

CONSTRUCTION | SURFACE MINING | UNDERGROUND MINING



## Annual Report 2012

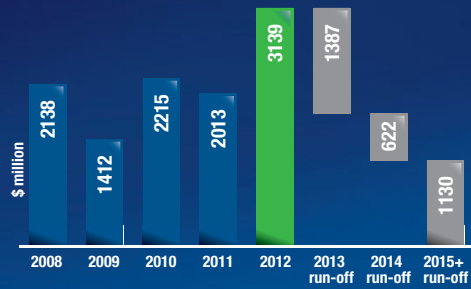


**MACMAHON**

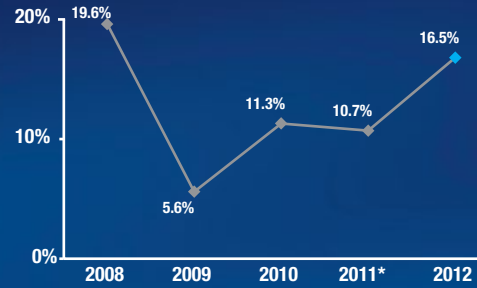
# Snapshot

## 2012 snapshot

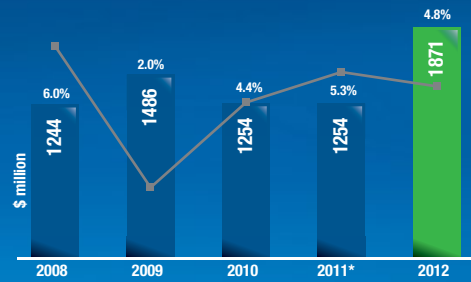
Order book and run-off



Return on Equity



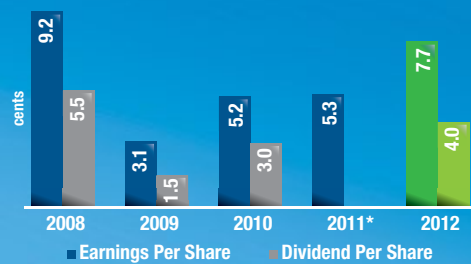
Revenue and EBIT margin



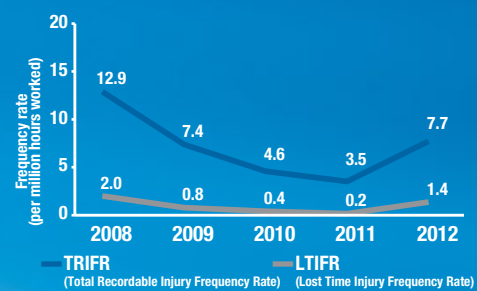
NPAT and NPAT margin



EPS and DPS



Safety



\* 2011 result based on underlying profit.

# Capabilities

## Macmahon capabilities



### Surface Mining

Operating under a variety of contract styles both in Australia and overseas, Macmahon provides a range of open cut services utilising a fleet of modern mining equipment, with a commitment to delivering end to end services.

Services include:

- Mine planning
- Mine management
- Drilling
- Blasting
- Mining (bulk and selective)
- Crushing and screening
- Plant hire
- Plant maintenance



### Construction

Macmahon offers government and resource sector clients a diverse and comprehensive range of construction capabilities, providing a partnership that is flexible, responsive and performance focused.

Services include:

- Roads
- Bridges
- Rail
- Marine
- Water
- Resource infrastructure
- Environment



### Underground Mining

Macmahon's underground operations deliver both large-scale, full service mining operations and individual, specialised capabilities to meet the specific needs of its clients.

Services include:

- Mine development
- Mine production
- Raise drilling
- Cablebolting
- Shotcreting
- Remote shaft lining
- Production drilling
- Shaft sinking



### Engineering

Macmahon offers the full range of engineering services for resource and infrastructure projects, specialising in the delivery of Engineering, Procurement and Construction (EPC) style contracts.

Services include:

- Design
- Fabrication
- Infrastructure construction
- Electrical
- Material handling

# Significant achievements 2012

- Record profit after tax of \$56.1 million
- EPS growth of 45 per cent on 2011 underlying result
- Record contract wins of \$3.0 billion
- Order book \$3.1 billion
- Won and started first work in Mongolia
- Established Engineering Business
- Acquired the remaining 40 per cent of rail business
- New funding facility



# Your project, our people - exceptional results

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 largest resources companies and government sector clients, Macmahon has delivered many of Australia's largest multi-disciplinary mining and construction projects throughout its 49 year history.

Currently Macmahon directly employs more than 4750 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.

Macmahon is well positioned to continue to capture new opportunities and grow with its clients.



**MACMAHON**

# Macmahon company values

## Safety

Look after yourself, your team and others around you.

## Teamwork

Work smart, work hard, work together.

## Prosperity

Create value for shareholders, employees, clients and partners.

## Integrity

Do what you say you are going to do.

## Environment

Reduce, recycle, rejuvenate.

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# Chairman's Report



## Introduction

It is with great pleasure that I report a record Macmahon profit for the 2012 Financial Year. The Company also reported record revenue, with a range of new project wins secured in late 2011 and early 2012. The mobilisation of these projects saw the Company grow substantially, increasing the number of direct employees by 35 per cent to almost 4800 people. This growth has been widespread across each of our businesses.

## Our business model

The global economy experienced a great deal of volatility over the past year, influenced by macroeconomic factors, largely outside of the control or influence of the Company. The Company's strategy remains focussed on the ongoing delivery of a robust business model.

The Company's business model of geographic and commodity diversity and an expanded service offering protect Macmahon from short-term, adverse market impacts in any one region or market sector. The Company's broad based service model now extends into six countries including Mongolia, Nigeria, New Zealand, Malaysia, Indonesia and Australia.

The commencement of mining operations in Mongolia signified an important step forward in the growth of a material offshore business, while new contract wins in Western Australia and the Northern Territory saw the development of relationships with three new blue-chip clients, AngloGold Ashanti, Fortescue Metals Group and Inpex. In addition, work with existing clients continued to grow with BHP Billiton, Rio Tinto, Peabody and Main Roads WA.

To maximise profit margins on all projects, risk management will continue to be a significant area of concentration throughout the tendering and project delivery process. I am confident the Company has established a strong framework to manage risk and improve operational and financial performances.

## Dividend

The Company remains focused on delivering value to our shareholders as we continue to diversify and grow. Consequently, I am pleased to report that with the Company's record profit result of \$56.1 million, a fully franked final dividend of 2.5 cents per share has been declared. Building on the interim fully franked dividend of 1.5 cents per share paid in April 2012, this delivers a total fully franked dividend of 4.0 cents per share for the full year.

## Outlook

Despite some recent uncertainty in the resources sector, committed resource projects and ongoing domestic demand for construction services are expected over the next year. The Company's Mining business will continue to pursue a growth strategy as it pushes into emerging mining regions and develops relationships with new blue-chip clients.

The Company will seek to build on the positive outcomes of the 2012 Financial Year with a continued focus on improving profit margins across all businesses. Changing market conditions including the tight labour market, accelerated client timeframes and macroeconomic impacts make this challenging. However, there is still room for improvement and profit growth. Having said that, it is important to recognise what has been an exceptional year financially with a record profit performance for our shareholders.



## Changes to the Board

In September 2011, Ms Eva Skira was welcomed to the Board of Directors. Eva's credentials as an experienced Director with a strong financial background have been a highly valued addition to the Macmahon team. Eva has a background in capital markets, stockbroking and financial markets, having previously held positions at the Commonwealth Bank in the Corporate Banking/Capital Markets division and later with Barclays de Zoete Wedd.

I would like to formally welcome Eva to the Board of Directors and we look forward to continuing to work with her in the future.

## Our people

The success of Macmahon is a reflection of the skill and dedication of our people at all levels of the organisation. I would like to take this opportunity to thank our people for their efforts during what has been a very busy and exciting year. To those employees who have been with us for some time, thank you for the important work you have done in helping new employees transition into the team and familiarise themselves with Macmahon's values. To those who joined the Company during the year, welcome to the team and thank you for your efforts during the first months of your career with Macmahon. It is the combined experience and skills of both existing and new employees that continues to enable Macmahon to deliver exceptional projects for our clients.

## Our shareholders, clients and suppliers

The strength of the relationships Macmahon has with its shareholders, clients and suppliers remains central to its success.

Our clients continue to invite Macmahon to be a part of exciting new projects and together we are making a difference to the respective industries, communities and economies in which we operate. On behalf of the Board, thank you to all of our clients and suppliers for their ongoing support this year.

Finally, I thank our shareholders for the confidence they place in Macmahon as we continue to work towards achieving outstanding results in the future.

Ken Scott-Mackenzie  
Chairman



# Chief Executive Officer's Report



## Introduction

It has been a very exciting year for Macmahon and as the Company approaches its 50th year, I am pleased to be able to report record revenue, a record profit, record order book and the largest number of employees in Company history.

The scope of new projects undertaken during the year has seen the business evolve significantly from its Australian resources based origins. With business activities pushing into Mongolia and further into Nigeria during the year, the Company's international expansion program is gaining traction. In Australia, new projects in the liquified natural gas and iron ore sectors have broadened the Company's domestic operations.

The intensity of activity across all aspects of the business has not been without its challenges, however I am pleased to report that the Company has performed strongly for the year.

## Financial performance

Macmahon delivered on its commitment to return to an acceptable level of profit, recording a record profit after tax of \$56.1 million. The result reflects a substantial increase in revenue to \$1.9 billion, with the Mining Business performing strongly and Construction winning several new projects throughout the year.

Mining achieved strong results, with increased profit margins through better plant utilisation and production performance. Mining built on its extensive relationships with existing clients, while also securing contracts with new clients for the Tropicana Gold and Tavan Tolgoi projects.

Construction reported a return to profit for the year and delivered its projects within tight client schedules. However, targeted margins were not achieved and continue to remain the focus for this business.

Internationally, the Company's expansion into Mongolia was an important step in the development of our global footprint. Together with the addition of a new project in Nigeria, the International business is growing to represent a more significant part of the Company's profit base.

Overall, the Company's record profit, revenue and order book reflect a highly successful year and Macmahon is well positioned to continue to develop its business despite an uncertain market outlook.

## Capital expenditure

The 2012 Financial Year also saw Macmahon make a record investment in capital equipment, totalling \$186.4 million. The purchase of new equipment has ensured the Company's ability to deliver on key projects, while also securing a modern, well maintained fleet to meet future demand. The Company's new equipment, combined with the Company's capability to maintain its own fleet, ensure Macmahon is well placed to meet the demand for projects requiring specialised equipment in the resources sector.



*Macmahon took delivery of its first 240 tonne capacity 793F dump trucks in June 2012 for use at the Tropicana Gold Project in Western Australia.*

## Order book

|  | \$ million     |
|--|----------------|
| Opening balance at 30 June 2011        | 2,012.8        |
| Less: Work completed                   | (1,870.7)      |
| Add: Variations / extensions           | 253.3          |
| Add: New contracts                     | 2,743.4        |
| <b>Closing balance at 30 June 2012</b> | <b>3,138.8</b> |

At year end, the Company's order book stood at \$3.1 billion, with \$1.4 billion secured for the 2013 Financial Year. This result has been achieved through significant project wins and extensions during the year, with a total of \$3.0 billion of new work secured.

The strength of the Company's order book and a robust pipeline of work available for tender, underpin projected growth. The quality and diversity of the Company's client base provide the foundation for a sustainable business model into the future.

## Our people

In a year of considerable growth, it has been a great pleasure to welcome so many new people to the Macmahon team. The increase in direct employees from more than 3500 to nearly 4800 has been made possible through a range of attraction and retention initiatives to ensure that Macmahon does not just have enough people, but that it has the right people. Sourcing new employees domestically continues to be the Company's priority, with a small, but limited number of specialist positions filled by international recruits.

A key part of the Company's people strategy has been focused on training and development, with an increase in our graduate and apprenticeship programs during the year. In February, Macmahon also launched the ROCKSTAR (Real Opportunities and Careers – Kick Starting Today's Aboriginal Role Models) program, which will see 300 Indigenous people start their career in the construction and mining sectors over a two year period. This is an exciting initiative which will make a significant difference to the lives of its participants and, with Macmahon's well established and successful employment and training programs, continue the focus on providing careers, not just jobs, for our people.

# Chief Executive Officer's Report continued

## Safety performance

The safety of our people is of the greatest importance and we continue to focus on improving the Company's performance in this area.

One of the key challenges in a period of rapid growth, is maintaining safety standards at the highest possible level. Macmahon's safety performance deteriorated during the year, which is clearly an unacceptable result. Despite this, it is important to note that no fatalities or serious or disabling injuries were recorded during the year and the Company maintains its emphasis on safety across its operations.

The growth in the number of projects and new people across the Company has prompted the need for a refreshed approach to safety across the business. A range of initiatives were implemented throughout the year to reinforce the importance of safety and this process is being continually reviewed and monitored.

## Strategy

The Company strategy remains focussed on achieving 20 per cent year on year EPS growth and 20 per cent return on equity. Macmahon's diversified business model is now well developed, placing the Company in a strong position to deliver consistent growth, in spite of uncertain market conditions. This is due, in large part, to the Company's expanding geographical footprint and broad range of projects across different markets and sectors.

As part of its commitment to delivering shareholder value, Macmahon targets to pay 50 per cent of its profit as dividends.

## Outlook

As Macmahon approaches its 50th year in 2013, the outlook is positive for the year ahead, with a strong order book, robust tender pipeline and healthy working relationships with our clients. Much of the order book for the 2013 Financial Year has already been secured.

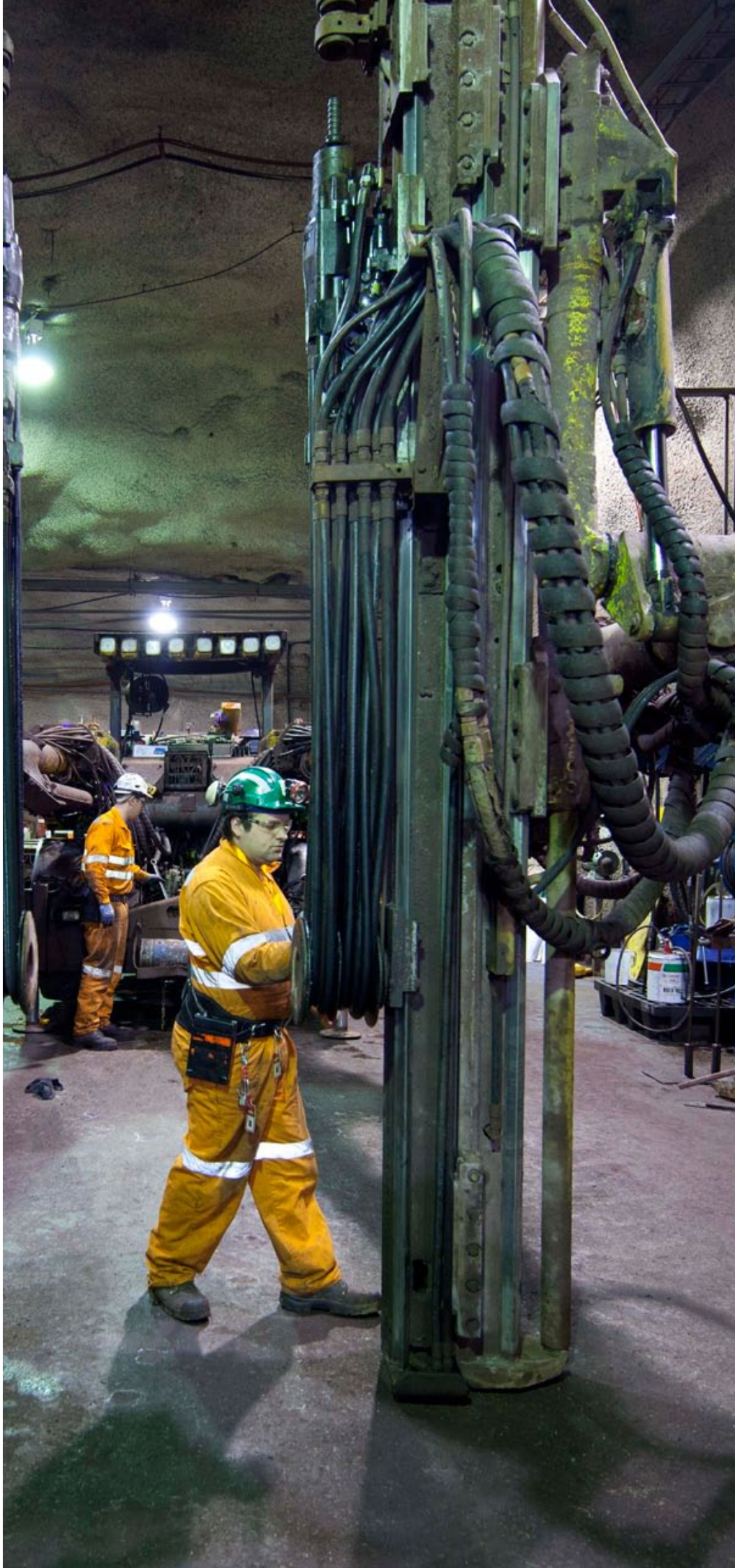
Contract extensions and the ramp up of the Tropicana Gold Project ensure the outlook for Mining in Australia remains strong, with quality projects still offering a good tender pipeline. In Construction, tendering opportunities remain reasonable over the coming year.

The significant progress made in the Company's expansion to Mongolia and further into Nigeria will deliver benefits, with Macmahon's international operations to have a material impact on the business within the next three years. Macmahon's extensive capabilities are proving a strong asset in realising new business opportunities overseas and will provide an avenue for further growth.

New funding arrangements confirmed during the year have ensured the Company is well positioned to pursue new opportunities in the domestic market. Overall, the Company expects 20 per cent profit growth for the year ahead.

Nick Bowen  
Chief Executive Officer





*The Underground  
workshop at  
Olympic Dam,  
South Australia.*



# Chief Financial Officer's Report



## Introduction

The 2012 Financial Year marks a year of record performance, most notably record revenue and profit. The year also saw outstanding earnings per share (EPS) growth and an increased return on equity. This translated into increased dividends for our shareholders. New funding arrangements for the Company's domestic activities were also secured, providing a good financial base on which to build future growth.

## Business Performance

Macmahon reported a strong turnaround in profit performance in 2012. The focus on Macmahon's strategy of geographic and commodity diversification and on the development of long-term customer relationships helped deliver a record financial result.

