotiations not reaching such an advanced stage that it is probable that the respective clients will accept the claims.

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

**(q) Expenses**

**(i) Operating lease payments**

Payments made 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.

**(r) 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. 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 payables (receivables) are at call.

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

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing

agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

#### **(s) 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.

#### **(t) 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.

#### **(u) Dividends**

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

#### **(v) 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.

#### **(w) 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;
- Measurement of share based payments;
- Measurement of provisions; and
- Measurement of defined benefit obligations.

## **2. Financial risk management**

The Company and the 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 the consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. 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 the consolidated entity. The committee reports regularly to the Board of Directors on its activities.

The risk management system is used to identify and analyse the risks faced by the Company and the 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 the consolidated entity's activities. The Company and the 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 of Directors 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 of Directors 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 the 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 42.6% (2008: 26.8%) 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. 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 71% (2008: 56%) 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 the 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 for external parties (2008: 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 facility that can in part be drawn down to meet short-term financing needs. The facility is also used for Bank Guarantee facilities. The facility matures in October 2010.

- \$230 million domestic and US\$50 million international operating lease facilities. The facilities mature in October 2009.

Refer to note 33 for an update on arrangements.

#### **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.

#### **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 entity, primarily of the Australian dollar (AUD), but also the New Zealand dollar (NZD), US dollar (USD) and the Malaysian ringgit (MYR). The currencies in which these transactions primarily are denominated are AUD, NZD, USD 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 has used 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 of Directors' 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 of Directors monitors the return on capital and the level 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 of Directors 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.

### Gearing ratio

The Board of Directors 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. 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:

<i>In thousands of AUD</i>	<b>Consolidated</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Financial assets</b>				
Debt <sup>1</sup>	111,134	149,321	29,585	44,399
Cash and cash equivalents	(109,286)	(120,098)	(88,850)	(70,843)
Net debt	1,848	29,223	(59,265)	(26,444)
Equity <sup>2</sup>	311,004	251,000	315,587	251,231
Net debt to equity ratio	0.6%	11.6%	n/a	n/a

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

2 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.

### (i) Business segments

The consolidated entity comprises the following main business segments:

- Mining; and
- Construction.

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 Accounting Standards. 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.

### (ii) Geographical segments

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

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

### 3. Segment Reporting (continued)

*In thousands of AUD*

#### Segment revenue

	Mining		Construction		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Total external revenue	644,880	616,380	713,610	584,836	-	-	1,358,490	1,201,216
Add revenue from joint ventures	-	-	153,346	63,305	-	-	153,346	63,305
Less recoveries from joint ventures	-	-	(26,210)	(20,162)	-	-	(26,210)	(20,162)
Revenue from group and joint ventures	644,880	616,380	840,746	627,979	-	-	1,485,626	1,244,359

#### Segment profit

Segment result	18,805	54,360	16,575	32,556	-	-	35,380	86,916
Share of profit of equity accounted investees	-	-	13,622	5,540	-	-	13,622	5,540
Total segment result	18,805	54,360	30,197	38,096	-	-	49,002	92,456
Unallocated expenses							(19,205)	(17,768)

#### Profit from operations before financing costs and tax

Net financing costs							29,797	74,688
Profit before tax							(8,867)	(7,513)
Income tax expense							20,930	67,175
							(2,651)	(17,797)
<b>Profit for the year</b>							<b>18,279</b>	<b>49,378</b>

*In thousands of AUD*

	Mining		Construction		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Segment assets	382,205	456,572	123,884	83,946	-	-	506,089	540,518
Investment in equity accounted investees	-	-	7,457	5,886	-	-	7,457	5,886
Unallocated assets							119,228	83,916
<b>Total assets</b>							<b>632,774</b>	<b>630,320</b>
Segment Liabilities	(184,736)	(237,013)	(100,476)	(85,021)	-	-	(285,212)	(322,034)
Unallocated liabilities							(36,558)	(57,286)
<b>Total liabilities</b>							<b>(321,770)</b>	<b>(379,320)</b>
Depreciation / Amortisation	40,037	37,710	3,336	2,034	-	-	43,373	39,744
Unallocated depreciation / amortisation							467	465
Total Depreciation/ Amortisation							43,840	40,209
Segment capital expenditure	39,913	36,928	3,734	5,447	-	-	43,647	42,375
Corporate capital expenditure							12,626	4,575
<b>Total capital expenditure</b>							<b>56,273</b>	<b>46,950</b>

#### Geographical segments

*In thousands of AUD*

	Australasia		South East Asia		Consolidated	
	2009	2008	2009	2008	2009	2008
Segment revenue	1,349,591	1,195,048	8,899	6,168	1,358,490	1,201,216
Revenue from group and joint ventures	1,476,727	1,238,191	8,899	6,168	1,485,626	1,244,359
Segment assets	620,320	618,519	12,454	11,801	632,774	630,320
Segment capital expenditure	54,771	43,863	1,502	3,085	56,273	46,950

#### 4. Revenue

*In thousands of AUD*

##### Revenue from external customers

Mining

Construction

Consolidated	
2009	2008
644,880	616,380
713,610	584,836
1,358,490	1,201,216

The consolidated entity's share of revenue from joint venture entities is excluded from the income statement in accordance with Accounting Standards. 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*

##### Revenue from group and joint ventures

Revenue - group

Revenue – joint ventures

Less recoveries from joint ventures

Consolidated	
2009	2008
1,358,490	1,201,216
153,346	63,305
(26,210)	(20,162)
1,485,626	1,244,359

#### 5. Other Income

*In thousands of AUD*

Net gain on disposal of plant and equipment

Other

Consolidated		The Company	
2009	2008	2009	2008
822	1,187	-	-
1,003	544	46	418
1,825	1,731	46	418

#### 6. Expenses

*In thousands of AUD*

##### Personnel expenses

Employee benefits expense includes the following:

- Contributions to defined contribution plans
- Expenses related to defined benefit superannuation plans
- Share based payment expense

Consolidated		The Company	
2009	2008	2009	2008
36,235	38,573	434	-
1,157	248	-	-
505	1,614	30	855

Other expenses in the consolidated entity include project closure costs of \$9,077,285 (2008: \$7,973,679).

Other expenses in the Company include a reversal of impairment losses on intercompany receivables of \$152,976 (2008: reversal of impairment loss of \$9,585,652) and an increase of impairment losses on investments in controlled entities of \$10,414,823 (2008: reversal of impairment loss of \$7,958,998). Impairment losses are a result of losses in controlled entities resulting in negative net asset positions.



## 7. Net financing (costs) / income

*In thousands of AUD*

### Financial income

Interest income

Dividend income from controlled entities

### Financial expenses

Interest expense

Net financing (costs) / income

Consolidated		The Company	
2009	2008	2009	2008
2,376	5,253	2,079	4,931
-	-	38,000	35,000
2,376	5,253	40,079	39,931
(11,243)	(12,766)	(3,650)	(4,218)
(11,243)	(12,766)	(3,650)	(4,218)
(8,867)	(7,513)	36,429	35,713

## 8. 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 services

KPMG Australia

- Taxation services

- Employee migration services

- System implementation assurance

- Other

Consolidated		The Company	
2009	2008	2009	2008
531,215	432,000	123,900	118,000
30,000	110,000	-	-
-	11,000	-	-
50,428	55,800	-	-
611,643	608,800	123,900	118,000
-	30,000	-	30,000
107,016	109,135	107,016	109,135
93,158	32,204	19,458	32,204
1,600	15,371	-	9,850
201,774	186,710	126,474	181,189

## 9. Income tax expense / (benefit)

### Recognised in the income statement

*In thousands of AUD*

#### Current tax expense

Current year  
Adjustments for prior years

#### Deferred tax expense

Origination and reversal of temporary differences  
Adjustments for prior years  
(Benefit arising from) / Utilisation of tax losses

Total income tax expense / (benefit)

Attributed to:

Continuing operations  
Total income tax expense / (benefit)

Consolidated		The Company	
2009	2008	2009	2008
-	16,148	(2,107)	(1,466)
(518)	-	-	-
(518)	16,148	(2,107)	(1,466)
6,304	1,621	529	112
-	(79)	-	(499)
(3,135)	107	-	-
3,169	1,649	529	(387)
2,651	17,797	(1,578)	(1,853)
2,651	17,797	(1,578)	(1,853)
2,651	17,797	(1,578)	(1,853)

