



MACMAHON

Annual Report 2011



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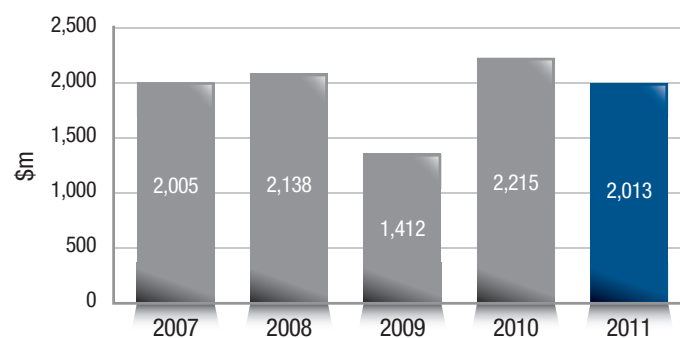
As a leading contract mining and construction company, Macmahon has operations across Australia and an expanding international footprint.

Having built strong relationships with some of the world's leading resources companies and government sector clients, Macmahon has delivered many of Australia's largest multi-disciplinary mining and construction projects throughout its 48 year history.

Employing more than 3500 people, Macmahon offers the full range of underground and surface mining services and comprehensive construction capabilities spanning roads and bridges, rail, marine, water and resource infrastructure services.



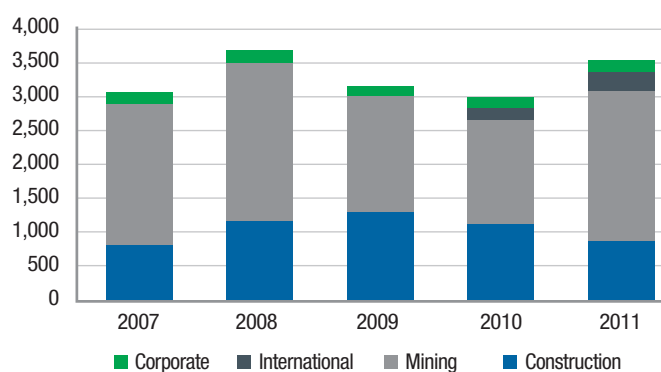
Order book



Safety results 2011



Group headcount summary



Chairman's report



Ken Scott-Mackenzie
Chairman

"The Board has worked closely with the management team to make changes and implement a range of strategies to improve performance and achieve acceptable profit margins for our shareholders."

Introduction

The 2011 Financial Year was certainly a year of mixed outcomes for Macmahon, with new project wins offset by the poor performance of a single contract and the impacts of extreme wet weather conditions across Australia.

While the year has not delivered acceptable results for shareholders, the Board is confident that the work done during 2011 will consolidate our operations and lay the foundations to deliver stronger profitability in the 2012 Financial Year and beyond.

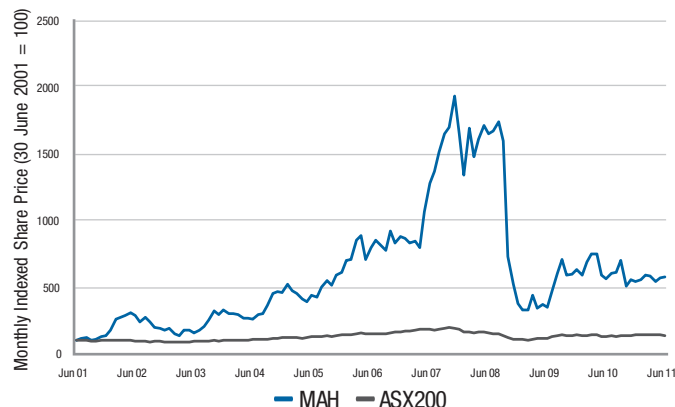
Performance overview

The Board is critically aware of the need to achieve consistent financial performance year-on-year in order to deliver value to its shareholders. The reported profit this year fails to do this, however, the outlook for Macmahon is positive.

While not dismissing the importance of the write-down of the RGP5 Rail North contract and the impacts of wet weather conditions, the rest of Macmahon performed strongly in 2011.

Macmahon's Total Shareholder Returns (TSR) have increased over the past 10 years, despite the challenges of the global financial crisis and market uncertainty associated with the proposed mining tax (MRRT) and proposed carbon tax. The Company's TSR continues to outperform the ASX 200 average, reflecting a strong market position in relation to the organisation's peers.

Macmahon share price performance



The Board has worked closely with the management team to make changes and implement a range of strategies to improve performance and achieve acceptable profit margins for our shareholders. This has included changes to the management structure of the Construction Business and the appointment of new people to drive its future direction. Further management changes have seen a stronger strategic focus for the Mining Business to ensure Macmahon is well placed to capitalise on positive market conditions in future years. Already, we are seeing the benefits of these changes.

We maintained an order book of \$2 billion as at June 30 and subsequent to year end we have been awarded a substantial value of new work. This reflects the extensive work that has gone into business development in Australia and overseas during the year.

The Board is confident these measures will lead to improved performance in 2012 and ensure better and more consistent profit growth in future years.

Outlook

There are numerous positive signs for the Company ahead. The continuing growth of the resources sector in both Western Australia and Queensland will provide what is expected to be a strong pipeline of potential projects suited to Macmahon. In addition, emerging international markets offer significant opportunities for growth and diversification.

While the Federal Government's proposed carbon tax legislation is yet to be finalised, the Company's initial assessment indicates the direct impacts will not be significant.

I look forward to reporting improved profitability in the 2012 Financial Year. Our balance sheet, coupled with our pipeline of new work and the structural and management changes made during the year hold the organisation in good stead.

Changes to the Board

Mr John Massey left the Board in February following three and a half years of service. I wish to take this opportunity to thank John for his contribution to Macmahon during this time.

Our people

I would like to thank our employees and leadership team for their contribution during what has been a difficult year for the Company. Their commitment to achieving improved outcomes across the Company has been a significant factor in delivering the necessary change.

I would like to acknowledge the quality of the work our people undertake nationally and internationally. It is second to none and I congratulate our employees on the high standards applied to all that they do.

The professionalism and dedication of our people has been further evidenced this year by another outstanding safety result and the Board commends our employees on their commitment to continually improving safety across the organisation.

Our clients and suppliers

I would like to take this opportunity to thank our clients and suppliers for their continued loyalty and support. We continue to enjoy strong and productive relationships and look forward to continuing this in future years, as we not only look to grow Macmahon but also support them in their aspirations.

Our shareholders

Most importantly, I would like to recognise and thank our shareholders. It is their investment in Macmahon and continued loyalty which has enabled the Company to work through the challenges experienced during the period. We look forward to delivering just rewards for their patience as Macmahon works to maximise the benefits from its operations.

Ken Scott-Mackenzie

Chairman



Chief Executive Officer's report



Nick Bowen
Chief Executive Officer

"This year's work to restructure our operations will better position the Company for improved profitability, laying the foundations for solid and consistent profit growth in the future."

Introduction

The 2011 Financial Year delivered a disappointing financial outcome for Macmahon. However, there has been a lot of work undertaken to identify and address areas of poor performance and establish the foundation for solid and consistent profit growth for the future. Overall, the year was one of mixed performance for the Company with the poor performance of a single contract and the impacts of extreme wet weather conditions in Queensland and the Pilbara leading to an unacceptable financial result.

Financial performance

The Company finished the year with profit after tax of \$1.0 million. This is without question an unacceptable financial result for our shareholders. The Board made the tough decision at the half year to book the worst case position of writing down the RGP5 Rail North project by \$48.9 million (before tax). While financially this has been a big hit to the Company, Macmahon has delivered a quality project in a challenging environment and work on the project has been completed. The extreme wet weather impacts on the Company's profit were \$9 million (before tax).

Excluding these factors, the Company's underlying profit after tax was \$38.8 million and this demonstrates the strength of the Company's diversification across the other aspects of its operations.

The entire management team recognises this financial performance was not acceptable as no profit means no returns to shareholders.

Positively, the Company maintains a strong balance sheet and had an order book of \$2 billion at the conclusion of the Financial Year. Subsequent to the year end, the Company has been awarded a substantial value of new work, laying the foundation for improved performance in 2012 and beyond.

Construction review

Following the disappointing result with the RGP5 Rail North contract, a review of the Construction Business was completed to identify strategies for improving profitability. As a result, the Construction Business has been divided into East and West operations to pursue a more targeted, regional strategy for winning and delivering work.

With management changes and a new strategy now in place, we are already seeing benefits, with the Construction Business winning a number of significant new projects during and subsequent to the end of the Financial Year.

Management changes

Former Chief Financial Officer Ross Carroll was appointed to the newly created position of Chief Operating Officer – Mining. The appointment reflected a stronger focus on growing the Mining Business and, in particular, developing a targeted strategy to build our international operations. Theresa Mlikota was appointed as the new Chief Financial Officer, commencing in April.

Ashley Mason was appointed to the newly created role of Executive General Manager Strategy and Development in February. The position provides a dedicated focus on Group strategy, development and improvement across the Company's operations.

The construction review saw Mark Hamilton appointed as Executive General Manager – Construction East and Aidan Mullan recruited for the position of Executive General Manager – Construction West.

Angie Young was promoted to the leadership team during the period, appointed as Executive General Manager – Human Resources.





Safety performance

Macmahon recorded its best safety performance ever. The achievement of continuous safety improvements has reaffirmed Macmahon's position as an industry leader in safety across both mining and construction. Macmahon's ability to complete its work safely and efficiently is a significant advantage for the Company in securing new work and attracting and retaining quality people. I congratulate all our employees on their ongoing commitment to the Company's safety value.

Order book

The Company ended the financial year with an order book of \$2 billion. During the year, Macmahon added more than \$1 billion of new work, contract extensions and scope increases to its order book. These additions included civil works for the Gladstone LNG project on Curtis Island in Queensland for Bechtel Australia. The project is a joint venture between Santos, Petronas, Total and KOGAS. Additionally, Macmahon was awarded contracts for the South Road Superway project as part of the Urban Superway Joint Venture in South Australia, the Karara Rail contract for Karara Mining Limited in Western Australia and construction work at Hope Downs 4 for Rio Tinto Iron Ore in Western Australia.

The strength of the Construction Business in winning new work reflects the improvements made following the review process. In the Mining Business, a strong pipeline of work for 2012 indicates continued growth moving forward.

Subsequent to the end of the Financial Year, Macmahon has won substantial new contracts across a diverse range of locations.

Our people

Macmahon's people are our greatest asset and their professionalism, quality of work and dedication continue to be a significant factor in our success in securing new work.

Attracting and retaining the right people is a potential pressure point across our areas of operation as market conditions improve for both mining and construction. To counter this, we continue to develop our attraction and retention strategies to maintain and build upon the depth of talent that exists across the organisation. Part of that process has included a continued emphasis on our graduate and apprenticeship programs to help develop the next generation of employees to build a strong future for the Company.

This year Macmahon also signed the Australian Employment Covenant (AEC), committing to create 500 new jobs for Indigenous people over five years. Becoming a signatory to the AEC reinforces our ongoing commitment to Indigenous employment and training across the business through our subsidiary Doorn-Djil Yoordaning. I am pleased to report we are currently on track to meet our target.

Strategy

Macmahon's strategy is to broaden its service offering within its core competencies of civil construction, underground mining and surface mining. In addition, we will continue to expand internationally to capitalise on new opportunities emerging in Asia and Africa.

The resources sector and government clients remain the primary focus for our domestic operations, with a dedicated effort to showcase our end to end, full service capability to our clients. Building on existing client relationships to develop new business has already led to growth in the Underground business and we expect to replicate this model more broadly across the business to maximise new opportunities.

The management team will place a concerted effort on increasing profit and margin through more effective project selection and delivery, while maintaining a focus on continuous safety improvement.

Outlook

This year's work to restructure our operations will better position the Company for improved profitability, laying the foundations for solid and consistent profit growth in the future. Improved profit margins are expected to be achieved in 2012, with further gains to be made in 2013 and beyond based on the expected growth across construction and mining.

It is no compensation to shareholders, but we have made changes to strengthen both our structure and focus and the outlook for 2012 into 2013 is good.

I look forward to delivering improved outcomes for shareholders in the 2012 Financial Year.

Nick Bowen

Chief Executive Officer



Chief Financial Officer's report



Theresa Mlikota
Chief Financial Officer

“Macmahon has emerged from one of its most challenging years in a sound financial position, well placed to take advantage of future growth opportunities.”

In brief

- A challenging year, but well placed for future growth
- Strong balance sheet and excellent funding capacity
- Outstanding opportunity to deliver improved revenue and profit performance

Business performance

Macmahon has emerged from one of its most challenging years in a sound financial position, well placed to take advantage of future growth opportunities.

In the 2011 Financial Year, the Company reported a disappointing net profit after tax result of \$1.0 million, following a significant write-down of the RGP5 Rail North construction project and a period of unusually wet weather which adversely impacted many parts of Australia, including a number of the Group's operations.

Excluding these items, the Group's underlying profit after tax position is as follows:

	\$ million
Reported Net Profit After Tax and Minority Interests	1.0
Add back Significant Items (before tax):	
- Write-down of RGP5 Rail North contract	48.9
- Extreme wet weather events	9.0
Less Tax on Significant Items	(17.4)
Less Minority Interest impacts	(2.7)
Underlying Net Profit After Tax and Minority Interests	38.8

The RGP5 Rail North contract was completed during the year and there has been no change to the write-down of \$48.9 million (before tax) announced by the Company in the 2011 Half Year result. The joint venture is still in discussions with the client regarding the outstanding variations and claims in relation to the project. The 2011 Full Year result does not include any assumed claim and variation settlement. Consequently any settlement amounts will positively impact future periods (refer to note 28 on page 97 of this Annual Report).

The Group's Mining Business experienced significant growth, with a substantial increase in domestic underground mining activity, new operations and scope increases at our surface mining operations and the ramp-up of operations in Nigeria.

In spite of the exacting year experienced by some of the Company's mining operations, revenue for the Mining business increased by 45 per cent to \$674 million and profit increased by 22 per cent to \$42.6 million. Adjusting for the severe wet weather impacts, Mining margins were consistent with the prior year at 7.6 per cent.

Revenue from the Group's Construction Business decreased by 26 per cent to \$580 million for the year, the result of a reduced rate of contract awards in 2010. Profit and margins were adversely impacted by the RGP5 Rail North contract write-down and the impact of abnormally wet weather. Having said that, it is important to note that all of our Construction projects, excluding the RGP5 Rail North project, were profitable for the year.

Earnings per share for the Group of 0.1 cents per share is clearly an unacceptable return for shareholders, driven by a disappointing first half result. Underlying returns for the business were more satisfactory with earnings per share for the Group of 5.3 cents per share, a two per cent increase on 2010 and return on equity of 10.7 per cent compared with 11.3 per cent in 2010.

Dividend

Macmahon's dividend policy seeks to deliver maximum returns to shareholders, taking into consideration the Group's profit performance, current and projected cash position and available franking credits.

Due to the poor profit performance and taking into consideration the low level of franking credits available, the Directors resolved that no dividend be declared for the year ending 30 June 2011.

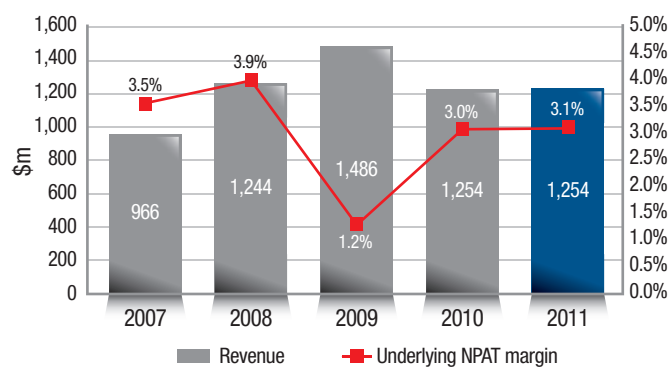
Looking forward, an increased focus on growing the revenue base, reducing overheads and increasing plant utilisation is expected to improve profit performance significantly in the coming financial year, providing the opportunity to recommence the payment of dividends.

Cash flow and capital expenditure

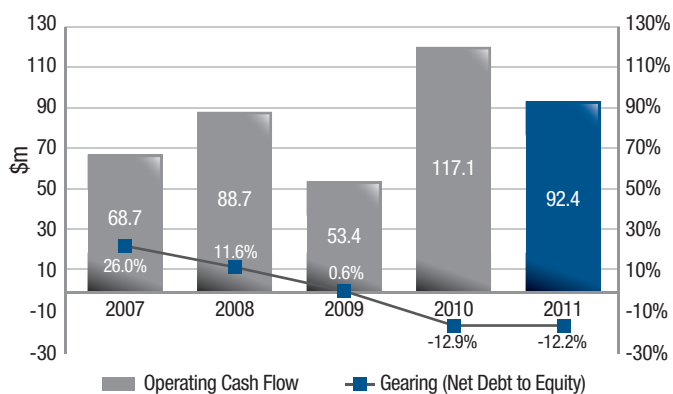
On a positive note, the Group continued to generate a strong operating cash flow of \$92.4 million and maintains a strong cash position of \$115.6 million at year end.

Consistent with its growth plans, the Company invested \$82.4 million in capital expenditure, the majority of which was injected into equipment for surface mining projects, in particular, Cameby Downs open cut coal project, the Ewekoro quarrying project in Nigeria and Orebody 18 open cut iron ore project.

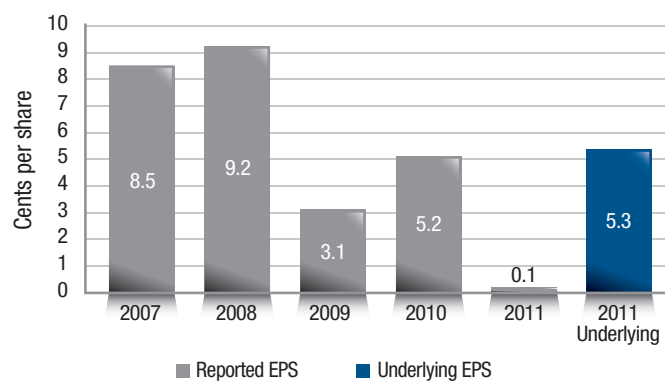
Revenue and margins



Gearing and cash flow



Earnings Per Share



Active capital management

Macmahon seeks to maintain a capital structure which enables the Company to respond to growth opportunities and maximise shareholder value through improved returns on equity, dividend distributions and an increased share price.

Accordingly, the Company consistently monitors its funding requirements to ensure it is able to: service future capital expenditure requirements without diluting shareholders; reduce the ongoing costs of term debt and guarantee funding; and maintain gearing at target levels while still being able to consider acquisitions and increased dividends.

The Company's strategy to reduce its gearing levels has positioned it well to take on new projects. The Group's balance sheet closed the year with a net cash position of \$39.5 million and a negative gearing ratio (Net Debt / Equity) of 12.2 per cent.

Additionally, the Company maintains significant undrawn financing facilities, which will enable the Company to tender for new work with committed funding facilities in place.

\$ million	Total facility available	Drawn	Available
Equipment finance	107	41	66
Working capital	40	25	15
Bank guarantees	75	44	31
Insurance bonds	200	70	130

Financial risk management

The nature of the Company's business is such that certainty is required in relation to its operating cost base. Recent global uncertainty has delivered greater volatility in relation to foreign currencies, interest rates and other cost elements such as fuel.

Generally, the company is contractually protected against many of these cost exposures. However, where contractual protection is not present, the Company seeks to minimise adverse fluctuations in reported earnings and cash flow.

The Company's financial risk exposures are managed in accordance with Board approved policies.

The Company will consider currency hedging to fix the Australian Dollar cost of equipment and consumable purchases denominated in foreign currencies. Once a firm commitment is made for the purchase, the currency may be hedged by using forward exchange or option contracts.

Interest rate hedging is undertaken to fix the cost of funding equipment purchases under the Company's syndicated financing arrangements. The Company's current policy is to ensure that equipment finance debt is 100 per cent fixed (by volume), recognising that timing differences may not allow this debt to be 100 per cent fixed at all times.

During the year Macmahon established new offices in Hong Kong and Mongolia to enable the Company to target extensive growth opportunities available in those regions. The Group's exposure to foreign currencies is continually monitored as the Company expands internationally and our activities are structured to minimise the impact of adverse foreign currency fluctuations on earnings.

International expansion will continue to expose the Company to political risk. Where specific country risks are assessed as being material, the Company procures relevant insurances and services to safeguard its people and assets.

Internal control and risk assurance

In order to protect and grow shareholder value, Macmahon has instituted a sound system of risk oversight and management. Internal policies and procedures are supplemented with peer project reviews, external project audits and the use of both internal and external audit services provided by Big Four chartered accounting firms.

The Company has established and disclosed its risk management policy, in accordance with ASX Corporate Governance Principles, focusing on the identification and management of the Company's material business risks.

Recent events have led to a renewed focus on risk management. Macmahon has reviewed its internal control environment with the aim of further improving procedures to minimise the potential for future losses. Increased independent assurance through internal audit and specialised third parties, is expected to enhance the Company's internal control environment.

Outlook

I am confident that we have all the necessary elements to successfully grow the business both domestically and internationally, underpinned by our strong balance sheet, record order book and excellent safety performance. In particular, substantial revenues have already been secured for the coming year.

An increased focus on reducing overheads, increasing equipment utilisation and targeting high margin projects provide an outstanding opportunity to deliver improved profit performance for 2012.

Theresa Mlikota
Chief Financial Officer



Safety, people and environment

Safety

Safety highlights

- Record safety performance
- Industry leading safety performance
- No Lost Time Injuries for Construction, Underground and International businesses

Macmahon achieved a record safety result for the second consecutive year in 2011, highlighting the importance placed on safety throughout the Company. The Lost Time Injury Frequency Rate (LTIFR) improved from 0.4 in 2010 to 0.2 this year. Similarly, the Total Recordable Injury Frequency Rate (TRIFR) fell from 4.6 to 3.5 this year.

The safety improvements achieved maintain Macmahon's position as an industry leader in safety across both Mining and Construction.