Net profit after tax increased from \$1.0 million in the 2011 Financial Year to \$56.1 million, a major uplift from the previous year. This significant improvement in profit performance increased underlying earnings per share from 5.3 cents per share in 2011 to 7.7 cents per share in 2012. Underlying return on equity also increased from 10.7 per cent last year to 16.5 per cent in the 2012 Financial Year.

Over the past 12 months, momentum has built across Mining, with offshore expansion and significant operational improvements through productivity and asset utilisation. Construction made much progress during the year, delivering a number of important infrastructure projects for government and resource based clients. However, the rapid growth of this business created challenges in securing people and equipment, which impacted margins. There is no doubt that there is still room for improvement and the focus for the year ahead will be to continue to drive margin improvements in this business, through ongoing enhancements to risk management and improvements in general project management.

The Company reported record revenues across all businesses, totalling \$1.9 billion, a 49.1 per cent increase on the previous year. This increased scale allowed overheads to be more efficiently spread across the business.

Mining reported a record profit before tax of \$72.3 million and record revenue of \$880.1 million, an increase of 69.5 per cent and 30.5 per cent respectively. This was largely due to an increased scope of works at existing projects and new projects won throughout the year. Mining margins increased from 7.6 per cent (underlying margin) to 8.2 per cent due to improved equipment utilisation, production performance and increased offshore activity.

Construction recorded an improved profit before tax of \$25.9 million. Challenges of sourcing people and equipment remained and wet weather impacted some projects. It was a significant year for winning work and the ramp up of new projects, including the Solomon Rail Spur, Gladstone LNG earthworks and the South Road Superway.

The record amount of work won in the 2012 Financial Year and the strong pipeline of work under tender provides the foundation for delivering revenue growth to shareholders in 2013. Increased returns and margins signalled a return to the payment of fully franked dividends moving forward.

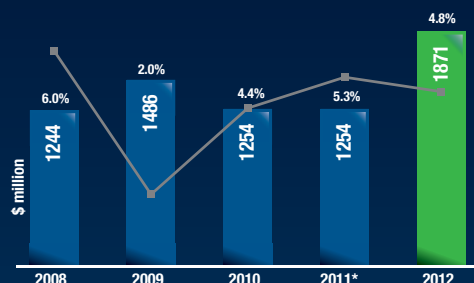
## Strategic financial targets

| Delivering Results    |                         |   |
|-----------------------|-------------------------|---|
| Measure               | Target                  | 2012 Performance  |
| EPS                   | 20% year on year growth | Growth of 45%*  |
| ROE                   | 20%                     | Increased to 16.5%  |
| Order book            | 2x                      | 1.7x revenue  |
| Gearing               | Under 35%               | Gearing 23.1%<br>Refinancing complete<br>Mongolia progressing |
| Dividend Payout Ratio | 50%                     | 52.7%   |

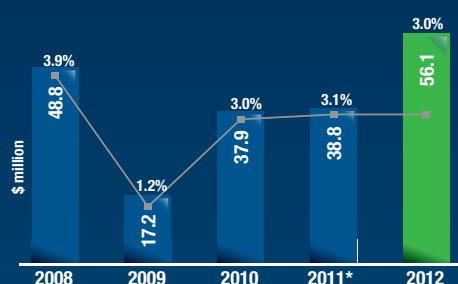
\* based on 2011 underlying result

**Shareholder  
value**

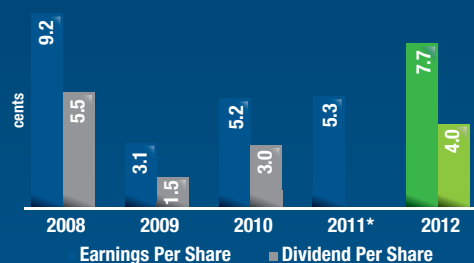
## Revenue and EBIT margins



## NPAT and NPAT margins



## Earnings Per Share



\* 2011 result based on underlying profit.

The Company made clear progress towards meeting its strategic financial targets during the year. Targeted earnings per share growth was exceeded, with 45 per cent EPS growth signalling a welcome return to the payment of dividends.

This significant growth was funded through cash flow and the Company's new debt facilities, while ensuring gearing levels remained within maximum target of 35 per cent.

Return on equity showed steady progress towards the 20 per cent target, with a 16.5 per cent return reflecting the Company's strong financial performance for the year.

Macmahon's record order book, record revenue and sound funding arrangements mean it is well placed to continue to deliver growth in 2013.

## Dividend and DRP

The Board has declared a fully franked final dividend of 2.5 cents per share, which will be paid on 17 October 2012. This brings total dividends for the year to 4.0 cent per share fully franked, representing a payout ratio of 52.7 per cent. The resumption of dividend payments is a reflection of strong earnings growth and positive outlook for the Company.

With growth projected for the 2013 Financial Year, the Company has also reinstated its Dividend Reinvestment Plan (DRP). For the final dividend, investors will be given the opportunity to reinvest all or part of their dividends in additional Macmahon shares, without brokerage and other charges, at a discount of 1.5 per cent.

## Cash flow and capital expenditure

The Company maintained its strong cash position throughout 2012, with a year-end cash balance of \$134.9 million and operating cash flows of \$86.8 million. Operating cash flows were impacted by some debtor collections which were delayed into July 2012. The Company's EBITDA of \$167.8 million, better depicts the company's cash generating capacity for the year.

In line with its growth strategy, the Company invested \$186.4 million on equipment across the business, funded by operating cash flow and the Company's new funding facilities.

# Chief Financial Officer's Report continued

## Capital Structure and Funding

Macmahon seeks to maintain a capital structure which reflects appropriately the inherent risks of a mining services business and positions the Company to be able to respond to growth opportunities as they arise to maximise shareholder value.

The Company's balance sheet is strong and gearing levels at 23.1 per cent net debt to equity remain within maximum targets. Taking into consideration almost \$60 million in late debtor receipts which occurred in July 2012, gearing would be more accurately reflected at 7.1 per cent. Net interest cover improved to 6.2, an increase from 0.7 in 2011. All banking covenants remain well within limits with significant headroom.

In December 2011, the Company completed a \$475 million early refinancing and upsizing of its syndicated financing facilities. The new facility was negotiated on reduced margins and improved terms and conditions, demonstrating ongoing support from Macmahon's core banking lenders. The new facility is expected to meet the Company's domestic growth funding requirements over the next 3 - 4 years.

As at 30 June 2012 bonding and funding facilities comprised of:

| \$ million                                      | Total facility | Drawn | Undrawn |
|---|----------------|-------|---------|
| Working capital cash advance facility (3 years) | 75             | 64    | 11      |
| Equipment finance facilities (3 and 4 years)    | 275            | 149   | 126     |
| Bank guarantee facility (3 years)               | 125            | 73    | 52      |
| Insurance Bonds                                 | 240            | 157   | 83      |

Arrangements for the establishment of non-recourse funding facilities for the Tavan Tolgoi project in Mongolia are well progressed, with Lead Arrangers appointed. The contract and funding arrangements for the project are planned to be sold down into a 50:50 off balance sheet joint venture structure in calendar 2013. In-country risks associated with the project have been mitigated by the use of political risk insurance and a contractual 'put option', which requires the client to buy the project fleet in certain circumstances.

## Outlook

Macmahon is committed to maintaining a robust and stable financial and operating platform which will enable us to support our customers and provide consistent returns to shareholders. The Company continues to evaluate opportunities for new business growth domestically and offshore. Although global uncertainty continues to weigh on the resources sector, Macmahon is confident its strategy of diversification and focus on blue-chip customers with low cost, long-life resources, will provide the foundation to sustain it through the short-term and into the future.

Theresa Mlikota  
Chief Financial Officer

*Macmahon purchased the remaining 40 per cent of MVM Rail to create Macmahon Rail. Pictured is work on the Karara Rail Project.*





# Strategy and Outlook

## Strategy

Macmahon has developed a dynamic, capable business with the diversity to withstand market pressures facing both the construction and contract mining sectors. To that extent the Company is well positioned to continue to grow both its mining and construction services businesses. The Company's range of projects are spread across low cost commodity producers and its targeted geographical expansion is a fundamental part of the strategy.

The Company is now operating across more regions and sectors than ever before, resulting in little reliance on a single geographical location or commodity sector. Macmahon will continue to pursue its strategy to diversify the business, with the International operations expected to make a material contribution within the next three years.

Macmahon's existing client base is stable and scheduled expansion projects in which the Company is already involved are expected to continue. Strong relationships with its clients mean that Macmahon is well positioned to not only meet any challenges of the current economic climate, but to continue to grow.

The development of the Engineering Business has provided new opportunities for Engineering, Procurement and Construction (EPC) contracts and demonstrates the Company's broad service offering base for winning new work. Engineering will further support the growth of Macmahon's Mining operations by offering highly sought after expertise to clients across both the Surface and Underground sectors.

In Construction, Macmahon will continue to develop its long-term relationships with both public and private sector clients, with a focus on both resources infrastructure and civil construction. The outright purchase of MVM Rail to create Macmahon Rail ensures the Company is well positioned to capitalise on major rail projects to service the resources sector in addition to government funded rail infrastructure.

## Outlook

The general outlook for both construction and mining in Australia remains positive overall. A recent softening of commodity prices has created an increased level of uncertainty within the resources sector. However, both Australian and international contract mining opportunities continue to be presented to the Company and public infrastructure in Western Australia, the Northern Territory and New South Wales remain robust.

The short to medium-term outlook for bulk commodities is subdued due to concerns of a potential fall in short-term demand from China and ongoing instability in Europe. This may lead to some price volatility in the immediate future.

Long-term deterioration of commodity prices is regarded as unlikely as previous underinvestment in iron ore, coal and gold is expected to see major investment in these sectors in the future. The ongoing industrialisation of emerging economies including China and prices remaining well above long-term averages are also expected to support the sector.

Housing and infrastructure investment in China is expected to remain robust beyond 2020, while the development of consumables and utilities should pick up over this time. Other bright spots in the near to medium term outlook are developing parts of Asia such as Indonesia and Malaysia as well as African nations such as Nigeria. Countries in these regions that focus on exporting energy or resources are expected to experience stronger growth generally.



*Macmahon  
commenced mining  
operations at Tavan  
Tolgoi in Mongolia  
in January 2012.*

## Strategy and Outlook continued

The country with one of the world's strongest economic growth prospects is Mongolia, where a massive resources investment boom is just beginning. Mongolia has the world's largest untapped coal, copper and gold deposits, with its proximity to China making it one of the most desirable sources of low cost commodities to deliver into the Chinese market.

In Europe, the risk of financial uncertainty persists, however the outlook for achieving a solution to the current economic weaknesses appears more optimistic. Similarly, recent data suggests the United States' housing and energy sectors are improving.

Locally, increasing costs in resources and energy investment may lead to some projects being delayed, although most are expected to proceed soon after originally scheduled. With 'resource nationalism' stronger in other countries compared to Australia and developing regions lacking finance and supporting infrastructure, it is expected the domestic market will remain strong.

In Construction, a robust pipeline of public works is expected to continue in response to ongoing population growth and sprawl. Projects addressing ageing infrastructure, underinvestment and water resource management are expected to feature prominently.

Most immediate growth will be driven by mining-related construction, with this work expected to peak in 2014. As a result, the short-term construction outlook is strongest in Western Australia and the Northern Territory, where high levels of resources activity exist.

In Western Australia the next round of iron ore works and further liquified natural Gas (LNG) spending will play a key role in driving further growth in resources construction. The increasingly urgent need for investment in social infrastructure in Perth and key Western Australian mining towns will underpin Government led investment. Unlike most other states, surging iron ore royalties mean that the WA Government has healthy finances with which to fund these projects.

Activity in the Northern Territory is heavily reliant on energy and resources, with the Ichthys LNG project to dominate in the near future. However, there will be an increasing need for supporting infrastructure as Darwin grows further and becomes a regional hub for LNG and base metals.

Queensland may also benefit from huge resources and energy investment, however the United Nations Educational, Scientific and Cultural Organisation's (UNESCO) concern in relation to Great Barrier Reef damage may lead to delays. Resolution with UNESCO and the still-acute need for resources supply to India and Japan should mean a healthy market outlook.

New South Wales will be driven by the backlog of work in many sectors, led by transport and State projects. The strong pipeline of work is not expected to ease the backlog, due to population pressures and ageing infrastructure. This in turn provides an ongoing robust outlook for infrastructure projects.





*An elevated roadway  
will form part of  
the South Road  
Superway in South  
Australia.*



# Risk Management

Macmahon is committed to effective risk management to achieve its business objectives. While risk cannot be eliminated from the work Macmahon performs, the Company's policy is to implement, maintain and continually improve systems that enable us to:

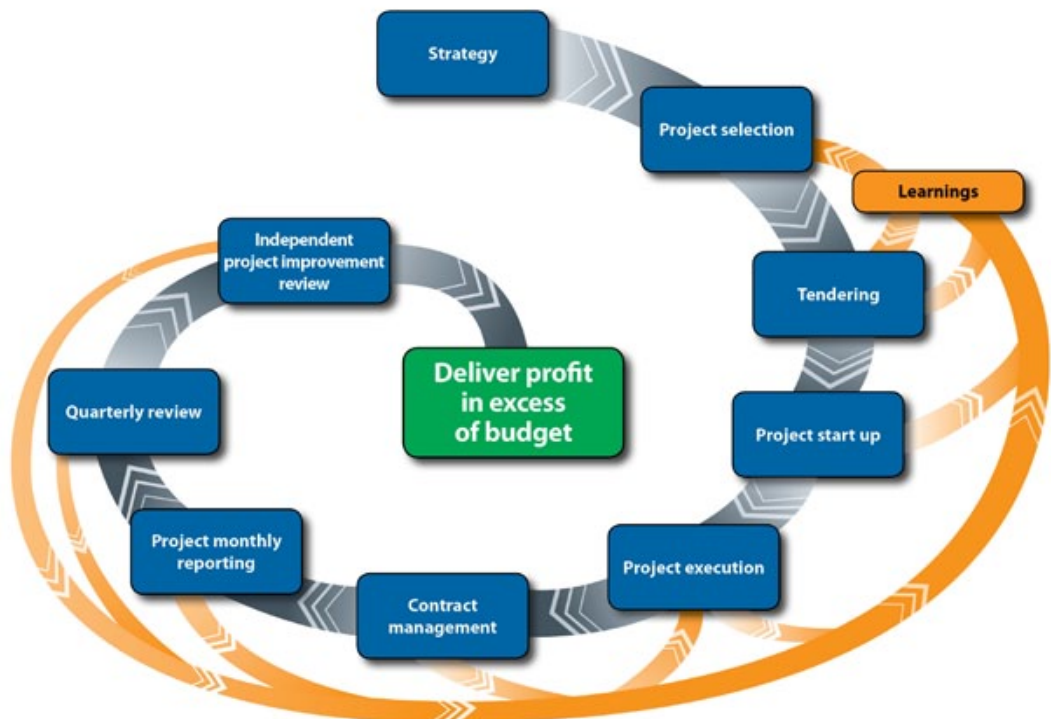
- identify, assess and control risks;
- properly understand and consider risks when making decisions; and
- evaluate new opportunities based on their risk / opportunity balance.

During the year the Company completed a major review of its business processes and practices to ensure that effective mechanisms to manage risk are embedded in all aspects of its operations.

To improve margins, particular focus has been given to the Company's activities in key stages of the project life cycle including project selection, tendering, project start-up and project execution.

The Company has also implemented a number of changes to monitoring and reporting project risks to ensure that any threats to project performance are identified at the earliest possible opportunity and dealt with in a proactive manner. These changes include the introduction of a formal process for regular and comprehensive reviews of major projects by both senior management and independent experts.

## Principles of Risk Management



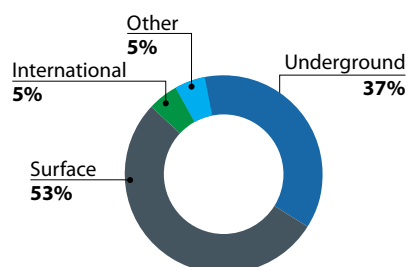


*Macmahon is continuing to play a key role in the Northern Territory's growth through the site development works for the Ichthys LNG Onshore Facilities.*

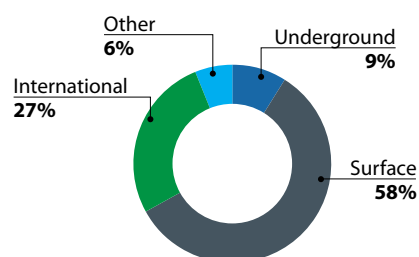
# Mining

| \$ million                 | June 2012 | June 2011 |   | Change |
|----------------------------|-----------|-----------|---|--------|
| Revenue                    | 880       | 674       | ▲ | 31%    |
| Profit Before Tax          | 72.3      | 42.6      | ▲ | 70%    |
| Profit Before Tax margin % | 8.2       | 6.3       | ▲ |        |
| Order book                 | 1,968     | 1,079     | ▲ | 82%    |

Revenue breakdown



Order book breakdown



## New work won – 2012

| Project   | Value                 | Start | Description  |
|---|-----------------------|-------|--|
| <b>Tropicana Gold Project</b> (WA)<br>Tropicana Joint Venture (AngloGold Ashanti Australia 70% and Independence Group NL 30%) | \$900 million         | 2012  | Mine planning, drill and blast, load and haul, crusher feed and other associated works.  |
| <b>Tavan Tolgoi</b> (Mongolia)<br>Erdenes Tavan Tolgoi  | \$250 million*        | 2012  | Large scale open cut coal mining operations in the South Gobi region of Mongolia.  |
| <b>Calabar</b> (Nigeria)<br>Lafarge   | \$127 million         | 2012  | Quarrying operations at cement manufacturing plant in Calabar region, Nigeria.   |
| <b>CSA</b> (NSW)<br>Cobar Management Pty Ltd  | \$110 million         | 2011  | All engineering design, fabrication, procurement, construction and management of the extension and upgrade of the CSA No. 1 Shaft. |
| <b>Orebody 24 / Jimblebar</b> (WA)<br>BHP Billiton  | \$49 million          | 2011  | Open pit operations involving all aspects of drill and blast, load and haul, crushing and screening and train loading.             |
| <b>Renison Tin Mine</b> (Tas)<br>Metals X (contract extension value only)   | \$36 million          | 2012  | Underground production and development works and the overall management and maintenance of mine owner's mobile plant assets.       |
| <b>Ranger 3 Deeps Exploration Decline</b> (NT)<br>ERA   | \$34 million          | 2012  | Complete portal establishment and 2200 metres of development works.  |
| <b>George Fisher</b> (QLD)<br>Xstrata   | \$29 million          | 2011  | Development works of more than 3000 metres of a decline extension and supporting infrastructure.                                   |
| <b>Other projects</b>   | \$123 million         |       |  |
| <b>Total</b>  | <b>\$1658 million</b> |       |  |

## Major projects

|  |               |      |   |
|--|---------------|------|---|
| <b>Orebody 18 and Wheelarra</b> (WA)<br>BHP Billiton                   | \$975 million | 2006 | Open pit operations including all aspects of drill and blast, load and haul, crushing and screening through to train loading of final product.  |
| <b>Eaglefield Coal Mine</b> (QLD)<br>Peabody Energy Australia          | \$550 million | 2003 | Open cut mining, overburden and interburden of coal, all drill and blast operations and ROM coal feed.  |
| <b>Olympic Dam</b> (SA)<br>BHP Billiton                                | \$390 million | 2004 | Underground lateral development including shotcreting, cable bolting and other associated works.  |
| <b>Argyle Diamond Mine</b> (WA)<br>Argyle Diamonds Limited (Rio Tinto) | \$360 million | 2006 | About 30km of underground development and the establishment of the new block cave mine. Works includes two underground crusher chambers, vertical development and initial cave draw production. |
| <b>Waihi Gold Mine</b> (New Zealand)<br>Newmont                        | \$325 million | 1998 | Open pit operations including drill and blast, mining, transfer to mill, operation and maintenance of crushing and conveying systems and development of the tailings dam.                       |
| <b>Cameby Downs</b> (QLD)<br>Yancoal                                   | \$190 million | 2010 | Development and operation of new coal mine in the Surat Basin. Works include planning, mine development, waste stripping, coal mining, coal preparation and train loading.                      |

\* 50 per cent of announced value.