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

*In thousands of AUD*

Profit before tax

Income tax using the domestic corporation tax rate of 30% (2008: 30%)  
Foreign tax rate differential

Increase / (Decrease) in income tax expense due to:

Share based payment expense  
Non-deductible expenses  
Non-assessable distribution from controlled entities  
Intercompany impairment losses  
Research and development concession  
Distribution of partnership losses  
30% government investment allowance  
Utilisation of foreign income losses not previously recognised  
Other

Under / (Over) provided in prior years

Income tax expense / (benefit)

#### Income tax recognised directly in equity

Equity raising costs

Consolidated		The Company	
2009	2008	2009	2008
20,930	67,175	21,993	47,198
6,279	20,153	6,598	14,159
-	-	-	-
152	484	9	256
34	1	5	1
-	-	(11,400)	(10,500)
-	-	3,079	(5,263)
(2,145)	(1,088)	-	-
(642)	(542)	-	-
(305)	-	-	-
-	(1,000)	-	-
(204)	(132)	131	(7)
3,169	17,876	(1,578)	(1,354)
(518)	(79)	-	(499)
2,651	17,797	(1,578)	(1,853)
(802)	-	(802)	-
(802)	-	(802)	-

## 10. Earnings Per Share

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of \$17,156,000 (2008: \$48,755,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 559,615,730 (2008: 530,103,643), calculated as follows:

#### Profit attributable to ordinary shareholders

*In thousands of AUD*

Profit attributable to ordinary equity holders

Consolidated	
2009	2008
Total	Total
17,156	48,755

#### Weighted average number of ordinary shares

*In thousands of shares*

Issued ordinary shares at 1 July	535,328	524,543
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
Effect of shares issued on exercise of options July 2008	155	-
Effect of conversion of CEO's unvested unlisted performance shares July 2008	3,913	-
Effect of shares issued on exercise of options August 2008	4	-
Effect of shares issued on exercise of options September 2008	1,067	-
Effect of shares issued on exercise of options October 2008	32	-
Effect of dividend reinvestment October 2008	3,929	-
Effect of shares issued on exercise of options November 2008	25	-
Effect of institutional offer May 2009	13,353	-
Effect of retail offer June 2009	1,810	-
Weighted average number of ordinary shares at 30 June	559,616	530,103

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2009 was based on profit attributable to ordinary shareholders of \$17,156,000 (2008: \$48,755,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 560,588,237 (2008: 537,970,241), calculated as follows:

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

*In thousands of shares*

Weighted average number of ordinary shares at 30 June		559,616	530,103
Effect of share options on issue	22	973	3,867
Effect of performance shares	22	-	4,000
Weighted average number of ordinary shares (diluted) at 30 June		560,589	537,970

Note	Consolidated	
	2009	2008
	559,616	530,103
22	973	3,867
22	-	4,000
	560,589	537,970



## 11. Cash and cash equivalents

*In thousands of AUD*

	Consolidated		The Company	
	2009	2008	2009	2008
Bank balances	109,286	90,098	88,850	40,843
Call deposits	-	30,000	-	30,000
	109,286	120,098	88,850	70,843

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

*In thousands of AUD*

### Current assets

	Consolidated		The Company	
	2009	2008	2009	2008
Trade Receivables <sup>1</sup>	41,948	73,143	-	-
Accrued Revenue	33,665	52,689	-	-
Other receivables and prepayments	6,297	10,737	180	316
Receivables	81,910	136,569	180	316
Construction work in progress	76,734	44,430	-	-
	158,644	180,999	180	316
	-	-	182,888	178,306

### Non-current assets

Loans to controlled entities<sup>2</sup>

<sup>1</sup> Trade receivables are shown net of an impairment loss of nil (2008: nil).

<sup>2</sup> 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 \$93,846,341 (2008: \$93,999,317).

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*

	Consolidated		The Company	
	2009	2008	2009	2008
Contract costs incurred to date:				
Gross cost plus profit recognised to date	1,686,570	1,306,080	-	-
Less progress billings received	(1,609,836)	(1,261,650)	-	-
Net construction work in progress	76,734	44,430	-	-

## 13. Inventories

*In thousands of AUD*

	Consolidated		The Company	
	2009	2008	2009	2008
Raw materials and consumables	38,694	33,452	-	-
	38,694	33,452	-	-

## 14. Current tax receivables / liabilities

The current tax receivable for the consolidated entity of \$6,606,000 (2008: \$268,000) and current tax liability of \$2,885,000 (2008: \$11,657,000) and for the Company a current tax receivable of \$6,606,000 (2008: current tax liability of \$11,623,000) represents the amount of income tax receivable and 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. An additional tax liability is payable by controlled entities not within the tax consolidation group.

## 15. Assets classified as available for sale

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

## 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	
			2009	2008
ACTIVE				
Wyaralong Joint Venture <sup>1</sup>	Dam Construction	Australia	60%	-
Macmahon / Leighton Joint Venture	Railway Construction	Australia	50%	-
Hale Street Link Joint Venture	Bridge Construction	Australia	33.3%	33.3%
Alkimos Joint Venture	Waste Water Treatment Plant Construction	Australia	30%	30%
Southern Improvement Alliance Joint Venture	Railway Construction	Australia	20%	20%
INACTIVE				
Eyre Peninsula Joint Venture		Australia	50%	50%
Tonkin Highway Joint Venture		Australia	50%	50%
Weeli Joint Venture		Australia	50%	50%
Roe Highway Joint Venture		Australia	50%	50%
Ross River Dam Joint Venture		Australia	50%	50%
Rail Link Joint Venture		Australia	25%	25%
Bell Bay Alliance Joint Venture		Australia	20%	20%

<sup>1</sup> The consolidated entity has joint control over Wyaralong Joint Venture as it has half the voting rights.

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%)
2009	478,519	(439,823)	38,696	13,622	145,947	-	145,947	129,680	-	129,680
2008	243,897	(223,642)	20,255	5,540	73,038	-	73,038	64,607	-	64,607

*In thousands of AUD*

Share of joint venture profit

Adjustments:

- timing differences on recognition of earnings

Share of joint venture profits accounted for using the equity method

Consolidated	
2009	2008
13,163	6,598
459	(1,058)
13,622	5,540

Revenues and recoveries from the jointly controlled entities are disclosed in note 4. Amounts receivable from jointly controlled entities are \$4,259,729 (2008: \$2,114,426) which are unsecured and are in the ordinary course of business.

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

## 17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of AUD</i>	<b>Consolidated</b>					
	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Inventories	-	-	(3,493)	(3,078)	(3,493)	(3,078)
Trade and other receivables	-	-	-	(2,018)	-	(2,018)
Property, plant and equipment	-	-	(24,080)	(15,903)	(24,080)	(15,903)
Other creditors and accruals	1,081	1,213	-	-	1,081	1,213
Employee benefits	10,929	11,450	-	-	10,929	11,450
Provisions	2,120	661	-	-	2,120	661
Tax value of carry forward losses recognised	4,232	1,097	-	-	4,232	1,097
Other items	769	503	-	-	769	503
Net tax assets / (liabilities)	19,131	14,924	(27,573)	(20,999)	(8,442)	(6,075)

<i>In thousands of AUD</i>	<b>The Company</b>					
	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Employee benefits	430	559	-	-	430	559
Tax value of carry fwd losses recognised	4,207	-	-	-	4,207	-
Other items	752	350	-	-	752	350
Tax assets / (liabilities)	5,389	909	-	-	5,389	909



## 18. Property plant and equipment

In thousands of AUD	Consolidated					Total	The Company					Total
	Freehold land	Buildings	Leasehold improvements	Owned plant and equipment	Equipment under finance lease		Freehold land	Buildings	Leasehold improvements	Owned plant and equipment	Equipment under finance lease	
Cost												
Balance at 1 July 2007	742	79	1,548	252,523	184,476	439,368	-	-	-	146	-	146
Acquisitions	-	-	936	34,576	11,438	46,950	-	-	-	-	-	-
Disposals	-	-	(118)	(19,332)	(2,545)	(21,995)	-	-	-	-	-	-
Effect of movements in foreign exchange	-	-	-	(876)	-	(876)	-	-	-	-	-	-
Reclassification 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
Balance at 1 July 2008	412	79	3,197	281,112	178,647	463,447	-	-	-	146	-	146
Acquisitions	-	-	6,212	35,109	14,952	56,273	-	-	-	-	-	-
Disposals	-	-	-	(14,872)	-	(14,872)	-	-	-	(146)	-	(146)
Effect of movements in foreign exchange	-	-	-	228	-	228	-	-	-	-	-	-
Reclassification and transfers	-	-	33	25,073	(25,503)	(397)	-	-	-	-	-	-
Balance at 30 June 2009	412	79	9,442	326,650	168,096	504,679	-	-	-	-	-	-