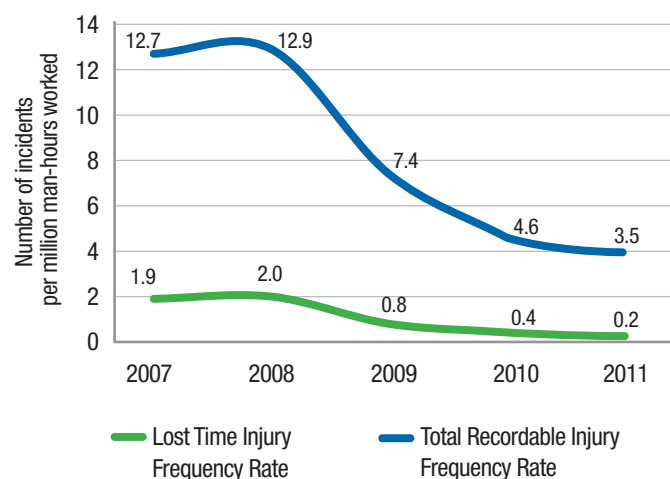
The Construction Business has achieved an outstanding safety record for the financial year, with a LTIFR of zero for the 12 months to June 2011. At the end of June 2011, the Goldfields TNC Project had recorded almost six years Lost Time Injury (LTI) free, an outstanding achievement.

In the Mining Business, both the Underground and International operations completed the financial year with no LTIs and achieved many safety milestones at individual sites. The milestones of more than 1000 days LTI free were recorded at Argyle Operations, Olympic Dam and Underground's fabrication services. Additionally, several areas of operation within the Underground Business also completed the year with a TRIFR of zero.

Surface Mining also delivered further safety improvements, with the Ellendale and Eaglefield projects both achieving more than four years LTI free during 2011.

The outstanding safety performance across the organisation reflects the continued effort of Macmahon's people to ensure there is a deeply embedded safety culture. Many sites throughout the business have now recorded long term LTI free periods, while continual improvements have been made to identify and eradicate hazards across both Mining and Construction.

Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate



Safety value

As a core value of Macmahon, safety is a constant consideration for the organisation. Our impressive safety record reflects the genuine concern for the health and wellbeing of our people and ensures we are operating safely and efficiently at all times. Macmahon will continue to maintain a dedicated safety focus throughout the business in future years in a bid to achieve further improvements. All employees are encouraged to lead by example and identify and report hazards to ensure they are looking after themselves, their team and others around them.

People

Macmahon's people are central to its success and we continue to further develop strategies to attract and retain key talent in all divisions across the business. At the end of the 2011 Financial Year, Macmahon had a total of 3536 direct employees across the Group.

With operations throughout Australia and internationally, we are constantly working to ensure our people – no matter where they may be – are supported and valued within their roles. The year saw the organisation further develop its values-based culture to create a united focus through all aspects of the business.

Staff support for the values driven culture has seen a renewed emphasis on Macmahon's key areas of safety, prosperity, environment, teamwork and integrity. The communication of our values was supported by work at the site level to encourage a common understanding of the 'Macmahon way'.

Apprenticeship program

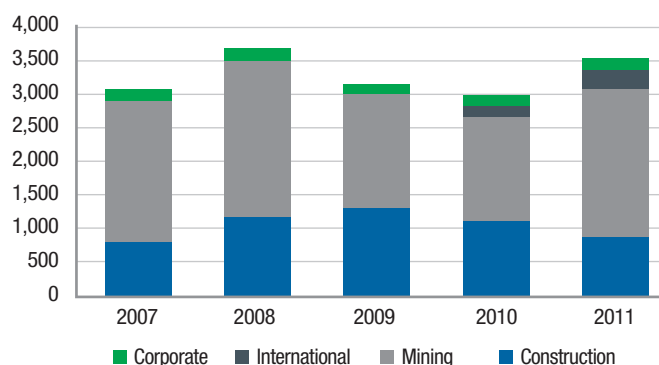
Part of the Company's commitment to its people includes the development of the next generation of employees through its apprentice and graduate programs. The Macmahon Apprenticeship Program consisted of 93 apprentices in 2011, reinforcing the organisation's belief that apprentices form an integral part of the future development of the Company. In October, the program won the Minister's Awards for Excellence – Employers of Apprentices and Trainees – Northern WA Region and was also a finalist for the Northern Territory region. The achievement followed wins in various categories of the same awards in 2006, 2008 and 2009 and reflects Macmahon's ongoing commitment to developing the skills of the next generation of the workforce.

Graduate program

Macmahon's extensive Graduate Program sees 33 graduates currently employed across the business. The Mining Business has 21 graduates, with the remaining 12 graduates working in the Construction Business. Macmahon offers focused development programs to ensure each young professional joining the organisation receives a broad range of experiences across a variety of project operations.



Group headcount summary



Diversity policy

Macmahon is committed to promoting diversity throughout its operations, with a particular emphasis on Indigenous and female participation.

As part of this commitment, Macmahon became a signatory to the Australian Employment Covenant, pledging to boost Indigenous employment across the business. As a signatory, Macmahon has committed to create 500 new jobs for Indigenous Australians over five years. The signing builds on the Company's existing commitment to Indigenous employment through the establishment of Doorn-Djil Yoordaning in 2008. At year end, Macmahon had already employed an additional 107 Indigenous people across both the Mining and Construction Businesses.

At 30 June 2011, 12 per cent of all Australian employees were female, while 18 per cent of the Senior Management Group were women. At year end, Macmahon was in the process of redeveloping its diversity policy to improve female participation in its workforce.

Attraction and retention

The attraction and retention of staff remains a key issue for the Company, particularly in the mining sector where there is once again increasing demand for skilled labour.

The organisation has reviewed retention strategies and implemented a range of improvements to better engage with current employees, while enhancing contact with potential employees, including those who have recently left the organisation and may wish to return.

Strategies are in place to assist leadership development within the organisation, including the establishment of the Accelerator program to help develop potential leaders within the Company. The program, along with other leadership development initiatives, will assist in succession planning management and the retention of leaders of the future within the organisation.

Looking forward, emphasis will be placed on further enhancing awareness of Macmahon and the Company's activities to support the attraction and retention of new staff. Ongoing policy and procedural review will also continue to identify better ways of engaging with, developing and retaining our people.

Brian Macmahon Awards

As part of Macmahon's commitment to recognise outstanding employee performance, the inaugural Brian Macmahon Awards were held during the year. The Awards recognise outstanding project and individual achievements within the organisation

and are a good opportunity to showcase the unique skills, abilities and dedication of our people.

Inaugural awards were presented for HSEQ Excellence to the Shoal Bay Project in the Northern Territory; Technical Excellence to Mining Services for Robotic Shotcrete Shaft Lining; Business Excellence to the Kingston Foreshore Project in the Australian Capital Territory; Outstanding Individual Contribution to Kevyn Brown; and the Project of the Year went to the Go-Between Bridge Project in Queensland.

Environment

Macmahon is committed to strong environmental management at each of its sites. The highest environmental standards are applied to project management as part of our commitment to the communities in which we operate.

Our people are encouraged to reduce, recycle and rejuvenate by promoting environmental awareness, minimising waste and identifying energy efficient operations. The promotion of environmental awareness flows throughout Macmahon's operations with the identified company value of environment.

This year, Macmahon completed the Nepean River Weirs Environmental Flow Release and Fish Passages Project, providing reliable environmental flows and increased fish passage at 10 weirs on the Nepean River in NSW. The project improved the aquatic ecosystem and allowed the continued use of the weirs and the pools they create. The completed project delivered immediate and measurable environmental improvements for the river, highlighting Macmahon's outstanding environmental management capabilities. This achievement was recognised with the project's receipt of a 2011 NSW Civil Contractor's Federation Earth Award.

Similarly, in the Northern Territory, Macmahon won two 2011 NT Civil Contractor's Federation Earth Awards for its work on the Tiger Brennan Drive Extension and the Hidden Valley Motorsports Complex. The awards recognise environmental, construction and project management excellence which reflects best technologies and practices by the Australian Civil Contractors.

Community

Macmahon is dedicated to making a positive contribution to the communities in which it operates. Where possible, we strive to employ a local workforce to ensure the community in which the project is based receives the best possible economic benefit from our presence.

Macmahon is also actively investing in support of the communities in which it operates through its community sponsorship program. In 2011, the Company committed \$100,000 over four years to the Salvation Army Doorways of Hope campaign, a major initiative to address homelessness by providing greater accommodation options for those at risk and supporting the broad range of services provided to all levels of the community.

The Company also confirmed a partnership with the Cottesloe Surf Life Saving Club, an essential service open to the whole Western Australian community. Further sponsorships connecting our project-based personnel with their local communities have been implemented nationwide. These include support to local emergency services, such as the Nebo SES in Queensland, and sponsorship of local sporting organisations including the Grafton Rhinos Sporting Club in New South Wales, the Far North Football League in South Australia and the Queens Park Junior Football Club in Western Australia plus community associations and activities including Breast Cancer Care WA's Purple Bra Day.



Market outlook

Demand for base metals and bulk commodities is as strong as it was before the financial crisis. The recent volatility in global markets resulting from sovereign debt issues is currently not impacting demand.

There is now a large pipeline of projects related to iron ore, coal, Liquefied Natural Gas (LNG) and base metals driven by demand from Asia, principally China and India, which will sustain the Australian mining and engineering construction sectors for many years.

Industrial commodity demand from developing economies continues to run ahead of the available supply of key commodities.

The rise of the Asian middle class which is forecast to rise by 1.2 billion people by 2030, allied with increasing urbanisation in China and India is creating strong demand for Australian iron and coal.

The strength of Australia's resources sector has also translated into high growth of our mining related engineering construction. According to BIS Shrapnel, private sector funded engineering work now accounts for over 60 per cent of all engineering construction undertaken. Much of this is related to the mining and energy sectors – rail lines, new harbours and ports and processing facilities.

As a proportion of total engineering work, resource related construction rose from nine per cent in 2001 to around 38 per cent in 2010. It is estimated that mining related construction will increase exponentially over the next four years to record almost \$57 billion of work done by 2014. As a share of total engineering construction activity, mining related construction will peak at around 55 per cent of total engineering construction activity in 2014.

New LNG projects have emerged relatively recently to push Australia to the forefront of LNG developments compared to the rest of the world. Australian Government estimates indicate more than half of the world's planned additions to LNG capacity are currently underway in Australia. Some \$250 billion worth of LNG projects are currently under construction or in advanced stages of planning in Australia.

It is no surprise that about 60 per cent of total engineering activity in Australia is being undertaken in Western Australia and Queensland. Each of these states has an almost equal 30 per cent share of the total.

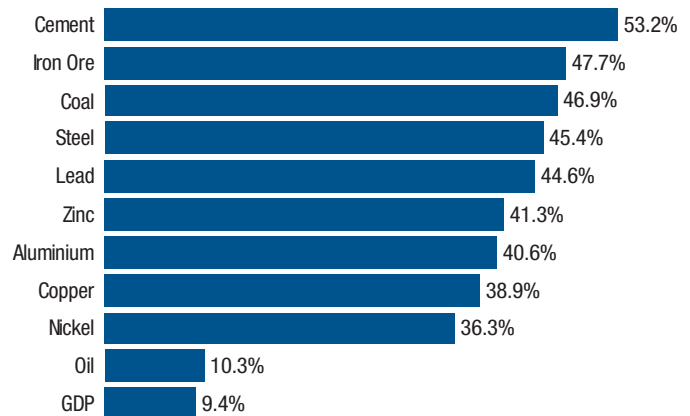
Public sector funded infrastructure projects in New South Wales are expected to gather pace in 2013 as the new State Government begins to implement a cycle of public works such as the North West rail link. Activity in South Australia and the Northern Territory will be determined by the pace of the development of the Olympic Dam Expansion in South Australia and the Inpex Ichthys LNG project in Darwin.

Internationally the contract mining market remains extremely buoyant with many opportunities in Indonesia, Africa and Mongolia. Indonesia overtook Australia in 2005 as the largest exporter of thermal coal and is forecast to account for 40 per cent of world's total thermal coal exports by 2015.

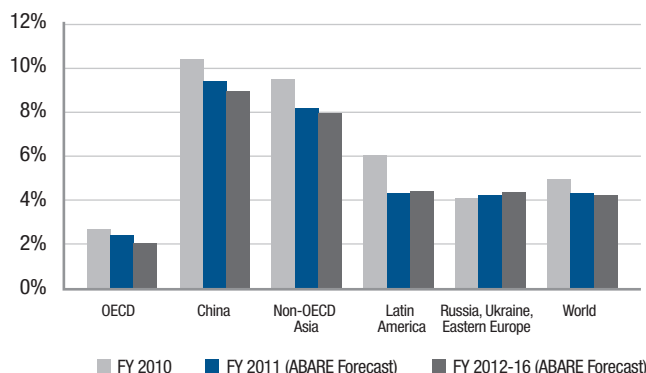
Africa holds an estimated 30 per cent of the world's mineral resources and is largely underexplored. Many African countries have become more politically stable in recent years and are adopting western business processes as they strive to unlock their mineral wealth to build their nations.

The Mongolian resource sector is still embryonic, however it is a country with enormous mineral wealth. It has the fourth largest proven coal reserves in the world, the second largest copper reserves and large deposits of uranium, iron ore and lead and zinc. While the country lacks capital, infrastructure, technical skills and labour, it will develop very quickly to supply the demand from China in these commodities.

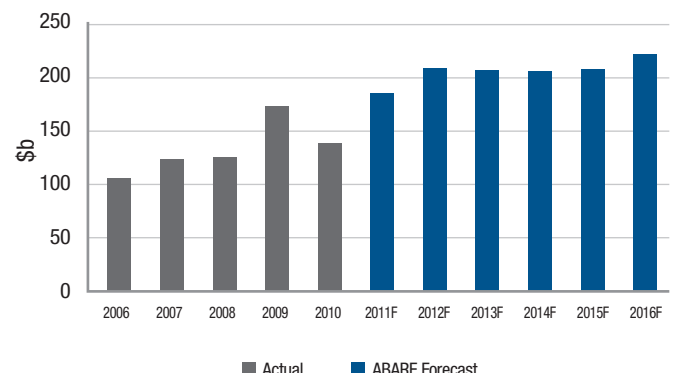
China's share of world commodity consumption



Global economic growth

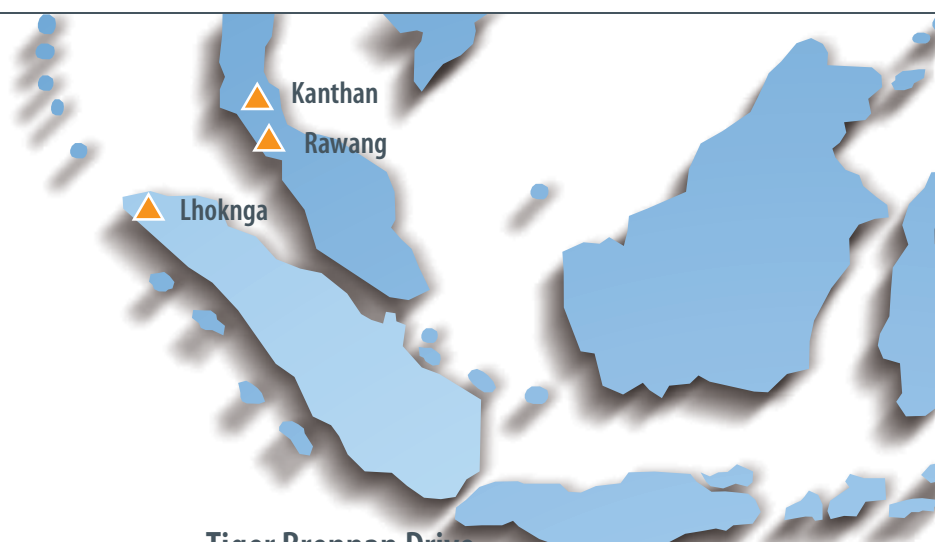
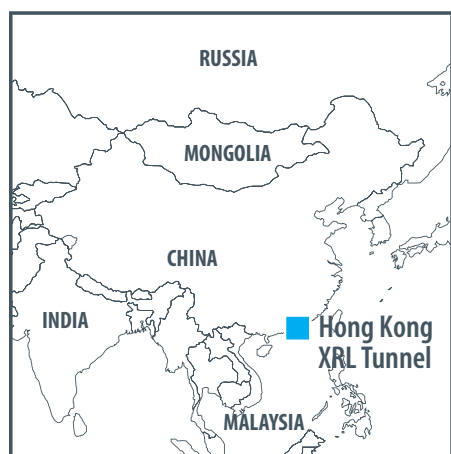


Value of Australian mineral exports





Project map



Tiger Brennan Drive

Road works - NT Government
Darwin, NT

Argyle

Diamond mine - Rio Tinto
Kimberley Region, WA

Rio Tinto 333 Programme

Hope Downs 4 - rail earthworks
and bridge construction
Cape Lambert - Port B
development bridge works
Cape Lambert - Port A
sustaining works, earthworks, roads

Orebody 18 / Wheelara

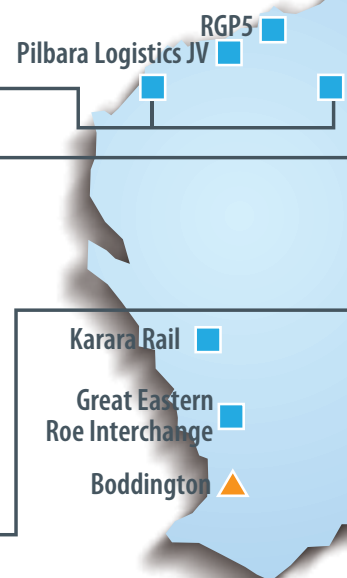
Iron ore mine - BHP Billiton
Newman, WA

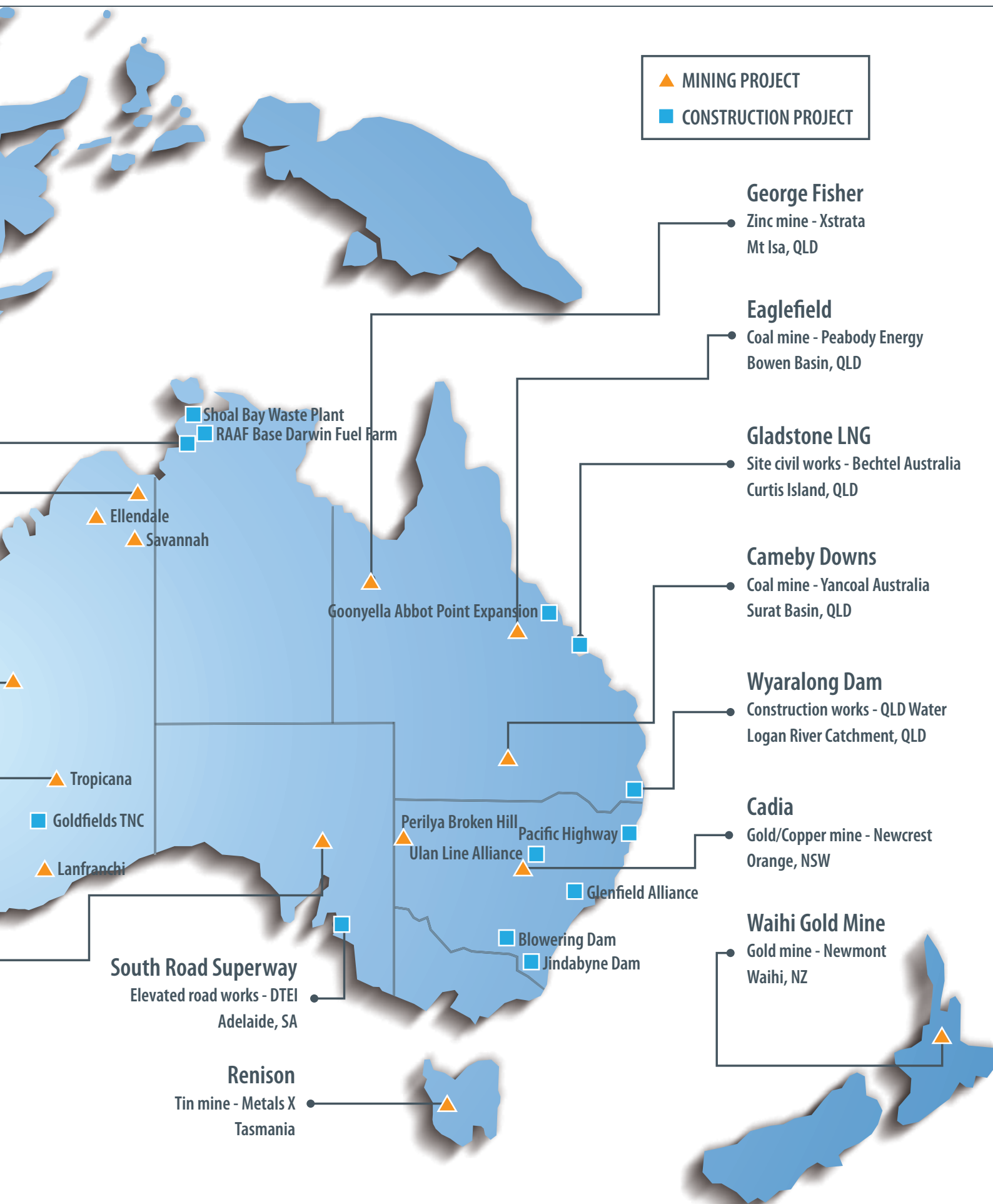
Tropicana

Gold mine - AngloGold Ashanti
Goldfields Region, WA

Olympic Dam

Uranium mine - BHP Billiton
Olympic Dam, SA





Construction business

\$ million	June 2011	June 2010		Change %
Revenue	580	789	▼	(26%)
Underlying profit before tax (PBT)	13.7	34.8	▼	(61%)
Write-down of RGP5 Rail North Contract	(48.9)	-		n/a
Wet weather impacts	(0.5)	-		n/a
PBT	(35.7)	34.8		(203%)
Underlying PBT Margin %	2.4%	4.4%	▼	
Order book	934	685	▲	36%

Overview

The Construction Business completed the financial year with an order book of \$934 million, an increase from \$685 million for the same period last year. While revenue fell 26 per cent to \$580 million, a review into the Construction Business has established a greater focus across its operations and on development of new work opportunities.