Mining delivered a record performance for the year, with all parts of the business recording strong revenue growth and margin improvement. Mining revenue totalled \$880 million, increasing from \$674 million in the previous year, a 31% increase. More importantly, Mining margins increased, rising from an underlying margin of 7.6 per cent in 2011 to 8.2 per cent this year, driven by improved equipment utilisation and productivity, plus increased offshore activity.

The development of existing client relationships was a major driver in the delivery of this growth both in Australia and overseas, increasing the scope of works on projects with key blue-chip clients, including Lafarge offshore and BHP Billiton, Rio Tinto and Xstrata domestically.

*Surface Mining performed strongly on projects spanning the iron ore and coal sectors, including operations at Orebody 18 in Western Australia.*



## Mining continued

Surface continued to perform strongly on projects spanning the iron ore and coal sectors, with a focus on maintaining its productive relationships with blue-chip clients, BHP Billiton and Peabody, across the major mining regions of Australia.

Mobilisation commenced for the Tropicana Gold Project ahead of the start of mining activities post year end.

Underground revenue increased, with existing operations at Argyle (Rio Tinto) and Olympic Dam (BHP Billiton) performing well. New work in Queensland (Xstrata) and New South Wales (Newcrest) helped drive further growth for the Underground Business.

The creation of the Engineering Business also provided a more dedicated focus for Engineering, Procurement and Construction (EPC) contracts. The stand-alone business unit provides greater scope for the Engineering team to target new work across the mining sector with an emphasis on exploring opportunities beyond the traditional underground mining environment. The new business unit will focus on developing the Company's existing structural, mechanical and electrical engineering capabilities to deliver materials handling projects across the resources sector and in infrastructure construction.

The rapid expansion of the International Business was driven by the Company's first contract award in Mongolia and a new project win in Nigeria. The Tavan Tolgoi project in Mongolia was a particularly significant win for the Company, delivering Macmahon's first contract in the country's emerging mining industry. Initially awarded as a joint venture, the Company announced in May that it had taken over responsibility for 100 per cent of the project to support the rapid ramp up of production, with an expectation to revert to a joint venture arrangement in calendar 2013. The project represents an exciting milestone in a region with high potential for the Company and operations have progressed well since mining commencement in January.

These project wins provide a solid foundation for the Company's International operations, which are expected to make a material contribution to the business within the next three years.

Doorn-Dijl Yoordaning continued to operate a range of joint venture partnerships with Indigenous people to build the capacity of local communities. The launch of the ROCKSTAR program also expanded the reach of its Indigenous employment and training initiatives.

### Outlook

The outlook for Macmahon's Mining Business remains strong on the back of expected contract renewals and a pipeline of new opportunities both in Australia and offshore.

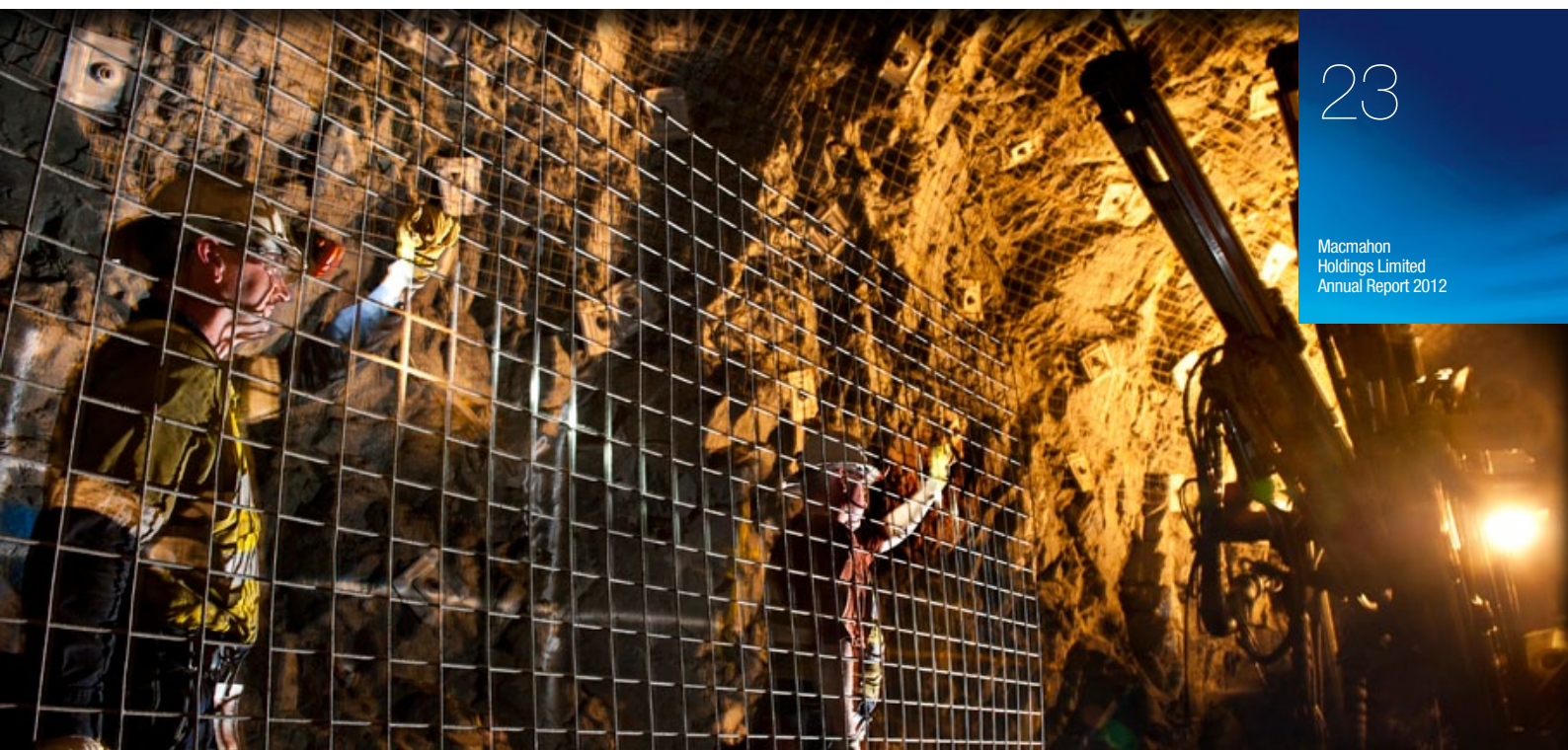
There is potential for Underground Mining growth overseas, while consistent domestic demand will see an ongoing pipeline of work for the business unit. Macmahon's strength in offering the full range of underground mining services will also be enhanced with the arrival of its new raiseddrill, the RBR 900VF, the largest in the world. A number of potential projects are being explored ahead of the completion of its fabrication.

Engineering will seek to capitalise on its proven credentials within the underground market, while also exploring EPC opportunities in surface mining. The business unit will also look to draw on its specialist skills in mechanical and electrical engineering to support other parts of the Company in securing multidisciplinary contract awards.

The Surface Business will look for new opportunities, while consolidating its relationships with existing clients. The focus for the next year will be on the ramp up of the Tropicana Gold Project and securing new work, with tendering activity for both greenfield and brownfield projects expected to remain high.

The success of growing the order book, revenue and margins of the Company's International operations ensure it is well placed for further growth in the future. The International Business has already secured 100 per cent of its target revenue for the 2013 Financial Year and the ramp up of Tavan Tolgoi in Mongolia will be the primary focus for the period. Further opportunities in West Africa and South East Asia are also being pursued to further the business unit's growth strategy.



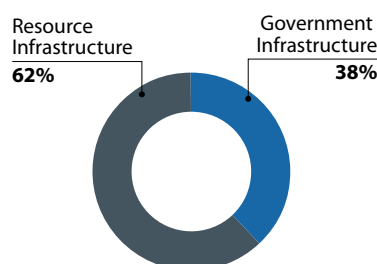


*Underground  
(including Renison  
Tin Mine, above)  
and International  
(including Calabar,  
below) projects  
performed well  
during the year.*

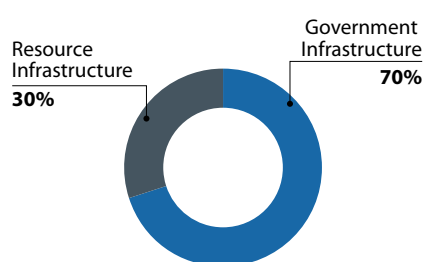
# Construction

| \$ million                 | June 2012 | June 2011 |   | Change |
|----------------------------|-----------|-----------|---|--------|
| Revenue                    | 991       | 580       | ▲ | 71%    |
| Profit Before Tax          | 25.9      | (35.7)    | ▲ | 173%   |
| Profit Before Tax margin % | 2.6       | (6.2)     | ▲ |        |
| Order book                 | 1,171     | 934       | ▲ | 25%    |

Revenue breakdown



Order book breakdown



## New work won – 2012

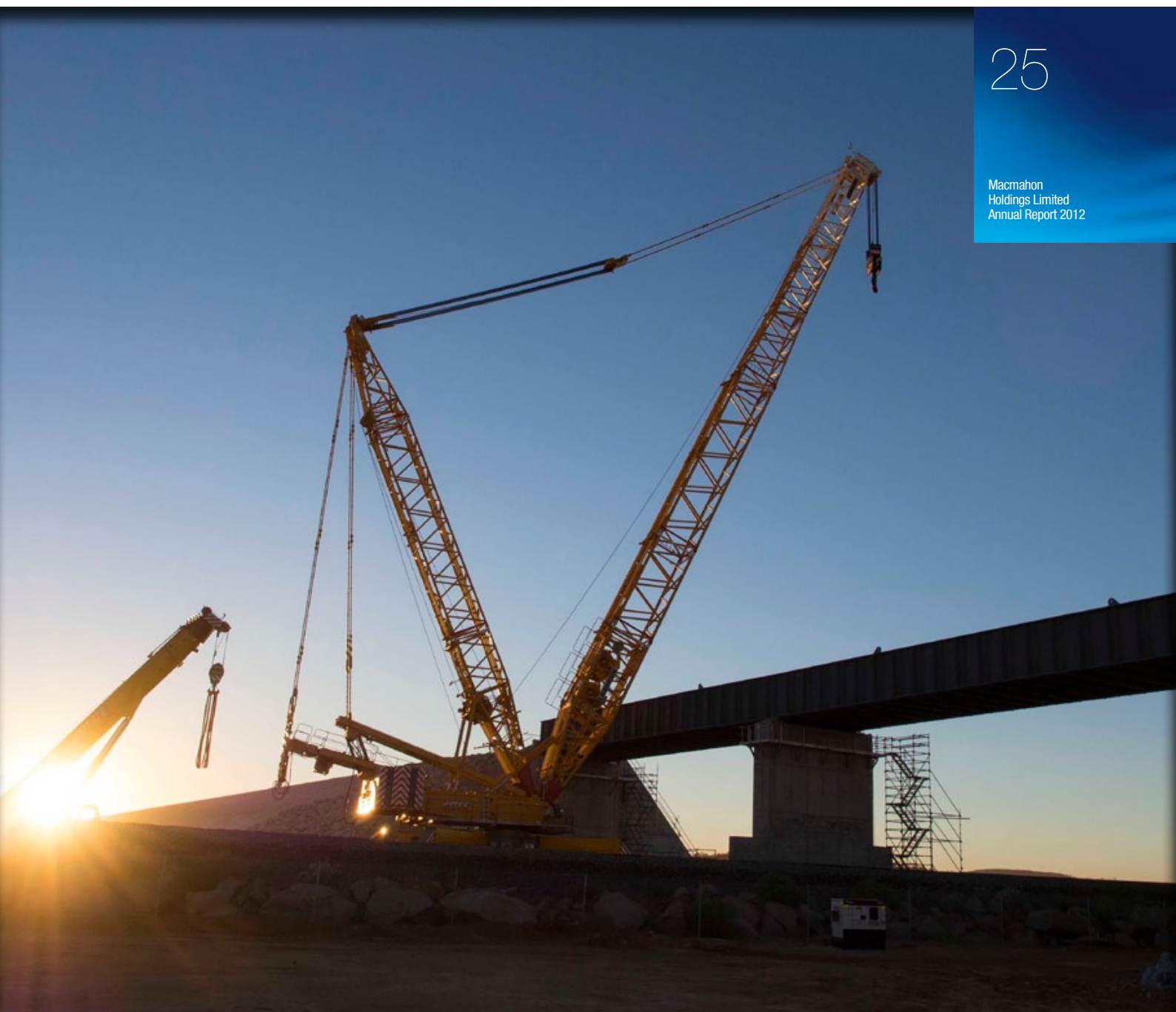
| Project   | Value                 | Start | Description   |
|---|-----------------------|-------|---|
| <b>Solomon Rail Spur Construction</b> (WA)<br>Fortescue Metals Group                      | \$330 million         | 2011  | Construction of 52km of rail formation from the Fortescue main rail line, through the Chichester Ranges towards the Solomon deposit. Includes the construction of four bridges, six million cubic metres of earthworks and the construction of level crossings. |
| <b>Great Northern Highway Realignment</b> (WA)<br>Main Roads WA                           | \$220 million         | 2012  | Eight kilometres of new road and construction of major interchange, Port Hedland.   |
| <b>Pilbara ISA</b> (WA)<br>Main Roads WA  | \$172 million         | 2011  | Network operations management and capital works delivery on 2276km of road network in the Pilbara region.   |
| <b>Ichthys Onshore LNG Facility Site Development Works</b> (NT)<br>JKC Joint Venture      | \$170 million*        | 2012  | Site development civil works, including roads, earthworks, drainage and ground improvement works for the onshore facilities at the Ichthys LNG project.   |
| <b>Darwin Marine Supply Base</b> (NT)<br>NT Government                                    | \$100 million         | 2012  | Design and construction of a special purpose wharf and dockside infrastructure, servicing the needs of offshore supply vessels.   |
| <b>Bega Bypass</b> (NSW)<br>Road Transport Authority                                      | \$30 million          | 2012  | Construction of 3.5km two lane highway including two bridges and two major access points.   |
| <b>Trangie Nevertire Irrigation Scheme</b> (NSW)<br>Trangie-Nevertire Cooperative Limited | \$26 million*         | 2012  | Design and installation of 238km of pipeline network, construction of balance tanks and pump station installations. The project will also include 153km urban irrigation channel modernisation.   |
| <b>Ranger 3 Deeps Exploration Decline Box Cut</b> (NT)<br>ERA                             | \$16 million          | 2012  | Boxcut works for the development of a 2200m exploration decline, including bulk earthworks and civil construction of the decline boxcut, drainage, ground support, and haul roads.  |
| <b>Other projects</b>   | \$21 million          |       |   |
| <b>Total</b>  | <b>\$1085 million</b> |       |   |

## Major projects

|   |                |      |  |
|---|----------------|------|--|
| <b>South Road Superway</b> (SA)<br>Department of Transport, Energy and Infrastructure | \$230 million* | 2010 | Construction of a new 4.8km highway corridor, including 2.8km of elevated dual carriageway.  |
| <b>Gladstone LNG</b> (Qld)<br>Bechtel   | \$175 million  | 2011 | Site civil works including clearing, bulk earthworks, pavements, roads and drainage for the 160 hectare greenfields site.  |
| <b>Hope Downs 4</b> (WA)<br>Rio Tinto   | \$99 million   | 2011 | Construction of 53km of rail formation and two three-span bridges. Includes earthworks and construction of culverts, open drains, road works and rail crossings. |

\* Macmahon share.





Construction experienced strong revenue growth, driven primarily by high demand for resource infrastructure projects. New projects in Western Australia and the Northern Territory were responsible for much of the growth, most notably the Solomon Rail Spur and Hope Downs 4 projects in WA and the site development works for the Ichthys LNG facility as well as the construction of the Darwin Marine Supply Base in the Northern Territory.

The growth of Construction was achieved within a challenging environment, with large recruitment requirements and accelerated client schedules of work. Margin growth remains a focus for Construction, with an emphasis on continuing to improve risk management from contract tender through to execution.

*The Solomon Rail Spur in Western Australia was a major contract award for the Construction Business and includes the construction of four major bridges.*



## Construction continued

Northern Territory operations experienced significant growth driven by strong performance across all projects, managed directly by locally based, experienced and long-serving personnel. Current projects in the region are delivering essential infrastructure to support the LNG industry and Macmahon is once again at the centre of an important period of growth in the Northern Territory's history.