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

In thousands of AUD	Consolidated					Total	The Company					Total
	Freehold land	Buildings	Leasehold improvements	Owned plant and equipment	Equipment under finance lease		Freehold land	Buildings	Leasehold improvements	Owned plant and equipment	Equipment under finance lease	
Depreciation and impairment losses												
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)	-	-	-	-	-	-
Reclassification and transfers	-	-	28	2,328	(2,356)	-	-	-	-	-	-	-
Balance at 30 June 2008	-	70	1,087	147,922	56,431	205,510	-	-	-	146	-	146
Balance at 1 July 2008	-	70	1,087	147,922	56,431	205,510	-	-	-	146	-	146
Depreciation charge for the year	-	9	1,228	26,311	14,716	42,264	-	-	-	-	-	-
Impairment loss for the year	-	-	-	1,121	-	1,121	-	-	-	-	-	-
Disposals	-	-	-	(12,163)	-	(12,163)	-	-	-	(146)	-	(146)
Effect of movements in foreign exchange	-	-	-	(390)	-	(390)	-	-	-	-	-	-
Reclassification and transfers	-	-	-	16,250	(16,647)	(397)	-	-	-	-	-	-
Balance at 30 June 2009	-	79	2,315	179,051	54,500	235,945	-	-	-	-	-	-
Carrying amounts												
At 30 June 2008	412	9	2,110	133,190	122,216	257,937	-	-	-	-	-	-
At 30 June 2009	412	-	7,127	147,599	113,596	268,734	-	-	-	-	-	-

### 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).

## 19. Intangible assets

<i>In thousands of AUD</i>	Consolidated				The Company			
	Goodwill	Software development costs	Other intangible assets	Total	Goodwill	Software development costs	Other intangible assets	Total
<b>Cost</b>								
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
Balance at 1 July 2008	22,251	7,335	2,955	32,541	-	-	1,932	1,932
Acquisitions through business combinations	299	-	-	299	-	-	-	-
Acquisitions – internally developed	-	6,594	-	6,594	-	-	-	-
Acquisitions – acquired	-	4,558	160	4,718	-	-	160	160
Balance at 30 June 2009	22,550	18,487	3,115	44,152	-	-	2,092	2,092
<b>Amortisation and impairment losses</b>								
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
Balance at 1 July 2008	-	-	1,220	1,220	-	-	197	197
Amortisation for the year	-	-	455	455	-	-	455	455
Balance at 30 June 2009	-	-	1,675	1,675	-	-	652	652
<b>Carrying amounts</b>								
At 30 June 2008	22,251	7,335	1,735	31,321	-	-	1,735	1,735
At 30 June 2009	22,550	18,487	1,440	42,477	-	-	1,440	1,440



## 19. Intangible assets (continued)

### 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	
	2009	2008	2009	2008
Underground Mining	6,444	6,444	-	-
Australian Raised Drilling (ARD) / Combined Resource Engineering (CRE)	11,506	11,207	-	-
Maintenance Services	347	347	-	-
MVM Rail	4,253	4,253	-	-
	22,550	22,251	-	-

### ARD / CRE and MVM Rail

The recoverable amounts of ARD / CRE and MVM Rail 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 three year business plan which incorporates an estimated annual growth in revenue of approximately 10%. Additionally, a terminal value was calculated after 3 years incorporating a perpetual growth rate of 2%. The resulting value exceeds the carrying amount of the units including goodwill. A pre-tax discount rate of 19.6% 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 31% at a market interest of 8.8%.

### Underground Mining and Maintenance Services

The recoverable amounts of Underground 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 three year business plan which incorporates an estimated annual growth in revenue of approximately 7%. Additionally, a terminal value was calculated after 3 years incorporating a perpetual growth rate of 2%. The resulting value exceeds the carrying amount of the units including goodwill. A pre-tax discount rate of 19.6% 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 31% at a market interest of 8.8%.

## 20. Trade and other payables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
<b>Current liabilities</b>				
Trade payables and accrued operating expenses	135,843	160,291	-	280
Other payables	19,091	8,242	1,022	-
	154,934	168,533	1,022	280
<b>Non-current liabilities</b>				
Loans from controlled entities	-	-	2	14,914

The consolidated entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25. Whilst loans from controlled entities are all at call, there are no expectations that they will be called within 12 months and accordingly have been classified as non-current.

## 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 Rail

#### Non-interest bearing

Loan from alliance partner

### Non-current liabilities

#### Interest bearing

Hire purchase liabilities

Finance lease liabilities

Term facility

	Consolidated		The Company	
	2009	2008	2009	2008
Hire purchase liabilities	16,026	12,644	-	-
Finance lease liabilities	10,564	14,774	-	-
Loan from minority shareholder to MVM Rail	20	2,132	-	-
	-	3,000	-	-
	26,610	32,550	-	-
Hire purchase liabilities	45,461	50,787	-	-
Finance lease liabilities	9,478	21,585	-	-
Term facility	29,585	44,399	29,585	44,399
	84,524	116,771	29,585	44,399

### Financing arrangements

#### Hire purchase / Finance lease 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.

#### Loan from minority shareholder to MVM Rail

The loan from minority shareholder, Comsa to MVM Rail Pty Ltd incurs interest at an annual rate of 5% and was repayable no later than 31 March 2009.

#### Term facility

The consolidated 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 consolidated entity's assets and are reviewed on an annual basis. The facilities are used for general corporate requirements and attract variable rates of interest. These facilities mature on 31 October 2010.

## 21. Loans and borrowings (continued)

### Hire Purchase Liabilities

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

<i>In thousands of AUD</i>	Consolidated			Consolidated		
	Minimum lease payments 2009	Interest 2009	Principal 2009	Minimum lease payments 2008	Interest 2008	Principal 2008
Less than one year	20,284	4,258	16,026	17,085	4,441	12,644
Between one and five years	50,409	4,948	45,461	57,472	7,281	50,191
More than five years	-	-	-	600	4	596
	70,693	9,206	61,487	75,157	11,726	63,431

### Finance lease liabilities

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

<i>In thousands of AUD</i>	Consolidated			Consolidated		
	Minimum lease payments 2009	Interest 2009	Principal 2009	Minimum lease payments 2008	Interest 2008	Principal 2008
Less than one year	11,614	1,050	10,564	16,852	2,078	14,774
Between one and five years	10,044	566	9,478	23,346	1,761	21,585
More than five years	-	-	-	-	-	-
	21,658	1,616	20,042	40,198	3,839	36,359

## 22. Employee benefits

*In thousands of AUD*

### Current liabilities

Liability for long service leave
Liability for annual leave
Provision for bonuses
Other employee benefits
Total current employee benefits

Consolidated		The Company	
2009	2008	2009	2008
6,235	6,157	305	265
23,044	22,081	244	277
3,233	5,669	809	1,312
1,680	1,189	73	-
34,192	35,096	1,431	1,854

*In thousands of AUD*

### Non-current liabilities

Liability for long service leave
Total non-current employee benefits

Consolidated		The Company	
2009	2008	2009	2008
2,240	1,925	5	8
2,240	1,925	5	8

Accrued wages and salaries between the last pay date and 30 June 2009 of \$6,847,550 (2008: \$8,060,710) are included within the trade payables and accrued operating expenses balance as disclosed in note 20.

### Superannuation

Trust Company Superannuation Services Ltd is the Trustee of the Macmahon Employees Superannuation Fund ("the Fund") and is responsible for all areas of compliance with regard to the Fund. All members of the now closed Defined Benefit section were previously invited to transfer their entitlement to the accumulation section of the Fund. At 30 June 2009, only 8 members remained in the Defined Benefit section.

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 and accordingly, provides for the liability of these members, if any.