The \$48.9 million before tax write-down of the RGP5 Rail North project contributed significantly to Construction's disappointing result for the year. This, combined with a reduced rate of contract awards for the previous year, impacted on the business' profitability for 2011. The resulting review has since led to the decision to separate the national Construction Business into East and West operations. Excluding RGP5 Rail North, all other projects operated profitably over the period.

Mark Hamilton was appointed as Executive General Manager – Construction East, following a successful period as the Company's Queensland State Manager. Construction East will focus on rail, road, port and dam construction, which are strong markets for Macmahon on the east coast of Australia. Construction East will also seek to achieve greater cooperation with MVM Rail, jointly owned by Macmahon and COMSA EMTE.

Aidan Mullan was recruited for the position of Executive General Manager – Construction West, with a focus on resources and infrastructure projects. With mining related construction forecast to almost double over the next four years, the creation of Construction West provides an increased focus on the market to enable Macmahon to maximise its position to secure new opportunities as they emerge.

New work

A number of significant Construction contracts were awarded or extended in 2011, providing a strong basis on which to build further growth.

South Australia's largest ever investment in a road project, the South Road Superway, is being delivered by the Urban Superway Joint Venture between Macmahon, John Holland and Leed Engineering. The \$580 million project will construct a new 4.8km highway corridor, including 2.8km of elevated roadway, to connect the Port River Expressway to Regency Road north of Adelaide. Macmahon's share of revenue is expected to be \$230 million and will see the Company take part in delivering an iconic infrastructure project in South Australia.

In Queensland, Macmahon is undertaking the site preparation for the Gladstone LNG plant, with a contract valued in excess of \$150 million. Works include clearing, bulk earthworks,

pavements, roads and drainage for the 144 hectare greenfield site, located on the south-west side of Curtis Island. The contract highlights Macmahon's capabilities in delivering civil works to support the LNG sector and is a significant win for the Construction East team.

Macmahon was also awarded three contracts with an estimated combined value of \$129 million for construction work for Rio Tinto Iron Ore, as part of its 333 expansion program and ongoing sustaining works.

Also in the resources sector, Macmahon won the Karara Rail Earthworks and Track contract, valued at \$86 million. The construction of the spur line connecting Karara to Tilley Siding, near Morawa, reinforces Macmahon's depth of experience in rail construction and consolidates its strong presence within the Western Australian resources market.

The Great Eastern Highway Roe Interchange (GERI) in Perth's eastern suburbs has also commenced, with the aim of improving traffic flow and reducing congestion. The project will improve safety at one of the top 10 black spot locations in Western Australia.

In New South Wales, Macmahon has played a pivotal role in State Water's upgrade of its water infrastructure, having delivered the Blowering Dam and Burrendong Dam upgrades in 2011. Work has now commenced on the Jindabyne Dam Spillway Upgrade for Snowy Hydro Ltd, demonstrating the Company's strong expertise in dam construction and upgrades.

The Northern Territory has had a particularly strong year, commencing the RAAF Fuel Farm Upgrade in Darwin. The project will see three of the site's existing fuel farms which were built in the 1960s, replaced with a single fuel storage and handling facility capable of storing and processing up to two million litres of aviation jet fuel.

Stage Two of Tiger Brennan Drive was also completed during the financial year, with Stage Three now underway.

The Tunnelled Gravity Sewer was also awarded to Macmahon in the Northern Territory. The Company was contracted to dig a new tunnel under Darwin's central business district as part of a project to bring the city's sewerage system in line with modern standards.

Outlook

The completion of the Construction Business restructure, along with good market conditions, suggest a positive outlook for the Business moving forward. The new structure will enable the East and West sections of the Business to look to new opportunities for business development and greater focus on specialist areas of construction.

Projected growth in the mining related construction sector reflects excellent prospects for Macmahon. Resources expansion is currently driving a pipeline of construction work, with clients seeking to build long-term partnerships to secure capabilities.

Continued government infrastructure spending should also provide new opportunities for road, rail and water infrastructure and Macmahon is well placed to bid for new work based on the extensive capabilities and project quality which continues to be demonstrated through the range of current projects already underway.

Over the next year, there will be a greater focus on building a sustainable Construction Business and maximising profitability.

Blowering Dam, New South Wales



Mining business

\$ million	June 2011	June 2010		Change %
Revenue	674	466	▲	45%
Underlying profit before tax (PBT)	51.1	34.8	▲	47%
Wet weather impacts	(8.5)	-		n/a
PBT	42.6	34.8		22%
Underlying PBT Margin %	7.6%	7.5%	▲	
Order book	1,079	1,530	▼	(29%)

Mining overview

Macmahon's Mining Business continued to strengthen, with revenue increasing by 45 per cent to \$674 million and profit before tax increasing to \$42.6 million. Growth was particularly strong in Underground with that business nearly doubling its revenue. Surface and International also recorded significant increases in revenue.

While revenue grew strongly, the Mining Business' profit margin was impacted by severe wet weather in early 2011 which affected a number of mining operations. A slower than expected start-up at new mining operations also affected profitability.

The appointments of former Chief Financial Officer, Ross Carroll, to the role of Chief Operating Officer – Mining and Stewart Maddison to the position of Executive General Manager – International in April reflects a stronger focus on growing the Mining Business, particularly the Company's international operations.

Surface mining

Although Surface Mining revenue grew by 15 per cent in 2011, profitability was reduced when compared to the previous year. The temporary closure of the Cameby Downs operation to repair damage resulting from the Queensland floods was a significant factor in this outcome.

A significant achievement for Surface Mining in 2011 was being named the preferred tenderer for the Tropicana Gold Project in Western Australia as part of the Tropicana Joint Venture between AngloGold Ashanti Australia Ltd and Independence Group NL. The 10 year contract is worth an estimated \$900 million and was finalised subsequent to year end. This project provides a strong foundation for the Surface Mining Division over the next decade.

Underground mining

Strong demand for underground mining services saw significant growth of the Business throughout the year, with the Business' capabilities being matched to individual client needs.

Key project wins included an extension of the contract with BHP Billiton at Olympic Dam, where the Company has been in operation since 2004. This extension highlights Underground's strong safety record and ongoing performance at the site.

Macmahon also secured a contract to develop 1.7km of single heading decline and 2.3km of associated development drives for Newcrest Mining at Cadia Hill in New South Wales, where the Company has conducted cablebolting for four years.

Both these contracts highlight strong demand for Macmahon's services at the major underground mines in Australia.

Doorn-Dijl Yoordaning

Taking a lead role in Indigenous training and employment continues to be a significant focus for Macmahon through its subsidiary Doorn-Dijl Yoordaning (DDY). This was emphasised by Macmahon's commitment to employ an additional 500 Aboriginal people over the next five years. The Company is ahead of schedule to achieve the first milestone of 168 new employees by September 2012.

The 2011 Financial Year saw Gooring Jimbila complete its first year of operation at Argyle Diamond Mine, drawing accolades from the client, Argyle Diamonds. Additionally the Yamaji Joint Venture in the Mid-West played a significant role on the Karara Rail project as a subcontractor.

DDY's first joint venture outside of Western Australia occurred with the formation of the Dhurawine Macmahon JV in Gladstone, Queensland.

DDY is also in the process of establishing the Resource Opportunity and Careers Kick-starting Tomorrow's Aboriginal Role Models initiative (ROCKSTAR) to integrate existing Indigenous training and development with a new training centre and expanded mentoring. The initiative will train up to 300 new employees over the next two years for Macmahon and our clients.

International

Macmahon's International Business has pursued a growth strategy throughout 2011. Existing limestone projects in Malaysia and Indonesia are delivering consistent returns while further tendering activity has occurred in the Indonesian coal sector.

In Africa, the Ewekoro project in Nigeria has grown in line with expectations, with plant and staff having been mobilised for phase two of the project. Further opportunities are being pursued in Nigeria.

Mongolia is a key future market for Macmahon. The Company has established an office in Ulaanbator to help secure some of the emerging opportunities in the country.

Outlook

The Mining Business expects to see strong growth leading into the 2012 Financial Year and beyond. The current high demand for commodities ensures the market for contract mining will continue to grow.

In the coming year, the business will focus on leveraging the engineering capability that sits in our Underground Business to form a new Engineering Business to service customers in the mining and construction markets.

The Business will continue its focus on opportunities outside of Australia, in Asia, Africa and Mongolia.

Continuing to develop Macmahon's relationships with significant clients in Australia and overseas will position the organisation to capture new opportunities.

Following the award of the Tropicana Gold Project contract in July 2011 planning and pre-work will be undertaken ahead of the project's commencement in July 2012.





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



Directors' report

The Directors present their report together with the financial report of the consolidated entity, being Macmahon Holdings Limited ("the Company") and its controlled entities, for the year ended 30 June 2011 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:

K B Scott-Mackenzie	(Chairman - Non-executive)
B L Cusack	(Deputy Chairman - Non-executive)
N R Bowen	(Chief Executive Officer and Managing Director)
B R Ford	(Non-executive)
J C Massey	(Non-executive) (resigned 28 February 2011)
D M Smith	(Non-executive)
V A Vella	(Non-executive)

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



Kenneth Scott-Mackenzie, Age 61

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

[Independent Non-executive Chairman](#)

Mr Scott-Mackenzie joined the Board as a Non-executive Director in May 2009 and was appointed Chairman in November 2009. Mr Scott-Mackenzie has more than 37 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 and member of the Australian Institute of Company Directors.

Mr Scott-Mackenzie was the inaugural Chief Executive Officer of Bilfinger Berger Australia Pty Ltd for four years from 2005 to 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. 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 projects.

Mr Scott-Mackenzie is currently the Non-executive Chairman of Murchison Metals Ltd (appointed July 2011) and a Non-executive Director of Adelaide Brighton Limited (appointed July 2010).

Mr Scott-Mackenzie is a member of both the Board's Remuneration and Nomination Committee and Corporate Governance Committee.



Barry Cusack, Age 69

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

[Independent Non-executive Deputy Chairman](#)

Mr Cusack joined the Board as a Non-executive Director in June 2002 and was appointed Deputy Chairman in 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 Chairman of Brockman Resources Limited (appointed June 2010). Mr Cusack was also a Director and Chairman of OZ Minerals Limited from April 2002 to April 2010, and a Non-executive Director of Smorgon Steel Group Ltd from June 2002 to August 2007.

Mr Cusack is currently the Chairman of the Board's Audit Committee and a member of the Board's Remuneration and Nomination Committee.



Nick Bowen, Age 50

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 28 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 Ford, Age 67

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 currently the Chairman of the Board's Corporate Governance Committee and a member of the Audit Committee.



Vyril Vella, Age 63

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

Non-Independent Non-executive Director

Mr Vella joined the Board as a Non-independent Non-executive Director in November 2007. Mr Vella has over 40 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 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.

Mr Vella is currently the Chairman of the Board's Remuneration and Nomination Committee and a member of the Board's Corporate Governance Committee.



David Smith, Age 58

BSc (Hons), Ph.D. in Metallurgy, FAIM, FAICD, FWLG

Independent Non-executive Director

Dr Smith joined the Board as a Non-executive Director in April 2010. Dr Smith has over 30 years of technical, operational and senior management experience with Rio Tinto. Dr Smith was, until recently, the President of Rio Tinto Atlantic covering the Simandou Project in Guinea, West Africa. Prior to this, Dr Smith was Managing Director of Rio Tinto's iron ore operations in the Pilbara covering Hamersley Iron and Robe River and before that Dr Smith was the Chief Executive Officer of Rössing Uranium Limited in Namibia.

Dr Smith is a qualified metallurgist and his formal qualifications include a Bachelor of Science and Ph.D. in Metallurgy from the University of New South Wales in Australia.

Dr Smith is currently the Chairman of Bannerman Resources Limited (appointed May 2010) and has been a Non-executive Director of that Company since November 2009. Dr Smith is also a Non-executive Director of Atlas Iron Limited (appointed November 2009). Dr Smith's previous appointments include President of the Chamber of Minerals and Energy of Western Australia (2005 – 2008) and Chairman of the Board of the National Skills Shortages Strategy working group (2006). Dr Smith was also a founding Director of Leadership WA (2004 – 2007), a Commissioner with Tourism WA (2005 – 2007) and a Director of AIM (2001 – 2007).

Dr Smith is a member of the Board's Audit Committee and Remuneration and Nomination Committee.

1. Directors (continued)

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 ³		Audit Committee		Remuneration and Nomination Committee	
	A	B	A	B	C	B	C	B
K B Scott-Mackenzie	8	8	3	3	*	*	4	4
B L Cusack	8	8	3	2	7	7	4	4
N R Bowen	8	8	3	3	*	*	*	*
B R Ford	8	8	3	3	7	7	*	*
J C Massey ¹	5	5	3	3	6	6	*	*
D M Smith ²	8	8	3	2	1	1	2	2
V A Vella	8	7	3	3	*	*	4	4

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.

Notes:

1. Mr Massey resigned on 28 February 2011.

2. Dr Smith was appointed a member of the Remuneration and Nomination Committee from 9 February 2011 and a member of the Audit Committee from 21 March 2011.

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

2. Company Secretaries

Greg Gettingby

B.A., L.L.B.

Mr Gettingby joined the Company in 2002. Mr Gettingby was appointed to the position of Group General Counsel / Company Secretary in February 2011. Mr Gettingby previously held the roles of Commercial Manager and Legal Counsel for the Company. Prior to joining the Company he worked as a lawyer in private legal practice.

Chris Brown

B.Com, L.L.B., ACIS

Mr Brown joined the Company this year as Company Secretary. Mr Brown has previously held the role of Company Secretary for various public companies and is a Chartered Secretary. Mr Brown has also worked as an in-house lawyer for a number of investment banks in London and in private legal practice.

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 on pages 2 to 27, which form part of this Directors' report.

5. Dividends

The dividend paid by the Company to members since 1 July 2010 was:

	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of payment
Final 2010	1.5	11,006	Unfranked	13 October 2010

6. Events subsequent to reporting date

As at the date of this Directors' report, the Directors are not aware of any matter or circumstance that has 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 on pages 2 to 27 which form 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 on pages 2 to 27 and the financial statements on pages 55 to 107.

8. Significant changes in the state of affairs

Information about changes in the state of affairs of the consolidated entity is contained on pages 2 to 27 and the financial information sections of this Annual Report on pages 55 to 107, which form part of this report.

In the opinion of the Directors there are no 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 international, 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 risk reviews. The consolidated entity's Health, Safety, Environment, Quality and Community Report contains further information regarding its environmental performance and can be accessed on the Company's website at www.macmahon.com.au.

In the financial year under review all of its mining and construction operations were subject to regular internal environmental audits. The company was recertified to the ISO 14001 Environmental Management system requirements in May 2011. All corrective actions have been closed out and verified during the recertification audit. 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 ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (2nd edition). The Company's Corporate governance statement is on pages 46 to 53 of this Annual Report.

11. Remuneration report - audited

The key management personnel ("KMP") of the Company are those personnel having the authority and responsibility for planning, directing and controlling the activities of the Company.

The remuneration report discusses the nature and amount of remuneration for the KMP of the Company plus the five highest remunerated employees as set out below.

Person	Position	Period in position during the year
Directors – Non-executive		
Ken Scott-McKenzie	Chairman	Full year
Barry Cusack	Deputy Chairman	Full year
Barry Ford	Non-executive Director	Full year
John Massey	Non-executive Director	Until 28 February 2011
David Smith	Non-executive Director	Full year
Vyrl Vella	Non-executive Director	Full year
Directors - Executive		
Nick Bowen	Chief Executive Officer and Managing Director	Full year
Executives		
Ross Carroll	Chief Financial Officer	Until 17 April 2011
	Chief Operating Officer - Mining	Since 1 February 2011
Theresa Mlikota	Chief Financial Officer	Since 18 April 2011
Patrick Doyle	Executive General Manager - Construction	Until 22 November 2010
Neil Wilson	Executive General Manager - Services	Full year
Fraser Ramsay	Executive General Manager - Surface Mining	Full year
Greg Miller	Executive General Manager - Underground	Full year
Stewart Maddison	General Manager - Plant	Until 31 March 2011
	Executive General Manager - International	Since 1 April 2011
Diane Jaksa	General Manager - People & Organisational Development	Until 31 December 2010
Angie Young	Executive General Manager - Human Resources	Since 1 January 2011
Mark Hamilton	Construction Manager - Queensland	Until 1 May 2011
	Executive General Manager - Construction East	Since 2 May 2011
Robert Wilson	General Manager – NT Operations	Full year
Ashley Mason	Executive General Manager - Strategy & Development	Since 1 March 2011
Aidan Mullan	Executive General Manager - Construction West	Since 1 July 2011

11.1 Board policy on KMP remuneration

The Board oversees the remuneration arrangements of the Company. In performing this function the Board is assisted by recommendations from the Remuneration and Nomination Committee, external consultants and internal advice.

The Remuneration and Nomination Committee is responsible for the detailed review, and recommendation to the full Board, of remuneration arrangements for Directors, the Chief Executive Officer (CEO), and senior executives.

The CEO, in consultation with the Board, sets remuneration arrangements for other executives. No executive is directly involved in deciding their own remuneration (including Mr Bowen).

The primary objectives of the Company's remuneration strategy are to encourage stronger than market growth in shareholder value over the longer term, create an effective retention tool, and to align the remuneration outcomes for executives with returns to investors.

Current remuneration policy settings include:

- fixed remuneration at above industry median to attract and retain executives in a competitive employment market;
- annual cash incentive opportunity levels for executives that are moderate as a percentage of fixed remuneration at senior manager level (30-50% of fixed remuneration), and high as a percentage of fixed remuneration at CEO level (one to one and a half times salary), to encourage achievement of profit and other targets; and
- longer term (up to 5 years) equity incentive for executives to achieve stronger than market growth in shareholder returns. The Board determines grants of Performance Rights based on role criticality. There is no automatic entitlement to equity participation.

11.2 Relationship between remuneration policy and Company performance

Key performance indicators (KPIs) for both short-term and long-term executive incentive schemes are linked to the Company's strategic objectives and as a result, pay outcomes are directly aligned with Company performance.

The following Company performance measures are among those that may be included in annual incentive plans for relevant executives. Company performance on KPIs from 2007 to 2011 is:

	2011	2010	2009	2008	2007
Reported net profit attributable to equity holders of the parent (\$m)	1.0	37.9	17.2	48.8	44.5
Underlying net profit attributable to equity holders of the parent (\$m)	38.8	37.9	17.2	48.8	33.4
Dividends declared (cents)	-	3.0	1.5	5.5	3.0
Share price at 30 June (cents)	56.0	54.5	34.0	166.5	129.0
Reported return on equity (%)	0.3	11.3	5.6	19.6	21.2
Underlying return on equity (%)	10.7	11.3	5.6	19.6	16.8
Reported basic earnings per share (cents)	0.14	5.17	3.07	9.20	8.54
Underlying basic earnings per share (cents)	5.29	5.17	3.07	9.20	6.41
Order book (\$m)	2,013	2,215	1,412	2,138	2,005
New contracts and extensions (\$m)	1,052	2,057	1,108	1,377	1,753
Lost time injury frequency rate	0.2	0.4	0.8	2.0	1.9
Total recordable injury frequency rate	3.5	4.6	7.4	12.9	12.7

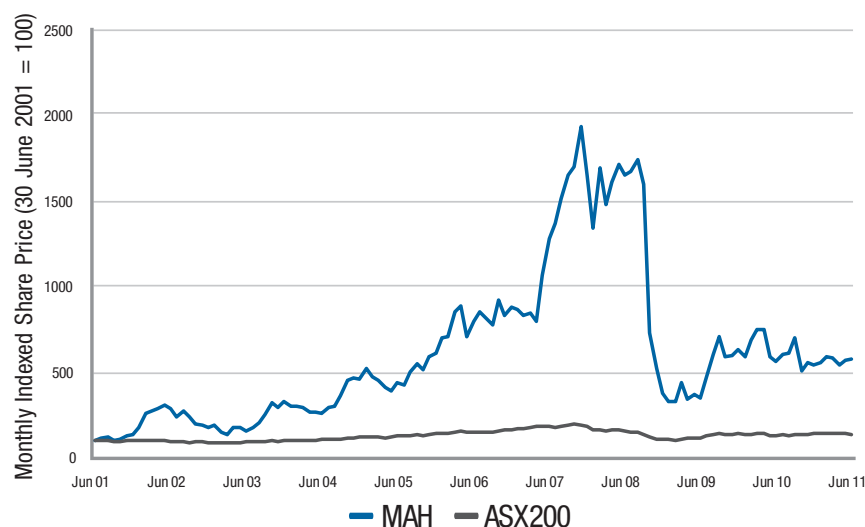
11. Remuneration report - audited (continued)

11.2 Relationship between remuneration policy and Company performance (continued)

Total Shareholder Return ("TSR") is used as a performance measure in the Company's long-term incentive plans. Relative TSR was chosen as a suitable performance measure as it provides direct alignment between shareholder returns and executive remuneration.

To illustrate Company performance, the graph below shows the Company's share price performance compared to the ASX 200 over the past ten years. The graph illustrates that Macmahon's share price increased over the past ten years relative to the ASX 200. This increase has been achieved in the context of the global financial crisis, the proposed Mining Resource Rent Tax (MRRT) and the proposed carbon tax.

Macmahon share price performance compared to the ASX 200



11.3 Structure of KMP remuneration

11.3.1 Non-executive Director remuneration

Given their different functions, the structure of remuneration for Non-executive Directors is distinct from that applicable to executives. In accordance with ASX Listing Rule 10.17, fees for Non-executive Directors are fixed and are not linked to the financial performance of the Company. Fees reflect Board and Committee responsibilities.

The maximum aggregate amount that can be paid to Non-executive Directors (the fee pool) is currently \$1,100,000 per annum, including superannuation, which includes an allowance for an increase in the number of Directors if required. Actual Directors' fees for the reporting period were \$801,706. No retirement benefits other than superannuation are paid to Non-executive Directors. There has been no increase in the fee pool amount since its approval by members at the 2008 Annual General Meeting.

A breakdown of the fees paid to Non-executive Directors for the year ended 30 June 2011 is set out in section 11.7 of this report.

11.3.2 Executive remuneration

Executive remuneration comprises fixed remuneration plus performance based opportunities that depend on role criticality.