Subdued market conditions in New South Wales during the first half and a review of Queensland Government projects following the State election led to fewer new projects available for tendering on the east coast of Australia. Tendering activity increased in New South Wales later in the year, with new contract awards signalling a more positive market outlook for the year ahead.

The Company completed the outright purchase of MVM Rail, acquiring the remaining 40 per cent of the business to create Macmahon Rail. The purchase ensures the Company is in a strong position to pursue further rail work in the future, with opportunities to bid for large rail projects across Australia.

The strength of the Western Australian resources sector saw increased demand for resource infrastructure projects, although the tight labour market and accelerated ramp up on a number of projects had a dampening impact on margins in the second half.

New projects in the Pilbara saw the addition of new client Fortescue Metals Group, as well as the development of long-standing relationships with existing clients Rio Tinto and Main Roads WA, through the Hope Downs 4 Rail project and Great Northern Highway Realignment contract awards respectively.

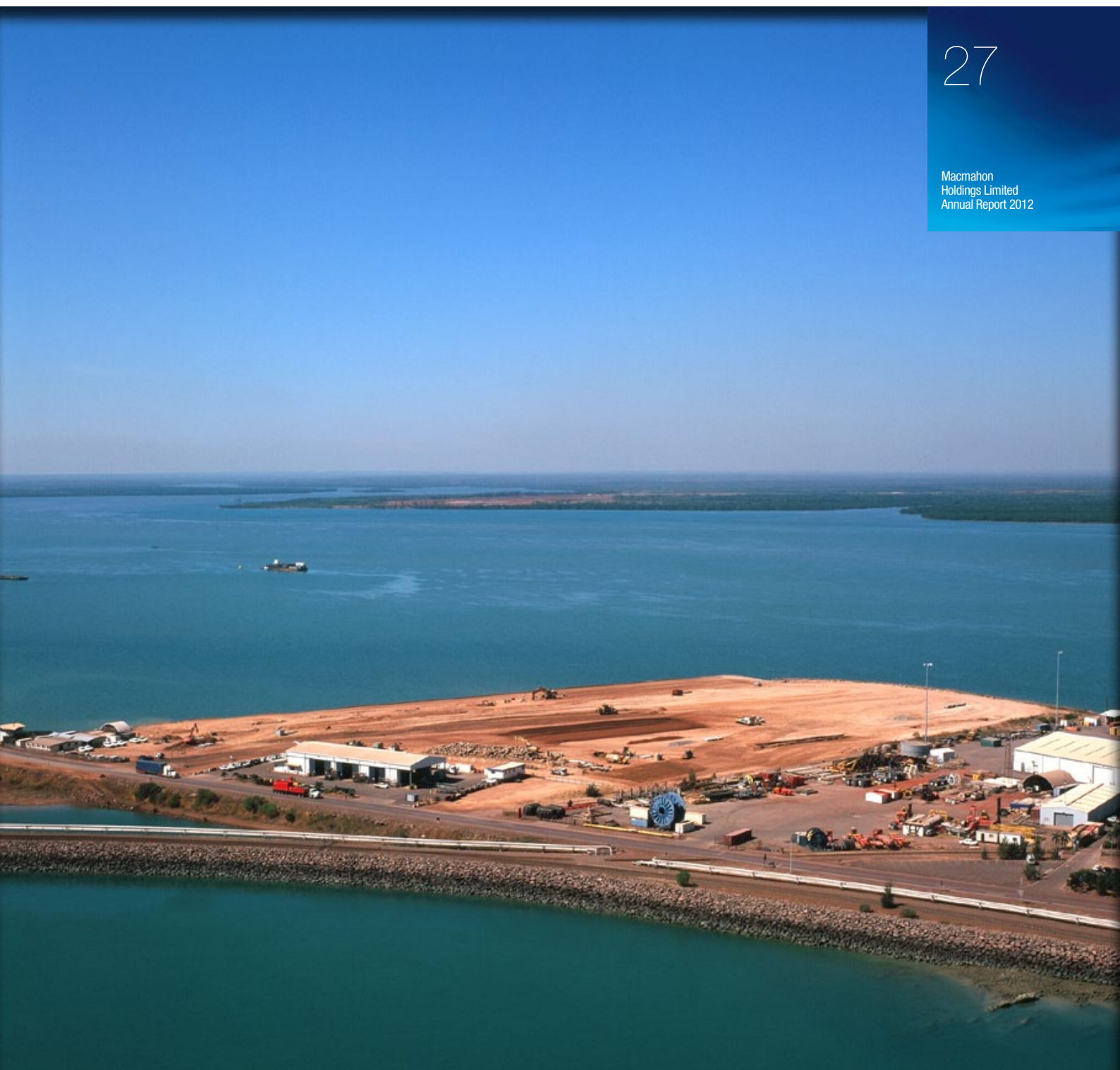
### Outlook

Resources expansion plans continue to drive a pipeline of work for Construction in the coming years. Resource clients are looking for contractors with the ability to meet ambitious programs of work and Macmahon's existing success in delivering projects of this kind means it is well positioned to capitalise on this demand. Tendering activity, particularly with respect to resource infrastructure is expected to continue.

In the Northern Territory, work will continue on developing existing projects related to the liquified natural gas (LNG) sector and building relationships with key clients such as INPEX. While the LNG industry is likely to provide significant opportunities for growth in the coming years, planning is also underway to develop a sustainable business that reaches beyond the sector. Strong relationships with government clients will also be maintained, while Indigenous employment and training will remain a focus.

On the east coast of Australia, the Company will seek to develop new opportunities for Macmahon Rail and projects associated with the Queensland resources sector. Building stronger synergies between the New South Wales and Queensland operations will also be a priority to maximise efficiencies within the business. A renewed infrastructure focus by the New South Wales Government will see a high level of tendering activity for public infrastructure projects, an area in which Macmahon has forged a strong reputation.

In Western Australia, Macmahon will maintain its core focus on projects associated with the resources and public infrastructure sectors, offering reliable, innovative and client focused solutions. With many new resources projects and the expansion of existing projects on the horizon, there will be a robust pipeline of work available in the sector over the next year.



*Early works on the  
Darwin Marine  
Supply Base in the  
Northern Territory,  
awarded and  
commenced in 2012.*



## Plant and Equipment

Macmahon undertook a major capital investment program during the year, purchasing an additional \$186.4 million of new equipment across the business. The additional equipment builds on Macmahon's existing capabilities in operating and maintaining its own fleet while also increasing the responsiveness of the business during a time of high demand for plant and equipment across the resources sector.

The capital investment program was focused on delivering high availability, high utilisation and low costs across the fleet, ensuring the Company could meet the demands of new project wins and to continue to deliver cost-efficient solutions to its clients.

The 2012 Financial Year saw the purchase of five, 240 tonne capacity, 793F rigid dump trucks and a Caterpillar 6040 excavator for the Tropicana Gold Project. The international fleet was also expanded, with the acquisition of the existing fleet at Tavan Tolgoi in Mongolia. In Construction, a range of equipment was purchased to support new projects in Western Australia, with most of these items being interchangeable between the Construction and Mining businesses.



*Eight 613G scrapers  
were among the  
new additions to  
Macmahon's fleet.*



The Company's WAC Workshop in Western Australia and Nebo Workshop in Queensland continue to coordinate plant maintenance and rebuild programs, ensuring fleet management is responsive and flexible to meet the changing demands on the Company's equipment. Plant maintenance forms a core capability of Macmahon and ensures fleet management is not reliant on external suppliers.

Macmahon has also increased its stock of tyres to help meet the growing demand across the business in a period of short supply. Established supply agreements mean the Company is well positioned to manage tyre demands, while internal communications are targeting effective management to maximise tyre life at an operational level.

Macmahon will continue its capital investment program in 2013, with further equipment on order for key projects such as the Tropicana Gold Project and the upcoming arrival of the RBR 900VF raisedrill, the largest in the world, to support the growth of Underground.



## People and Safety

|   | June 2012 | June 2011 |   | Change |
|---|-----------|-----------|---|--------|
| Total employees                         | 4791      | 3536      | ▲ | 35%    |
| Indigenous Australian employees         | 244       | 149       | ▲ | 64%    |
| Graduates (three year Graduate Program) | 57        | 33        | ▲ | 73%    |
| Apprentices                             | 127       | 93        | ▲ | 37%    |

### People

The rapid growth of Macmahon was accompanied by an increase in the percentage of Indigenous employees, graduates, apprentices and female employees as the Company increased its total employee numbers by 35 per cent.

While attracting and retaining quality people was a key challenge for the Company, the success of a range of recruitment programs saw Macmahon achieve the required employee growth to meet project demands.

### Diversity

Macmahon continues to recognise the value of a diverse workforce across the sectors and locations in which it operates. The Company's Diversity Policy seeks to provide a supportive environment for all its employees, recognising the unique talents of each of its people.

In the 2012 Financial Year, the Company exceeded its target to employ additional Indigenous employees under the Australian Employment Covenant.

The Company also increased its proportion of female employees, with 13.1 per cent of the Australian workforce being women. This met the 13 per cent target set for the year. Senior female leadership stood at 16.6 per cent, slightly below the targeted 20 per cent. Macmahon also welcomed its first female Director during the year, with Eva Skira joining the Board in September 2011.

### Attraction

Recruitment activities placed a particular emphasis on securing new personnel to meet the requirements of the rapid ramp up of Construction projects in the Pilbara region. The full complement of required staff were mobilised to site by year end and demands specific to these projects have now stabilised.

In Mining, recruitment for the Tropicana Gold Project commenced in March, with about 250 staff expected to be recruited at the project's peak. Corporate recruitment remained stable as demand for additional people was focused on operational areas of the business.

In a bid to attract the attention of prospective fitters, plant operators, mechanics and associated tradespeople, Macmahon took the naming rights signage on an entry in the 2012 V8 Ute Racing Championship. The Macmahon Ute has not only increased the Company's brand awareness amongst a key target market and group of prospective employees, but has also been a positive morale boost for existing employees, supporting retention.

Macmahon's success in securing the required number of employees highlighted its ability to meet the demand for people in a highly competitive market, through the provision of a safe work environment, attractive salary packages and a strong values-based culture.



*Attraction and retention was a key focus in 2012. Pictured is dump truck driver Battsogzolmaa Ulzii-Urshikh (known as Tsoomoo), from Mongolia, at Orebody 18 in Western Australia.*

## People and Safety continued

### Indigenous employment

Macmahon had a total of 244 Indigenous direct employees at year end, representing 5.5 per cent of the Company's Australian workforce, compared to 4.6 per cent for the previous year. The launch of the ROCKSTAR program saw a dedicated focus on increasing Indigenous employee numbers throughout the year.

ROCKSTAR (Real Opportunities for Careers – Kick Starting Today's Aboriginal Role-models) was formally launched in February and is substantially funded by the Commonwealth Government's Indigenous Employment Program. The initiative brings together a range of employment and training programs undertaken by Macmahon across Australia and will see more than 300 Indigenous people start their careers in the construction and mining industries over a two year period. The program is providing a range of entry points for Indigenous people, from job-readiness programs and support to secure required qualifications for working in the resources and construction sectors, to formal traineeships within the Company.

Macmahon is currently on track to meet its commitment under the Australian Employment Covenant to create 500 new jobs for Indigenous people by 2015. Looking ahead, the Company is targeting an Indigenous employment rate of 7.5 per cent, confirming its place as an industry leader in Indigenous employment and training.

### Graduates

Macmahon significantly increased its graduate intake for the 2012 calendar year, recruiting 42 new graduates. The increase, focused primarily on engineering positions, demonstrates Macmahon's commitment to developing and training young professionals as part of its broader attraction and retention strategy.

Participants took part in a formal graduate induction in early 2012 and continue to be part of an ongoing mentoring and development program.

### Apprentices

Macmahon's commitment to growing its own workforce and providing career gateways to the resource and construction sectors saw the Company's apprentice intake for the 2012 calendar year dramatically increased. A total of 127 apprentices were employed by Macmahon at year end. The program continues to deliver an outstanding training environment for the Company's apprentices. Initially based at Macmahon's WAC Workshop in Perth, Western Australia, apprentices have the opportunity to spend time on a range of projects before selecting their area of specialisation.

The success of the apprenticeship program was extended with the announcement in early 2012 that Macmahon would take part in the National Apprenticeship Program (NAP). Under the program, Macmahon will recruit experienced workers who lack the formal qualifications to enter the construction and mining sectors and complete their training and development within the apprenticeship structure. The NAP is not only sourcing experienced workers that can be fast-tracked through the apprenticeship process, but is providing a diversity of experience within the apprentice group and adding value to the learning of younger participants.





*The ROCKSTAR program will see more than 300 Indigenous people start their careers in mining and construction over a two year period. Pictured are participants Tyrone Kemp and Kyah Walker.*





## People and Safety continued

### International recruitment

While the recruitment and training of Australian-based employees was a focus throughout the year, some international recruitment strategies were implemented to help meet the need for roles where a specific local shortage existed. Campaigns throughout the year focused primarily on Ireland and the Philippines, with a limited number of people recruited from these regions to meet specific skillsets. A total of 66 new people were employed via the 457 visa process during the year.

### Retention

Retention continues to be a major area of focus for the Company as highly competitive market conditions enable easy employee mobility within the sector.

In addition to providing market competitive salaries and conditions, Macmahon has placed a strong emphasis on ensuring a diversity of work opportunities for employees, as well as an increased focus on talent management and succession planning. The Company is able to offer its people a range of work opportunities across different projects and sectors. This variety has been demonstrated as a key strength for retaining quality people. Continued emphasis has therefore been placed on identifying a variety of roles or locations for those seeking new challenges within the Company.



*Macmahon's International operations have continued to expand in Nigeria, with Ewekoro one of two projects in the country.*

## Safety

Safety is a core value of Macmahon and remains a major focus for the Company.

At year end, the Company's Lost Time Injury Frequency Rate (LTIFR) was 1.38, while its Total Recordable Injury Frequency Rate (TRIFR) was 7.72.

A total of 18 Lost Time Injuries were recorded in the year. Despite this, there were no permanent or disabling injuries or fatalities recorded across the Company's operations.

While the overall safety performance shows room for improvement, many of the Company's projects recorded exceptional safety results, with 83 per cent of all Macmahon projects remaining LTI free for the entire year. Further, 64 per cent of all projects were both LTI and TRI free for the year.

The Company's safety results reflect the challenges associated with a high level of growth in both its number of projects and people throughout the year. Senior managers met during the year to determine strategies for maintaining a focus on safety as the Company grew over the period.





## People and Safety continued

The result has seen a consolidated focus on four key areas to support continuous safety improvement:

- The development of integrated management systems to ensure consistent safety protocols and standards across the business;
- The development of a Leaders' Guide to provide practical support for improving safety standards at the project management level;
- A comprehensive legal review to ensure alignment with current and future legislative changes that affect safety; and
- Refinement of an internal project audit schedule to support safety improvement.

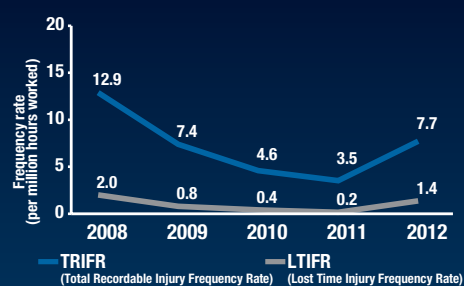
The 2012 Financial Year also saw the Company achieve many successful safety outcomes, with Surface Mining winning the Excellence in Occupational Health and Safety Award at Australian Mining's 8th Annual Prospect Awards. The Eaglefield Coal Mine also registered five years LTI free during the year, while the Goorng Jimbila joint venture at the Argyle Diamond Mine achieved almost 1100 days LTI free.



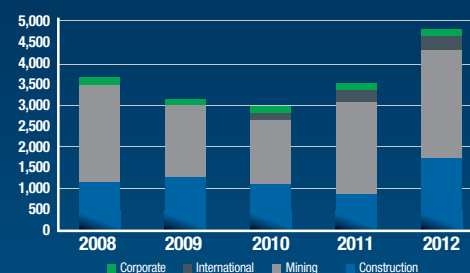


*Safety of all Macmahon employees is a focus across all operations. Apprentices Adam Bateman and Claire McCormack are pictured at the WAC Workshop.*

## Safety results 2012



## Group headcount summary





## Community and Environment

### Community

Macmahon's operations span a diverse range of communities throughout Australia and overseas. The Company maintains its commitment to support and enhance the communities in which it operates. During the 2012 Financial Year, Macmahon donated more than \$200,000 to community initiatives in the areas in which it operates.

Macmahon continued its partnership with the Salvation Army's Doorway to Hope campaign, to assist people in need and address issues of homelessness. The four year, \$100,000 partnership will help the Salvation Army undertake an ambitious building program to provide additional facilities for the homeless and disadvantaged people.

In Western Australia, Macmahon signed on to become a Silver Sponsor of the Cottesloe Surf Life Saving Club. The not-for-profit club has supported the WA community through the efforts of volunteers for more than 100 years. Its focus on teamwork and safety deliver a clear association with Macmahon's values-based culture and the Company was proud to be partnering with the club during the year. It was also an opportunity to support the broader WA community through the Surf Life Saving Club's activities, expanding Macmahon's reach beyond its direct employees.

In Newman, the Company's support for the WA Police Legacy/Bloody Slow Cup continued, with Macmahon supporting the Police Pipe Band to attend the event.

At a local level, a range of community initiatives were supported by Macmahon projects. These included sporting groups such as the Far North Football League in South Australia and the Total Sport/Waihi Nugget Multi Sports Event in New Zealand and programs to benefit local people such as the Karara Community Health Fund in Western Australia and a lighting tower for the Nebo SES in Queensland.





*Macmahon is a silver sponsor of the Cottesloe Surf Life Saving Club in Western Australia.*

## Macmahon people in the community

In addition to direct support provided to local communities, Macmahon also supported its people in their contributions to not-for-profit organisations and local initiatives.

In June, personnel at the Solomon Rail Spur raised \$47,000 for Purple Bra Day in support of Breast Cancer Care WA. The Solomon team raised the highest total for a corporate team in an outstanding fundraising effort coordinated by personnel based on site.

A range of Macmahon locations featured fundraising teams for Movember, with more than \$8000 raised for the Prostate Cancer Foundation of Australia (PCFA).