An actuarial assessment of the Defined Benefit section as at 30 June 2009 was undertaken by M Wilson F.I.A.A. of The Australian Superannuation Group (WA) Pty Ltd. The accumulation section of the Fund has 4,319 members at 30 June 2009. 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. Tower Life and Hanover Re underwrite the insured benefits of the Fund.

All assets are invested with professional investment managers via Wealthpac Pooled Superannuation Trust. Atchison Consultants act as asset consultant 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 2009 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 2009.

*In thousands of AUD*

Fair value of plan assets
Present value of net obligations

Consolidated	
2009	2008
2,000	2,861
(1,946)	(2,126)
54	735

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 (n)(ii). The amount recognised as current service expense in respect of the Defined Benefit section of the Fund during the year was \$1,157,000 (2008: \$248,000).



## 22. Employee benefits (continued)

### 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% of the weighted average market sale price of shares quoted on ASX calculated over the seven (7) 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 (5) years and no option may be exercised before the expiration of eighteen (18) 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 1.5x 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 2x 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 2009 the following options under this scheme are outstanding:
  - 625,000 options at 61 cents.

## 22. Employee benefits (continued)

### Share based payments (continued)

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 (l) below.
- c) The options are exercisable in four (4) 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 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 (2) 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% 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.
- 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 (10) 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 2009 the following options under this scheme are outstanding:
  - 5,254,124 options at 60 cents;
  - 2,000,000 options at 84 cents;
  - 1,254,500 options at 82 cents; and
  - 1,100,000 options at \$1.62.

## 22. Employee benefits (continued)

### Share based payments (continued)

iii) 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 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding at 1 July	0.66	14,975,241	0.65	20,022,250
Cancelled / lapsed during the period	0.62	(4,779,750)	0.65	(1,423,124)
Exercised during the period	0.48	(1,561,867)	0.58	(3,648,885)
Granted during the period	1.62	1,600,000	0.60	25,000
Outstanding at 30 June	0.78	10,233,624	0.66	14,975,241
Exercisable at 30 June		3,171,686		4,440,866

The options outstanding at 30 June 2009 have an exercise price in the range of 60 cents to \$1.62.

During the financial year 1,561,867 share options were exercised (2008: 3,648,885). The weighted average share price at the dates of exercise was \$1.77 (2008: \$1.56).

iv) Unvested unlisted performance shares (outstanding at year end)

<i>In thousands of shares</i>	Consolidated	
	2009	2008
Balance at 1 July	4,000	4,000
Incentive shares issued to CEO <sup>1</sup>	(4,000)	-
Balance at 30 June	-	4,000

<sup>1</sup> 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.

## 22. Employee benefits (continued)

### Share based payments (continued)

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	
	2009	2008
Fair value at measurement date	\$0.53 - \$0.57	\$0.65 - \$0.70
Valuation model	Monte Carlo	Monte Carlo
Share price	\$1.66	\$1.28
Exercise price	\$1.62	\$0.60
Expected volatility	40%	35%
Option life (years)	4.20 - 5.50	2.40 - 3.90
Dividend yield	2.60%	2.77%
Risk-free interest rate	6.26% - 6.33%	6.28% - 6.30%

### v) Employee benefits expense

*In thousands of AUD*

	Consolidated		The Company	
	2009	2008	2009	2008
Shares and share options granted in 2005 – equity settled	-	310	-	34
Shares and share options granted in 2006 – equity settled	164	1,065	(160)	696
Shares and share options granted in 2007 – equity settled	165	229	112	125
Shares and share options granted in 2008 – equity settled	5	10	-	-
Shares and share options granted in 2009 – equity settled	171	-	78	-
Total expense recognised within employee benefits expense	505	1,614	30	855

## 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(o).

*In thousands of AUD*

### Current liabilities

	Consolidated		The Company	
	2009	2008	2009	2008
Provisions	7,067	6,354	-	18
	7,067	6,354	-	18

*In thousands of AUD*

	Consolidated
Balance at 1 July 2008	6,354
Provisions made during the year	10,290
Provisions used during the year	(8,364)
Provisions reversed during the year	(1,213)
Balance at 30 June 2009	7,067



## 24. Capital and reserves

### Reconciliation of movement in capital and reserves

In thousands of AUD	Consolidated					Total equity
	Share capital	Translation reserve	Retained earnings/ (Accumulated losses)	Total	Minority interest	
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
Balance at 1 July 2008	240,880	(1,228)	9,654	249,306	1,694	251,000
Total recognised income and expense	-	940	17,156	18,096	1,123	19,219
Equity settled transactions	-	-	505	505	-	505
Shares issued	69,276	-	-	69,276	-	69,276
Dividends to shareholders	-	-	(27,123)	(27,123)	-	(27,123)
Capital raising costs	(1,873)	-	-	(1,873)	-	(1,873)
Balance at 30 June 2009	308,283	(288)	192	308,187	2,817	311,004

<i>In thousands of AUD</i>	The Company		
	Share capital	Retained earnings/ (Accumulated losses)	Total equity
<b>Balance at 1 July 2007</b>	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)
<b>Balance at 30 June 2008</b>	240,880	10,351	251,231
<b>Balance at 1 July 2008</b>	240,880	10,351	251,231
Total recognised income and expense	-	23,571	23,571
Equity settled transactions	-	505	505
Shares issued	69,276	-	69,276
Dividends to shareholders	-	(27,123)	(27,123)
Capital raising costs	(1,873)	-	(1,873)
<b>Balance at 30 June 2009</b>	308,283	7,304	315,587

## 24. Capital and reserves (continued)

### Share Capital

*In thousands of shares*

On issue at 1 July

Issued during the year

On issue at 30 June - fully paid

### The Company Number of ordinary shares

2009	2008
535,328	524,543
198,384	10,785
733,712	535,328

The consolidated entity issued share options during the year (refer note 22) and also issued 187,389,451 shares during the capital raising of \$58.4 million (net of capital raising costs) during May and June 2009.

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 currency 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 and exchange differences on net investment in foreign operations.

### Dividends

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

*In thousands of AUD*

2009	Cents per share	Total amount	Franked / Unfranked	Date of payment
Interim 2009 ordinary	1.5	8,195	Franked	7 April 2009
Final 2008 ordinary	3.5	18,928	Franked	10 October 2008
		27,123		
2008				
Interim 2008 ordinary	2.0	10,627	Franked	4 April 2008
Final 2007 ordinary	2.0	10,512	Franked	9 October 2007
		21,139		

Franked dividends declared or paid during the year were fully franked at the tax rate of 30% (2008: 30%).

No final dividend is declared for the year ended 30 June 2009.

### Dividend franking account

*In thousands of AUD*

30% franking credits available to shareholders  
of Macmahon Holdings Ltd for subsequent financial years

2009	2008
(1,634)	13,601

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 / (refund) 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.

## 25. Financial Instruments

### i) 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>	<b>Consolidated Carrying amount</b>	
	<b>2009</b>	<b>2008</b>
Receivables	81,910	136,569
Cash and cash equivalents	109,286	120,098
	<b>191,196</b>	<b>256,667</b>

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

<i>In thousands of AUD</i>	<b>The Company Carrying amount</b>	
	<b>2009</b>	<b>2008</b>
Receivables	182,888	178,306
Cash and cash equivalents	88,850	70,843
	<b>271,738</b>	<b>249,149</b>

Trade receivables are shown net of an impairment loss of nil (2008: nil)

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>	<b>Consolidated Carrying amount</b>	
	<b>2009</b>	<b>2008</b>
Australasia	80,650	135,120
South East Asia	1,170	1,019
Europe	90	430
	<b>81,910</b>	<b>136,569</b>

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

<i>In thousands of AUD</i>	<b>The Company Carrying amount</b>	
	<b>2009</b>	<b>2008</b>
Australasia	172,967	173,200
South East Asia	9,921	5,106
	<b>182,888</b>	<b>178,306</b>

## 25. Financial instruments (continued)

### i) Credit risk (continued)

#### Exposure to credit risk (continued)

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>	<b>Consolidated Carrying amount</b>	
	<b>2009</b>	<b>2008</b>
Mining Customers	53,093	97,263
Construction Customers	22,072	28,569
Others	6,745	10,737
	<b>81,910</b>	<b>136,569</b>

The consolidated entity's most significant customer, a mining and construction customer, accounts for \$21,377,000 (2008: \$14,195,823) of the trade receivables carrying amount at 30 June 2009. Two subsidiaries account for \$75,710,187 and \$79,560,696 (2008: \$107,773,173 and \$41,913,502) of the Company's receivables carrying amount.