Fixed remuneration

Fixed remuneration comprises base salary, any applicable role specific allowances, and superannuation. Fixed remuneration levels are established with consideration of market comparisons, the individual's skills and experience, and internal relativities. A review of remuneration levels is undertaken annually. The same factors used to set a remuneration package are also considered when determining the quantum of any salary review increase, together with individual performance.

Performance-based remuneration

Performance-based remuneration refers to those components of an executive's package that are "at risk", and comprise the opportunity to earn cash bonuses over an annual period, and over longer periods, the opportunity to earn usually share-based compensation.

The amount of performance-based remuneration opportunity provided to an executive is recommended by the CEO and approved by the Board. The general approach taken by the Company is that performance-based pay opportunity should comprise a greater proportion of an executive's total remuneration opportunity the more the role of that executive can influence Company performance.

The performance-based remuneration opportunities provided to selected Macmahon executives are detailed in sections 11.4 and 11.5 of this report.

11.4 Short-term incentive

The short-term incentive (STI) is an annual cash incentive paid to executives, subject to overall business profitability, safety and individual performance conditions being met. These conditions ensure that bonus payments are only made following a successful performance period, and achievement of individual performance objectives.

An eligible individual's maximum STI opportunity in this scheme is based on role impact and criticality; and is expressed as a percentage of total fixed remuneration. The quantum of STI award is based on achievement against annual KPIs for each executive.

For the CEO, the annual KPIs that are included in his employment contract account for 80% of STI opportunity, and 20% relates to specific goals and individual performance targets set by the Board annually to take into account emerging issues during the year. For other executives, annual KPIs are either set in their employment contracts, set annually by their managers, or a combination of both. In all instances, KPIs are set to encourage and reward superior performance, and the Board approves the final payment of any STI award.

KPIs include the following, with weighting towards financial and shareholder measures:

- financial measures - profit after tax, net profit after tax margin and overheads to revenue;
- shareholder measures - earnings per share growth, and return on equity;
- order book - the pipeline of future work for the business and therefore a key measure of future opportunity; and
- safety record - which in the mining and construction contracting industries is critical to maintaining a company's 'licence to operate'.

Depending on the role of the executive, KPIs are established at group, business unit, or personal level, or a combination of levels. The Board considers that these KPIs assist in aligning the interests of shareholders and executives, and in achieving the Company's short-term strategic objectives which are to:

- be safe
- win work, and
- make profit

The table below shows the weightings applied to KPI measures for the CEO:

Financial	Safety	Specific goals and individual performance set by the Board annually
60%	20%	20%

As a result of achieving stretch safety performance targets, the CEO was eligible to receive a STI payment of \$371,000 for the year ending 30 June 2011. However, having regard to the financial performance of the Company, Mr Bowen voluntarily forfeited all of his STI for the year.

For other KMP and executives, the Board has determined that, except for Robert Wilson, no cash incentives should be paid for the year ending 30 June 2011 given the Company's recent earnings performance. However, Mr Wilson will receive a cash bonus for the period given the outstanding performance of his division.

11. Remuneration report – audited (continued)

11.5 Long-term incentive

Long-term incentive (“LTI”) opportunities have been provided to KMP by the Company at various times when considered appropriate by the Board. LTI opportunities provided to KMP in the year ended 30 June 2011 include:

- Macmahon Executive Equity Plan (EEP);
- Macmahon CEO LTI Plan;
- Macmahon Executive Option Scheme (2005); and
- Macmahon Deferred Bonus Scheme.

Details of these opportunities are provided below.

Macmahon Executive Equity Plan (“EEP”)

The EEP provides certain executives (excluding the CEO) with the opportunity to receive fully paid ordinary shares in Macmahon for no consideration, subject to specified time restrictions and performance conditions being met. The participating executive must also remain an employee of Macmahon during this time. The EEP is designed to assist with executive retention, and to incentivise employees to maximise TSR relative to other companies.

Participants are granted Performance Rights, which are contractual rights to receive fully paid shares in Macmahon subject to the EEP conditions being satisfied. The number of Performance Rights granted to the participant is determined by the Board.

A summary of the main aspects of the EEP:

- Participation in the EEP is offered to senior executives and employees who are deemed by the Board as eligible to participate.
- Participants are offered Performance Rights at no cost.
- Each Performance Right will entitle the participant to receive one fully paid ordinary Macmahon share on vesting.

An overview of the vesting schedule:

	Year 2	Year 2	Year 3	Year 4	Year 5	Total
% Rights eligible for vesting	25%	18.75% (Tranche 1)	18.75% (Tranche 2)	18.75% (Tranche 3)	18.75% (Tranche 4)	100%
Performance condition(s)	Continued employment	<ul style="list-style-type: none"> • Continued employment; • Relative TSR against a comparative group comprising: <ul style="list-style-type: none"> ➢ ASX 200 (50% weighting) ➢ Bespoke peer group (50% weighting) 				

- 25% of the total Performance Rights granted to a participant will vest on the second anniversary of the grant date, provided the participant remains an employee. These rights are solely for retention purposes. The Board has determined that two years is an appropriate vesting period to retain staff in this industry in the current labour market.
- The peer group comprises the entities included in:
 - The S&P/ASX 200 (50% of the TSR performance). Macmahon is included in the S&P/ASX 200 index, and
 - A group of eight companies with similar businesses to Macmahon (50% of the TSR performance). The group of companies is Ausdrill Limited, Clough Limited, Downer EDI Limited, Leighton Holdings Limited, Monadelphous Group Limited, NRW Holdings Limited, Transfield Services Limited and UGL Limited.
- Relative TSR was chosen by the Company as a suitable performance measure as it provides alignment between shareholder returns and executive remuneration.
- For each performance period in which vesting of a tranche of Performance Rights is tested by comparing Macmahon TSR to the TSR performance of the peer group, the following vesting hurdles apply:

Macmahon's TSR rank relative to the comparative group	Proportion of Performance Rights that are eligible to vest
Less than 50th percentile	0%
50th percentile	50%
Between 50th percentile and 75th percentile	50% plus an additional 2% of this award for each additional percentile ranking above the 50th percentile
At or above the 75th percentile	100%

- The Performance Rights lapse if the executive ceases to be employed with Macmahon, or the TSR performance condition has not been achieved within a 5½ year period.

Macmahon CEO LTI Plan

The CEO was granted 12 million Performance Rights after shareholders' approval was given at the Annual General Meeting on 30 November 2009. The Rights may be exercised by Mr Bowen only to the extent that vesting conditions are met. On exercise, the Company will issue to Mr Bowen one fully paid ordinary share per Performance Right for nil cash consideration. Vesting of the Performance Rights is dependent on the criteria detailed below, based on the following performance 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 CEO 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 period:

- **Test 1:** One third of the Performance Rights from the relevant Class vest if Macmahon TSR performance is greater than the average of the average TSR of each of two peer groups (see below). Macmahon is included in the average TSR calculation for the ASX 200 peer group and is excluded from the average TSR calculation for the bespoke peer group; and
- **Test 2:** Two-thirds of the Performance Rights from the relevant Class vest based on Macmahon TSR percentile ranking against the average for the two peer groups:
 - None of the "two-thirds" will vest if the average of Macmahon TSR percentile ranking is below or equal to 50%;
 - 100% of the "two-thirds" will vest when Macmahon TSR percentile ranking is equal to 80% or greater; and
 - A pro-rata (sliding scale) percentage of the "two-thirds" will vest when Macmahon TSR percentile rating is between 50% and 80%.

The two peer groups for the TSR calculation are:

- **ASX 200:** the constituents of the S&P ASX 200 index; and
- **Bespoke peer group:** a group of eight companies, consisting of Ausdrill Limited, Clough Limited, Downer EDI Limited, Leighton Holdings Limited, Monadelphous Group Limited, NRW Holdings Limited, Transfield Services Limited and UGL Limited.

11. Remuneration report – audited (continued)

11.5 Long term incentive (continued)

Macmahon CEO LTI Plan (continued)

Vesting of Class A Performance Rights

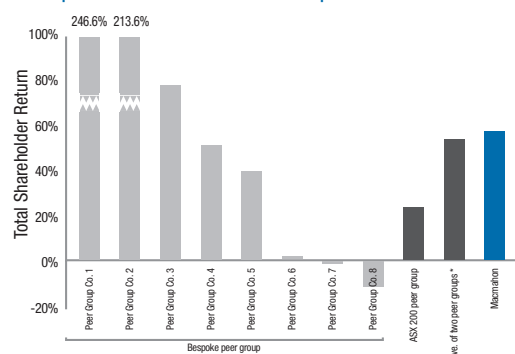
On 1 July 2011, in accordance with Mr Bowen's contract and the terms of the CEO LTI Plan, a number of Mr Bowen's Class A Performance Rights vested.

Over the period commencing 1 July 2009 and ending 30 June 2011, the Company's TSR was 56.6%. Over the same period, the average of the relevant two peer groups (the ASX 200 and the bespoke peer group) was 51.8% as indicated in Graph 1 below. Further, Macmahon's TSR ranked:

- 36th against the ASX 200 peer group placing it at the 81.3rd percentile overall; and
- 4th against its bespoke peer group placing it at the 62.5th percentile of the bespoke peer group.

The Company's outperformance against the ASX 200 is indicated in Graph 2 below.

Graph 1: Relative TSR performance



*Value shown is the average of the mean TSRs for the two peer groups

Graph 2: Indexed share price performance



As a result of this TSR performance, and applying the rules of the CEO LTI scheme described above, 4,920,000 of Mr Bowen's Class A Performance Rights vested on 1 July 2011 (after the current reporting period) and he became entitled to convert them to shares on 10 August 2011. The Board notes that subject to certain exceptions Mr Bowen has voluntarily undertaken not to sell the beneficial ownership of the shares that will be issued upon exercise of these Performance Rights until at least 1 July 2012.

Macmahon Executive Option Scheme (2005)

No grants were made under this scheme in the year ended 30 June 2011. This scheme provided senior executives with options over ordinary shares of the Company under the Executive Option Scheme approved by shareholders at the 2005 Annual General Meeting.

A full summary of the options, issued under this scheme, and the vesting conditions, is provided in note 23 of the financial statements. In brief, options under this scheme entitle the holder to be allotted fully paid ordinary shares in the Company upon satisfaction of the exercise conditions, and payment of the option exercise price. The exercise conditions relate to continued employment with the Company, and the Company achieving absolute TSR of at least 15% per annum compounded over certain time periods. At the time, absolute TSR was chosen by the Company as a suitable performance condition as it provided alignment between Company performance and executive remuneration.

As a result of the Company's performance in the year ended 30 June 2011, no options under this scheme vested during the year. This is in line with the Board's policy that the remuneration of executives be determined by Company performance. The Company has not issued new options under this scheme since 2009 when the scheme was replaced by the Executive Equity Plan.

Macmahon Deferred Bonus Scheme

Prior to the introduction of the current STI bonus scheme, a bonus system which incorporated a deferred element was used. Under this system, a portion of the bonus payable to an individual was withheld and paid in equal instalments, subject to the individual remaining employed, on the third and fifth anniversary of the initial payment.

Whilst no longer offered to employees, Macmahon administers the deferred element relating to bonuses for the 2006, 2007 and 2008 financial years. 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.

11.6 Board policy in relation to hedging unvested employee equity

The Board has adopted the Macmahon Trading in Shares Policy which amongst other things, prohibits employees from entering into transactions that limit the economic risk of participating in unvested employee entitlements. The policy also stipulates that hedging of unvested equity will result in immediate forfeiture. The Company Secretary monitors and ensures compliance with this policy.

11.7 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each Director and each of the consolidated entity's KMP and five highest remunerated executives are set out below.

	Year	Short-term					Other long-term benefits \$	Post-employment		Equity-settled	Performance related %	Non-performance related %	Compensation consisting of options and rights %	Total compensation \$	
		Salary \$	Committee Fees \$	Cash bonus/ STI \$	Non-monetary benefits \$	Total short-term \$		Superannuation \$	Termination payments \$	Options and rights ¹ \$					
Directors Non-executive															
Ken Scott-Mackenzie, Chairman	2011	202,288	-	-	-	202,288	-	42,537	-	-	-	100	-	244,825	
	2010	137,797	-	-	-	137,797	-	50,103	-	-	-	100	-	187,900	
Barry Cusack, Deputy Chairman	2011	135,780	-	-	-	135,780	-	12,220	-	-	-	100	-	148,000	
	2010	129,549	-	-	-	129,549	-	11,659	-	-	-	100	-	141,208	
Barry Ford	2011	53,890	10,000	-	-	63,890	-	48,110	-	-	-	100	-	112,000	
	2010	74,344	-	-	-	74,344	-	41,888	-	-	-	100	-	116,232	
John Massey *	2011	52,306	13,333	-	-	65,639	-	15,028	-	-	-	100	-	80,667	
	2010	93,744	-	-	-	93,744	-	24,021	-	-	-	100	-	117,765	
David Smith	2011	95,896	3,383	-	-	99,279	-	8,935	-	-	-	100	-	108,214	
	2010	22,936	-	-	-	22,936	-	2,064	-	-	-	100	-	25,000	
Vyrl Vella	2011	91,083	8,000	-	-	99,083	-	8,917	-	-	-	100	-	108,000	
	2010	99,083	-	-	-	99,083	-	8,917	-	-	-	100	-	108,000	

Directors - Executive

Nick Bowen, Chief Executive Officer	2011	1,218,457	-	-	16,425	1,234,882	-	25,000	-	1,748,724	58	42	58	3,008,606
	2010	1,168,750	-	1,225,000	15,616	2,409,366	-	25,000	-	1,748,724	71	29	42	4,183,090

* John Massey resigned on 28 February 2011.

1 **IMPORTANT NOTE:** The value for "Options and Rights" is an accounting charge (calculated in accordance with AASB 2 Share-based Payment) for equity incentives that may or may not be received in the future.

	Year	Short-term					Other long-term benefits \$	Post-employment		Equity-settled		Performance related %	Non-performance related %	Compensation consisting of options and rights %	Total compensation \$
		Salary \$	Committee Fees \$	Cash bonus/ STI \$	Non-monetary benefits \$	Total short-term \$		Superannuation \$	Termination payments ² \$	Options and rights ¹ \$					
Executives															
Ross Carroll, Chief Operating Officer - Mining	2011	700,000	-	-	12,236	712,236	42,214	54,167	-	438,046	39	61	35	1,246,663	
	2010	623,770	-	345,000	15,639	984,409	-	45,833	-	217,679	45	55	17	1,247,921	
Theresa Mlikota, Chief Financial Officer ³	2011	108,854	-	-	7,178	116,032	-	9,797	-	6,599	5	95	5	132,428	
	2010	-	-	-	-	-	-	-	-	-	-	-	-	-	
Patrick Doyle, EGM Construction ⁴	2011	259,982	-	-	23,104	283,086	-	54,224	518,192	-	-	100	-	855,502	
	2010	621,386	-	120,000	23,235	764,621	-	55,925	-	195,808	31	69	19	1,016,354	
Neil Wilson, EGM HSEQ	2011	379,817	-	-	12,271	392,088	9,088	28,404	-	88,329	19	81	17	517,909	
	2010	382,132	-	105,000	12,776	499,908	-	34,392	-	52,839	27	73	9	587,139	
Fraser Ramsay, EGM Surface Mining	2011	369,267	-	-	12,608	381,875	8,540	44,521	-	104,090	21	79	19	539,026	
	2010	353,798	-	245,420	9,640	608,858	-	30,437	-	43,836	42	58	6	683,131	
Greg Miller, EGM Underground	2011	346,329	-	-	11,609	357,938	12,019	31,170	-	84,639	20	80	17	485,766	
	2010	318,043	-	90,000	9,904	417,947	-	28,624	-	37,239	26	74	8	483,810	
Stewart Maddison, EGM International	2011	346,141	-	-	11,728	357,869	6,596	31,153	-	69,076	16	84	15	464,694	
	2010	330,369	-	105,000	10,487	445,856	-	29,733	-	43,786	29	71	8	519,375	
Diane Jaksa, GM People & Organisational Development ⁵	2011	69,512	-	-	9,200	78,712	-	14,171	6,742	-	-	100	-	99,625	
	2010	131,698	-	29,817	6,807	168,322	-	22,654	-	11,501	20	80	6	202,477	
Angie Young, EGM Human Resources ⁶	2011	150,000	-	-	9,745	159,745	-	13,500	-	16,805	9	91	9	190,050	
	2010	-	-	-	-	-	-	-	-	-	-	-	-	-	
Mark Hamilton, EGM Construction - East	2011	401,729	-	-	17,989	419,718	10,630	36,156	-	103,376	20	80	18	569,880	
	2010	377,447	-	115,000	21,328	513,775	-	37,894	-	50,841	28	72	8	602,510	
Robert Wilson, GM NT Construction ⁷	2011	348,894	-	239,762	4,800	593,456	11,422	50,106	-	63,420	44	56	9	718,404	
	2010	-	-	-	-	-	-	-	-	-	-	-	-	-	
Ashley Mason, EGM Strategy & Development ⁸	2011	168,196	-	-	15,972	184,168	-	15,138	-	6,599	3	97	3	205,905	
	2010	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total compensation: Directors and Executives	2011	5,498,421	34,716	239,762	164,865	5,937,764	100,509	543,254	524,934	2,729,703	31	69	28	9,836,164	
	2010	4,864,846	-	2,380,237	125,432	7,370,515	-	449,144	-	2,402,253	47	53	24	10,221,912	

1 **IMPORTANT NOTE:** The value for "Options and Rights" is an accounting charge (calculated in accordance with AASB 2 Share-based Payment) for equity incentives that may or may not be received in the future.

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

3 Theresa Mlikota was appointed on 18 April 2011.

4 Patrick Doyle resigned on 22 November 2010 and forfeited his entitlements to equity-settled options and rights on resignation.

5 Diane Jaksa resigned on 31 December 2010 and forfeited her entitlements to equity-settled rights on resignation.

6 Angie Young was appointed on 1 January 2011.

7 Robert Wilson's STI includes STI related to prior years totalling \$79,798.

8 Ashley Mason was appointed on 1 March 2011.

11. Remuneration report - audited (continued)

11.8 Performance related remuneration

The following table sets out the STI achieved for the period ended 30 June 2011. Except for Robert Wilson, no STI will be paid to KMP due to the Company not meeting its financial performance objectives.

KMP Name	Included in remuneration \$	% achieved in year	% forfeited in year
Nick Bowen*	-	20	100
Ross Carroll	-	-	100
Theresa Mlikota	-	-	100
Patrick Doyle	-	-	100
Neil Wilson	-	-	100
Fraser Ramsay	-	-	100
Greg Miller	-	-	100
Stewart Maddison	-	-	100
Diane Jaksa	-	-	100
Angie Young	-	-	100
Mark Hamilton	-	-	100
Robert Wilson	159,964	100	-
Ashley Mason	-	-	100

* Mr Bowen met stretch safety key performance indicators and was entitled to receive a short-term incentive equivalent to 30% of his base salary (20% of maximum bonus entitlement). However, having regard to the financial performance of the Company, Mr Bowen voluntarily forfeited his STI entitlement.

Long-term incentive

Options

No options granted under the Executive Option Scheme (2005) vested or were exercised during the year. 500,000 of options granted to Patrick Doyle lapsed upon termination of his employment on 22 November 2010.

Performance rights

The table below shows Performance Rights granted during the period.

KMP Name	Granted during the year		Vested during the year	Exercised during the year		Forfeited during the year	
	Number	Value (calculated at grant) \$	Number	Number	Value (calculated at exercise) \$	Number	Value (calculated at forfeiture) \$
Ross Carroll	2,000,000	831,250	-	-	-	-	-
Theresa Mlikota	1,000,000	415,625	-	-	-	-	-
Neil Wilson	250,000	103,906	-	-	-	-	-
Fraser Ramsay	500,000	207,813	-	-	-	-	-
Greg Miller	500,000	207,813	-	-	-	-	-
Stewart Maddison	400,000	166,250	-	-	-	-	-
Angie Young	300,000	124,688	-	-	-	-	-
Mark Hamilton	400,000	166,250	-	-	-	-	-
Robert Wilson	300,000	124,688	-	-	-	-	-
Ashley Mason	1,000,000	415,625	-	-	-	-	-

The maximum value of Performance Rights that may vest in future years is set out below. The amount reported is calculated in accordance with AASB 2 Share-based Payment.

KMP Name	Grant date	Average fair value per right at grant date \$	Exercise price \$	Amount (if any) paid or payable by the participant \$	First exercise date	Expiry date (last exercise date)
Ross Carroll	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Theresa Mlikota	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Neil Wilson	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Fraser Ramsay	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Greg Miller	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Stewart Maddison	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Angie Young	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Mark Hamilton	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Robert Wilson	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016
Ashley Mason	17/06/2011	0.415625	-	-	17/06/2013	17/12/2016

The Board notes that 4.92 million Performance Rights granted to the CEO under the CEO LTI Plan vested on 1 July 2011 (after the reporting period) and he became entitled to convert them to shares on 10 August 2011. Details of the CEO LTI Plan are disclosed in section 11.5. Subject to certain exceptions, Mr Bowen has voluntarily undertaken not to sell the beneficial ownership of the shares that will be issued upon exercise of these Performance Rights, until at least 1 July 2012.

11. Remuneration report - audited (continued)

11.9 Key notice and termination terms in employment contracts

The following table summarises key notice and termination features of the employment contracts for executive KMP and five highest remunerated executives.