Macmahon also supported its employees in participating in a range of community events, such as the Perth City to Surf, the Freeway Bike Hike and the Northern Territory's Relay for Life.

## Environment

As part of its commitment to the communities in which it operates, Macmahon maintains the highest possible environmental management standards at each of its locations. Reinforced by Macmahon's core environment value, employees are expected to identify ways to support and improve environmental management wherever possible.

The development of Macmahon's water infrastructure capabilities in New South Wales has seen a strong emphasis on delivering water solutions that improve diversity and water resource management in a region where these issues are of critical importance. The contract award for the modernisation of the Trangie Nevertire Irrigation Scheme will see the Company draw on its experience to enhance water resource management and achieve improved outcomes for the local environment. This builds on the Company's credentials in supporting the upgrade of dams in the State to meet the requirements of maximum flood levels, including the completion of Jindabyne Dam during the year.





## The Macmahon Board

Drawing upon their experience as industry leaders, spanning a vast range of relevant specialisations, Macmahon's Board of Directors is well positioned to oversee the delivery of the Company's objectives.

The strength of the Board is underlined by its members' extensive business knowledge and experience in a range of leadership positions both in Australia and overseas with expertise from operational and strategic perspectives.

With this diverse mix of backgrounds from industries including engineering, mining, construction, finance and banking, the Board brings strong leadership and insight to Macmahon's expanding global footprint.

Committed to working with the Executive Leadership Group in its delivery of the Company's business objectives, the Board members each play an important role in Macmahon's continued success.



*From left to right: Barry Cusack, Ken Scott-Mackenzie, Nick Bowen, Eva Skira, Barry Ford, Vyril Vella and David Smith.*



*Macmahon's extensive equipment fleet is interchangeable between construction and mining projects. Pictured is a 773D dump truck during night shift at Solomon Rail Spur in Western Australia.*



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# Directors' report

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The Directors present their report together with the financial report of the consolidated entity, being Macmahon Holdings Limited and its controlled entities ("the Company" or "Macmahon"), for the year ended 30 June 2012 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:

|                            |   |
|----------------------------|---|
| <b>K B Scott-Mackenzie</b> | (Chairman, Non-executive)                       |
| <b>B L Cusack</b>          | (Deputy Chairman, Non-executive)                |
| <b>N R Bowen</b>           | (Chief Executive Officer and Managing Director) |
| <b>B R Ford</b>            | (Non-executive)                                 |
| <b>E Skira</b>             | (Non-executive) (appointed 26 September 2011)   |
| <b>D M Smith</b>           | (Non-executive)                                 |
| <b>V A Vella</b>           | (Non-executive)                                 |

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

### Mr Kenneth Scott-Mackenzie

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 40 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 Constructors 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 has been a Non-executive Director of that Company since May 2011. Mr Scott-Mackenzie is also a Non-executive Director of Adelaide Brighton Limited (appointed July 2010).

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

# Directors' report

continued

## Mr Barry Cusack

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). Mr Cusack was also a Director and Chairman of OZ Minerals Limited from April 2002 to April 2010, a Non-executive Director of Smorgon Steel Group Ltd from June 2002 to August 2007 and the Chairman of Brockman Resources Limited from June 2010 to September 2011.

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



## Mr Nick Bowen

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 30 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 Vice President of the Chamber of Minerals and Energy of WA (appointed 2001) and a Director of the Australian Constructors Association Limited (appointed February 2000).



## Mr Barry Ford

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.





# Directors' report

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## Ms Eva Skira

BA (Hons), MBA, SF Fin, Life Member Fin, FAICD, FAID

### Independent Non-executive Director

Ms Skira joined the Board as a Non-executive Director in September 2011. Ms Skira has a background in banking, capital markets, stockbroking and financial markets, previously holding executive positions at Commonwealth Bank in the Corporate Banking/Capital Markets divisions and later with stockbroker Barclays de Zoete Wedd. She has served on a number of boards in business, government and the not-for-profit sectors across a range of industries.

Ms Skira is currently the Chairman of the Water Corporation WA, a director of RCR Tomlinson and is also Deputy Chancellor of Murdoch University (non-executive appointment). As a Director, Ms Skira has chaired a number of Audit, Compliance and Risk Committees.

Ms Skira completed her BA (1st Class Honours, Economic History) at the University of New South Wales, and obtained her Masters of Business Administration (Dux and Distinction) at the International Management Institute (University of Geneva), now called IMD International in Switzerland, one of the premier business schools in Europe.

Ms Skira is currently a member of the Board's Audit Committee.



## Dr David Smith

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) and the Deputy Chairman of the WA Ballet (appointed March 2012). 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 currently a member of the Board's Audit Committee and Remuneration & Nomination Committee.



## Mr Vyril Vella

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 & Nomination Committee and a member of the Board's Corporate Governance Committee.



# Directors' report

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:

|                      | Standard Board Meetings |   | Special Board Meetings <sup>2</sup> |   | Audit Committee |   | Remuneration & Nomination Committee |   | Corporate Governance Committee |   |
|----------------------|-------------------------|---|-------------------------------------|---|-----------------|---|-------------------------------------|---|--------------------------------|---|
|                      | A                       | B | A                                   | B | A               | B | A                                   | B | A                              | B |
| K B Scott-Mackenzie  | 8                       | 8 | 3                                   | 3 | -               | - | 5                                   | 5 | 2                              | 2 |
| B L Cusack           | 8                       | 8 | 3                                   | 3 | 5               | 5 | 5                                   | 5 | -                              | - |
| N R Bowen            | 8                       | 8 | 3                                   | 3 | -               | - | -                                   | - | -                              | - |
| B R Ford             | 8                       | 8 | 2                                   | 3 | 5               | 5 | -                                   | - | 2                              | 2 |
| E Skira <sup>1</sup> | 5                       | 5 | 2                                   | 3 | 3               | 3 | -                                   | - | -                              | - |
| D M Smith            | 8                       | 8 | 1                                   | 3 | 5               | 5 | 5                                   | 5 | -                              | - |
| V A Vella            | 8                       | 8 | 3                                   | 3 | -               | - | 5                                   | 5 | 2                              | 2 |

**A** = Number of meetings attended

**B** = Number of meetings held during the time the Director held office or was a member of the relevant committee during the year

**Notes:**

<sup>1</sup> Ms Skira was appointed to the Board on 26 September 2011 and appointed as a member of the Audit Committee from 31 January 2012.

<sup>2</sup> Special Board meetings were held on short notice during the financial year due to corporate activities.

## 2. Company Secretaries

### Mr Greg Gettingby

B.A., L.L.B.

Mr Gettingby joined the Company in 2002 and 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.

### Mr Chris Brown

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

Mr Brown joined the Company in 2011 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 1 to 42, which forms part of this Directors' report

# Directors' report

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## 5. Dividends

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

### Declared and paid during the year

| Dividends paid        | Interim 2012 |
|-----------------------|--------------|
| Cents per share       | 1.5          |
| Total amount (\$'000) | 11,079       |
| Franked / unfranked   | 100% Franked |
| Date of payment       | 5 April 2012 |

### Declared after end of year

| Dividends proposed    | Final 2012      |
|-----------------------|-----------------|
| Cents per share       | 2.5             |
| Total amount (\$'000) | 18,466          |
| Franked / unfranked   | 100% Franked    |
| Date of payment       | 17 October 2012 |

The Company's Dividend Reinvestment Plan ("DRP") that was suspended in February 2009 will be reinstated with effect from 12 September 2012, being the record date for the final dividend.

## 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.

On 20 August 2012, the Directors of the Company declared a fully franked final dividend on ordinary shares in respect of the 2012 Financial Year. The total amount of the dividend is \$18.5 million, which represents a fully franked dividend of 2.5 cents per share and is payable on 17 October 2012.

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

Likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations have been included generally within the financial report and on pages 1 to 42.

Other than as disclosed elsewhere, disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## 8. Significant changes in the state of affairs

Other than as disclosed elsewhere, 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 Company's operations are subject to a range of international, Commonwealth, State and Territory laws governing the protection of the environment. As far as the Directors are aware, there have been no material breaches of the Company's licenses and all activities have been undertaken in compliance with the relevant environmental regulations.



# Directors' report

continued

## 10. Remuneration report

The audited Remuneration Report is set out on pages 53 to 70 and forms part of this Directors' report.

## 11. 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           | 23,493,937      | 3,000,000                               |
| B L Cusack          | 900,000         | -                                       |
| B R Ford            | 122,782         | -                                       |
| E Skira             | -               | -                                       |
| D M Smith           | 30,000          | -                                       |
| V A Vella           | 200,000         | -                                       |

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

## 12. Share options and performance rights

The details of unissued ordinary shares of the Company under options and performance rights at the date of this report are set out in the Remuneration Report and Note 33 to the financial statements.

## 13. Indemnification and insurance of officers and executives

Under the Company's constitution and subject to the Corporations Act 2001 (Cwth), the Company provides a continuing indemnity for each of the Directors and Officers (and those of its wholly-owned subsidiaries) against all liabilities incurred as an officer of the Company (or its wholly-owned subsidiaries as the case may be) on a full indemnity basis.

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. The Company indemnifies, to the extent permitted by law, each relevant officer against all liabilities incurred by the officer arising out of the discharge of his or her duties.

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

Also, 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 Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses and insurance contract, as such disclosure is prohibited under the terms of the contract of insurance.

# Directors' report

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Macmahon  
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## 14. 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 (Cwth); 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 (Cwth) for the following reasons:
  - all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor; and
  - none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## 15. Lead auditor's independence declaration

The Lead auditor's independence declaration as required by section 307C of the Corporations Act 2001 (Cwth) is set out on page 87 and forms part of this Directors' report.

## 16. 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 20 August 2012 at Sydney

# Remuneration

## Message from the Board

Dear Shareholder,

We are pleased to present to you our Remuneration Report for 2012 which we will be seeking your support for at the Company's Annual General Meeting in November 2012.

Over the last 12 months the Board has been actively seeking feedback from various shareholders and investor groups about our remuneration practices with a view to improving the alignment of our remuneration strategy and practices to shareholder expectations. This report has been designed to inform you of the Company's journey in respect of its remuneration practices and the effectiveness of our current remuneration plans.

In order to sustain high performance levels in a competitive talent market, the Company has aimed to attract key staff through above industry median fixed remuneration. To this end the Board relies on both internal information and that of external expert advice. There has, however, been increasing changes in the market and upward pressure on costs translating into a cautious approach for annual pay increases.

### Strategy and Remuneration Outcomes

Three key objectives for the Company are to win work, make a profit, and do it safely. These objectives are supported by a remuneration framework which includes incentive plans with targets such as:

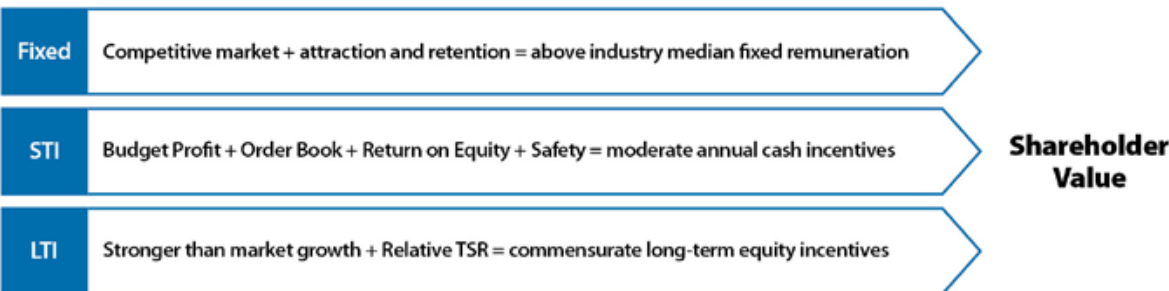
1. **Growth:** EPS/Profit growth and order book targets based on revenue multiples.
2. **Financial Returns:** Return on Equity and Net Profit after Tax targets.
3. **Sustainability:** Zero fatalities and no disabling injury target plus social responsibility metrics.

These metrics are contained within the Short Term Incentive Plan ("STI Plan") and focus executives to drive year on year enhanced business results. Longer term performance is encouraged by the grant of shares under the Company's Long Term Incentive Plan ("LTI Plan"), where rewards are driven by relative Total Shareholder Return ("TSR") over several years. The desired outcome by linking reward with Company performance is:

- share price appreciation;
- consistent earnings and dividends; and
- long-term stable investment option.

Our overriding objective is to provide sustainable, sector leading returns to our shareholders and for most of the past ten years the Company's share price has outperformed the ASX 200. This suggests that as an investment option, Macmahon represents a good long term opportunity, reflective of the robust and sustainable business model built by management and the Board over many years.

The Company's remuneration settings are regularly reviewed to enhance business performance and shareholder value. The key elements of the business and remuneration equation are illustrated below.





# Remuneration

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Macmahon  
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Annual Report 2012

## Improvements and Outcomes for 2012

We have made significant improvements in developing incentive schemes that keep pace with modern remuneration thinking, through benchmarking against our competitors and the broader industry. We have, however, been mindful to acknowledge the current market and our need to build sustainability in the executive group we have chosen to lead the Company into the future.

Some of the significant improvements include:

- an amended LTI Plan with vesting lengthened from 2 years to 3 years;
- the introduction of smoothing and reduction of re-testing for existing grants;
- elimination of re-testing for all future grants;
- reduction of LTI grants over time as vesting activates;
- managed share acquisition process to ensure limited share dilution;
- launch of the Employee Share Plan creating 20% of employee shareholders; and
- enhanced STI Plan with greater emphasis on profit metrics.

## Outlook for 2013

One of the key focus areas for 2013 will be reviewing the CEO's remuneration package. The contract terms are due to be reviewed at the end of the 2013 Financial Year and with the recent changes made to the executive LTI and STI Plans, our objective will be to work with the CEO to align his conditions to these Plans. We will, as a matter of course, be seeking your approval to any such changes.

Since the global financial crisis, interest in remuneration strategies and their ability to drive executive behaviour has been a growing area of concern and change. We understand our shareholders and investors invest in us for a return, whether that is capital growth or dividends. We plan to continually ensure that we are only providing performance pay when our company performs and our shareholders benefit.

Vyril Vella

Chairman of the Remuneration & Nomination Committee

# Remuneration report – audited

## Table of contents

| Section   | Title   | Description  |
|-----------|---|--|
| Section 1 | Introduction  | Outlines the scope of the Remuneration Report and the individuals disclosed. Describes the role of the Board, the Remuneration & Nomination Committee and matters considered (including external advisers) when making remuneration decisions. |
| Section 2 | Company performance and the link to remuneration        | Outlines the 2012 financial performance of the Company and key performance indicators used to provide the linkage back to remuneration.  |
| Section 3 | Current remuneration framework and improvements in 2012 | Outlines the current remuneration framework and changes to remuneration plans.   |
| Section 4 | CEO Remuneration  | Provides detail regarding CEO remuneration.  |
| Section 5 | Executive remuneration                                  | Provides detail regarding executive remuneration and executive service contracts.  |
| Section 6 | Non-executive Directors' fees                           | Provides detail regarding the fees paid to Non-executive Directors.  |

## 1. Introduction

This Remuneration Report forms part of the Directors' Report for 2012 and outlines the remuneration strategy and arrangements for the Company's Directors and executives (together "Key Management Personnel") in accordance with section 300A of the Corporations Act. This report has been audited by the Company's external auditor.

### 1.1 Remuneration governance

The Board oversees the remuneration arrangements of the Company. In performing this function the Board is assisted by recommendations from the Remuneration & Nomination Committee ("Committee"), external consultants and internal advice. The Committee is responsible for the detailed review, and recommendation to the full Board, of remuneration arrangements for Directors, the Chief Executive Officer ("CEO") and other 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 the CEO, Mr Bowen).

Further details of the role and function of the Committee are set out in the Charter for the Remuneration & Nomination Committee on the Company's website at <http://www.macmahon.com.au>.

The Committee follows protocols regarding the engagement and use of external remuneration consultants to ensure ongoing compliance with executive remuneration legislation. These protocols ensure that any remuneration recommendation from an external consultant is free from undue influence by any member of the Company's Key Management Personnel to whom it relates. In the 2012 Financial Year, the Committee sought both market data in relation to CEO, executive and Non-executive Director remuneration, and independent advice from Egan Associates with respect to other executive remuneration related matters. Appropriate certification was provided to the Committee confirming that the recommendations provided were free from undue influence from any member of the Company's Key Management Personnel to whom the recommendations related.

A summary of remuneration advisors engaged in the 2012 Financial Year is shown below.

| Remuneration Advisor | Nature of Service                      | Fee      |
|----------------------|--|----------|
| Egan Associates      | CEO remuneration recommendations       | \$28,297 |
|                      | STI and LTI Plan review for executives | \$22,638 |

# Remuneration report – audited

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## 1.2 Key Management Personnel

The Company's KMP include all Directors and executives of the Company and its controlled entities who have the authority and responsibility for planning, directing and controlling the activities of the Company. These individuals are outlined in the table below.

| Person                           | Position   | Period in position during the year |
|----------------------------------|--|------------------------------------|
| <b>Directors – Non-executive</b> |  |                                    |
| Ken Scott-McKenzie               | Non-executive Chairman                             | Full year                          |
| Barry Cusack                     | Non-executive Deputy Chairman                      | Full year                          |
| Barry Ford                       | Non-executive Director                             | Full year                          |
| Eva Skira                        | Non-executive Director                             | Since 26 September 2011            |
| David Smith                      | Non-executive Director                             | Full year                          |
| Vyrl Vella                       | Non-executive Director                             | Full year                          |
| <b>Director - Executive</b>      |  |                                    |
| Nick Bowen                       | Chief Executive Officer and Managing Director      | Full year                          |
| <b>Executives</b>                |  |                                    |
| Ross Carroll                     | Chief Operating Officer - Mining                   | Full year                          |
| Theresa Mlikota                  | Chief Financial Officer                            | Full year                          |
| Ashley Mason                     | Executive General Manager - Strategy & Development | Full year                          |
| Neil Wilson                      | Executive General Manager - HSEQ                   | Full year                          |
| Angie Young                      | Executive General Manager - Human Resources        | Full year                          |
| Fraser Ramsay                    | Executive General Manager - Surface Mining         | Full year                          |
| Greg Miller                      | Executive General Manager - Underground            | Full year                          |
| Stewart Maddison                 | Executive General Manager - International          | Full year                          |
| Robert Wilson                    | General Manager - NT Operations                    | Full year                          |
| Mark Hamilton                    | Executive General Manager - Construction East      | Full year                          |
| Aidan Mullan <sup>1</sup>        | Executive General Manager - Construction West      | Full year                          |

<sup>1</sup> Aidan Mullan has resigned and will cease employment with Macmahon on 16 October 2012.