#### Impairment losses

None of the Company's receivables are past due (2008: nil). There were no impairments of intercompany receivables in the period (see note 6). The ageing of the consolidated entity's trade receivables at the reporting date was:

<i>In thousands of AUD</i>	<b>Consolidated</b>			
	<b>Gross 2009</b>	<b>Impairment 2009</b>	<b>Gross 2008</b>	<b>Impairment 2008</b>
Past due 0 - 30 days	7,604	-	19,273	-
Past due 31 - 120 days	7,350	-	6,070	-
Past due more than 120 days	1,340	-	1,765	-

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 is considered irrecoverable and is written off against the financial asset directly. At 30 June 2009 the consolidated entity does not have any collective impairments on its trade receivables (2008: nil)



## 25. Financial instruments (continued)

### ii) Liquidity Risk

#### Exposure to liquidity risk

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

30 June 2009

*In thousands of AUD*

#### Non-derivative financial liabilities

Term facility
Hire purchase liabilities
Finance lease liabilities
Loan from minority shareholder
Loan from alliance partner
Trade and other payables

Consolidated				
Carrying amount	Contractual cash flows	12 months or less	1-5 years	More than 5 years
29,585	(32,138)	(1,513)	(30,625)	-
61,487	(70,693)	(20,284)	(50,409)	-
20,042	(21,658)	(11,614)	(10,044)	-
20	(21)	(21)	-	-
-	-	-	-	-
154,934	(154,934)	(154,934)	-	-
266,068	(279,444)	(188,366)	(91,078)	-

30 June 2008

*In thousands of AUD*

#### Non-derivative financial liabilities

Term facility
Hire purchase liabilities
Finance lease liabilities
Loan from minority shareholder
Loan from alliance partner
Trade and other payables

Consolidated				
Carrying amount	Contractual cash flows	12 months or less	1-5 years	More than 5 years
44,399	(54,448)	(4,110)	(50,338)	-
63,431	(75,157)	(17,085)	(57,472)	(600)
36,359	(40,198)	(16,852)	(23,346)	-
2,132	(2,158)	(2,158)	-	-
3,000	(3,000)	(3,000)	-	-
168,533	(168,533)	(168,533)	-	-
317,854	(343,494)	(211,738)	(131,156)	(600)

30 June 2009

*In thousands of AUD*

#### Non-derivative financial liabilities

Trade and other payables
--------------------------

The Company				
Carrying amount	Contractual cash flows	12 months or less	1-5 years	More than 5 years
1,024	1,024	1,022	-	2
1,024	1,024	1,022	-	2

30 June 2008

*In thousands of AUD*

#### Non-derivative financial liabilities

Trade and other payables
--------------------------

The Company				
Carrying amount	Contractual cash flows	12 months or less	1-5 years	More than 5 years
15,194	(15,194)	(280)	-	(14,914)
15,194	(15,194)	(280)	-	(14,914)

## 25. Financial instruments (continued)

### iii) 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:

<i>In thousands of AUD</i>	Consolidated					
	30 June 2009			30 June 2008		
	NZD	MYR	USD	NZD	MYR	USD
Trade receivables	3	3,598	124	4	1,449	-
Trade payables	(1,555)	(1,116)	-	(838)	(437)	-
Gross balance sheet exposure	(1,552)	2,482	124	(834)	1,012	-

The company's exposure to foreign currency risk is nil (2008: nil).

The following significant exchange rates applied during the year:

AUD 1	Consolidated			
	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
NZD	1.2291	1.1666	1.2428	1.2609
MYR	2.6174	2.9771	2.8569	3.1434
USD	0.7477	n/a	0.8114	n/a

#### Sensitivity analysis

A 10 percent 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 2008.

<i>Effect in thousands of AUD</i>	Consolidated		The Company	
	Equity	Profit/loss	Equity	Profit/loss
<b>30 June 2009</b>				
NZD	(99)	532	-	-
MYR	(789)	183	-	-
USD	(152)	25	-	-
<b>30 June 2008</b>				
NZD	(706)	217	-	-
MYR	(620)	170	-	-
USD	-	-	-	-

A 10 percent 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.

## 25. Financial instruments (continued)

### iv) 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:

	Consolidated Carrying amount		The Company Carrying amount	
	2009	2008	2009	2008
<i>In thousands of AUD</i>				
<b>Fixed rate instruments</b>				
Financial assets	1,938	-	-	-
Financial liabilities	(81,549)	(101,922)	-	-
	(79,611)	(101,922)	-	-
<b>Variable rate instruments</b>				
Financial assets	109,286	120,098	88,850	70,843
Financial liabilities	(29,585)	(44,399)	(29,585)	(44,399)
	79,701	75,699	59,265	26,444

#### 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 ("bp") 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 2008.

	Consolidated				The 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
<i>Effect in thousands of AUD</i>								
<b>30 June 2009</b>								
Variable rate instruments	797	(797)	-	-	593	(593)	-	-
Cash flow sensitivity	797	(797)	-	-	593	(593)	-	-
<b>30 June 2008</b>								
Variable rate instruments	757	(757)	-	-	264	(264)	-	-
Cash flow sensitivity	757	(757)	-	-	264	(264)	-	-

## 25. Financial instruments (continued)

### v) 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.

<i>In thousands of AUD</i>	Consolidated			
	30 June 2009		30 June 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables	81,910	81,910	136,569	136,569
Cash and cash equivalents	109,286	109,286	120,098	120,098
Term facility	(29,585)	(26,645)	(44,399)	(42,186)
Hire purchase liabilities	(61,487)	(56,898)	(63,431)	(58,686)
Finance lease liabilities	(20,042)	(18,650)	(36,359)	(33,773)
Loan from minority shareholder	(20)	(20)	(2,132)	(2,132)
Loan from alliance partner	-	-	(3,000)	(3,000)
Trade and other payables	(154,934)	(154,934)	(168,533)	(168,533)
	(74,872)	(65,951)	(61,187)	(51,643)

<i>In thousands of AUD</i>	The Company			
	30 June 2009		30 June 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables	183,068	183,068	178,622	178,622
Cash and cash equivalents	88,850	88,850	70,843	70,843
Loans from subsidiaries	(2)	(2)	(14,914)	(14,914)
Trade and other payables	(1,022)	(1,022)	(280)	(280)
	270,895	270,895	234,271	234,271

#### 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.

	Consolidated	
	2009	2008
Loans and borrowings	9.29%	9.85%
Hire purchase	10.00%	9.68%
Finance leases	10.00%	9.68%



## 26. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
	2009	2008	2009	2008
<i>In thousands of AUD</i>				
Offices and industrial workshop facilities				
Less than one year	8,143	5,874	-	-
Between one and five years	31,503	27,074	-	-
More than five years	25,190	31,597	-	-
Plant and equipment facilities				
Less than one year	18,078	4,794	-	-
Between one and five years	78,846	22,606	-	-
More than five years	1,403	390	-	-
	163,163	92,335	-	-

During the year ended 30 June 2009, \$20,942,020 was recognised as an expense in the income statement in respect of operating leases (2008: \$4,656,940). Operating leases relate to offices, industrial workshop facilities 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. Some leases provide for additional payments that are based on changes in a local price index or CPI. The consolidated entity does not have an option to purchase the leased assets at the expiry of their lease period.

In October 2007, the consolidated entity entered into an operating lease facility for plant and equipment. The operating lease facility included a \$230 million domestic facility and a US\$50 million international facility. The leases typically run for a term of 3 to 5 years with an option to extend for up to 1 to 2 years after that date. As at 30 June 2009, the domestic operating lease facility was drawn down by \$86 million (2008: \$22 million). The overseas facility has not been utilised. 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.

The ability to draw down under both the domestic and international plant and equipment operating lease facilities expires on 30 October 2009. The consolidated entity is currently in the process of putting in place replacement equipment financing facilities. This does not impact the leases entered under the current facilities which are for periods of 3 to 5 years.