Person	Contract details
Nick Bowen Managing Director and CEO	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 contract can be terminated by either party with 6 months notice or payment in lieu.
Ross Carroll Chief Operating Officer - Mining	Mr Carroll commenced on 6 November 2006 and entered into a new service contract with the Company effective from 1 January 2011. The contract is ongoing and has no fixed term. The contract can be terminated by either party with 6 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Theresa Mlikota Chief Financial Officer	Ms Mlikota commenced on 18 April 2011 and has an ongoing employment contract with the Company. The contract can be terminated by either party with 6 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Neil Wilson Executive General Manager - HSEQ	Mr Wilson commenced on 7 April 2003 and has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by either party with 3 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Fraser Ramsay Executive General Manager - Surface Mining	Mr Ramsay commenced on 1 March 2006 and was promoted to his current position on 4 November 2009. Mr Ramsay has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by either party with 3 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Greg Miller Executive General Manager - Underground	Mr Miller commenced on 2 April 1996 and was promoted to his current position on 18 February 2009. Mr Miller has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by either party with 3 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Stewart Maddison Executive General Manager - International	Mr Maddison commenced on 6 June 2000 and commenced his current position on 1 April 2011. Mr Maddison has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by either party with 3 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Angie Young Executive General Manager - Human Resources	Ms Young commenced on 22 December 2008 and was promoted to her current position on 1 January 2011. Ms Young has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by either party with 3 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.
Mark Hamilton Executive General Manager - Construction East	Mr Hamilton commenced on 1 March 2005 and was promoted to his current position on 2 May 2011. Mr Hamilton has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by the employer on 6 months notice or payment in lieu, or by the individual with 3 months notice. Retrenchment / severance benefits are in accordance with the applicable legislation.
Robert Wilson General Manager - Northern Territory Construction	Mr Wilson commenced with Henry Walker Eltin on 15 March 1975. Henry Walker Eltin's Northern Territory civil contracting business and assets were acquired by Macmahon Holdings and effective 25 March 2005 Mr Wilson transferred employment and has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by either party with 6 months notice or payment in lieu. Retrenchment / severance benefits are 1.5 times remuneration including bonus (capped at 20%) for the previous year.
Ashley Mason Executive General Manager - Strategy and Development	Mr Mason commenced with Macmahon on 1 March 2011 and has an ongoing employment contract with the Company. The contract can be terminated by the employer on 6 months notice or payment in lieu, or by the individual with 3 months notice. Retrenchment / severance benefits are in accordance with the applicable legislation.
Aidan Mullan Executive General Manager - Construction West	Mr Mullan commenced with Macmahon on 1 July 2011 and has an ongoing employment contract with Macmahon Contractors Pty Ltd, a controlled entity of the Company. The contract can be terminated by the employer on 6 months notice or payment in lieu, or by the individual with 3 months notice. Retrenchment / severance benefits are in accordance with the applicable legislation.

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:

	Ordinary Shares	Performance rights over ordinary shares
K B Scott-Mackenzie	50,000	-
N R Bowen	15,889,604	10,920,000
B L Cusack	900,000	-
B R Ford	122,782	-
V A Vella	200,000	-
D M Smith	30,000	-

Further details regarding the shares held by each Director and key management personnel is contained in note 33 to the financial statements.

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

As at the date of this report, unissued ordinary shares of the Company under options are as follows:

Expiry date	Exercise price (\$)	Number of options
07/03/2012	0.840	2,000,000
19/04/2013	0.820	1,017,000
14/07/2014	1.620	225,000
		3,242,000

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 23 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 did not issue any ordinary shares as a result of the exercise of options.

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 the 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 \$191,616 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 28 and 30 respectively of this Directors' report. The Company's current auditor is KPMG. The Company's Executives named on page 32 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 35 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 origination 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;
 - KPMG obtained prior approval from the Audit Committee Chairman for the provision of the non-audit services;
 - 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 54 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:



Nick Bowen
Director

Dated 16th August 2011 at Sydney

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 with 2010 Amendments* (2nd edition) ("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 and Nomination 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 and Nomination Committee, carries out a full evaluation of each executive's performance against agreed targets once a year. Performance pay components of executives' remuneration 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 five Non-executive Directors including the 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 28 to 29 of 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 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 Kenneth Scott-Mackenzie, Mr Barry Cusack, Mr Barry Ford and Dr David Smith are independent Directors.

The Board has determined that Mr Vyril 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 Kenneth Scott-Mackenzie 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 established a Remuneration and Nomination Committee which operates under a charter approved by the Board. The Charter is disclosed on the Company's website.

Principle 2: Structure the Board to add value (continued)

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 and may use the assistance of an external facilitator. The Chairman reviews the performance of individual Board members. The Board reviews the performance of individual Board members prior to any Board recommendation given for those Directors seeking re-election.

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 and its committees was carried out in accordance with the processes outlined above.

Any Director whose performance is consistently unsatisfactory may be asked to retire.

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 28 to 29. The Company also places the material that the Guide specifies should be made publicly available on its website.

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 (with the assistance from the Remuneration and Nomination Committee) 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 experience or skills, the Remuneration and Nomination Committee determines the selection criteria based on the skills deemed necessary. The Remuneration and Nomination Committee identifies potential candidates and may use the assistance of an external consultant. Those nominated are assessed by the Board against background, gender, 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. Upon recommendation from the Remuneration and Nomination Committee, 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 diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The Company has established and disclosed (on its website) a Diversity Policy in accordance with this recommendation.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Company's diversity targets and progress towards achieving such targets are as follows:

- Directors and Senior Management – The Company seeks to maintain at least 20% female participation in its Directors and Senior Management Group. The Company currently has 18% female participation at Senior Management Group level.
- Employees across the organisation – Currently within the Company's Australian operations 12% of employees are female. The Company seeks to at least maintain this percentage of female employees within its Australian operations and shall endeavor to make gradual improvements each year. The FY13 target is 13% and shall be achieved through strategies focused on improving systems, awareness and branding.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

An outline of the Company's diversity targets and performance against these targets is set out above.

Recommendation 3.5: Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

The Company provides the relevant information in its Annual Report and discloses such information 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 Barry Cusack, independent Non-executive Director (Chairman of the Audit Committee since 28 February 2011);
- Mr Barry Ford, independent Non-executive Director; and
- Dr David Smith, independent Non-executive Director.

Details of the relevant skills and qualifications of these Directors are set out in the Directors' report on pages 28 to 29. 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 Directors who are not members of the Audit Committee, the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller are all 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 30 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 Principle 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 is as follows.

1. General Approach

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 at the Annual General Meeting ("AGM"). The AGM also provides an important opportunity for investors to ask questions, express views and respond to Board proposals.

Periodic reviews of communication systems to take advantage of new technologies may further enhance Macmahon's ability to communicate effectively with its investors. Macmahon will endeavour to provide advance notification of group briefings and make them widely accessible, including through the use of webcasting or conference calls where possible. Macmahon will also keep a summary record for internal use of the issues discussed at briefings as well as a record of those present, and the time and place of the briefing.

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 presentations to analysts.

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 available, 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 reviewing 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.

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 risk management system under which management monitors risks throughout the Company with significant risks being reported to the Board.

The Chief Executive Officer reports to the Board as to the effectiveness of the Company's management of its material business risks regularly in accordance with the Risk Management Policy.

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 and Nomination Committee. The responsibilities of the Remuneration and Nomination Committee are set out in the Remuneration and Nomination Committee Charter, which is available on the Company's website.

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

- Mr Vyril Vella, Non-executive Director (Chairman);
- Mr Kenneth Scott-Mackenzie, independent Non-executive Director;
- Mr Barry Cusack, independent Non-executive Director; and
- Dr David Smith, independent Non-executive Director.

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 30 of the Directors' report.

Recommendation 8.2: The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair, and has at least three members.

The Remuneration and Nomination Committee established by the Board is structured predominantly in accordance with this recommendation. Mr Vella is, however, the non-independent chair of this Committee. The Board has determined that given Mr Vella's industry experience, Mr Vella is well placed to discharge this function in accordance with the Committee Charter.

Recommendation 8.3: 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. The Company has not established any schemes for the provision of retirement benefits, other than statutory superannuation, for Non-executive Directors.

Further details regarding Non-executive Directors' remuneration are set out in the Remuneration Report on pages 32 to 42.

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. 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 scheme.

Further details regarding senior executive remuneration are set out in the Remuneration Report on pages 32 to 42.

Recommendation 8.4: 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.

Auditor's independence declaration



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 2011 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.

KPMG

KPMG

A handwritten signature in black ink, appearing to be 'T Hart', written over the printed name 'Trevor Hart'.

Trevor Hart
Partner

Perth

16 August 2011

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

Consolidated statement of comprehensive income For the year ended 30 June 2011

<i>In thousands of AUD</i>	Note	2011	2010
Revenue	6	1,089,409	896,445
Other income	7	1,220	1,683
		1,090,629	898,128
Materials and consumables used		(357,040)	(281,829)
Employee benefits expense	8	(459,905)	(368,043)
Subcontractor costs		(118,486)	(113,517)
Depreciation and amortisation expenses	18 & 19	(57,074)	(44,309)
Equipment and office expenses under operating leases	27	(26,341)	(24,701)
Other expenses		(36,316)	(44,842)
Results from operating activities		35,467	20,887
Finance income	9	1,597	2,216
Finance expense	9	(13,637)	(8,016)
Net finance costs		(12,040)	(5,800)
Share of (loss) / profit in jointly controlled entities accounted for using the equity method (net of tax)	16	(27,214)	34,368
(Loss) / profit before income tax		(3,787)	49,455
Income tax benefit / (expense)	10	1,071	(10,652)
(Loss) / profit for the year		(2,716)	38,803
Other comprehensive (loss) / income			
Foreign currency translation differences for foreign operations		(5,568)	1,571
Effective portion of changes in fair value of cash flow hedges	9	(29)	-
Other comprehensive (loss) / income for the year, net of tax		(5,597)	1,571
Total comprehensive (loss) / income for the year		(8,313)	40,374
(Loss) / profit attributable to:			
Equity holders of the Company		1,045	37,892
Non-controlling interest		(3,761)	911
(Loss) / profit for the year		(2,716)	38,803
Total comprehensive (loss) / income attributable to:			
Equity holders of the Company		(4,552)	39,463
Non-controlling interest		(3,761)	911
Total comprehensive (loss) / income for the year		(8,313)	40,374
Earnings per share			
Basic earnings per share (cents)	11	0.14	5.17
Diluted earnings per share (cents)	11	0.14	5.08

The notes on pages 59 to 107 are an integral part of these consolidated financial statements.

Consolidated statement of financial position As at 30 June 2011

<i>In thousands of AUD</i>	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents	12	115,634	102,193
Trade and other receivables	13	168,010	86,209
Inventories	14	45,147	37,047
Current tax receivables	15	2,778	1,928
Total current assets		331,569	227,377
Non-current assets			
Investments accounted for using the equity method	16	4,237	27,431
Deferred tax assets	17	3,367	118
Property, plant and equipment	18	311,201	286,307
Intangible assets	19	35,351	39,577
Total non-current assets		354,156	353,433
Total assets		685,725	580,810
Liabilities			
Current liabilities			
Trade and other payables	20	217,054	118,429
Loans and borrowings	21	37,488	15,764
Employee benefits	22	37,166	35,190
Current tax liabilities	15	874	694
Provisions	24	7,739	6,651
Total current liabilities		300,321	176,728
Non-current liabilities			
Loans and borrowings	21	38,653	42,653
Employee benefits	22	3,713	2,721
Deferred tax liabilities	17	19,915	18,970
Total non-current liabilities		62,281	64,344
Total liabilities		362,602	241,072
Net assets		323,123	339,738
Equity			
Share capital		307,963	307,963
Reserves		(9,057)	(2,284)
Retained earnings		24,250	30,331
Total equity attributable to equity holders of the Company		323,156	336,010
Non-controlling interest		(33)	3,728
Total equity		323,123	339,738

The notes on pages 59 to 107 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

<i>In thousands of AUD</i>	Attributable to equity holders of the Company							Total equity
	Share capital	Translation reserve	Hedging reserve	Reserve for own shares	Retained earnings	Total	Non-controlling interest	
Balance at 1 July 2009	308,283	(288)	-	-	192	308,187	2,817	311,004
Total comprehensive income for the year								
Profit	-	-	-	-	37,892	37,892	911	38,803
<i>Other comprehensive income</i>								
Foreign currency translation differences	-	1,571	-	-	-	1,571	-	1,571
Total comprehensive income for the year (net of tax)	-	1,571	-	-	37,892	39,463	911	40,374
Transactions with owners, recorded directly in equity								
<i>Contributions by and distribution to owners</i>								
Executive Equity Plan share purchases	-	-	-	(3,567)	-	(3,567)	-	(3,567)
Capital raising costs	(320)	-	-	-	-	(320)	-	(320)
Dividends to owners	-	-	-	-	(10,978)	(10,978)	-	(10,978)
Share-based payment transactions	-	-	-	-	3,225	3,225	-	3,225
Total transactions with owners	(320)	-	-	(3,567)	(7,753)	(11,640)	-	(11,640)
Balance at 30 June 2010	307,963	1,283	-	(3,567)	30,331	336,010	3,728	339,738
Balance at 1 July 2010	307,963	1,283	-	(3,567)	30,331	336,010	3,728	339,738
Total comprehensive loss for the year								
Profit / (Loss)	-	-	-	-	1,045	1,045	(3,761)	(2,716)
<i>Other comprehensive income</i>								
Foreign currency translation differences	-	(5,568)	-	-	-	(5,568)	-	(5,568)
Effective portion of changes in fair value of cash flow hedges	-	-	(29)	-	-	(29)	-	(29)
Total comprehensive income / (loss) for the year (net of tax)	-	(5,568)	(29)	-	1,045	(4,552)	(3,761)	(8,313)
Transactions with owners, recorded directly in equity								
<i>Contributions by and distribution to owners</i>								
Executive Equity Plan share purchases	-	-	-	(1,176)	-	(1,176)	-	(1,176)
Dividends to owners	-	-	-	-	(10,885)	(10,885)	-	(10,885)
Share-based payment transactions	-	-	-	-	3,759	3,759	-	3,759
Total transactions with owners	-	-	-	(1,176)	(7,126)	(8,302)	-	(8,302)
Balance at 30 June 2011	307,963	(4,285)	(29)	(4,743)	24,250	323,156	(33)	323,123

The notes on pages 59 to 107 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows For the year ended 30 June 2011

<i>In thousands of AUD</i>	Note	2011	2010
Cash flows from operating activities			
Receipts from customers		1,117,728	1,060,872
Payments to suppliers and employees		(1,040,517)	(954,475)
Net receipts from joint venture entities		28,049	14,394
Cash generated from operating activities		105,260	120,791
Interest paid		(13,637)	(8,016)
Interest received		1,597	2,216
Income taxes (paid) / refunded		(856)	2,111
Net cash from operating activities	32	92,364	117,102
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,141	4,503
Payment for property, plant and equipment ¹		(82,072)	(51,744)
Payment for intangibles		(88)	(1,418)
Net cash used in investing activities		(81,019)	(48,659)
Cash flows from financing activities			
Share issuance costs		-	(320)
Executive Equity Plan share purchases		(1,680)	(3,567)
Proceeds from borrowings		53,314	40,000
Payment of transaction costs related to loans and borrowings		-	(5,234)
Repayment of borrowings		(23,240)	(29,605)
Repayment of hire purchase and finance lease liabilities		(12,652)	(66,650)
Dividends paid		(10,885)	(10,978)
Net cash from / (used in) financing activities		4,857	(76,354)
Net increase / (decrease) in cash and cash equivalents		16,202	(7,911)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(2,761)	818
Cash and cash equivalents at beginning of year		102,193	109,286
Cash and cash equivalents at end of year	12	115,634	102,193

¹ The consolidated entity acquired plant and equipment under finance leases and hire purchase agreements amounting to \$302,000 (2010: \$8,772,000) during the year which have been excluded from the cash flow.

The notes on pages 59 to 107 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. 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 2011 comprises 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 is primarily involved in providing services to both the mining and construction sectors. The address of the Company's registered office is Level 3, 27 – 31 Troode Street, West Perth, Western Australia, 6005.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards ("IFRSs") adopted by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 16 August 2011.

(b) Basis of measurement

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

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the consolidated entity.

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) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS 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 reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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, variations and incentive payments, 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.

(e) Changes in accounting policies

Removal of parent entity financial statements

The consolidated entity has applied amendments to Corporations Act (2001) that remove the requirement for the consolidated entity to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 30.

2. Basis of preparation (continued)

(e) Changes in accounting policies (continued)

Presentation of transactions recognised in other comprehensive income

From 1 July 2010 the consolidated entity has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and have had no effect on the consolidated entity's statement of changes in equity.

(f) New accounting standards and interpretations

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 operation and effective for the current annual reporting period.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by all entities in the consolidated entity.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the consolidated entity. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Investments in associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the consolidated entity holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities 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.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The cost of investment includes transaction costs.

The consolidated financial statements include the consolidated entity's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the consolidated entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the consolidated entity's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of the investee.

(iii) Special purpose entities

The consolidated entity has established a special purpose entity (SPE) for investment purposes. The consolidated entity does not have any direct or indirect shareholdings in this entity. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the consolidated entity and the SPE's risks and rewards, the consolidated entity concludes that it controls the SPE. A SPE controlled by the consolidated entity was established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the consolidated entity receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks related to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the consolidated entity are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated entity's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within consolidated entity equity. Any cash paid for the acquisition is recognised directly in equity.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the consolidated entity's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the exchange rate 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. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at the average exchange rate for the period. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are recognised to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. 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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income / other expenses in profit or loss.

(ii) Leased assets

Leases where the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the consolidated entity's statement of financial position.

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the consolidated entity, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation and amortisation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the consolidated entity will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed on regular basis with annual reassessments for major items and adjusted if appropriate.

The expected useful lives for the current and comparative years are as follows:

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

(d) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the consolidated entity measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Acquisitions between 1 July 2004 and 1 July 2009

For acquisitions between 1 July 2004 and 1 July 2009, goodwill represents the excess of the cost of acquisition over the consolidated entity's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Acquisitions prior to 1 July 2004 (date of transition to IFRS)

In respect of acquisitions prior to 1 July 2004, goodwill represents the amount recognised under the consolidated entity's previous accounting framework (Australian GAAP).

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

(ii) Software development costs

Software development activities include the design of the Global Information System. 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 profit or loss as incurred.

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

(iii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Amortisation

Amortisation is based on the cost of the asset less its residual value.

Amortisation is recognised in profit or loss 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 years are as follows:

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

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(f) 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 profit or loss.

The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through profit or loss.

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 profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

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.

3. Significant accounting policies (continued)

(g) 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. It is measured at cost plus profit recognised to date (see accounting policy (m)) 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.

Due to the short-term nature of trade and other receivables, their carrying value is assumed to approximate their fair value.

(iii) Accrued revenue

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

(h) 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 weighted average principle and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

(i) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (h)) and deferred tax assets (see accounting policy (o)), 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 profit or loss.

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 property, plant and equipment is determined using values of similar equipment traded in the market, where available.

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.

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.

(j) 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 profit or loss over the period of the borrowings on an effective interest basis.

(k) Employee benefits

(i) Defined contribution 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 employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit 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. Any unrecognised past service costs and the fair value of any plan assets are 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 once every three years using the projected unit credit method. In the intervening period, management estimates the present value using assumptions provided by the actuary. When 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 economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the consolidated entity. 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 in profit or loss 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 profit or loss.

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.

3. Significant accounting policies (continued)

(k) Employee benefits (continued)

(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; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. 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 reporting date that 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 committed demonstrably, 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. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(v) Short-term employee 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 and performance rights programmes which provide benefits to executives and other employees.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee benefits expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of the awards granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards 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 awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

When the Company grants awards 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.

(l) Provisions

A provision is recognised if, as a result of a past event, the consolidated entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

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 consolidated financial statements.

(m) Revenue

Revenue is recognised at the fair value of consideration received or receivable, 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 profit or loss in proportion to the work performed or stage of completion of the transaction at the reporting 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, alliance and joint venture contracts, where profit is reliably measurable from the outset, contract revenue and expenses are recognised in profit or loss 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.

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

(n) Expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

(ii) Finance income and finance costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date the consolidated entity's right to receive payment is established, which in the case of quoted securities is ex-dividend date.

Finance costs comprise interest expense on borrowings and the unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

3. Significant accounting policies (continued)

(o) Income tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The consolidated entity does not distribute non-cash assets as dividends to its shareholders.

(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 deferred tax loss 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.

(p) 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.

(q) Dividends

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

(r) 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 year, adjusted for own shares held by the Company's sponsored employee share plan trust.

Diluted 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, adjusted for shares held by the Company's sponsored employee share plan trust and for the effects of all dilutive potential ordinary shares, which comprise share options and performance shares / rights granted to employees and directors.

(s) Segment reporting

Determination and presentation of operating segments

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's CEO and Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO and Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(t) Financial instruments

Derivative financial instruments, including hedge accounting

The consolidated entity holds derivative financial instruments to hedge its interest rate risk exposures.

On initial designation of the hedge, the consolidated entity formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The consolidated entity makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the consolidated entity, except for AASB 9 *Financial Instruments* and AASB 11 *Joint Arrangements*, which becomes mandatory for the consolidated entity's 2014 consolidated financial statements and could change the classification and measurement of financial assets and investments in jointly controlled entities. The consolidated entity does not plan to adopt this standard early and the extent of the impact has not been determined.

4. Financial risk management

The consolidated entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about 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 these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors is responsible for the management of the risk system which identifies, assesses, monitors and manages the material risks throughout the consolidated entity.

The risk management system is used to identify and analyse the risks faced by 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 consolidated entity's activities. The consolidated entity, through its training and management standards and procedures, aims 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 consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the 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.

Trade and other receivables

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 21.5% (2010: 38.9%) of the consolidated entity's revenue is attributable to sale transactions with a single customer. Geographically, the concentration of credit risk is in Australia.

Under the consolidated entity'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 55% (2010: 46%) 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 consolidated entity has 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 (2010: 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's policy is to provide financial guarantees only to or for 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 May 2010, Macmahon secured a three year \$240 million facility comprised of three tranches:

- Tranche A – A\$40 million working capital cash advance facility
- Tranche B – A\$75 million bank guarantee facility
- Tranche C – A\$125 million equipment finance facility

As at 30 June 2011, Tranche A, Tranche B and Tranche C have undrawn facilities of \$15 million, \$30.6 million and \$66 million respectively.

Outstanding individual lease agreements drawn under the previous facility remain in place until their expiry date.

In addition, Macmahon has a \$200 million insurance bond facility with \$130 million available at year end.

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), Malaysian ringgit (MYR), Hong Kong dollar (HKD) and Nigerian Naira (NGN). The currencies in which these transactions are primarily denominated are AUD, NZD, USD, MYR, HKD and NGN.

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, European Euro (EUR) and Japanese Yen (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 current or previous 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.