## 1.3 Board policy on executive remuneration

The primary objectives of the Company's remuneration strategy is to encourage stronger than market growth in shareholder value over the short and longer term. The intended outcome is the alignment of executive remuneration with returns to investors.

Current remuneration policy settings:

- fixed remuneration at above industry median to attract and retain executives in a competitive employment market;
- to encourage achievement of short-term profit and other targets (annual cash incentive opportunity levels are set at a moderate level as a percentage of fixed remuneration for executives and are set at a high level as a percentage of fixed remuneration for the COO – Mining and CEO level); and
- long-term 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.



# Remuneration report – audited

continued

## 2. Company performance and the link to remuneration

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 against these objectives.

The following Company performance measures are among those that may be included in incentive plans for relevant executives. KPIs may be adjusted for individually large or unusual items to derive an underlying performance measure outcome. The Committee believes these KPIs are aligned to shareholder wealth and returns to investors.

| <b>Earnings</b>  | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Reported net profit attributable to equity holders of the parent (\$m) | 56.1        | 1.0         | 37.9        | 17.2        | 48.8        |
| Reported return on equity (%)  | 16.5        | 0.3         | 11.3        | 5.6         | 19.6        |
| Reported basic earnings per share (cents)                              | 7.7         | 0.1         | 5.2         | 3.1         | 9.2         |
| Order book (\$m)   | 3,139       | 2,013       | 2,215       | 1,412       | 2,138       |
| New contracts and extensions (\$m)                                     | 2,997       | 1,052       | 2,057       | 1,108       | 1,377       |
| Total recordable injury frequency rate                                 | 7.7         | 3.5         | 4.6         | 7.4         | 12.9        |
| <b>Shareholders' wealth</b>  |             |             |             |             |             |
| Dividends declared (cents)   | 4.0         | -           | 3.0         | 1.5         | 5.5         |
| Share price at 30 June (cents)   | 57.5        | 56.0        | 54.5        | 34.0        | 166.5       |
| Total Shareholder Return (TSR) (%)                                     | 3.8         | 7.0         | 66.5        | (76.7)      | 31.6        |

### 2.1 Shareholder wealth

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 ongoing global financial uncertainty, the Minerals Resource Rent Tax and the carbon tax legislation.

**Indexed Share Price Performance**



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## 2.2 Earnings

Macmahon has had a return to profitable performance in 2012. Demand for Macmahon's services grew in both Western Australia and the Northern Territory. The International Mining business had a successful year with new projects in Mongolia and Africa and continued good earnings from Asia. This has all contributed to growing Company revenues to a record level.

The Company reported a Net Profit After Tax (NPAT) result of \$56.1 million. This result was reflected in strong STI achievement outcomes for a number of executives in the year.

The best performers this year were Surface Mining, International Mining and the Northern Territory Construction businesses. Whilst some improvements were made in the Construction business generally, there is still significant room for improvement. Project performance, asset utilisation and a more sustainable cost structure will continue to form part of key metrics set for the CEO and executives to improve margins.

## 3. Current remuneration framework and improvements in 2012

Remuneration practices are continuously improving in line with the Company's business demands, industry developments and overall market trends. In the current financial period Macmahon undertook a detailed analysis of current market remuneration practices, benchmarked Company fixed and variable pay for management and undertaken a post implementation review on prior years' schemes. Of particular consideration and impact for the Company was the feedback sought from proxy advisors on how the Company's pay structures and equity plans fared against market trends. A number of changes have been made to remuneration structures this year and are summarised in sections 3.3 and 3.4.

### 3.1 Executive remuneration approach and framework

In order to attract and retain skilled and motivated executives, the Company needs to apply a suitable executive remuneration structure. The structure we have adopted includes fixed and variable pay components such as the STI and LTI. These programs and their executive payment outcomes are subject to the approval of the Committee.

### 3.2 Total Fixed Remuneration (TFR)

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, benchmarked against appropriate market comparisons using information and advice from external consultants. The same factors used to set a remuneration package are also considered when determining the quantum of any salary review increase. There is no guarantee of base pay increases included in any executive contracts.

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## 3.3 STI Plan improvements

In accordance with the remuneration strategy, the STI as a percentage of TFR has been set as moderate compared to market in most cases. This is to ensure the right balance between driving earnings in the short-term and generating shareholder value over the longer term. The average target opportunity is between 25% to 55% of TFR for executives (excluding the CEO), with a provision for further payments for exceptional performance.

A summary of the key improvements to the STI Plan from last year and the overall terms of the Plan are outlined below.

### Key improvements to the 2012 STI Plan:

- closer alignment of KPIs to shareholder returns by placing a heavier weighting on financial and productivity metrics;
- self-funding plan design;
- opportunity to increase cash payment pro-rated with exceptional performance;
- a clear cascading effect with executive KPIs set in July and across the management structure;
- reduction in the number of KPIs to ensure focus on key outcomes that will drive improved shareholder returns; and
- a defined gateway and Board approval over all STI payments.

| Key STI Plan Rules                               | 2011 STI          | 2012 STI   |
|--|-------------------|------------|
| Gateway for payment                              | Acceptable Profit | 90% Budget |
| Profit weighting <sup>1</sup>                    | 40%               | 50%        |
| Return on assets / equity weighting <sup>1</sup> | 15%               | 30%        |
| Safety weighting <sup>1</sup>                    | 15%               | 20%        |
| Other weighting <sup>1</sup>                     | 30%               | -          |

<sup>1</sup> Average % for executives for Group level measures



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## Summary of the STI Plan for executives

|                                |   |
|--------------------------------|---|
| <b>Objective</b>               | KPIs are set to foster a profit-driven culture and focus on returns to shareholders. STI payment is made to recognise and motivate employees to align their performance with the Company's goals.   |
| <b>Eligibility</b>             | Those invited have a significant influence on the direction and performance of the Company. This plan does not apply to the CEO.  |
| <b>At Risk Payments</b>        | The STI is a component of the 'at risk' package provided to executives. The amount of bonus actually paid will depend on performance against pre-determined KPIs with payment starting and then increasing as performance meets minimum, target, stretch and maximum hurdles set annually for each target. The stretch opportunity for executives is up to 50% of TFR and up to 100% of TFR for the COO – Mining.   |
| <b>Exceptional Performance</b> | In circumstances where executives have outperformed budget stretch targets, the STI Plan provides for a maximum achievement of up to 150% of their target STI value (which is equal to a maximum average of 75% of TFR).  |
| <b>Performance Conditions</b>  | Set KPIs are listed for Group, Business Unit and Division (where relevant). Each KPI is weighted according to its importance in driving profitable performance and returns to shareholders. KPIs include the following key measures: Net Profit After Tax (NPAT), Profit Before Tax (PBT), Return on Equity (ROE), Return on Average Capital Employed (ROACE), Total Recordable Injury Frequency Rate (TRIFR) and order book. The Board considers these measures key to driving shareholder and investor returns. |
| <b>Safety Condition</b>        | If a fatality occurs, the safety KPI will cease to accrue any STI contribution for that year for the Business Unit involved. Depending on the cause of the fatality, the Board may reduce further potential bonus payments.   |
| <b>Setting of KPIs</b>         | Financial and Safety Targets are all agreed with the Board and Personal KPIs are set in consultation with the relevant executive.   |
| <b>Assessment of KPIs</b>      | Performance is measured quantitatively and progress against key targets reported monthly.   |
| <b>Gateway for Payment</b>     | 90% of budget profit and Board approval required.   |
| <b>Cessation of Employment</b> | STI is forfeited if an executive resigns or is terminated before the payment date. In exceptional circumstances this may be reviewed by the Board.  |

## 3.4 LTI Plan improvements

The LTI Plan provides executives with equity to encourage them to align their performance with shareholders. In recent years a more significant weighting on LTI has been applied in the remuneration package for Macmahon executives to focus on the longer term goal of stronger than market growth in shareholder returns. This has been an important tool to attract and retain executive talent and will continue to be important in the future. The most recent grant has less rights issued in a record year compared to previous grants. The total issued rights for the latest grant was 8.5 million compared to 13.6 million in the 2011 Financial Year.

A summary of the key improvements to the LTI Plan from last year and the overall terms of the Plan are outlined below.

### Key improvements to the 2012 LTI Plan:

- closer alignment of equity allocation with peer company competitors;
- longer vesting schedule for the first tranche of performance rights tested after 3 years with the previous plan being 2 years;
- performance period changed and aligned to market at 4 years;
- reduction of retesting in the 2010 and 2011 LTI from twice a year to annually;
- reduction in time-based performance rights; and
- adoption of a smoothing process for the weighted average share price over 60 calendar days.

### Summary of the LTI Rules Changes for 1 July 2012 Grant

| Key LTI Plan Rules       | 2010 and 2011 LTI Rules | 2012 LTI Rules |
|--------------------------|-------------------------|----------------|
| First Tranche Vests      | 2 years                 | 3 years        |
| Performance-based rights | 75%                     | 80%            |
| Time-based rights        | 25%                     | 20%            |

# Remuneration report – audited

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## 3.5 Summary of the LTI Plan for executives

|  |   |
|--|---|
| <b>Overview of the LTI Plan</b>                  | The Plan provides that executives and other senior personnel are granted performance rights with the opportunity to receive fully paid ordinary shares in Macmahon for no consideration, subject to specified time restrictions, continued employment and performance conditions being met. Each performance right will entitle participants to receive one fully paid ordinary share at the time of vesting.   |
| <b>Objective</b>                                 | The Plan is designed to assist with executive retention, and to incentivise employees to maximise TSR.  |
| <b>Eligibility</b>                               | The Plan is open to executives and key talent of Macmahon who are determined by the Board to be eligible to participate. This Plan does not apply to the CEO.   |
| <b>LTI Plan Vehicle and Regularity of Grants</b> | Performance rights have been granted in 2010, 2011 and more recently on 1 July 2012. The recent executive grant was aligned to the CEO vesting schedule which is currently tested annually on 1 July.   |
| <b>At Risk Payments</b>                          | The LTI is a component of the variable pay package provided to executives. The number of performance rights issued to the executive is based on their ability to increase shareholder wealth.<br>The 2011 maximum opportunities for executives were 80% of TFR over a 5 year performance period. This has been important to attract and retain key executives. As more grants are being offered, Macmahon has reduced the size of grants as executives now have multiple outstanding grants which align with the aims of improved retention and certain key executives that have been appointed.  |
| <b>Performance Condition</b>                     | 80% of each LTI grant is subject to a performance condition. The extent to which this portion of performance rights are eligible to vest will depend on TSR performance against a group of entities determined by the Board (detailed below).<br>TSR has been chosen as it provides a direct link between executive reward and shareholder return. Executives will not derive any benefit from the LTI grants unless the Company's performance is at least at the median of the Company's Comparator Group.<br>Productivity and earnings measures have already been included in the STI Plan and therefore executives are already motivated to perform against such measures.<br>The remaining 20% of each LTI grant is subject to continued employment and serves as a retention mechanism which is critically important at this time of skills shortages in the Mining and Construction Industries. |
| <b>Comparator Group</b>                          | Comprises of two groups weighted at 50% each: <ul style="list-style-type: none"> <li>• eight companies with similar businesses to Macmahon, this being Ausdrill Limited, Clough Limited, Downer EDI Limited, Leighton Holdings Limited, Monadelphous Group Limited, NRW Holdings Limited, Transfield Services Limited and UGL Limited ("Peer Group"); and</li> <li>• the ASX 200</li> </ul>   |

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## Vesting Schedule

An overview of the newly approved LTI Plan vesting schedule is shown below:

|                                      | Year 3               | Year 3  | Year 4             | Total |
|--------------------------------------|----------------------|---|--------------------|-------|
| <b>% rights eligible for vesting</b> | 20%<br>(Retention)   | 20%<br>(Tranche 1)  | 60%<br>(Tranche 2) | 100%  |
| <b>Performance Conditions</b>        | Continued employment | <ul style="list-style-type: none"> <li>Continued employment; and</li> <li>relative TSR against the Comparator Group comprising:                             <ul style="list-style-type: none"> <li>the ASX 200 (50% weighting)</li> <li>Peer Group (50% weighting)</li> </ul> </li> </ul> |                    |       |

## Testing of the TSR Performance Hurdles

### Macmahon's TSR rank relative to the Comparator Group

### Proportion of TSR Share Performance Rights that are eligible to vest (80% of the award)

|  |  |
|--|--|
| Less than 50 <sup>th</sup> percentile                    | 0%   |
| 50 <sup>th</sup> percentile                              | 50%  |
| Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile | 50% plus an additional 2% of this award for each additional percentile ranking above the 50 <sup>th</sup> percentile |
| At or above the 75 <sup>th</sup> percentile              | 100%   |

## Testing

Testing is undertaken annually for the 2010 and 2011 LTI Plans grants. Testing was recently reduced from two retests per annum to one subject to Board discretion.

## Restrictions on Disposals

Vested plan shares held in Trust are subject to disposal restrictions, in line with the Company's Trading in Shares Policy. An executive must not sell, encumber or deal (including by way of hedging activities) vested plan shares.

## Dilution Limits

Macmahon currently has under 2.5% of total capital in performance rights outstanding and seeks to limit dilution of existing shareholders. Macmahon currently purchases shares for all executive performance rights on market and holds them in trust.

## Dividends

Dividends only accrue to the holder of vested plan shares.

## Change of Control

If a change of control occurs or if the Company is wound up or delisted, the Board may determine that all or a portion of the performance rights will vest notwithstanding that time restrictions or performance conditions applicable to the share performance have not been satisfied.

## Cessation of Employment

If an executive ceases employment before performance rights vest, rights to unvested plan shares lapse immediately unless the Board in its absolute discretion determines otherwise.

### 3.6 Macmahon Executive Option Scheme (2005) – legacy plan

No grants were made under this scheme in the year ended 30 June 2012. This scheme provided executives with options over ordinary shares of the Company under the Executive Option Scheme approved by shareholders at the 2005 Annual General Meeting.

No options under this scheme vested during the year. The Company has not issued new options under this scheme since 2009 when the scheme was replaced by the LTI Plan.

### 3.7 Macmahon Deferred Bonus Scheme – legacy plan

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 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.

# Remuneration report – audited

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## 3.8 Employee Share Plan

The Macmahon Employee Share Plan was launched in March 2012 which provided \$1,000 worth of Company shares to eligible employees who have been with the Company for three years. Over 870 employees were granted shares in this Plan. The objective is to recognise our employees for service and increase focus on the Company's performance. In doing this, we live our value of 'prosperity' by aligning employee incentives with shareholder value.

## 3.9 No hedging of LTIs

The Board has adopted the Macmahon Trading in Shares Policy which prohibits employees from entering into transactions that limit the economic risk of participating in unvested employee entitlements. Hedging of unvested equity will result in immediate forfeiture.

## 4. CEO remuneration

### 4.1 Contract

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 however key terms such as the LTI Plan will need to be reviewed in consultation with Mr Bowen this coming financial year, with any such outcome to be put to a shareholder vote at the AGM. The components of Mr Bowen's existing remuneration package include:

- Total Fixed Remuneration which is base salary and superannuation ("TFR").
- Performance-based participation in short-term cash incentive plan ("STI"); and
- Performance-based participation in long-term equity incentive plan ("LTI").

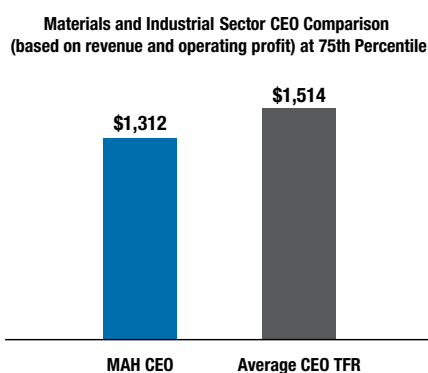
### 4.2 Total Fixed Remuneration

The Committee reviews the base salary of the CEO in line with the whole organisation in December each year. This review of his salary is considered in line with business and individual performance, market conditions, salary budget and advice from our external consultant. In the 2012 Financial Year, the Committee recommended to the Board, and the Board resolved to increase Mr Bowen's salary by 4% increasing his base salary to \$1,203,872 effective 1 December 2011. This percentage increase was below the average increase for all Macmahon employees.

In accordance with the contract, the Company will contribute into a complying superannuation fund in accordance with the *Superannuation Guarantee (Administration) Act 1992 (Cwth)*. Superannuation is paid in addition to base salary and calculates to a TFR of \$1,312,220.

The graph below demonstrates the comparison of Mr Bowen's TFR with other companies of similar size in our sector.

The remuneration of Mr Bowen is currently considered competitive and advice from our remuneration consultant is that his TFR is in line with the Materials and Industrial Sector, for companies with similar revenue and operating profit, which is considered the most relevant comparator. This benchmarking not only takes into consideration the size of the Company by revenue, but also the complexities given geographical spread (to include overseas operations) and specific salary pressures in the construction and mining segments of the Materials and Industrial Sector.





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## 4.3 STI Plan

For the CEO, the annual KPIs that are pre-set into his employment contract account for 80% of STI opportunity. 20% relates to specific goals and individual performance targets set by the Board annually to take into account emerging issues during the year.

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

| Financial | Safety | Specific goals & individual performance set by the Board annually |
|-----------|--------|---|
| 60%       | 20%    | 20%   |

The CEO's STI Plan was introduced in 2009 as part of Mr Bowen's employment contract and is contingent on 14% ROE being achieved. The key metrics include:

- Profit After Tax (PAT) growth
- Earnings Per Share (EPS) growth
- Order Book
- Total Recordable Injury Frequency Rate (TRIFR)
- Personal measures

The above KPIs are weighted and payment percentage is aligned to three performance levels. These levels are referred to as "threshold", "target" and "stretch". Target is at 100% of base salary and stretch component is at 150% of base salary. In particular EPS is a key weighted measure which contributes to 30% of Mr Bowen's overall potential STI payment if the target is met.

## 4.4 STI Plan outcomes for 2012

Each KPI is weighted and scored against Company performance. The following table summarises the overall achievement for each target.