## 27. Capital commitments

	Consolidated		The Company	
	2009	2008	2009	2008
<i>In thousands of AUD</i>				
<b>Capital expenditure commitments</b>				
<b>Plant and equipment</b>				
Contracted but not provided for and payable:				
Within one year	9,839	50,331	-	-
	9,839	50,331	-	-

## 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 2009:

	Consolidated		The Company	
	2009	2008	2009	2008
<i>In thousands of AUD</i>				
Bank guarantees <sup>1</sup>	49,788	42,170	-	-
Insurance performance bonds <sup>1</sup>	73,886	56,623	-	-
Unsecured bank guarantees <sup>2</sup>	-	-	81,529	99,791

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

Certain members of the consolidated entity have the normal contractor's liability in relation to construction contracts. This liability may include litigation by or against the consolidated entity and / or joint venture arrangements in which the consolidated entity has an interest. It is not possible to estimate the financial effect of these claims should they be successful. The Board of Directors is of the opinion that adequate allowance has been made and that disclosure of any further information about the claims would be prejudicial to the interests of the consolidated entity.

## 29. Other financial assets

	Consolidated		The Company	
	2009	2008	2009	2008
<i>In thousands of AUD</i>				
Investments in controlled entities – at cost	-	-	72,795	72,320
Less impairment losses	-	-	(10,516)	(102)
	-	-	62,279	72,218

## 29. Other financial assets (continued)

	Country of Incorporation	Ownership interest	
		2009	2008
<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 Unit Trust	Australia	100%	100%
Macmahon Properties Pty Ltd	Australia	100%	100%
Macmahon (Southern) 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%	100%
Doorn-Dijl Yoordaning Mining and Construction Pty Ltd	Australia	100%	100%
Macmahon Rail Holdings Pty Ltd (Receivers and Managers Appointed) <sup>1</sup>	Australia	100%	100%
Thomco (No. 2020) Pty Ltd (Receivers and Managers Appointed) <sup>1</sup>	Australia	100%	100%
Macmahon Underground Pty Ltd	Australia	50%	50%
<b>Directly Controlled by Macmahon Contractors Pty Ltd</b>			
Macmahon Contractors (WA) Pty Ltd	Australia	100%	100%
Leo & Green Pty Ltd	Australia	100%	100%
Macmahon Contractors (NZ) Ltd	New Zealand	100%	100%
Macmahon Contracting International Pte Ltd	Singapore	100%	100%
PT Macmahon Indonesia	Indonesia	1%	1%
<b>Directly Controlled by Macmahon (Southern) Pty Ltd</b>			
Macmahon Malaysia Pty Ltd	Australia	100%	100%
MVM Rail Pty Ltd	Australia	60%	60%
Macmahon Underground Pty Ltd	Australia	50%	50%
<b>Directly Controlled by Macmahon Rail Holdings Pty Ltd (Receivers and Managers Appointed) <sup>1</sup></b>			
Macmahon Rail Investments Pty Ltd (Receivers and Managers Appointed) <sup>1</sup>	Australia	100%	100%
Macmahon Rail Operations Pty Ltd (Receivers and Managers Appointed) <sup>1</sup>	Australia	100%	100%
<b>Directly Controlled by Thomco (No. 2020) Pty Ltd (Receivers and Managers Appointed) <sup>1</sup></b>			
Thomco (No. 2021) Pty Ltd (Receivers and Managers Appointed) <sup>1</sup>	Australia	100%	100%
Thomco (No. 2022) Pty Ltd (Receivers and Managers Appointed) <sup>1</sup>	Australia	100%	100%
<b>Directly Controlled by Macmahon Malaysia Pty Ltd</b>			
Macmahon Sdn Bhd	Malaysia	100%	100%

## 29. Other financial assets (continued)

	Country of Incorporation	Ownership interest	
		2009	2008
<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	100%	100%
<b>Directly Controlled by Macmahon Contracting International Pte Ltd</b>			
PT Macmahon Indonesia	Indonesia	99%	99%

1 These companies were incorporated to hold the Macmahon obligations in relation to the ownership of the Alice Springs to Darwin railway line and to hold the Macmahon interest in Asia Pacific Transport Pty Ltd. On 6 November 2008 receivers and managers were appointed to the companies. Carrying amounts on these companies have been written down to zero. Macmahon does not expect that the receivership and management of these companies will have any impact on any entities within the Macmahon group.

### Associates – non active

	Country of incorporation	Ownership Interest		Carrying Amount of Investment	
		2009	2008	2009	2008
Bluff Harbour Pty Ltd	Australia	50%	50%	(i)	(i)
Encounter Lakes Pty Ltd	Australia	50%	50%	(i)	(i)

(i) 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. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
<b>Cash flows from operating activities</b>					
Profit for the year		18,279	49,378	23,571	49,051
<b>Adjustments for:</b>					
Depreciation / Amortisation of property plant and equipment	18 & 19	43,840	40,209	455	197
(Reversal of) / Impairment loss on subsidiaries	6	-	-	10,262	(17,545)
Interest expense	7	11,243	12,766	3,650	4,218
Share of profit of joint controlled entities	16	(13,622)	(5,540)	-	-
Gain on sale of plant and equipment	5	(822)	(1,187)	-	-
Equity-settled share-based payment expense	22	505	1,614	30	855
Income tax expense / (benefit)	9	2,651	17,797	(1,578)	(1,853)
<b>Operating profit before changes in working capital and provisions</b>		<b>62,074</b>	<b>115,037</b>	<b>36,390</b>	<b>34,923</b>
Net cash received from jointly controlled entities		12,051	4,312	-	-
(Increase) / Decrease in trade and other receivables		22,355	(52,023)	136	(173)
(Increase) / Decrease in inventories		(5,242)	692	-	-
Increase / (Decrease) in trade and other payables		(11,992)	29,298	744	(1,125)
Increase / (Decrease) in employee benefits and provisions		124	13,714	(444)	1,880
Interest paid		(11,243)	(12,766)	(3,650)	(4,218)
Income tax paid		(14,733)	(9,978)	(14,733)	(9,978)
<b>Net cash provided by operating activities</b>		<b>53,394</b>	<b>88,286</b>	<b>18,443</b>	<b>21,309</b>

### 31. 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
	B R Ford
	J C Massey
	V A Vella
	K B Scott-Mackenzie (appointed 12 May 2009)
	M A Kinnaird AO (retired 31 May 2009)

<b>Executive Director</b>	N R Bowen (Chief Executive Officer & Managing Director)
---------------------------	---

#### Key Executives

R A Carroll	(Chief Financial Officer)
P F Doyle	(Executive General Manager Construction)
N J Wilson	(Executive General Manager Health, Safety, Environment and Quality)
M A Hine	(Executive General Manager Mining, ceased 20 March 2009)
M A Narustrang	(Executive General Manager People and Organisational Development, ceased 9 April 2009)
W A Rooney	(Executive General Manager Construction, ceased 24 June 2008)

Compensation for key management personnel included within employee benefits expense is as follows:

<i>In AUD</i>	<b>Consolidated</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Short-term employee benefits	4,433,176	5,275,494	3,658,960	3,965,553
Post-employment benefits	485,370	517,613	410,815	293,628
Long-term employee benefits	-	217,875	-	189,797
Share based payments	215,713	942,005	189,873	838,334
Termination payments	1,647,649	-	481,541	-
	<b>6,781,908</b>	<b>6,952,987</b>	<b>4,741,189</b>	<b>5,287,312</b>

#### 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 28 to 36.

Apart from the details disclosed in this note or in the Remuneration Report, 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.