Under the consolidated entity's approved Financial Risk Management Policy, interest rate exposures on committed capital finance borrowings are hedged in order to attain 100% fixed rates (by volume). The hedging instruments approved by the Board of Directors for this purpose, are interest rate swaps and interest rate caps and floors.

Other market price risk

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

4. Financial risk management (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the consolidated entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the consolidated entity's operations.

The consolidated entity's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the consolidated entity's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall consolidated entity's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

Compliance with consolidated entity's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the consolidated entity.

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 loans and borrowings disclosed in note 21, cash and cash equivalents as disclosed in note 12 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity. 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.

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.

Capital management (continued)

The consolidated entity's net debt-to-equity ratio at the end of the reporting period was as follows:

<i>In thousands of AUD</i>	2011	2010
Debt ¹	76,141	58,417
Cash and cash equivalents	(115,634)	(102,193)
Net debt	(39,493)	(43,776)
Equity ²	323,123	339,738
Net debt to equity ratio	(12.2%)	(12.9%)

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

² Equity includes all capital, reserves, retained earnings and non-controlling interest.

From time to time the consolidated entity, through a trust, purchases its own shares on market; the timing of these purchases depends on market prices. The CEO and Managing Director authorises the transfer of funds to the trustee who makes buy and sell decisions as authorised under the trust deed. The shares are held in the trust for issuing under the consolidated entity's Executive Equity Plan Performance Rights programme. The consolidated entity does not have a defined share buy-back plan.

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

5. Operating segments

The consolidated entity has identified its reportable segments based on the internal reports that are reviewed and used by the CEO and Managing Director (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The following reportable segments are identified by management based on the nature of the business and service provided.

Mining

Provides a comprehensive mine to mill capability for both surface and underground operations. Mining a variety of minerals and base metals including coal, copper, gold, diamonds, iron ore, nickel and limestone.

Construction

Provides government and resource sector clients a diverse and comprehensive range of construction capabilities that incorporates roads and bridges, rail, water and environment, marine and resource infrastructure.

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 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.

Joint ventures

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 in these financial statements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the consolidated entity's CEO and Managing Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

5. Operating segments (continued)

Information about reportable segments

<i>In thousands of AUD</i>	Mining		Construction		Reportable segment totals	
	2011	2010	2011	2010	2011	2010
Revenue from group and joint ventures	674,362	465,615	580,007	788,758	1,254,369	1,254,373
Interest income	183	112	127	62	310	174
Interest expense	(5,941)	(5,311)	(412)	(516)	(6,353)	(5,827)
Depreciation and amortisation	(49,469)	(34,918)	(5,662)	(6,288)	(55,131)	(41,206)
Reportable segment profit before income tax ¹	42,635	34,782	(35,694)	34,849	6,941	69,631
Share of (loss) / profit of equity accounted investees	2,015	-	(29,229)	34,368	(27,214)	34,368
Other material non-cash items:						
Impairment on property, plant and equipment and intangible assets	-	(789)	-	-	-	(789)
Reportable segment assets	465,547	378,006	88,869	65,148	554,416	443,154
Investments in equity accounted investees	523	-	3,714	27,431	4,237	27,431
Reportable segment liabilities	(216,244)	(149,778)	(104,652)	(70,097)	(320,896)	(219,875)
Capital expenditure	77,552	58,938	4,294	948	81,846	59,886

¹ The reportable segment profit before income tax of Construction includes overhead costs incurred in support of the joint venture activities but not chargeable to the joint ventures.

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items

<i>In thousands of AUD</i>	2011	2010
Revenues		
Total revenue for reportable segments	1,254,369	1,254,373
Elimination of joint venture revenues	(221,371)	(419,852)
Elimination of joint venture recoveries	56,411	61,924
Consolidated revenue	1,089,409	896,445
Profit or loss		
Total profit for reportable segments	6,941	69,631
Unallocated amounts: corporate expenses	(10,728)	(20,176)
Consolidated (loss) / profit before income tax	(3,787)	49,455
Assets		
Total assets for reportable segments	554,416	443,154
Investments in equity accounted investees	4,237	27,431
Other unallocated amounts	127,072	110,225
Consolidated assets	685,725	580,810
Liabilities		
Total liabilities for reportable segments	(320,896)	(219,875)
Other unallocated amounts	(41,706)	(21,197)
Consolidated liabilities	(362,602)	(241,072)

Notes to the consolidated financial statements continued

Other material items 2011

In thousands of AUD

	Reportable segment totals	Unallocated items	Consolidated totals
Interest income	310	1,287	1,597
Interest expense	(6,353)	(7,284)	(13,637)
Depreciation and amortisation	(55,131)	(1,943)	(57,074)
Capital expenditure	81,846	528	82,374

Other material items 2010

In thousands of AUD

	Reportable segment totals	Unallocated items	Consolidated totals
Interest income	174	2,042	2,216
Interest expense	(5,827)	(2,189)	(8,016)
Depreciation and amortisation	(41,206)	(2,314)	(43,520)
Impairment of property, plant and equipment and intangible assets	(789)	-	(789)
Capital expenditure	59,886	630	60,516

Geographical information

The Mining and Construction segments operate in two principal geographical areas - Australia and Overseas.

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

<i>In thousands of AUD</i>	2011		2010	
	Revenues	Non-current assets	Revenues	Non-current assets
Australia	1,045,309	323,561	862,231	326,279
Overseas	44,100	27,228	34,214	27,036
Total	1,089,409	350,789	896,445	353,315

Major customer

Approximately 21.5% (2010: 38.9%) of the consolidated entity's revenue is attributable to sales transactions with a single customer.

6. Revenue

In thousands of AUD

	2011	2010
Revenue from external customers		
Mining	660,547	463,200
Construction	428,862	433,245
	1,089,409	896,445

The consolidated entity's share of revenue from joint venture entities is excluded from revenue 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 at Note 5.

7. Other income

In thousands of AUD

	2011	2010
Net gain on disposal of plant and equipment	148	1,154
Other	1,072	529
	1,220	1,683

8. Employee benefits expense

<i>In thousands of AUD</i>	2011	2010
Employee benefits expense includes the following:		
- Contributions to defined contribution plans	30,001	25,335
- Expenses related to defined benefit superannuation plans	202	217
- Share-based payment expense	3,759	3,622

9. Finance income and finance costs

Recognised in profit or loss

<i>In thousands of AUD</i>	2011	2010
Interest income on financial assets (bank deposits)	1,597	2,216
Finance income	1,597	2,216
Interest expense on financial liabilities carried at amortised cost	(13,637)	(8,016)
Finance expense	(13,637)	(8,016)
Net finance costs recognised in profit or loss	(12,040)	(5,800)

Recognised in other comprehensive income

<i>In thousands of AUD</i>	2011	2010
Effective portion of changes in fair value of cash flow hedges, net of tax	(29)	-
Finance costs recognised in other comprehensive income, net of tax, attributable to equity holders of the Company	(29)	-

10. Income tax benefit / (expense)

In thousands of AUD

	2011	2010
Current tax benefit / (expense)		
Current year	(716)	(588)
Adjustments for prior years	-	(51)
	(716)	(639)
Deferred tax benefit / (expense)		
Origination and reversal of temporary differences	1,787	(10,013)
	1,787	(10,013)
Income tax benefit / (expense) excluding share of income tax of equity accounted investees	1,071	(10,652)
Income tax benefit / (expense)	1,071	(10,652)
Share of income tax of equity accounted investees	(334)	-
Total income tax benefit / (expense)	737	(10,652)

Income tax recognised directly in equity

<i>In thousands of AUD</i>	2011			2010		
	Before tax	Tax benefit	Net of tax	Before tax	Tax expense	Net of tax
Purchase of own shares	(1,680)	504	(1,176)	-	-	-
Share-based payment transactions	-	-	-	3,622	(397)	3,225
	(1,680)	504	(1,176)	3,622	(397)	3,225

Income tax recognised in other comprehensive income

<i>In thousands of AUD</i>	2011			2010		
	Before tax	Tax benefit	Net of tax	Before tax	Tax expense	Net of tax
Interest rate swaps	(42)	13	(29)	-	-	-
	(42)	13	(29)	-	-	-

Reconciliation of effective tax rate

<i>In thousands of AUD</i>	2011	2010
(Loss) / profit before income tax	(3,787)	49,455
Income tax using the domestic corporation tax rate of 30% (2010: 30%)	1,136	(14,837)
Foreign tax rate differential	390	69
Share-based payment expense	(1,128)	(680)
Non-deductible expenses	(23)	(5)
Research and development concession	-	1,362
Distribution of partnership losses	-	1,812
30% government investment allowance	-	1,829
Utilisation of foreign and domestic income losses not previously recognised	364	1,027
Repayment of loan by controlled foreign entity	-	(1,291)
Other	(2)	113
	737	(10,601)
Over provided in prior years	-	(51)
Income tax benefit / (expense)	737	(10,652)

11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of \$1,045,000 (2010: \$37,892,000) and a weighted average number of ordinary shares outstanding of 725,658,000 (2010: 732,379,000), calculated as follows:

Profit attributable to ordinary shareholders

<i>In thousands of AUD</i>	2011	2010
Profit attributable to ordinary equity holders	1,045	37,892

Weighted average number of ordinary shares

<i>In thousands of shares</i>	2011	2010
Issued ordinary shares at 1 July	733,712	733,712
Effect of own shares held	(8,054)	(1,333)
Weighted average number of ordinary shares at 30 June	725,658	732,379

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2011 was based on profit attributable to ordinary shareholders of \$1,045,000 (2010: \$37,892,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 749,411,000 (2010: 745,977,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

<i>In thousands of shares</i>	Note	2011	2010
Weighted average number of ordinary shares at 30 June		725,658	732,379
Effect of performance rights on issue	23	23,753	13,598
Weighted average number of ordinary shares (diluted) at 30 June		749,411	745,977

12. Cash and cash equivalents

<i>In thousands of AUD</i>	2011	2010
Bank balances	115,634	102,193
Cash and cash equivalents	115,634	102,193

The consolidated entity's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 26.

13. Trade and other receivables

<i>In thousands of AUD</i>	2011	2010
Current assets		
Trade receivables ¹	65,375	38,205
Accrued revenue ¹	54,437	23,254
Other receivables and prepayments	14,651	7,736
	134,463	69,195
Construction work in progress	33,547	17,014
	168,010	86,209

¹ Includes trade receivables and accrued revenue due from related parties of \$8,069,000 (2010: \$9,971,000).

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 26.

Construction work in progress comprises:

<i>In thousands of AUD</i>	2011	2010
Contract costs incurred to date:		
Gross cost plus profit recognised to date	1,605,285	1,546,506
Less: progress billings received	(1,571,738)	(1,529,492)
Net construction work in progress	33,547	17,014

14. Inventories

<i>In thousands of AUD</i>	2011	2010
Raw materials and consumables - at cost	45,147	37,047
	45,147	37,047

15. Current tax receivables / liabilities

The current tax receivable for the consolidated entity of \$2,778,000 (2010: \$1,928,000) and current tax liability of \$874,000 (2010: \$694,000) represents the amount of income tax receivable and payable in respect of current and prior periods.

16. Investments accounted for using the equity method

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

	Principal activities	Country of incorporation	Ownership	
			2011	2010
Active as at 30 June				
Wyaralong Joint Venture ¹	Dam construction	Australia	60%	60%
Macmahon/Leighton Joint Venture	Railway construction	Australia	50%	50%
Hale Street Link Joint Venture	Bridge construction	Australia	33.3%	33.3%
Alkimos Joint Venture	Waste water treatment plant construction	Australia	30%	30%
Southern Improvement Alliance Joint Venture	Railway construction	Australia	20%	20%
Glenfield Rail Alliance ¹	Railway construction	Australia	60%	60%
Richmond Line Alliance	Railway construction	Australia	18%	18%
K2RQ Project Alliance	Railway construction	Australia	9%	9%
XRL 822 Hong Kong Tunnel JV	Tunnel construction	Hong Kong	25%	25%
Gooring Jimbila Contracting JV ¹	Mine site general maintenance	Australia	60%	N/A
Urban Superway JV	Highway construction	Australia	40%	N/A
Karara Yamatji JV	Recruitment and training of indigenous workers	Australia	50%	N/A
Pilbara Logistics Macmahon Joint Venture	Infrastructure construction	Australia	20%	N/A
Inactive as at 30 June				
Eyre Peninsula Joint Venture		Australia	50%	50%
Tonkin Highway 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%

¹ The consolidated entity has joint control over these jointly controlled entities 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.

Summary financial information for equity accounted investees:

<i>In thousands of AUD</i>	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%)
2011	757,434	(683,892)	73,542	(27,214)	252,663	-	252,663	260,500	294	260,794
2010	1,111,240	(1,012,911)	98,329	34,368	291,171	-	291,171	228,870	603	229,473

Notes to the consolidated financial statements continued

<i>In thousands of AUD</i>	2011	2010
Share of joint venture profit	(21,916)	32,149
Adjustments:		
- timing differences on recognition of earnings	(5,298)	2,219
Share of joint venture (losses) / profits accounted for using the equity method	(27,214)	34,368

Revenues and recoveries from the jointly controlled entities are disclosed in note 5. Amounts receivable from jointly controlled entities are \$8,069,000 (2010: \$9,971,000) which are unsecured and are in the ordinary course of business.

The jointly controlled entities do not have any capital commitments, 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>	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Inventories	-	-	(13,235)	(3,472)	(13,235)	(3,472)
Trade and other receivables	-	-	(144)	68	(144)	68
Property, plant and equipment	4,505	-	(37,616)	(28,818)	(33,111)	(28,818)
Unbilled work in progress	-	-	(28,295)	-	(28,295)	-
Income received in advance	3,539	-	-	-	3,539	-
Other creditors and accruals	1,425	1,074	-	-	1,425	1,074
Employee benefits	15,871	12,856	-	-	15,871	12,856
Partnership income	-	-	-	(1,714)	-	(1,714)
Tax losses carried forward	37,213	757	-	-	37,213	757
Other items	261	397	(72)	-	189	397
Tax assets / (liabilities)	62,814	15,084	(79,362)	(33,936)	(16,548)	(18,852)
Set off of tax	(59,447)	(14,966)	59,447	14,966	-	-
Net tax assets / (liabilities)	3,367	118	(19,915)	(18,970)	(16,548)	(18,852)

Movement in temporary differences during the year

<i>In thousands of AUD</i>	Balance 1 July 2009	Recognised in profit or loss	Recognised in equity	Balance 30 June 2010	Recognised in profit or loss	Recognised in equity	Balance 30 June 2011
Inventories	(3,493)	21	-	(3,472)	(9,763)	-	(13,235)
Trade and other receivables	-	68	-	68	(212)	-	(144)
Property, plant and equipment	(24,080)	(4,738)	-	(28,818)	(4,293)	-	(33,111)
Unbilled work in progress	-	-	-	-	(28,295)	-	(28,295)
Income received in advance	-	-	-	-	3,539	-	3,539
Other creditors and accruals	1,081	(7)	-	1,074	351	-	1,425
Employee benefits	13,049	(193)	-	12,856	3,015	-	15,871
Partnership income	-	(1,714)	-	(1,714)	1,714	-	-
Tax losses carried forward	4,232	(3,475)	-	757	35,952	504	37,213
Other items	769	25	(397)	397	(221)	13	189
	(8,442)	(10,013)	(397)	(18,852)	1,787	517	(16,548)

18. Property, plant and equipment

<i>In thousands of AUD</i>	Freehold land	Buildings	Leasehold improvements	Owned plant and equipment	Equipment under finance lease	Total
Cost						
Balance at 1 July 2009	412	79	9,442	326,650	168,096	504,679
Acquisitions	-	-	46	51,698	8,772	60,516
Disposals	-	-	(236)	(39,066)	-	(39,302)
Effect of movements in foreign exchange	-	-	-	678	116	794
Reclassification and transfers	-	-	(294)	115,137	(114,892)	(49)
Balance at 30 June 2010	412	79	8,958	455,097	62,092	526,638
Balance at 1 July 2010	412	79	8,958	455,097	62,092	526,638
Acquisitions	-	2,042	-	80,030	302	82,374
Disposals	-	-	(1,002)	(11,060)	-	(12,062)
Effect of movements in foreign exchange	-	-	-	(5,029)	(380)	(5,409)
Reclassification and transfers	-	-	-	25,687	(25,687)	-
Balance at 30 June 2011	412	2,121	7,956	544,725	36,327	591,541
Depreciation and impairment losses						
Balance at 1 July 2009	-	79	2,315	179,051	54,500	235,945
Depreciation charge for the year	-	-	1,168	23,707	14,327	39,202
Impairment loss for the year	-	-	-	629	160	789
Disposals	-	-	(236)	(35,718)	-	(35,954)
Effect of movements in foreign exchange	-	-	-	295	7	302
Reclassification and transfers	-	-	(137)	45,426	(45,242)	47
Balance at 30 June 2010	-	79	3,110	213,390	23,752	240,331
Balance at 1 July 2010	-	79	3,110	213,390	23,752	240,331
Depreciation charge for the year	-	346	1,124	46,313	4,977	52,760
Disposals	-	-	(998)	(10,071)	-	(11,069)
Effect of movements in foreign exchange	-	-	-	(1,625)	(57)	(1,682)
Reclassification and transfers	-	-	-	12,482	(12,482)	-
Balance at 30 June 2011	-	425	3,236	260,489	16,190	280,340
Carrying amounts						
At 30 June 2010	412	-	5,848	241,707	38,340	286,307
At 30 June 2011	412	1,696	4,720	284,236	20,137	311,201

Equipment under finance lease

The consolidated entity leases 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 is secured under the 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>	Goodwill	Software development costs	Other intangible assets	Total
Cost				
Balance at 1 July 2009	22,550	18,487	3,115	44,152
Acquisitions – internally developed	-	1,418	-	1,418
Balance at 30 June 2010	22,550	19,905	3,115	45,570
Balance at 1 July 2010	22,550	19,905	3,115	45,570
Acquisitions – internally developed	-	-	88	88
Balance at 30 June 2011	22,550	19,905	3,203	45,658
Amortisation and impairment losses				
Balance at 1 July 2009	-	-	1,675	1,675
Amortisation for the year	-	3,973	345	4,318
Balance at 30 June 2010	-	3,973	2,020	5,993
Balance at 1 July 2010	-	3,973	2,020	5,993
Amortisation for the year	-	4,002	312	4,314
Balance at 30 June 2011	-	7,975	2,332	10,307
Carrying amounts				
At 30 June 2010	22,550	15,932	1,095	39,577
At 30 June 2011	22,550	11,930	871	35,351

Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

<i>In thousands of AUD</i>	2011	2010
Underground Mining	6,444	6,444
Australian Raised Drilling (ARD) / Combined Resource Engineering (CRE)	11,506	11,506
Maintenance Services	347	347
MVM Rail	4,253	4,253
	22,550	22,550

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 incorporate an estimated annual growth in revenue of approximately 15%. 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 22% 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 20%.

Underground Mining and Maintenance Services

The recoverable amounts of Underground Mining 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 incorporate an estimated annual growth in revenue of approximately 5%. 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 22% 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 20%.

20. Trade and other payables

<i>In thousands of AUD</i>	2011	2010
Current		
Trade payables and accrued operating expenses	200,759	110,530
Other payables	16,253	7,899
Derivatives used for hedging	42	-
	217,054	118,429

The consolidated entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

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 26.

<i>In thousands of AUD</i>	2011	2010
Current		
<i>Interest-bearing</i>		
Hire purchase liabilities	5,956	8,716
Finance lease liabilities	885	3,864
Term facility	29,133	3,184
Loan from minority shareholder to MVM Rail	1,514	-
	37,488	15,764
Non-current		
<i>Interest-bearing</i>		
Hire purchase liabilities	3,633	9,359
Finance lease liabilities	827	1,712
Term facility	33,393	31,582
Loan from minority shareholder to MVM Rail	800	-
	38,653	42,653

Financing arrangements

Term facility

The consolidated entity has a three year syndicated facility with a number of financial institutions, led by HSBC Bank Australia Limited and Commonwealth Bank of Australia Limited. The syndicated facility is secured by fixed and floating charges over the consolidated entity's assets, which is reviewed on an annual basis. The facilities are used for general corporate requirements and equipment financing and attract variable rates of interest, which are hedged through interest rate swaps. The facilities mature on 18 May 2013.

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

In May 2011, the consolidated entity entered into a loan agreement with COMSA SA for \$2,314,000 which matures on 31 December 2012. Interest is paid at a fixed rate of 5% per annum.

Hire purchase liabilities

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

<i>In thousands of AUD</i>	Minimum HP lease payments 2011	Interest 2011	Principal 2011	Minimum HP lease payments 2010	Interest 2010	Principal 2010
Less than one year	6,411	455	5,956	9,703	987	8,716
Between one and five years	3,866	233	3,633	10,030	671	9,359
	10,277	688	9,589	19,733	1,658	18,075

Finance lease liabilities

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

<i>In thousands of AUD</i>	Minimum lease payments 2011	Interest 2011	Principal 2011	Minimum lease payments 2010	Interest 2010	Principal 2010
Less than one year	984	99	885	4,138	274	3,864
Between one and five years	856	29	827	1,840	128	1,712
	1,840	128	1,712	5,978	402	5,576

22. Employee benefits

<i>In thousands of AUD</i>	2011	2010
Current		
Liability for long service leave	6,233	7,057
Liability for annual leave	28,753	21,611
Provision for bonuses	1,132	5,683
Other employee benefits	1,048	839
Total current employee benefits	37,166	35,190
Non-current		
Liability for long service leave	3,713	2,721
Total non-current employee benefits	3,713	2,721

Accrued wages and salaries between the last pay date and 30 June 2011 of \$2,925,000 (2010: \$4,062,000) 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 2011, only 8 members remained in the Defined Benefit section.

Members of the old Defined Benefit section of the Fund who transferred to the accumulation section 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 Janice Jones F.I.A.A. of PricewaterhouseCoopers. The accumulation section of the Fund has 3,949 members at 30 June 2011. 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 Equitysuper 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 assessment by the fund's administrator, the Defined Benefit section of the Fund has adequate net assets to meet vested benefits as at 30 June 2011.