### CEO STI – Weighting - 2012

|                   |              | Maximum Score<br>(capped at 150%) <sup>1</sup> | Weighted Score Achieved<br>(as % of maximum score) |
|-------------------|--------------|--|--|
| <b>Nick Bowen</b> | Financial    | 90.00  |  |
|                   | Safety       | 30.00  |  |
|                   | Personal     | 30.00  |  |
|                   | <b>Total</b> | <b>150.00</b>                                  | <b>46.7%</b>                                       |

<sup>1</sup> Using the stretch target of 150% of base salary, the weighted score achieved is 46.7% of that stretch target. As the financial metrics are set differently for executives and the CEO, the weighting is not comparable to the executive table.

- The financial KPIs of EPS and NPAT saw a significant improvement from the previous year, with reported EPS increasing from 0.1 to 7.7 cents per share and year-on-year profit growth from \$1.0 million to \$56.1 million.
- Macmahon achieved a record order book in the 2012 Financial Year increasing by 55.9% on the prior year.
- There were no fatalities during the year but safety performance was only at industry average levels with a TRIFR increasing from 3.5 to 7.7. The safety performance threshold was therefore not met and no payment occurred for this target.
- The Committee assessed Mr Bowen's performance against his personal targets. These were based on a number of achievements throughout the year including:
  - risk management principles and application across the business;
  - commitment and driver of leadership and talent development; and
  - developing and rolling out strategy across the Group.

# Remuneration report – audited

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## 4.5 CEO LTI Plan

Mr Bowen was granted 12 million Performance Rights after shareholder approval was given at the Annual General Meeting on 30 November 2009. Upon certain vesting conditions being met, the Company will issue to Mr Bowen one fully paid ordinary share per Performance Right for nil cash consideration. Further details of vesting conditions are detailed within Note 29 to the Financial Statements (which form part of this Annual Report), 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

### 4.5.1 Vesting conditions

**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 and is excluded from the average TSR calculation for the industry 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 Comparator Group for the TSR calculation is:

- ASX 200: the constituents of the ASX 200 index; and
- 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.

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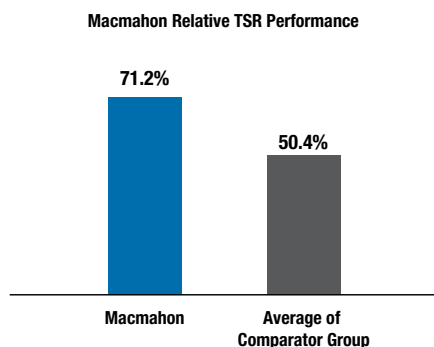
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## 4.6 TSR performance

Mr Bowen's LTI is measured against TSR from 1 July 2009 to 1 July 2012 for his Class B Performance Rights that were due to vest on 1 July 2012. The graph below shows Macmahon's performance against its comparator group.



## 4.7 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, 4,920,000 Class A Performance Rights, valued at \$2,730,600 vested and 1,080,000 Class A Performance Rights, valued at \$599,400 lapsed. The value of the rights vested and lapsed is based on the Macmahon share price on that date and may differ from the value assigned to these rights for tax purposes.

## 4.8 Vesting of Class B Performance Rights

On 1 July 2012, in accordance with Mr Bowen's contract and the terms of the CEO LTI Plan, 2,684,333 Class B Performance Rights vested. Over the period commencing 1 July 2009 and ending 1 July 2012, the Company's TSR was 71.2%. Over the same period, the average of the Comparator Group (the ASX 200 and the Peer Group) was 50.4% Macmahon's TSR ranked:

- 21st against the ASX 200 placing it at the 88.0 percentile overall; and
- 4th of eight against its industry Peer Group, placing it at the 62.5 percentile.

# Remuneration report – audited

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## 5. Executive remuneration

### 5.1 Contract

All executives are considered KMP for the purpose of remuneration disclosure. All executives have an employment contract with Macmahon that is ongoing and has no fixed end date. The employment details of each executive are outlined later in this section.

### 5.2 Annual performance review

An annual performance review is undertaken with each executive, often through a 360° feedback report, where discussions are held on performance and development needs. This is an important human resource practice in the ongoing development of our people to recognise their achievements and focus on continual improvement of performance.

### 5.3 Total Fixed Remuneration

The Company's remuneration policy provides for a total fixed remuneration that is at or above industry median to attract and retain executives in a competitive employment market. The details of the nature and amount of each major element of remuneration paid to the executives of the Company and its controlled entities is detailed in the KMP Remuneration table, included at the end of this report.

In accordance with each employment contract the Company will contribute into a complying superannuation fund in accordance with the Superannuation Guarantee (Administration) Act 1992 (Cwth). Superannuation is paid in addition to base salary and forms part of TFR.

### 5.4 STI Plan

Under the 2012 STI Plan, participants received a combination of specific performance KPIs in the following categories:

- Company, Business Unit and Division – Profit, Return On Average Capital Employed (ROACE), ROE, TRIFR, Order Book; and
- Personal performance levels – business improvement measures, value-add initiatives.

The STI Plan has gateway terms that must be achieved in order for an STI to be paid. At a minimum, the following conditions must be met:

- 90% of Company Budget; and
- Board approval (discretion to apply an upward or downward modifier in exceptional circumstances).



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The following table sets out the STI weighted score achieved and summarises personal KPIs for each executive for the period ended 30 June 2012. The average weighted achievement for the executives below is 63.9% which equates to 32.6% of their combined TFR.

|   | Measures  | Weighting out of 100 (%) | Vested % | Forfeited % |
|---|-----------|--------------------------|----------|-------------|
| <b>Ross Carroll</b><br>Chief Operating Officer – Mining                     | Financial | 75.0                     |          |             |
|   | Safety    | 15.0                     | 50.3     | 49.7        |
|   | Personal  | 10.0                     |          |             |
| <b>Theresa Mlikota</b><br>Chief Financial Officer                           | Financial | 56.0                     |          |             |
|   | Safety    | 14.0                     | 68.3     | 31.7        |
|   | Personal  | 30.0                     |          |             |
| <b>Ashley Mason</b><br>Executive General Manager – Strategy and Development | Financial | 56.0                     |          |             |
|   | Safety    | 14.0                     | 61.5     | 38.5        |
|   | Personal  | 30.0                     |          |             |
| <b>Neil Wilson</b><br>Executive General Manager – HSEQ                      | Financial | 56.0                     |          |             |
|   | Safety    | 14.0                     | 49.5     | 50.5        |
|   | Personal  | 30.0                     |          |             |
| <b>Angie Young</b><br>Executive General Manager – Human Resources           | Financial | 48.0                     |          |             |
|   | Safety    | 12.0                     | 60.4     | 39.6        |
|   | Personal  | 40.0                     |          |             |
| <b>Fraser Ramsay</b><br>Executive General Manager – Surface Mining          | Financial | 78.0                     |          |             |
|   | Safety    | 12.0                     | 82.1     | 17.9        |
|   | Personal  | 10.0                     |          |             |
| <b>Greg Miller</b><br>Executive General Manager – Underground               | Financial | 78.0                     |          |             |
|   | Safety    | 12.0                     | 48.8     | 51.2        |
|   | Personal  | 10.0                     |          |             |
| <b>Stewart Maddison</b><br>Executive General Manager – International        | Financial | 75.0                     |          |             |
|   | Safety    | 15.0                     | 81.4     | 18.6        |
|   | Personal  | 10.0                     |          |             |
| <b>Robert Wilson</b><br>General Manager – Northern Territory Construction   | Financial | 75.0                     |          |             |
|   | Safety    | 15.0                     | 105.3    | -           |
|   | Personal  | 10.0                     |          |             |
| <b>Mark Hamilton</b><br>Executive General Manager – Construction East       | Financial | 75.0                     |          |             |
|   | Safety    | 15.0                     | 31.9     | 68.1        |
|   | Personal  | 10.0                     |          |             |

# Remuneration report – audited

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## 5.5 Long-Term Incentive (LTI)

The LTI Plan provides executives with Performance Rights with the opportunity to receive fully paid ordinary shares in Macmahon for no consideration, subject to specified time restrictions, continued employment and performance conditions being met. Each performance right will entitle participants to receive one vested plan share at the time of vesting. Details of the LTI Plan have been outlined earlier in this report.

### Performance rights

No performance rights were granted during the period. The first tranche of the Performance Rights granted on 15 January 2010 became eligible to vest on 15 January 2012.

Agreed upon procedures performed by KPMG in relation to the relative TSR calculation undertaken for the 18.75% performance-based proportion indicated that the Company ranked in the 59th percentile of the ASX 200 and 62.50% of the Peer Group rank, resulting in 71.59% of the performance-based portion of Performance Rights becoming eligible for vesting on 15 January 2012.

Together with the 25% time-based portion of Performance Rights, 38.42% of the potential 43.75% of the 15 January 2010 grant vested. In total 4,110,381 shares held under trust were allocated to relevant beneficiaries. The Trustee, Computershare Plan Managers, purchases shares on-market at regular intervals to maintain a requisite balance for future potential allocations.

### Options

No options were granted during the period and no options under the Executive Option Scheme (2005) vested or were exercised during the period.

The following table provides the movement in performance rights and options for each executive during the period.

|  |                         | Held at<br>1 July 2011 |           | Granted as<br>compensation |        | Exercised |           | Other changes <sup>1</sup> |        | Held at<br>30 June 2012 |           |
|--|-------------------------|------------------------|-----------|----------------------------|--------|-----------|-----------|----------------------------|--------|-------------------------|-----------|
|  |                         | Options                | Rights    | Options                    | Rights | Options   | Rights    | Options                    | Rights | Options                 | Rights    |
| <b>R A Carroll</b>                                   | Number                  | 2,000,000              | 4,000,000 | -                          | -      | -         | (768,463) | (2,000,000)                | -      | -                       | 3,231,537 |
| Chief Operating Officer – Mining                     | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (468,762) | (1,580,000)                | -      | -                       | -         |
| <b>T Mlikota</b>                                     | Number                  | -                      | 1,000,000 | -                          | -      | -         | -         | -                          | -      | -                       | 1,000,000 |
| Chief Financial Officer                              | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | -         | -                          | -      | -                       | -         |
| <b>A T Mason</b>                                     | Number                  | -                      | 1,000,000 | -                          | -      | -         | -         | -                          | -      | -                       | 1,000,000 |
| Executive General Manager – Strategy and Development | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | -         | -                          | -      | -                       | -         |
| <b>N J Wilson</b>                                    | Number                  | 400,000                | 650,000   | -                          | -      | -         | (153,693) | (400,000)                  | -      | -                       | 496,307   |
| Executive General Manager – HSEQ                     | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (93,753)  | (202,000)                  | -      | -                       | -         |
| <b>F E Ramsay</b>                                    | Number                  | 75,000                 | 1,000,000 | -                          | -      | -         | (192,116) | -                          | -      | 75,000                  | 807,884   |
| Executive General Manager – Surface Mining           | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (117,191) | -                          | -      | -                       | -         |
| <b>G J Miller</b>                                    | Number                  | 112,500                | 900,000   | -                          | -      | -         | (153,693) | (93,750)                   | -      | 18,750                  | 746,307   |
| Executive General Manager – Underground              | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (93,753)  | (47,344)                   | -      | -                       | -         |
| <b>S G Maddison</b>                                  | Number                  | 375,000                | 700,000   | -                          | -      | -         | (115,270) | (375,000)                  | -      | -                       | 584,730   |
| Executive General Manager – International            | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (70,315)  | (189,375)                  | -      | -                       | -         |
| <b>A C Young</b>                                     | Number                  | -                      | 450,000   | -                          | -      | -         | (57,635)  | -                          | -      | -                       | 392,365   |
| Executive General Manager – Human Resources          | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (35,157)  | -                          | -      | -                       | -         |
| <b>M H Hamilton</b>                                  | Number                  | 100,000                | 900,000   | -                          | -      | -         | (192,116) | (100,000)                  | -      | -                       | 707,884   |
| Executive General Manager – Construction East        | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (117,191) | (50,500)                   | -      | -                       | -         |
| <b>R C Wilson</b>                                    | Number                  | 112,500                | 600,000   | -                          | -      | -         | (115,270) | (112,500)                  | -      | -                       | 484,730   |
| General Manager – Northern Territory Construction    | Value (\$) <sup>2</sup> | -                      | -         | -                          | -      | -         | (70,315)  | (56,813)                   | -      | -                       | -         |

<sup>1</sup> Other changes relate to options or rights that lapsed during the year.

<sup>2</sup> Calculated based on the share price on the date of exercise / lapse less the exercise price (if applicable).

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## 5.6 Executive service contracts

Remuneration and other terms of employment for the CEO and the other executives are also formalised in service agreements. Major provisions of the agreements relating to remuneration are set out below.

| Person   | Contract details   |
|--|--|
| <b>Nick Bowen</b><br>Managing Director and<br>Chief Executive Officer          | 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. Retrenchment / severance benefits are in accordance with the applicable legislation.   |
| <b>Ross Carroll</b><br>Chief Operating Officer –<br>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 can be terminated by either party with 6 months notice or payment in lieu. Retrenchment / severance benefits are in accordance with the applicable legislation.   |
| <b>Theresa Mlikota</b><br>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.  |
| <b>Ashley Mason</b><br>Executive General Manager –<br>Strategy and Development | Mr Mason commenced with Macmahon on 1 March 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.   |
| <b>Neil Wilson</b><br>Executive General Manager –<br>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.   |
| <b>Angie Young</b><br>Executive General Manager –<br>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.   |
| <b>Fraser Ramsay</b><br>Executive General Manager –<br>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.  |
| <b>Greg Miller</b><br>Executive General Manager –<br>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.   |
| <b>Stewart Maddison</b><br>Executive General Manager –<br>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.  |
| <b>Robert Wilson</b><br>General Manager –<br>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 25%) for the previous year. |
| <b>Mark Hamilton</b><br>Executive General Manager –<br>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.  |
| <b>Aidan Mullan</b><br>Executive General Manager –<br>Construction West        | Mr Mullan commenced with Macmahon on 1 July 2011. Mr Mullan has resigned and will cease to be an employee of the Company on 16 October 2012. Retrenchment / severance benefits are in accordance with the applicable legislation.  |

# Remuneration report – audited

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## 6. Non-executive Directors' fees

The structure of remuneration for Non-executive Directors is distinct from that applicable to executives. Fees for Non-executive Directors are fixed and are not linked to the financial performance of the Company. Fees reflect Board and Committee responsibilities.

Having regard to the modest increase of 4% over the past 2½ years and the ever-increasing demands placed on Non-executive Directors, an increase of 5% on base fees and Committee appointments was approved by the Committee in November 2011. This accorded with advice obtained by independent consultants Egan Associates and reflects general market movement.

| Fee Applicable for 2012             | Chairman*<br>\$ | Deputy Chairman*<br>\$ | Member<br>\$ |
|-------------------------------------|-----------------|------------------------|--------------|
| Board*                              | 241,284         | 145,872                | 100,917      |
| Audit Committee                     | 19,266**        |                        | 9,633        |
| Remuneration & Nomination Committee | 15,413          |                        | 7,706        |
| Corporate Governance Committee      | 15,413          |                        | 7,706        |

\* The Chairman and Deputy Chairman are not paid fees for their membership of Board committees.

\*\* Given that the Deputy Chairman chairs the Audit Committee this fee is forgone by Mr Cusack.

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 \$882,200. 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.