### 31. Related parties (continued)

#### i) 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:

2009	Held at 1 July 2008	Granted as compensation	Exercised	Other changes <sup>1</sup>	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
<b>Directors</b>							
R J Carter	1,000,000	-	(1,000,000)	-	-	-	-
N R Bowen	-	-	-	-	-	-	-
B L Cusack	-	-	-	-	-	-	-
M A Kinnaird <sup>2</sup>	1,000,000	-	-	(1,000,000)	-	-	-
B R Ford	-	-	-	-	-	-	-
J C Massey	-	-	-	-	-	-	-
V A Vella	-	-	-	-	-	-	-
K B Scott Mackenzie <sup>3</sup>	-	-	-	-	-	-	-
<b>Executives</b>							
R A Carroll	2,000,000	-	-	-	2,000,000	500,000	500,000
M A Hine <sup>4</sup>	2,200,000	-	(200,000)	(2,000,000)	-	500,000	-
N J Wilson	671,429	-	(71,429)	-	600,000	100,000	400,000
P F Doyle	-	500,000	-	-	500,000	-	-
M A Narustrang <sup>5</sup>	-	250,000	-	(250,000)	-	-	-

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	-	-	-	-	-	-	-

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

<sup>2</sup> M A Kinnaird retired on 31 May 2009

<sup>3</sup> K B Scott-Mackenzie was appointed on 12 May 2009

<sup>4</sup> M A Hine resigned on 20 March 2009

<sup>5</sup> M A Narustrang resigned on 9 April 2009

<sup>6</sup> M H Hamilton is not included above as he is an executive, not a key management person

### 31. Related parties (continued)

#### ii) 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:

2009	Held at 1 July 2008	Purchases <sup>1</sup>	Received on exercise of options/ granted	Net change other <sup>2</sup>	Held at 30 June 2009
<b>Directors</b>					
R J Carter	245,253	249,051	1,000,000	-	1,494,304
N R Bowen	10,532,829	6,856,775	-	-	17,389,604
B L Cusack	750,000	150,000	-	-	900,000
M A Kinnaird <sup>3</sup>	245,624	-	-	-	245,624
B R Ford	100,000	22,782	-	-	122,782
J C Massey	40,000	80,000	-	-	120,000
V A Vella	30,442	162,936	-	-	193,378
K B Scott-Mackenzie <sup>4</sup>	-	-	-	-	-
<b>Executives</b>					
R A Carroll	30,000	50,000	-	-	80,000
M A Hine <sup>5</sup>	-	4,636	200,000	(150,000)	54,636
N J Wilson	-	-	71,429	(71,429)	-
P F Doyle	-	-	-	-	-
M A Narustrang <sup>6</sup>	-	-	-	-	-

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	-	-	-	-	-

<sup>1</sup> Including Dividend Reinvestment Plan, rights issue and conversion of performance shares for Mr Bowen

<sup>2</sup> Sale of shares

<sup>3</sup> M A Kinnaird retired on 31 May 2009

<sup>4</sup> K B Scott-Mackenzie was appointed on 12 May 2009

<sup>5</sup> M A Hine resigned on 20 March 2009

<sup>6</sup> M A Narustrang resigned on 9 April 2009

<sup>7</sup> M H Hamilton is not included above as he is an executive, not a key management person



### 31. Related parties (continued)

#### iii) 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.

#### iv) 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 2009, such loans provided to subsidiaries totalled \$4,429,000 (2008: \$32,819,000).

Dividends of \$38 million were declared by subsidiaries payable to the Company (see note 7).

Receivables from jointly controlled entities of \$4.3 million were outstanding at 30 June 2009 (see note 16).

### 32. 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 Underground Pty Ltd

Macmahon Southern Pty Ltd and Macmahon Mining Services Pty Ltd entered into the Deed of Cross Guarantee on 16 June 2008. Macmahon Underground Pty Ltd became a party to the Deed on 12 January 2009, by virtue of a Deed of Assumption.

A consolidated income statement and consolidated balance sheet, comprising the Company and its controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2009 is set out as follows.

#### Summarised income statement and retained profits

*In thousands of AUD*

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008<sup>1</sup></b>
Profit before tax	10,343	50,194
Income tax (expense) / benefit	(6,725)	(382)
<b>Profit after tax</b>	<b>3,618</b>	<b>49,812</b>
Retained earnings at beginning of the year	11,151	(19,136)
Accumulated losses at beginning of the year for Macmahon Underground Pty Ltd	(4,883)	-
Dividends recognised during the year	(27,123)	(21,139)
Equity settled transactions	505	1,614
<b>Retained earnings / (Accumulated losses) at end of year</b>	<b>(16,732)</b>	<b>11,151</b>
Profit after tax attributable to:		
Equity Holders of the Company	3,618	49,812
Minority interest	-	-
<b>Profit for the year</b>	<b>3,618</b>	<b>49,812</b>

<sup>1</sup> Excluded Macmahon Underground Pty Ltd as it only became a party to the Deed on 12 January 2009, by virtue of a Deed of Assumption.

### 32. Deed of cross guarantee (continued)

#### Balance sheets

*In thousands of AUD*

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008<sup>1</sup></b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	94,146	71,712
Trade and other receivables	23,007	19,747
Inventories	10,622	2,537
Current tax receivables	6,606	-
<b>Total current assets</b>	<b>134,381</b>	<b>93,996</b>
<b>Non-current assets</b>		
Trade and other receivables	178,171	163,858
Other financial assets	5,854	48,820
Deferred tax assets	2,301	498
Property, plant and equipment	63,855	18,299
Intangible assets	19,389	12,942
<b>Total non-current assets</b>	<b>269,570</b>	<b>244,417</b>
<b>Total assets</b>	<b>403,951</b>	<b>338,413</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	18,789	9,052
Loans and borrowings	6,838	34
Employee benefits	7,828	3,512
Current tax liabilities	-	11,625
Provisions	162	18
<b>Total current liabilities</b>	<b>33,617</b>	<b>24,241</b>
<b>Non-current liabilities</b>		
Trade and other payables	36,597	17,405
Loans and borrowings	41,835	44,497
Employee benefits	796	8
<b>Total non-current liabilities</b>	<b>79,228</b>	<b>61,910</b>
<b>Total liabilities</b>	<b>112,845</b>	<b>86,151</b>
<b>Net assets</b>	<b>291,106</b>	<b>252,262</b>
<b>Equity</b>		
Issued capital	308,283	240,880
Reserves	(445)	231
Retained earnings / (Accumulated losses)	(16,732)	11,151
<b>Total equity attributable to equity holders of the Company</b>	<b>291,106</b>	<b>252,262</b>
<b>Minority interest</b>	-	-
<b>Total equity</b>	<b>291,106</b>	<b>252,262</b>

1 Excluded Macmahon Underground Pty Ltd as it only became a party to the Deed on 12 January 2009, by virtue of a Deed of Assumption.

### **33. Subsequent events**

No final dividend is declared for the year ended 30 June 2009, refer note 24.

On 28 July 2009, the Macmahon Holdings Ltd, and selected subsidiaries (together “the Companies”), entered into an interim variation with its financiers regarding the Companies’ term debt and guarantee facilities. The interim variation has been entered into as part of negotiations with the Companies’ financiers for an extension and restructure of the debt and guarantee facilities. The key impact of the interim variation is a reduction in the aggregate limit under the facility from \$150 million to \$125 million. Other changes include modifications to the basis of covenant calculations at 30 June 2009 and 31 December 2009, together with a change in margins.

No binding commitment to extend or restructure the debt and guarantee facilities is made on the part of either the Companies or its financiers.

# Directors' declaration

1. In the opinion of the directors of Macmahon Holdings Limited ("the Company"):
  - a) the financial statements and notes and the Remuneration report in the Directors' report, set out on pages 28 to 36, 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 2009 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) 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 its controlled entities identified in note 29 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 2009 under Section 295A of the Corporations Act 2001.

Dated at Perth this 22nd day of September 2009.

Signed in accordance with a resolution of the Directors:



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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 2009, 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 33 and the directors' declaration set out on page 99 of the Group 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. In note 1 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *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.



*Independence*

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

*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 Group's financial position as at 30 June 2009 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).

**Report on the remuneration report**

We have audited the Remuneration Report included in paragraph 11 of the directors' report for the year ended 30 June 2009. 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 2009, complies with Section 300A of the *Corporations Act 2001*.

A stylized signature of the KPMG firm, written in a cursive, handwritten style.

KPMG

A handwritten signature of Denise McComish, written in a cursive, handwritten style.