<i>In thousands of AUD</i>	2011	2010
Fair value of plan assets	2,730	2,330
Present value of net obligations	(2,460)	(2,015)
	270	315

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 3(k)(ii). The amount recognised as current service expense in respect of the Defined Benefit section of the Fund during the year was \$202,000 (2010: \$217,000).

23. Share-based payment

Description of the share-based payment transactions

(i) Macmahon Executive Equity Plan ("EEP")

The EEP provides senior Executives (excluding the CEO) with the opportunity to receive fully paid shares in Macmahon for no consideration, subject to specified time restrictions and performance conditions being met. The participating Executive must also remain an employee of Macmahon during this time. The EEP is designed to assist with Executive retention, and to incentivise employees to maximise TSR relative to other companies.

Participants are granted Performance Rights, which are contractual rights to receive fully paid shares in Macmahon subject to the EEP conditions being satisfied. The number of Performance Rights granted to the participant is determined by the Board.

A summary of the main aspects of the EEP:

- Participation in the EEP is offered to senior executives and employees who are deemed by the Board as eligible to participate.
- Participants are offered Performance Rights at no cost.
- Each Performance Right will entitle the participant to receive one fully paid ordinary Macmahon share on vesting.

An overview of the vesting schedule:

	Year 2	Year 2	Year 3	Year 4	Year 5	Total
% Rights eligible for vesting	25%	18.75% (Tranche 1)	18.75% (Tranche 2)	18.75% (Tranche 3)	18.75% (Tranche 4)	100%
Performance condition	Continued employment	<ul style="list-style-type: none"> • Continued employment; and • Relative TSR against a comparative group comprising: <ul style="list-style-type: none"> ➤ ASX 200 (50% weighting) ➤ Bespoke peer group (50% weighting) 				

- 25% of the total Performance Rights granted to a participant will vest on the second anniversary of the grant date, provided the participant remains an employee. These rights are solely for retention purposes. The Board has determined that two years is an appropriate vesting period to retain staff in this industry in the current labour market.
- The peer group comprises the entities included in:
 - The S&P/ASX 200 (50% of the TSR performance); Macmahon is included in the S&P/ASX 200 index, and
 - A group of eight companies with similar businesses to Macmahon (50% of the TSR performance). The group of companies is Ausdrill Limited, Clough Limited, Downer EDI Limited, Leighton Holdings Limited, Monadelphous Group Limited, NRW Holdings Limited, Transfield Services Limited and UGL Limited.
- Relative TSR was chosen by the Company as a suitable performance measure as it provides alignment between shareholder returns and Executive remuneration.
- For each performance period in which vesting of a tranche of Performance Rights is tested by comparing Macmahon TSR to the TSR performance of the peer group, the following vesting hurdles apply:

Macmahon's TSR rank relative to the comparative group	Proportion of Performance Rights that are eligible to vest
Less than 50th percentile	0%
50th percentile	50%
Between 50th percentile and 75th percentile	50% plus an additional 2% of this award for each additional percentile ranking above the 50th percentile
At or above the 75th percentile	100%

- The Performance Rights lapse if the Executive ceases to be employed with Macmahon, or the TSR performance condition has not been achieved within a 5½ year period.

On 17 June 2011, a second grant of EEP Performance Rights (the first grant being on 15 January 2010) was made to eligible participants. The first tranche of Performance Rights under this second grant will be eligible to vest in 2013. As at reporting date, the trustee of the EEP has purchased 8,075,776 Macmahon shares on market in anticipation of Performance Rights vesting.

As at 30 June 2011, there are 24,362,500 Performance Rights outstanding under this EEP.

23. Share-based payment (continued)

(ii) **Macmahon CEO LTI Plan**

The CEO was granted 12 million Performance Rights after shareholders' approval was given at the Annual General Meeting on 30 November 2009. The Rights may be exercised by Mr Bowen only to the extent that vesting conditions are met. On exercise, the Company will issue one ordinary share per performance right to Mr Bowen for nil cash consideration. Vesting of the Performance Rights is dependent on the criteria detailed below, based on the following performance 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 CEO 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 period:

- **Test 1:** One third of the CEO LTI Plan award vests if Macmahon TSR performance is greater than the average of the average TSR of each of two peer groups (see below). Macmahon is included in the average TSR calculation for the ASX 200 peer group and is excluded from the average TSR calculation for the bespoke peer group; and
- **Test 2:** Two-thirds of the CEO LTI Plan award vests based on Macmahon TSR percentile ranking against the average for the two peer groups:
 - None of the “two-thirds” will vest if the average of Macmahon TSR percentile ranking is below or equal to 50%;
 - 100% of the “two-thirds” will vest when Macmahon TSR percentile ranking is equal to 80% or greater; and
 - A pro-rata (sliding scale) percentage of the “two-thirds” will vest when Macmahon TSR percentile rating is between 50% and 80%.

The two peer groups for the TSR calculation are:

- **ASX 200:** the constituents of the S&P ASX 200 index; and
- **Bespoke peer group:** a group of eight companies, consisting of Ausdrill Limited, Clough Limited, Downer EDI Limited, Leighton Holdings Limited, Monadelphous Group Limited, NRW Holdings Limited, Transfield Services Limited and UGL Limited.

As at 30 June 2011 there are 12,000,000 Performance Rights granted to Mr Bowen. Subsequent to year end (on 1 July 2011), 4,920,000 of Mr Bowen's Class A Performance Rights vested and he became entitled to convert them to shares on 10 August 2011. Subject to certain exceptions, Mr Bowen has voluntarily undertaken not to sell the beneficial ownership of the shares that will be issued upon exercise of these Performance Rights, until at least 1 July 2012.

(iii) **Macmahon Executive Option Scheme (2005)**

This scheme provided senior executives with options over ordinary shares of the Company under the Executive Option Scheme approved by shareholders at the 2005 Annual General Meeting. A summary of the Scheme is as follows:

- a) Each option entitles the holder, upon exercise, to be allotted one fully paid ordinary share in the Company upon satisfaction of the exercise conditions and payment of the exercise price. The main exercise condition is described in paragraph (c) below.
- b) If not exercised, options expire no later than six years from their grant date. Options also expire if the holder ceases to be employed with Macmahon.
- c) Each grant of options is divided in the four equal tranches, which only become eligible for exercise on the 2nd, 3rd, 4th and 5th anniversary respectively of the grant date. Whether or not options comprised in a tranche may be exercised depends 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 became eligible for exercise.
- d) The performance hurdles are cumulative. For example, this means that if the performance hurdle for the first two measurement periods is not met, the first tranche cannot be exercised. However, if the TSR in the next measurement period is such that the cumulative TSR over all three measurement periods is more than a 15% annual compounded return, then all unexercised tranches which have passed their exercise date can be exercised.
- e) Unexercised options do not entitle their holder to dividends, and options are not quoted on the ASX.
- f) Shares issued upon exercise of options will rank equally in all respects with existing shares.
- g) As at 30 June 2011, the following options under this scheme are outstanding:
 - 4,432,124 options at an exercise price of 60 cents;
 - 2,000,000 options at an exercise price of 84 cents;
 - 1,017,000 options at an exercise price of 82 cents; and
 - 225,000 options at an exercise price of \$1.62.

Disclosure of share options and performance rights

Unlisted share options (outstanding at year end)

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

<i>In thousands of options</i>	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
Outstanding at 1 July	0.79	8,917	0.78	10,234
Cancelled / lapsed during the period	1.22	(1,243)	0.74	(1,317)
Outstanding at 30 June	0.72	7,674	0.79	8,917
Exercisable at 30 June		2,459		2,337

The options outstanding at 30 June 2011 have an exercise price in the range of \$0.60 to \$1.62.

During the financial year no share options were exercised (2010: nil).

Unvested unlisted CEO Performance Rights (outstanding at year end)

<i>In thousands of shares</i>	2011	2010
Balance at 1 July	12,000	-
Granted during the year	-	12,000
Balance at 30 June	12,000	12,000

Unvested unlisted Executive Performance Rights (outstanding at year end)

<i>In thousands of shares</i>	2011	2010
Balance at 1 July	14,575	-
Granted during the year	13,075	15,375
Forfeited during the year	(3,288)	(800)
Balance at 30 June	24,362	14,575

The fair value of services received in return for performance rights granted on 17 June 2011 is based on the fair value of performance rights granted, measured using a Monte-Carlo simulation model and Binomial model, incorporating the probability of the relative TSR vesting condition being met, with the following inputs:

Valuation model	Binomial	Monte-Carlo	Monte-Carlo	Monte-Carlo	Monte-Carlo
Tranche	n/a	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Vesting Condition	Service condition	Relative TSR	Relative TSR	Relative TSR	Relative TSR
Fair Value	\$0.50	\$0.43	\$0.40	\$0.38	\$0.34
First test date	17 June 2013	17 June 2013	17 June 2014	17 June 2015	17 June 2016
Share price at the grant date	\$0.545	\$0.545	\$0.545	\$0.545	\$0.545
Expected life	2.0 years	2.5 years	3.4 years	4.2 years	5.1 years
Volatility	55%	55%	55%	55%	55%
Risk free interest rate	4.65%	4.65%	4.66%	4.71%	4.78%
Dividend yield	4.0%	4.0%	4.0%	4.0%	4.0%

23. Share-based payment (continued)

Employee benefits expense

<i>In thousands of AUD</i>	2011	2010
Shares and share options granted in 2006 - equity settled	92	315
Shares and share options granted in 2007 - equity settled	50	111
Shares and share options granted in 2008 - equity settled	1	2
Shares and share options granted in 2009 - equity settled	(148)	130
Performance rights granted in 2010 - equity settled	3,678	3,064
Performance rights granted in 2011 - equity settled	86	-
Total expense recognised within employee benefits expense	3,759	3,622

24. 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 3(l).

<i>In thousands of AUD</i>	2011	2010
Current		
Provision for project closure	7,739	6,651
	7,739	6,651

<i>In thousands of AUD</i>	
Balance at 1 July 2010	6,651
Provisions made during the year	7,318
Provisions used during the year	(3,314)
Provisions reversed during the year	(2,916)
Balance at 30 June 2011	7,739

25. Capital and reserves

Share Capital

	The Company	
	Number of ordinary shares	
<i>In thousands of shares</i>	2011	2010
On issue at 1 July	733,712	733,712
Issued during the year	-	-
On issue at 30 June	733,712	733,712

Issuance of ordinary shares

The consolidated entity has not issued any new shares during the year (2010: nil).

Ordinary shares

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. The Company does not have authorised capital or par value in respect of its issued shares.

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.

Hedging reserve

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

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the trustee of an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. At 30 June 2011, the consolidated entity held 8,076,000 (2010: 5,076,000) of the Company's shares.

Dividends

The following dividends were declared and paid by the consolidated entity:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / Unfranked	Date of payment
2011				
Final 2010 ordinary	1.5	11,006	Unfranked	13 October 2010
		11,006		
2010				
Interim 2010 ordinary	1.5	11,006	Unfranked	12 April 2010
		11,006		

No dividend for 2011 was proposed by the Directors.

Dividend franking account

<i>In thousands of AUD</i>	The Company	
	2011	2010
30% franking credits available to shareholders of Macmahon Holdings Ltd for subsequent financial years	31	31

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

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

26. 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>	Carrying amount	
	2011	2010
Receivables	134,463	69,195
Cash and cash equivalents	115,634	102,193
	250,097	171,388

Trade receivables are shown net of an impairment loss of nil (2010: nil).

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

<i>In thousands of AUD</i>	Carrying amount	
	2011	2010
Australasia	127,387	63,884
South East Asia	4,689	3,569
Africa	2,387	1,742
	134,463	69,195

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

<i>In thousands of AUD</i>	Carrying amount	
	2011	2010
Mining Customers	89,036	44,992
Construction Customers	30,772	16,557
Other	14,655	7,646
	134,463	69,195

The consolidated entity's most significant trade receivable, a mining customer, accounts for \$19,628,000 (2010: \$4,852,000) of the trade receivables carrying amount at 30 June 2011.

Impairment losses

The ageing of the consolidated entity's trade receivables which are past due at the reporting date was:

<i>In thousands of AUD</i>	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Past due 0 - 30 days	26,700	-	13,172	-
Past due 31 - 120 days	3,252	-	6,085	-
Past due more than 120 days	1,894	-	566	-

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 2011 the consolidated entity does not have any collective impairment on its trade receivables (2010: nil).

ii) Liquidity risk

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

30 June 2011

<i>In thousands of AUD</i>	Carrying amount	Contractual cash flows	12 months or less	1-5 years	More than 5 years
Non-derivative financial liabilities					
Term facility	62,526	(69,804)	(34,288)	(35,516)	-
Hire purchase liabilities	9,589	(10,277)	(6,411)	(3,866)	-
Finance lease liabilities	1,712	(1,840)	(984)	(856)	-
Loan from minority shareholder to MVM Rail	2,314	(2,432)	(1,585)	(847)	-
Trade and other payables *	217,054	(217,054)	(217,054)	-	-
	293,195	(301,407)	(260,322)	(41,085)	-

30 June 2010

<i>In thousands of AUD</i>	Carrying amount	Contractual cash flows	12 months or less	1-5 years	More than 5 years
Non-derivative financial liabilities					
Term facility	34,766	(48,029)	(8,415)	(39,614)	-
Hire purchase liabilities	18,075	(19,733)	(9,703)	(10,030)	-
Finance lease liabilities	5,576	(5,978)	(4,138)	(1,840)	-
Trade and other payables *	118,429	(118,429)	(118,429)	-	-
	176,846	(192,169)	(140,685)	(51,484)	-

* Include interest rate swaps used for hedging of \$42,000 (2010: \$182,000) with contractual cash outflows of \$42,000 (2010: outflows of \$182,000).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

26. 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>	30 June 2011				30 June 2010			
	NZD	MYR	USD	NGN	NZD	MYR	USD	NGN
Trade receivables	9	1,615	717	2,366	10	1,629	1,616	1,693
Trade payables	(435)	(375)	-	(177)	(702)	(439)	-	(272)
Gross balance sheet exposure	(426)	1,240	717	2,189	(692)	1,190	1,616	1,421

The following significant exchange rates applied during the year:

AUD 1	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
NZD	1.3044	1.2552	1.2953	1.2308
MYR	3.0455	2.9840	3.2421	2.7747
USD	0.9881	0.8821	1.0739	0.8523
NGN	148.0000	130.7900	162.4700	126.1800

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 2010.

<i>Effect in thousands of AUD</i>	2011		2010	
	Equity	Profit / loss	Equity	Profit / loss
NZD	(210)	181	(29)	181
MYR	(1,067)	132	(1,108)	43
USD	(144)	(4)	(187)	6
NGN	(7)	(28)	(44)	15

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.

iv) Interest rate risk

Profile

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

<i>In thousands of AUD</i>	Carrying amount	
	2011	2010
Fixed rate instruments		
Financial liabilities	(13,615)	(23,651)
	(13,615)	(23,651)
Variable rate instruments		
Financial assets	115,634	102,193
Financial liabilities	(62,526)	(34,766)
	53,108	67,427

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. Therefore a change in interest rates at the reporting date would not affect 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 and equity 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 2010.

<i>Effect in thousands of AUD</i>	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2011				
Variable rate instruments	906	(906)	-	-
Interest rate swap	-	-	46	(46)
Cash flow sensitivity	906	(906)	46	(46)
30 June 2010				
Variable rate instruments	1,022	(1,022)	-	-
Interest rate swap	-	-	389	(389)
Cash flow sensitivity	1,022	(1,022)	389	(389)

26. Financial instruments (continued)

v) Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

<i>In thousands of AUD</i>	30 June 2011		30 June 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables	134,463	134,463	69,195	69,195
Cash and cash equivalents	115,634	115,634	102,193	102,193
Term facility ¹	(62,526)	(58,143)	(34,766)	(39,448)
Hire purchase liabilities	(9,589)	(9,035)	(18,075)	(17,023)
Finance lease liabilities	(1,712)	(1,611)	(5,576)	(5,278)
Loan from minority shareholder to MVM Rail	(2,314)	(2,152)	-	-
Trade and other payables ²	(217,054)	(217,054)	(118,429)	(118,429)
	(43,098)	(37,898)	(5,458)	(8,790)

¹ Carrying amount is net of transaction costs.

² Includes interest rate swaps of \$42,000 (2010: \$182,000).

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:

	2011	2010
Loans and borrowings	9.58%	9.12%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

<i>In thousands of AUD</i>	Level 1	Level 2	Level 3	Total
30 June 2011				
Interest rate swap	-	(42)	-	(42)
	-	(42)	-	(42)
30 June 2010				
Interest rate swap	-	(182)	-	(182)
	-	(182)	-	(182)

27. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	2011	2010
Offices and industrial workshop facilities		
Less than one year	8,490	8,024
Between one and five years	30,980	30,339
More than five years	15,731	18,330
Plant and equipment facilities		
Less than one year	20,150	18,900
Between one and five years	55,178	75,470
	130,529	151,063

During the year ended 30 June 2011, \$26,341,000 was recognised as an expense in profit or loss in respect of operating leases (2010: \$24,701,000). 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 a \$230 million domestic operating lease facility for plant and equipment. The leases typically ran for a term of 3 to 5 years with an option to extend for up to 1 to 2 years after that date. The consolidated entity has an option to purchase the assets at the expiry of their lease period. This \$230 million domestic facility expired on 31 October 2009. Outstanding individual lease agreements drawn under the facility remain in place until their expiry date. As at 30 June 2011, the domestic operating lease facility was drawn down by \$65.3 million.

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 2011:

<i>In thousands of AUD</i>	2011	2010
Bank guarantees ^{1,2}	44,647	74,966
Insurance performance bonds ¹	70,422	77,619

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 Bank guarantees under the new SFA Tranche B are currently back to back with the ANZ and HSBC. This will continue until such time that the ANZ and HSBC guarantees are returned and reissued (under the new SFA terms) by the holders of the guarantees.

Claims against the consolidated entity

Certain members of the consolidated entity have the normal contractor's liability in relation to contracts. This liability may include claims 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.

Claims by the consolidated entity

The Company has submitted substantial variations and extension of time claims to various clients, including the Macmahon Leighton Joint Venture claims in relation to the RGP5 Rail North contract, as disclosed in the 31 December 2010 half year results. However, in determining its financial position at 30 June 2011, the Company has not recorded any of these amounts as revenue. The Company believes its variations and extension of time claims are valid but due to the stage of negotiations has not recorded any amounts as revenue in accordance with AASB 111 Construction Contracts.

29. Capital commitments

<i>In thousands of AUD</i>	2011	2010
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for and payable:		
Within one year	20,257	9,802
One year or later and no later than five years	6,339	-
	26,596	9,802

30. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2011 the parent company of the consolidated entity was Macmahon Holdings Limited.

<i>In thousands of AUD</i>	2011	2010
Result of the parent entity		
(Loss) / Profit for the year	(4,920)	10,426
Total comprehensive income for the year	(4,920)	10,426
Financial position of parent entity at year end		
Current assets	115,708	73,733
Total assets	424,876	324,307
Current liabilities	1,493	1,519
Total liabilities	123,740	9,918
Total equity of the parent entity comprising of:		
Share capital	307,963	307,963
Reserves	(4,772)	(3,567)
Retained earnings	(2,055)	9,993
Total equity	301,136	314,389

Parent entity 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.

<i>In thousands of AUD</i>	2011	2010
Contingent liabilities not considered remote		
Unsecured bank guarantees	11,301	23,652

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of some of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note 34.

31. Group entities

	Country of incorporation	Ownership interest	
		2011	2010
Parent entity			
Macmahon Holdings Limited	Australia		
Directly controlled by Macmahon Holdings Limited			
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%
Doom-Djil Yoordaning Mining and Construction Pty Ltd	Australia	100%	100%
Macmahon Rail Holdings Pty Ltd (Receivers and Managers Appointed) ¹	Australia	100%	100%
Thomco (No. 2020) Pty Ltd (Receivers and Managers Appointed) ¹	Australia	100%	100%
Macmahon Underground Pty Ltd	Australia	50%	50%
Macmahon Africa Pty Ltd (formerly known as Leo & Green Pty Ltd)	Australia	100%	100%
Macmahon Holdings Executive Equity Plan Trust A/c	Australia	100%	100%
Macmahon Asia Pty Ltd	Australia	100%	N/A
Directly controlled by Macmahon Contractors Pty Ltd			
Macmahon Contractors (WA) 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%
Coal Stream Alliance	Australia	80%	80%
Ulan Line Alliance	Australia	50%	50%
Directly controlled by Macmahon (Southern) Pty Ltd			
Macmahon Malaysia Pty Ltd	Australia	100%	100%
MVM Rail Pty Ltd	Australia	60%	60%
Macmahon Underground Pty Ltd	Australia	50%	50%
Directly controlled by Macmahon Rail Holdings Pty Ltd (Receivers and Managers Appointed) ¹			
Macmahon Rail Investments Pty Ltd (Receivers and Managers Appointed) ¹	Australia	100%	100%
Macmahon Rail Operations Pty Ltd (Receivers and Managers Appointed) ¹	Australia	100%	100%
Directly controlled by Thomco (No. 2020) Pty Ltd (Receivers and Managers Appointed) ¹			
Thomco (No. 2021) Pty Ltd (Receivers and Managers Appointed) ¹	Australia	100%	100%
Thomco (No. 2022) Pty Ltd (Receivers and Managers Appointed) ¹	Australia	100%	100%
Directly controlled by Macmahon Africa Pty Ltd			
Macmahon Contractors Nigeria Ltd	Nigeria	99%	99%
Directly controlled by Macmahon Contracting International Pte Ltd			
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.

31. Group entities (continued)

	Country of incorporation	Ownership interest	
		2011	2010
Directly controlled by Macmahon Malaysia Pty Ltd			
Macmahon Sdn Bhd	Malaysia	100%	100%
Directly controlled by Macmahon Sdn Bhd			
Macmahon Constructors Sdn Bhd	Malaysia	100%	100%
Macmahon Contractors Nigeria Ltd	Nigeria	1%	1%
Directly controlled by MVM Rail Pty Ltd			
MVM (Malaysia) Sdn Bhd	Malaysia	100%	100%
Coal Stream Alliance	Australia	20%	20%
Ulan Line Alliance	Australia	50%	50%

Associates – non active

	Country of incorporation	Ownership interest		Carrying amount of investment	
		2011	2010	2011	2010
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 contingent liabilities for the above associates.

32. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Note	2011	2010
Cash flows from operating activities			
(Loss) / Profit for the year		(2,716)	38,803
Adjustments for:			
Depreciation of property, plant and equipment	18	52,760	39,202
Amortisation of intangibles	19	4,314	4,318
Impairment loss on property, plant and equipment	18	-	789
Interest expense	9	13,637	8,016
Share of loss / (profit) of joint controlled entities	16	27,214	(34,368)
Gain on sale of plant and equipment		(148)	(1,154)
Equity-settled share-based payment expense	23	3,759	3,622
Unrealised foreign exchange difference		390	93
Income tax (benefit) / expense	10	(1,071)	10,652
Operating profit before changes in working capital and provisions		98,139	69,973
Net cash received from jointly controlled entities		28,049	14,394
(Increase) / Decrease in trade and other receivables		(92,138)	74,202
(Increase) / Decrease in inventories		(8,100)	1,647
Increase / (Decrease) in trade and other payables		76,851	(36,505)
Increase / (Decrease) in employee benefits and provisions		4,056	(704)
Interest paid		(13,637)	(8,016)
Income tax (refunded) / paid		(856)	2,111
Net cash provided by operating activities		92,364	117,102

33. Related parties

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

Non-executive Directors

K B Scott-Mackenzie	(Chairman)
B L Cusack	(Deputy Chairman)
B R Ford	
D M Smith	
V A Vella	
J C Massey	(resigned on 28 February 2011)

Executive Director

N R Bowen	(Chief Executive Officer and Managing Director)
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Key Executives

R A Carroll	(Chief Operating Officer - Mining) (appointed on 1 February 2011)
T Mlikota	(Chief Financial Officer) (appointed on 18 April 2011, replacing Mr Carroll)
A T Mason	(Executive General Manager - Strategy and Development) (appointed on 1 March 2011)
N J Wilson	(Executive General Manager - Services)
F E Ramsay	(Executive General Manager - Surface Mining)
G J Miller	(Executive General Manager - Underground)
S G Maddison	(Executive General Manager - International) (appointed on 1 April 2011)
A C Young	(Executive General Manager - Human Resources) (appointed on 1 January 2011)
M H Hamilton	(Executive General Manager - Construction East) (appointed on 2 May 2011)
P F Doyle	(Executive General Manager - Construction) (resigned on 22 November 2010)
D J Jaksa	(Group General Manager, People & Organisational Development) (resigned on 31 December 2010)

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

<i>In AUD</i>	2011	2010
Short-term benefits	5,344,308	6,951,166
Other long-term benefits	89,087	-
Post-employment benefits	493,148	419,507
Share-based payments	2,666,283	2,351,412
Termination payments	524,934	-
	9,117,760	9,722,085

Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' report.

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.

i) Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 31), jointly controlled entities (see note 16) and with its key management personnel.

33. Related parties (continued)

ii) Subsidiaries

There were no related party transactions between the Company and its subsidiaries during the year except for loans and borrowings (2010: nil).

iii) Other related party transactions

<i>In thousands of AUD</i>	Transactions value year ended 30 June		Balance outstanding as at 30 June	
	2011	2010	2011	2010
Jointly controlled joint ventures - provision of contract services	56,411	61,924	8,069	9,971

iv) 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:

2011	Held at 1 July 2010	Granted as compensation	Exercised	Other changes ¹	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Executives							
R A Carroll	2,000,000	-	-	-	2,000,000	-	500,000
N J Wilson	400,000	-	-	-	400,000	-	200,000
P F Doyle ²	500,000	-	-	(500,000)	-	-	-
F E Ramsay	75,000	-	-	-	75,000	-	-
G J Miller	112,500	-	-	-	112,500	-	46,875
S G Maddison	375,000	-	-	-	375,000	-	125,000
M H Hamilton ³	100,000	-	-	-	100,000	-	-

2010	Held at 1 July 2009	Granted as compensation	Exercised	Other changes ¹	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Executives							
R A Carroll	2,000,000	-	-	-	2,000,000	-	500,000
N J Wilson	600,000	-	-	(200,000)	400,000	-	200,000
P F Doyle	500,000	-	-	-	500,000	-	-
F E Ramsay	75,000	-	-	-	75,000	-	-
G J Miller	112,500	-	-	-	112,500	-	46,875
S G Maddison	375,000	-	-	-	375,000	-	125,000

¹ Other changes relate to options that were cancelled during the year

² P F Doyle resigned on 22 November 2010

³ M H Hamilton was appointed as key management personnel on 2 May 2011.

Note: R Wilson is not included above as he is not key management personnel.

v) 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:

2011	Held at 1 July 2010	Purchases	Received on exercise of options / granted	Net change other ¹	Held at 30 June 2011
Directors					
K B Scott-Mackenzie	50,000	-	-	-	50,000
N R Bowen	15,889,604	-	-	-	15,889,604
B L Cusack	900,000	-	-	-	900,000
B R Ford	122,782	-	-	-	122,782
V A Vella	193,378	200,000	-	(193,378)	200,000
D M Smith	-	30,000	-	-	30,000
J C Massey ²	120,000	-	-	-	N/A
Executives					
R A Carroll	80,000	-	-	-	80,000
T Mlikota ³	-	553,807	-	-	553,807
S G Maddison	187,163	-	-	-	187,163
A C Young ⁴	-	1,000	-	(1,000)	-

As at 30 June 2011 there are 12,000,000 Performance Rights granted to Mr Bowen. Subsequent to year end (on 1 July 2011), 4,920,000 of Mr Bowen's Class A Performance Rights vested and he became entitled to convert them to shares on 10 August 2011. Subject to certain exceptions, Mr Bowen has voluntarily undertaken not to sell the beneficial ownership of the shares that will be issued upon exercise of these Performance Rights, until at least 1 July 2012.

2010	Held at 1 July 2009	Purchases	Received on exercise of options / granted	Net change other ¹	Held at 30 June 2010
Directors					
K B Scott-Mackenzie	-	50,000	-	-	50,000
R J Carter ⁵	1,494,304	-	-	-	1,494,304
N R Bowen	17,389,604	-	-	(1,500,000)	15,889,604
B L Cusack	900,000	-	-	-	900,000
B R Ford	122,782	-	-	-	122,782
J C Massey	120,000	-	-	-	120,000
V A Vella	193,378	-	-	-	193,378
Executives					
R A Carroll	80,000	-	-	-	80,000
S G Maddison	187,163	-	-	-	187,163

¹ Sale of shares.

² J C Massey resigned on 28 February 2011.

³ T Mlikota was appointed as key management personnel on 18 April 2011.

⁴ A C Young was appointed as key management personnel on 1 January 2011.

⁵ R J Carter retired on 27 November 2009.

Note: R Wilson is not included above as he is not key management personnel.

33. Related parties (continued)

vi) Performance rights over equity instruments

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

2011	Held at 1 July 2010	Granted as compensation	Exercised	Other changes	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Directors							
N R Bowen	12,000,000	-	-	-	12,000,000	-	-
Executives							
R A Carroll	2,000,000	2,000,000	-	-	4,000,000	-	-
T Mlikota ¹	-	1,000,000	-	-	1,000,000	-	-
A T Mason ²	-	1,000,000	-	-	1,000,000	-	-
N J Wilson	400,000	250,000	-	-	650,000	-	-
F E Ramsay	500,000	500,000	-	-	1,000,000	-	-
G J Miller	400,000	500,000	-	-	900,000	-	-
S G Maddison	300,000	400,000	-	-	700,000	-	-
A C Young ³	-	300,000	-	-	300,000	-	-
M H Hamilton ⁴	500,000	400,000	-	-	900,000	-	-
P F Doyle ⁵	1,500,000	-	-	(1,500,000)	-	-	-
D J Jaksa ⁶	150,000	-	-	(150,000)	-	-	-

2010	Held at 1 July 2009	Granted as compensation	Exercised	Other changes	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
N R Bowen	-	12,000,000	-	-	12,000,000	-	-
Executives							
R A Carroll	-	2,000,000	-	-	2,000,000	-	-
N J Wilson	-	400,000	-	-	400,000	-	-
P F Doyle	-	1,500,000	-	-	1,500,000	-	-
F E Ramsay	-	500,000	-	-	500,000	-	-
G J Miller	-	400,000	-	-	400,000	-	-
S G Maddison	-	300,000	-	-	300,000	-	-
D J Jaksa	-	150,000	-	-	150,000	-	-

¹ T Mlikota was appointed as key management personnel on 18 April 2011.

² A T Mason was appointed as key management personnel on 1 March 2011.

³ A C Young was appointed as key management personnel on 1 January 2011.

⁴ M H Hamilton was appointed as key management personnel on 2 May 2011.

⁵ P F Doyle resigned on 22 November 2010.

⁶ D J Jaksa resigned on 31 December 2010.

Note: R Wilson is not included above as he is not key management personnel.

34. Deed of cross guarantee

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

It is a condition of the Class Order that Macmahon Holdings Limited ("the Company") and each of the subsidiaries below enter into a Deed of Cross Guarantee ("Deed"). 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 Contractors Pty Ltd

Macmahon Southern Pty Ltd and Macmahon Mining Services Pty Ltd entered into the Deed of Cross Guarantee with the Company on 16 June 2008. Macmahon Underground Pty Ltd and Macmahon Contractors Pty Ltd became parties to the Deed on 12 January 2009 and 24 June 2010 respectively, by virtue of Deeds of Assumption.

A consolidated statement of comprehensive income and consolidated statement of financial position, 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 2011 (for the entire financial year) are set out as follows.

Statement of comprehensive income and retained earnings

<i>In thousands of AUD</i>	2011	2010
Revenue	780,881	723,224
Operating expenses	(768,433)	(684,917)
Finance income	1,734	2,095
Finance costs	(12,157)	(6,380)
Share of (loss) / profit of jointly controlled entities accounted for using the equity method (net of tax)	(25,497)	15,279
(Loss) / Profit before tax	(23,472)	49,301
Income tax benefit / (expense)	7,240	(3,553)
(Loss) / Profit after tax	(16,232)	45,748
Other comprehensive income	890	1,063
Total comprehensive income for the year	(15,342)	46,811
Retained earnings at beginning of the year	32,484	6,512
Accumulated losses at beginning of the year for Macmahon Contractors Pty Ltd	-	(12,023)
Transfers to and from reserves	(890)	(1,063)
Dividends recognised during the year	(10,885)	(10,978)
Equity settled transactions	3,759	3,225
Retained earnings at end of the year	9,126	32,484
Attributable to:		
Equity holders of the Company	(16,232)	45,748
(Loss) / Profit for the year	(16,232)	45,748

34. Deed of cross guarantee (continued)

Statement of financial position

In thousands of AUD

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	93,585	74,685
Trade and other receivables	134,584	60,933
Inventories	31,715	29,056
Current tax receivables	1,797	1,771
Total current assets	261,681	166,445
Non-current assets		
Trade and other receivables	130,662	86,064
Other financial assets	44,778	44,688
Investments accounted for using the equity method	1,768	15,934
Property, plant and equipment	235,639	216,480
Intangible assets	24,655	28,881
Total non-current assets	437,502	392,047
Total assets	699,183	558,492
Liabilities		
Current liabilities		
Trade and other payables	177,065	89,763
Loans and borrowings	33,381	11,803
Employee benefits	26,776	27,668
Provisions	5,393	3,710
Total current liabilities	242,615	132,944
Non-current liabilities		
Trade and other payables	95,257	32,444
Deferred tax liabilities	8,772	13,514
Loans and borrowings	37,632	39,983
Employee benefits	2,862	2,110
Total non-current liabilities	144,523	88,051
Total liabilities	387,138	220,995
Net assets	312,045	337,497
Equity		
Issued capital	307,963	307,963
Reserves	(5,044)	(2,950)
Retained earnings	9,126	32,484
Total equity	312,045	337,497

35. Auditors' remuneration

<i>In AUD</i>	2011	2010
Audit services		
KPMG Australia		
- Audit and review of financial reports	520,613	551,500
- Additional costs in respect of prior years	-	30,000
- Other regulatory audit services	4,000	6,520
Overseas KPMG firms		
- Audit and review of financial reports	74,265	51,750
	598,878	639,770
Other services		
KPMG Australia		
- Employee migration services	9,000	98,239
- Other	17,200	28,130
	26,200	126,369

36. Subsequent events

Since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with within the consolidated financial statements that has significantly or may significantly affect the operations of the consolidated entity and the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Directors' declaration

1. In the opinion of the directors of Macmahon Holdings Limited ("the Company"):
 - a) the consolidated financial statements and notes that are contained on pages 55 to 107 and the Remuneration report in the Directors' report, set out on pages 32 to 42, are in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in note 34 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.
4. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



Nick Bowen

Director

Dated 16th August 2011 at Sydney.



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 consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 36 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Group's financial position and of its 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 the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in section 11 of the directors' report for the year ended 30 June 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG
KPMG


Trevor Hart
Partner

Perth

16 August 2011

ASX additional information

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 10 August 2011.

a) The twenty largest shareholders held 69.51% of the Ordinary Shares.

b) There were 10,441 ordinary shareholders as follows:

Size of holdings	Ordinary shares
1 - 1,000	973
1,000 - 5,000	3,079
5,001 - 10,000	2,105
10,001 - 100,000	3,948
100,000 and over	336
	10,441

The number of shareholders holding less than a marketable parcel of ordinary shares is 998.

Twenty largest shareholders as at 10 August 2011

Name	Number of ordinary shares held	Percentage of capital held
Leighton Holdings Investments Pty Limited	139,405,224	19.00%
National Nominees Limited	90,713,583	12.36%
JP Morgan Nominees Australia Limited	73,845,334	10.06%
HSBC Custody Nominees Australia	54,664,117	7.45%
Citicorp Nominees Pty Limited	49,360,100	6.73%
JP Morgan Nominees Australia Limited <Cash Income A/C>	23,739,456	3.24%
Cogent Nominees Pty Limited <SMP Accounts>	12,546,198	1.71%
Mr Nicholas Ronald Bowen	9,600,000	1.31%
Pacific Custodians Pty Ltd <ESOP TST A/C>	8,038,276	1.10%
AMP Life Limited	7,295,062	0.99%
Queensland Investment Corporation	6,381,932	0.87%
Alkat Pty Ltd <Bowen Welsh A/C>	6,187,604	0.84%
JB Were (NZ) Nominees Limited	4,068,526	0.55%
Mr Conway Jeffrey Jones	3,977,080	0.54%
RBC Dexia Investor Services Australia Nominees Pty Limited	3,651,859	0.50%
Sanpoint Pty Ltd	3,600,000	0.49%
Mr Conway Jeffrey Jones	3,522,920	0.48%
Dalran Pty Ltd	3,394,537	0.46%
Cogent Nominees Pty Limited	3,071,492	0.42%
Jingie Investments Pty Ltd	3,000,000	0.41%
	510,063,300	69.51%

Shareholding summary (continued)

Substantial shareholders

As at 10 August 2011, the register of substantial shareholders disclosed the following information:

Holders giving notice	Number of ordinary shares in which interest is held
Leighton Holdings Investments Pty Limited	139,405,224
National Nominees Limited	90,713,583
JP Morgan Nominees Australia Limited	73,845,334
HSBC Custody Nominees Australia	54,664,117
Citicorp Nominees Pty Limited	49,360,100

Voting rights

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

- 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.

Offices and officers

Company secretaries

G P Gettingby
C P Brown

Principal registered office

Level 3, 27 – 31 Troode Street
West Perth WA 6005
Telephone: +61 (08) 9232 1000
Facsimile: +61 (08) 9232 1001

Locations of share registries

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth WA 6000

Securities exchange

The Company is listed on the Australian Securities Exchange.
The Company is listed as "Macmahon" with an ASX code of "MAH"

Other information

Macmahon Holdings Limited, incorporated and domiciled in Australia, is a public company listed on the Australian Securities Exchange, limited by shares.

Summary of consolidated results

Statistical summary

	2011	2010	2009	2008	2007
Profit & Loss (\$m)					
Operating revenue	1,089.4	896.4	1,358.5	1,201.2	910.3
Joint Venture revenue	221.4	419.9	153.3	63.3	79.1
Joint Venture recoveries	(56.4)	(61.9)	(26.2)	(20.2)	(23.4)
Total revenue	1,254.4	1,254.4	1,485.6	1,244.3	966.0
Underlying EBITDA	123.2	99.6	73.6	114.4	96.5
Depreciation and amortisation	(57.1)	(44.3)	(43.8)	(39.7)	(36.8)
Underlying EBIT	66.1	55.3	29.8	74.7	59.7
Significant and non-recurring items ¹	(57.9)	-	-	-	14.5
Reported EBIT	8.2	55.3	29.8	74.7	74.2
Net interest	(12.0)	(5.8)	(8.9)	(7.5)	(11.1)
Reported operating profit / (loss)	(3.8)	49.5	20.9	67.2	63.1
Tax expense	1.1	(10.7)	(2.7)	(17.8)	(18.6)
Reported NPAT	(2.7)	38.8	18.3	49.4	44.5
Minority interest ("MI")	3.8	(0.9)	(1.1)	(0.6)	-
Reported NPAT attributable to equity holders of the Company	1.0	37.9	17.2	48.8	44.5
Significant and non-recurring items (net of tax and MI) ¹	(37.8)	-	-	-	(11.1)
Underlying NPAT attributable to equity holders of the Company	38.8	37.9	17.2	48.8	33.4
Balance Sheet (\$m)					
Plant and equipment	311.2	286.3	268.7	257.9	255.7
Total assets	685.7	580.8	632.8	630.2	559.8
Net assets	323.1	339.7	311.0	251.0	211.1
Equity attributable to equity holders of the Company	323.2	336.0	308.2	249.3	210.1
Net debt / (net cash)	(39.5)	(43.8)	1.8	29.2	54.8
Cashflow (\$m)					
Reported EBITDA	65.3	99.6	73.6	114.4	96.5
Net interest paid	(12.0)	(5.8)	(8.9)	(7.5)	(11.0)
Income tax (paid) / refund	(0.9)	2.1	(14.7)	(10.0)	(5.8)
Miscellaneous	-	-	-	(0.2)	10.5
Working capital and provisions decrease / (increase)	40.0	21.2	3.4	(8.0)	(21.5)
Operating cashflow including JV	92.4	117.1	53.4	88.7	68.7
Investing and financing cashflows (net)	(76.2)	(125.0)	(64.2)	(82.3)	(41.4)
Effect of exchange rates on cash	(2.8)	0.8	-	(0.9)	(0.1)
Cash at beginning of FY	102.2	109.3	120.1	114.6	87.4
Closing cash balance	115.6	102.2	109.3	120.1	114.6

Note: Numbers in the table may not add due to rounding.

¹ Significant and non-recurring items:

- 2011 includes the write-down of equity-accounted profit in RGP5 project and wet weather impact.
- 2007 includes the profit on the sale of Allplant.

Summary of consolidated results continued

Statistical / ratio summary

	2011	2010	2009	2008	2007
People & Safety					
Number of employees	3,536	3,021	3,098	3,628	3,037
LTIFR	0.2	0.4	0.8	2.0	1.9
TRIFR	3.5	4.6	7.4	12.9	12.7
Order Book					
Work in hand (\$m)	2,013	2,215	1,412	2,138	2,005
New contracts and extensions (\$m)	1,052	2,057	1,108	1,377	1,753
Profit & Loss Ratios					
Revenue growth (%)	-	(15.6)	19.4	28.8	11.8
Reported NPAT/Total revenue (%)	0.1	3.0	1.2	3.9	4.6
Underlying NPAT/Total revenue (%) ¹	3.1	3.0	1.2	3.9	3.5
Reported net interest cover (x)	0.7	9.5	3.4	9.9	5.4
Reported basic EPS (cents)	0.14	5.17	3.07	9.20	8.54
Underlying basic EPS (cents) ¹	5.29	5.17	3.07	9.20	6.41
Diluted EPS (cents)	0.14	5.08	3.06	9.06	6.29
Balance Sheet Ratios					
Gearing (Net debt/Equity) (%)	(12.2)	(12.9)	0.6	11.6	26.0
Reported ROC (%)	1.9	13.1	6.8	17.4	14.9
Underlying ROC (%) ¹	11.8	13.1	6.8	17.4	12.3
Reported ROE (%)	0.3	11.3	5.6	19.6	21.2
Underlying ROE (%) ¹	10.7	11.3	5.6	19.6	16.8
Reported ROA (%)	0.2	6.6	2.7	7.8	8.0
Underlying ROA (%) ¹	5.2	6.6	2.7	7.8	6.1
NTA per share (\$)	0.39	0.41	0.37	0.41	0.36
Cashflow Ratios					
Operating cashflow per share (cents)	12.6	16.0	7.3	16.6	13.1
Shareholders					
Shares on issue (m) @ 30 June	733.7	733.7	733.7	535.3	524.5
Share price @ 30 June (cents)	56.0	54.5	34.0	166.5	129.0
Dividends declared (cents)	-	3.0	1.5	5.5	3.0
Percentage franked (%)	n/a	-	100.0	100.0	100.0
Market capitalisation (\$m)	410.9	399.9	249.5	891.0	677.0
Enterprise value (EV)	371.4	356.1	251.3	920.5	731.5
Price/NTA (x)	1.4	1.3	0.9	4.1	3.5

¹ Calculated based on underlying profit and balance sheet which excludes the write-down of equity-accounted profit in RGP5 project and wet weather impact in 2011 and the sale of Allplant in 2007.

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

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Calendar of events

3 November 2011
Annual General Meeting

February 2012
Release of half year results

August 2012
Release of full year results

Offices and officers

Company Secretaries
G P Gettingby
C P Brown

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 Australian Securities Exchange. The Company is listed as "Macmahon" with an ASX code of "MAH".

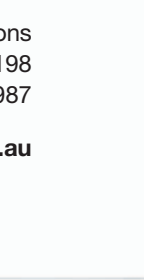
Other information
Macmahon Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Feedback

Macmahon would appreciate your feedback on this report. Your input will assist us to improve as a business and develop our report to further suit your needs. To respond, please either email (investors@macmahon.com.au) or mail to:

Investor Relations
PO Box 198
Cannington WA 6987

www.macmahon.com.au





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