Denise McComish  
*Partner*

Perth

22 September 2009

# Summary of consolidated results

## Statistical summary

	2009	2008	2007	2006	2005
<b>Profit &amp; Loss (\$m)</b>					
Operating Revenue	1,358.5	1,201.2	910.3	804.0	555.4
Joint Venture Revenue	153.3	63.3	79.1	90.7	115.8
Joint Venture Recoveries	(26.2)	(20.2)	(23.4)	(31.0)	(33.9)
Total Revenue	1,485.6	1,244.3	966.0	863.7	637.3
EBITDA	73.6	114.4	96.5	81.7	57.7
Depreciation and amortisation	(43.8)	(39.7)	(36.8)	(34.8)	(30.3)
EBIT (underlying)	29.8	74.7	59.7	46.9	27.4
Non-recurring items <sup>1</sup>	-	-	14.5	(19.9)	-
EBIT	29.8	74.7	74.2	27.0	27.4
Net financing costs	(8.9)	(7.5)	(11.1)	(8.1)	(6.7)
Operating profit	20.9	67.2	63.1	18.9	20.7
Tax expense	(2.7)	(17.8)	(18.6)	(11.4)	(4.8)
NPAT attributable to Macmahon	18.3	49.4	44.5	7.6	15.9
Minority interest	(1.1)	(0.6)	-	(0.1)	-
NPAT	17.2	48.8	44.5	7.5	15.9
Non-recurring items (net of tax) <sup>1</sup>	-	-	(11.1)	19.9	-
Underlying NPAT	17.2	48.8	33.4	27.4	15.9
<b>Balance Sheet (\$m)</b>					
Plant and Equipment	268.7	257.9	255.7	245.4	153.2
Investment (APT)	-	-	-	-	29.6
Total assets	632.8	630.2	559.8	486.7	323.9
Net assets	311.0	251.0	211.1	171.9	120.8
Net debt	1.8	29.2	54.8	75.0	61.3
<b>Cashflow (\$m)</b>					
EBITDA	73.6	114.4	96.5	81.7	57.7
Net interest paid	(8.9)	(7.5)	(11.0)	(8.1)	(6.7)
Income tax (paid) / refund	(14.7)	(10.0)	(5.8)	(1.5)	(1.8)
Miscellaneous	-	(0.2)	10.5	(0.3)	1.4
Working capital and provisions decrease / (increase)	3.4	(8.0)	(21.5)	(3.6)	(1.2)
Operating cashflow including JV	53.4	88.7	68.7	68.2	49.4
Investing and financing cashflows (net)	(64.2)	(82.3)	(41.3)	(20.3)	(42.4)
Effect of exchange rate changes on asset	0.0	(0.9)	(0.1)	(0.5)	0.2
Cash and cash equivalents at beginning of year	120.1	114.6	87.4	40.0	32.9
Cash and cash equivalents at end of year	109.3	120.1	114.6	87.4	40.1

<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.

# Summary of consolidated results continued

## Statistical / ratio summary

	2009	2008 <sup>1</sup>	2007 <sup>1</sup>	2006	2005
<b>People &amp; Safety</b>					
Number of employees	3,098	3,628	3,037	2,757	2,543
LTIFR	0.8	2.0	1.9	0.7	2.1
TRIFR	7.4	12.9	12.7	14.0	18.6
<b>Order Book</b>					
Work in hand (\$m)	1,412	2,138	2,005	1,218	925
New contracts & extension (\$m)	1,108	1,377	1,753	1,100	739
<b>Profit &amp; Loss Ratios</b>					
Revenue growth (%)	19.4	28.8	11.8	35.5	51.4
NPAT / Total revenue (%)	1.3	3.9	3.5	3.2	2.5
Net interest cover (x)	3.4	9.9	5.4	5.8	4.1
Basic EPS (cents)	3.07	9.20	6.41	5.49	4.18
Diluted EPS (cents)	3.06	9.06	6.29	5.45	4.15
<b>Balance Sheet Ratios</b>					
Gearing (Net debt / Equity) (%)	0.6	11.6	26.0	43.6	50.7
ROC (%)	6.8	17.4	14.9	15.9	12.8
ROE (%)	5.9	19.4	15.8	15.9	13.2
ROA (%)	2.9	7.7	6.0	5.6	4.9
NTA per share (\$)	0.37	0.41	0.36	0.31	0.30
<b>Cashflow Ratios</b>					
Operating cashflow per share (¢)	7.3	16.6	13.1	13.2	13.0
<b>Shareholders</b>					
Shares on issue (m) @ 30 June	733.7	535.3	524.5	517.0	379.3
Share price @ 30 June (¢)	34.0	166.5	129.0	80.0	45.5
Dividend Declared (¢)	1.5	5.5	3.0	2.0	1.0
Percentage franked (%)	100.0	100.0	100.0	100.0	100.0
Market capitalisation (\$m)	249.5	891.0	677.0	414.0	173.0
Enterprise Value (EV)	251.3	920.5	731.5	489.0	234.0
Price / NTA (x)	0.9	4.1	3.5	2.6	1.5

<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

<b>EBIT</b>	Earnings before net interest expense and tax expense	<b>NTA</b>	Net Tangible Assets
<b>EBITDA</b>	Earnings before net interest expense, tax expense, depreciation and amortisation	<b>ROC</b>	Return on capital – EBIT / Average Capital Employed, where Capital Employed is Total Tangible Assets less Payables less Bank Overdraft.
<b>EV</b>	Enterprise Value, being market capitalisation plus net debt	<b>ROE</b>	Return on Equity – NPAT / Net Assets at year end
<b>LTIFR</b>	Lost Time Injury Frequency Rate	<b>ROA</b>	Return on Assets – NPAT / Total Assets at year end
<b>TRIFR</b>	Total Recordable Injury Frequency Rate		
<b>NPAT</b>	Net Profit After Tax		



## 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 14 September 2009.

a) The twenty largest shareholders held 58.10% of the Ordinary Shares.

b) There were 13,609 ordinary shareholders as follows:

### Size of holdings

	Ordinary shares
1 - 1,000	934
1,000 - 5,000	3,921
5,001 - 10,000	2,876
10,001 - 100,000	5,420
100,000 and over	458
	13,609

The number of shareholders holding less than a marketable parcel of ordinary shares is 788.

### Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Leighton Holdings Investments Pty Limited	139,405,224	19.00
National Nominees Limited	81,151,891	11.06
JP Morgan Nominees Australia Limited	50,453,357	6.88
HSBC Custody Nominees Australia Limited	36,765,103	5.01
Citicorp Nominees Pty Limited	23,549,052	3.21
ANZ Nominees Limited - Cash Income A/C	22,393,988	3.05
Mr Nicholas Ronald Bowen	17,389,604	2.37
Mr Conway Jeffrey Jones	6,824,292	0.93
Queensland Investment Corporation	5,998,189	0.82
Citicorp Nominees Pty Limited - CFSIL CWLTH AUST SHS 23 A/C	5,362,114	0.73
Citicorp Nominees Pty Limited - CFSIL CFS WS Small COMP A/C	5,267,380	0.72
Jingie Investments Pty Ltd	5,000,000	0.68
Australian Reward Investment Alliance	4,865,613	0.66
HSBC Custody Nominees Australia Limited	4,658,242	0.63
Sanpoint Pty Ltd - Fiore Family Fund A/C	3,600,000	0.49
Dalran Pty Ltd - Smith Family A/C	3,394,537	0.46
HSBC Custody Nominees Australia Limited	3,207,519	0.44
Brian Gregory Wright & Wendy Joy Wright – BG Wright Super Fund A/C	2,560,000	0.35
AMP Life Limited	2,437,875	0.33
Mr Oscar Romeo Gugliemin	1,989,111	0.27
	426,273,091	58.10

### Substantial shareholders

As at 14 September 2009, the register of substantial shareholders disclosed the following information:

Holders giving notice	Number of ordinary shares in which interest is held
Leighton Holdings Limited	139,405,224
Barclays Group	49,447,428

### Voting rights

The voting rights attaching to ordinary shares are as 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.

## Calendar of events

**27 November 2009**

Annual General Meeting

**February 2010**

Release of half year results

**August 2010**

Release of full year results

## Offices and officers

### **Company Secretaries**

E V Gregoriadis

K A Gunellas

### **Principal Registered Office**

Level 3, 27 – 31 Troode Street

West Perth WA 6005

Telephone: +61 (08) 9232 1000

Facsimile: +61 (08) 9232 1001

### **Location of Share Registry**

Computershare Investor Services Pty Ltd

Level 2, 45 St George's Terrace

Perth WA 6000

### **Securities Exchange**

The Company is listed on the Australia 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:

Investor Relations

PO Box 198

Cannington WA 6987

**[www.macmahon.com.au](http://www.macmahon.com.au)**





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