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## KMP Remuneration

|  | Year | Short-term |                   |                    |                          | Total short-term \$ | Other long-term benefits \$ | Post-employment   |                         | Share-based payment |                       | Performance related % | Non-performance related % | Compensation consisting of options and rights % | Total compensation \$ |
|--|------|------------|-------------------|--------------------|--------------------------|---------------------|-----------------------------|-------------------|-------------------------|---------------------|-----------------------|-----------------------|---------------------------|---|-----------------------|
|  |      | Salary \$  | Committee fees \$ | Cash bonus/ STI \$ | Non-monetary benefits \$ |                     |                             | Superannuation \$ | Termination payments \$ | Shares and units \$ | Options and rights \$ |                       |                           |   |                       |
| <b>Directors Non-executive</b>                   |      |            |                   |                    |                          |                     |                             |                   |                         |                     |                       |                       |                           |   |                       |
| K B Scott-Mackenzie (Chairman)                   | 2012 | 221,639    | -                 | -                  | -                        | 221,639             | -                           | 35,944            | -                       | -                   | -                     | -                     | 100                       | -   | 257,583               |
|  | 2011 | 202,288    | -                 | -                  | -                        | 202,288             | -                           | 42,537            | -                       | -                   | -                     | -                     | 100                       | -   | 244,825               |
| B L Cusack (Deputy Chairman)                     | 2012 | 142,814    | -                 | -                  | -                        | 142,814             | -                           | 12,853            | -                       | -                   | -                     | -                     | 100                       | -   | 155,667               |
|  | 2011 | 135,780    | -                 | -                  | -                        | 135,780             | -                           | 12,220            | -                       | -                   | -                     | -                     | 100                       | -   | 148,000               |
| B R Ford   | 2012 | 58,664     | 24,546            | -                  | -                        | 83,210              | -                           | 51,358            | -                       | -                   | -                     | -                     | 100                       | -   | 134,568               |
|  | 2011 | 53,890     | 10,000            | -                  | -                        | 63,890              | -                           | 48,110            | -                       | -                   | -                     | -                     | 100                       | -   | 112,000               |
| E Skira <sup>1</sup>                             | 2012 | 76,871     | 3,985             | -                  | -                        | 80,856              | -                           | 7,277             | -                       | -                   | -                     | -                     | 100                       | -   | 88,133                |
|  | 2011 | -          | -                 | -                  | -                        | -                   | -                           | -                 | -                       | -                   | -                     | -                     | -                         | -   | -                     |
| D M Smith  | 2012 | 99,024     | 16,993            | -                  | -                        | 116,017             | -                           | 10,442            | -                       | -                   | -                     | -                     | 100                       | -   | 126,459               |
|  | 2011 | 95,896     | 3,383             | -                  | -                        | 99,279              | -                           | 8,935             | -                       | -                   | -                     | -                     | 100                       | -   | 108,214               |
| V A Vella  | 2012 | 97,435     | 22,658            | -                  | -                        | 120,093             | -                           | 10,808            | -                       | -                   | -                     | -                     | 100                       | -   | 130,901               |
|  | 2011 | 91,083     | 8,000             | -                  | -                        | 99,083              | -                           | 8,917             | -                       | -                   | -                     | -                     | 100                       | -   | 108,000               |
| Total compensation for Non-executive directors   | 2012 | 696,447    | 68,182            | -                  | -                        | 764,629             | -                           | 128,682           | -                       | -                   | -                     | -                     | 100                       | -   | 893,311               |
|  | 2011 | 578,937    | 21,383            | -                  | -                        | 600,320             | -                           | 120,719           | -                       | -                   | -                     | -                     | 100                       | -   | 721,039               |
| <b>Directors - Executive</b>                     |      |            |                   |                    |                          |                     |                             |                   |                         |                     |                       |                       |                           |   |                       |
| N R Bowen<br>Chief Executive Officer             | 2012 | 1,241,191  | -                 | 866,528            | 13,235                   | 2,120,954           | -                           | 54,167            | -                       | -                   | 646,490               | 54                    | 46                        | 23  | 2,821,611             |
|  | 2011 | 1,218,457  | -                 | -                  | 16,425                   | 1,234,882           | -                           | 25,000            | -                       | -                   | 1,748,724             | 58                    | 42                        | 58  | 3,008,606             |
|  | Year | Salary \$  | Committee fees \$ | Cash bonus/ STI \$ | Non-monetary benefits \$ | Total short-term \$ | Other long-term benefits \$ | Superannuation \$ | Termination payments \$ | Shares and units \$ | Options and rights \$ | Performance related % | Non-performance related % | Compensation consisting of options and rights % | Total compensation \$ |
| <b>Executives</b>                                |      |            |                   |                    |                          |                     |                             |                   |                         |                     |                       |                       |                           |   |                       |
| R A Carroll<br>Chief Operating Officer - Mining  | 2012 | 785,779    | -                 | 412,109            | 10,655                   | 1,208,543           | 76,007                      | 32,887            | -                       | -                   | 599,587               | 57                    | 43                        | 31  | 1,917,024             |
|  | 2011 | 700,000    | -                 | -                  | 12,236                   | 712,236             | 42,214                      | 54,167            | -                       | -                   | 438,046               | 39                    | 61                        | 35  | 1,246,663             |
| T Milikota<br>Chief Financial Officer            | 2012 | 545,986    | -                 | 203,065            | 10,384                   | 759,435             | -                           | 49,139            | -                       | -                   | 158,375               | 37                    | 63                        | 16  | 966,949               |
|  | 2011 | 108,854    | -                 | -                  | 7,178                    | 116,032             | -                           | 9,797             | -                       | -                   | 6,599                 | 5                     | 95                        | 5   | 132,428               |
| A T Mason<br>EGM Strategy and Development        | 2012 | 446,869    | -                 | 175,026            | 21,692                   | 643,587             | -                           | 40,218            | -                       | -                   | 158,375               | 40                    | 60                        | 19  | 842,180               |
|  | 2011 | 168,196    | -                 | -                  | 15,972                   | 184,168             | -                           | 15,138            | -                       | -                   | 6,599                 | 3                     | 97                        | 3   | 205,905               |
| N J Wilson<br>EGM HSEQ                           | 2012 | 420,384    | -                 | 85,097             | 10,066                   | 515,547             | 23,510                      | 31,484            | -                       | -                   | 95,405                | 31                    | 69                        | 10  | 665,946               |
|  | 2011 | 379,817    | -                 | -                  | 12,271                   | 392,088             | 9,088                       | 28,404            | -                       | -                   | 88,329                | 19                    | 81                        | 17  | 517,909               |
| A C Young<br>EGM Human Resources                 | 2012 | 312,250    | -                 | 82,160             | 8,977                    | 403,387             | -                           | 28,103            | -                       | -                   | 68,442                | 30                    | 70                        | 10  | 499,932               |
|  | 2011 | 150,000    | -                 | -                  | 9,745                    | 159,745             | -                           | 13,500            | -                       | -                   | 16,805                | 9                     | 91                        | 9   | 190,050               |
| F E Ramsay<br>EGM Surface Mining                 | 2012 | 394,313    | -                 | 176,474            | 9,956                    | 580,743             | 23,362                      | 35,488            | -                       | -                   | 149,588               | 44                    | 56                        | 19  | 789,181               |
|  | 2011 | 369,267    | -                 | -                  | 12,608                   | 381,875             | 8,540                       | 44,521            | -                       | -                   | 104,090               | 21                    | 79                        | 19  | 539,026               |
| G J Miller<br>EGM Underground                    | 2012 | 383,027    | -                 | 101,789            | 9,802                    | 494,618             | 11,598                      | 34,472            | -                       | -                   | 135,158               | 37                    | 63                        | 20  | 675,846               |
|  | 2011 | 346,329    | -                 | -                  | 11,609                   | 357,938             | 12,019                      | 31,170            | -                       | -                   | 84,639                | 20                    | 80                        | 17  | 485,766               |
| S G Maddison<br>EGM International <sup>2</sup>   | 2012 | 502,606    | -                 | 167,428            | 9,834                    | 679,868             | 9,965                       | 45,235            | -                       | -                   | 105,209               | 34                    | 66                        | 13  | 840,277               |
|  | 2011 | 346,141    | -                 | -                  | 11,728                   | 357,869             | 6,596                       | 31,153            | -                       | -                   | 69,078                | 16                    | 84                        | 15  | 464,696               |
| R C Wilson<br>GM NT Construction                 | 2012 | 382,246    | -                 | 219,228            | 2,428                    | 603,902             | 27,829                      | 50,197            | -                       | -                   | 89,371                | 44                    | 56                        | 12  | 771,299               |
|  | 2011 | 348,894    | -                 | 239,762            | 4,800                    | 593,456             | 11,422                      | 50,106            | -                       | -                   | 63,420                | 44                    | 56                        | 9   | 718,404               |
| M H Hamilton<br>EGM Construction - East          | 2012 | 472,095    | -                 | 82,143             | 15,689                   | 569,927             | 38,682                      | 42,489            | -                       | -                   | 133,114               | 32                    | 68                        | 17  | 784,212               |
|  | 2011 | 401,729    | -                 | -                  | 17,989                   | 419,718             | 10,630                      | 36,156            | -                       | -                   | 103,376               | 20                    | 80                        | 18  | 569,880               |
| A Mullan<br>EGM Construction - West <sup>3</sup> | 2012 | 472,095    | -                 | -                  | 9,851                    | 481,946             | -                           | 42,489            | -                       | -                   | 33,655                | 6                     | 94                        | 6   | 558,090               |
|  | 2011 | -          | -                 | -                  | -                        | -                   | -                           | -                 | -                       | -                   | -                     | -                     | -                         | -   | -                     |
| Total compensation for executive personnel       | 2012 | 5,117,650  | -                 | 1,704,519          | 119,334                  | 6,941,503           | 210,953                     | 432,201           | -                       | -                   | 1,726,279             | 39                    | 61                        | 19  | 9,310,936             |
|  | 2011 | 3,319,227  | -                 | 239,762            | 116,136                  | 3,675,125           | 100,509                     | 314,112           | -                       | -                   | 980,981               | 26                    | 74                        | 19  | 5,070,727             |
| Total compensation: Directors and Executives     | 2012 | 7,055,288  | 68,182            | 2,571,047          | 132,569                  | 9,827,086           | 210,953                     | 615,050           | -                       | -                   | 2,372,769             | 40                    | 60                        | 18  | 13,025,858            |
|  | 2011 | 5,116,621  | 21,383            | 239,762            | 132,561                  | 5,510,327           | 100,509                     | 459,831           | -                       | -                   | 2,729,705             | 35                    | 65                        | 31  | 8,800,372             |

1 E Skira was appointed on 26 September 2011

2 S Maddison cashed out \$124,930 worth of annual and long service leave in 2012.

3 A Mullan has resigned and will cease employment with the Company on 16 October 2012

# 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. Macmahon is committed to the development of a culture that values ethical behaviour, integrity and respect. We believe that adopting and operating in accordance with high standards of corporate governance enhances the Company's sustainable long-term performance and value creation for all stakeholders.

This Statement reports on Macmahon's key governance principles and practices which are reviewed regularly and revised as appropriate to reflect changes in law and developments in corporate governance.

As a listed company Macmahon must comply with the Corporations Act 2001 (Cwth) ("Corporations Act"), the Australian Securities Exchange Limited ("ASX") Listing Rules ("ASX Listing Rules") and other laws in Australia and countries where Macmahon operates. The ASX Listing Rules require the company to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (2nd edition) ("ASXCGC Recommendations") and the Company has followed those 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.

A checklist cross-referencing the ASXCGC Recommendations to the relevant sections of this Statement and the Remuneration Report is provided later in the Corporate Governance Statement and, along with the Statement and relevant Company policies, is published on the Company's website at [www.mcmahon.com.au](http://www.mcmahon.com.au).

## Continued Corporate Governance Focus

The Board believes that good corporate governance is consistent with the essence of integrity, and in 2011 the Board established the Corporate Governance Committee to enhance its focus on excellence in corporate governance. The Committee makes recommendations to the Board and is responsible for:

- reviewing and reporting to the Board on Corporate Governance regulatory or compliance issues;
- reviewing and reporting to the Board on best practice developments and providing recommendations to the Board on Corporate Governance practices;
- reviewing and reporting to the Board on the Company's obligations under ASX Listing Rule 4.10.3 and compliance with the best practice recommendations of the ASX Corporate Governance Council;
- providing recommendations to the Board and reviewing disclosure of effective policies and procedures on the Company's website to ensure effective communication of the Company's corporate governance policies to shareholders, media, analysts and industry participants.

The Board reports that during the financial year, an audit was undertaken by the Company's internal auditors, PricewaterhouseCoopers, to evaluate the Company's corporate governance policies and procedures. The key objectives of that review included:

- review of the Company's existing corporate governance framework to check how this compares to both the letter and the intent of the ASX Principles and Recommendations;
- review of the communication of corporate governance practices;
- review of the Company's monitoring controls to ensure continued compliance with its corporate governance policies and procedures; and
- provision of agreed management actions to address identified areas of concern.

The Company is satisfied that it meets the ASX Principles and Recommendations, with only minimal departure. Full disclosure of any departure and reason for the adoption of its own practice are contained within this Statement.

# Corporate governance statement

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## 1. The Board of Directors

### 1.1 Board Role and Responsibilities

*ASXCGC Recommendations 1.1, 1.3*

The Company's Constitution provides that the business and affairs of the Company are to be managed by or under the direction of the Board. The Board has established and disclosed (on the Company's website) its Board Charter which details the Board's role, powers, duties and functions. Other than as specifically reserved to the Board in the Board Charter, responsibility for the management of Macmahon's business activities is delegated to the Chief Executive Officer ("CEO") who is accountable to the Board. The Board Charter and the delegation of Board authority to the CEO are reviewed regularly.

### 1.2 Board Composition and Expertise

*ASXCGC Recommendations 2.1, 2.2, 2.3, 2.6*

The Board has an expansive range of relevant industry experience, financial and other skills and expertise to meet its objectives. The current Board composition includes five independent Non-executive Directors, one Non-independent Non-executive Director, and the CEO, who is also the Managing Director. Details on each of the Director's backgrounds including experience, knowledge and skills and their status as an independent or non-independent Director are set out in the Directors' Report and on the Company's website.

The Board considers that the Non-executive Directors collectively bring the range of skills, knowledge and experience necessary to direct the Company. In assessing the composition of the Board, the Directors have regard to the following policies:

- the Chairman should be an independent, non-executive;
- the role of the Chairman and CEO should not be filled by the same person;
- the CEO should be a full-time employee of the Company;
- the Board should represent a broad range of qualifications, diversity, experience and expertise considered of benefit to the Company; and
- the Board should include a majority of independent Non-executive Directors.

Where a casual vacancy arises, the Board will seek to appoint a Non-executive Director with the appropriate skills and experience to fill any potential expertise gaps.

### 1.3 The Chairman

*ASXCGC Recommendations 2.2, 2.3*

The Chairman of the Board, Mr Kenneth Scott-Mackenzie, is an independent, Non-executive Director. The Chairman is responsible for leadership and effective performance of the Board and for the maintenance of relations between directors and management that are open, cordial and conducive to productive cooperation. The Chairman's responsibilities are set out in more detail in the Board Charter.

Mr Scott-Mackenzie is currently the Non-executive Chairman of Murchison Metals and a Non-executive Director of Adelaide Brighton Limited. The Board considers that neither of those roles, nor any of his other commitments, interfere with the discharge of his duties to the Company. The Board is satisfied that Mr Scott-Mackenzie commits the time necessary to discharge his role effectively.

# Corporate governance statement

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## 1.4 Director Independence

*ASXCGC Recommendations 2.1, 2.6*

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, Ms Eva Skira 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.

## 1.5 Conflicts of Interest

Directors are required to disclose any actual or potential conflict or material personal interests on appointment as a Director and are required to keep these disclosures up to date.

In the event that there is, or may be, a conflict between the personal or other interests of a Director, then the Director with an actual or potential conflict of interest in relation to a matter before the Board does not receive the Board papers relating to that matter. When the matter comes before the Board for discussion, the Director withdraws from the meeting for the period the matter is considered and takes no part in the discussion or decision making process.

The Company has established and disclosed (on its website) a Board Conflict of Interest Policy that dictates the appropriate procedures to be followed.



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## 1.6 Board Succession Planning and Performance Evaluation

*ASXCGC Recommendations 2.5, 2.6*

The Board manages its succession planning with the assistance of the Remuneration & Nomination Committee, reviewing its size, composition, diversity and effectiveness as a whole and the mix of existing and desired competencies across members.

During the year, the Board embarked on a search with the assistance of an external consultant to identify suitably experienced and qualified Directors to add to the Board's composition and proficiency. Candidates were then interviewed by all Directors and Ms Eva Skira was appointed to the Board on 26 September 2011.

The Board undertakes an annual evaluation of its size, composition, diversity and effectiveness against a broad range of good practice criteria and from time to time engages the services of an external facilitator to assist with this process. The Chairman reviews the performance of individual Board members and meets with each Director to discuss the findings of their report, including performance of the Chairman. The Board reviews the performance of individual Board members prior to any Board recommendation given for those Directors seeking re-election.

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 will be asked to retire.

## 1.7 Directors' Retirement and Re-Election

*ASXCGC Recommendation 2.6*

Non-executive Directors must retire and stand for re-election at the third annual general meeting ("AGM") following their election or most recent re-election. At least one Non-executive Director must stand for election at each AGM. Any Director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves for election at the next AGM.

Board support for a Director's re-election is not automatic and is subject to satisfactory Director performance (in accordance with the evaluation process described above).

## 1.8 Directors' Appointment, Induction Training and Continuing Education

*ASXCGC Recommendation 2.6*

All new Directors are provided with a formal letter of appointment setting out the key terms and conditions of the appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with Committee work.

Induction training is provided to all new Directors. It includes comprehensive meetings with the CEO, key executives and management, information on key corporate and Board policies, and the opportunity to visit the Company's primary operations.

All Directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are encouraged to undertake continuing professional education and where this involves industry seminars and approved education courses, this is paid for by the Company where appropriate.

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## 1.9 Board Access to Information and Independent Advice

*ASXCGC Recommendation 2.6*

Directors may, in carrying out their Company related duties, seek external professional advice. If external professional advice is sought a Director is entitled to reimbursement of all reasonable costs where such a request for advice is approved by the Chairman. In the case of a request made by the Chairman, approval is required by the Deputy Chairman.

## 1.10 Directors' Remuneration

Details of remuneration paid to Directors (Executive and Non-executive) are set out in the Remuneration Report. The Remuneration Report also contains information on the Company's policy for determining the nature and amount of remuneration for Directors and executives and the relationship between the policy and Company performance.

Shareholders will be invited to consider and approve the Remuneration Report at the AGM in November 2012.

## 1.11 Board Meetings

During the year ended 30 June 2012, the Board held eight scheduled Board meetings. In addition, site visits and a focussed strategic planning session were held. Details of Directors' attendance at Board and Committee meetings are set out in the Directors' Report.

The Chairman sets the agenda for each meeting in conjunction with the CEO and the Company Secretary. Any Director may request additional matters be added to the agenda. The COO - Mining, the Chief Financial Officer ("CFO") and the Executive General Manager of Strategy and Development attend the Board meetings by standing invitation. Other members of senior management attend meetings of the Board by invitation.

At each scheduled Board meeting there is a session for Non-executive Directors to meet without management present. This session is presided over by the Chairman.

Copies of Board papers are circulated in advance of the meetings in either electronic or hard copy form. Directors are entitled to request additional information where they consider the information is necessary to support informed decision making.

## 1.12 Company Secretaries

Details of the Company Secretaries are set out in the Directors' Report. The appointment and removal of a Company Secretary is a matter for decision by the Board. The Company Secretaries are responsible for providing advice to Directors and executives on corporate governance and regulatory matters, recording minutes of Board and Committee meetings, developing the Company's corporate governance framework and giving effect to the Board's decisions. All Directors have access to advice from the Company Secretaries.

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## 2. Board Committees

### 2.1 Board committees, membership and charters

ASXCGC Recommendations 2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 8.1, 8.2, 8.4

The Board delegates its powers and responsibilities to Committees of the Board in order to allow the Directors to spend additional and more focused time on specific issues. All Committees operate under individual charters approved by the Board which are disclosed on the Company's website.

The Board currently has the following three standing Committees to assist in discharging its responsibilities:

| Committee                           | Description  | Members   |
|-------------------------------------|--|---|
| Audit Committee                     | Monitors the financial reporting process, and external and internal audit functions.   | Mr Barry Cusack (Chairman)<br>Mr Barry Ford<br>Dr David Smith<br>Ms Eva Skira               |
| Remuneration & Nomination Committee | Assists the Board in considering remuneration policies, practices and decisions. Ensures the Board and the CEO have the necessary range of skills, expertise and experience to further corporate objectives. | Mr Vyrl Vella (Chairman)<br>Mr Kenneth Scott-Mackenzie<br>Mr Barry Cusack<br>Dr David Smith |
| Corporate Governance Committee      | Oversees the development of corporate governance principles.   | Mr Barry Ford (Chairman)<br>Mr Kenneth Scott-Mackenzie<br>Mr Vyrl Vella                     |

Committee members are chosen for the skills, experience and other qualities they bring to the relevant committee. Executive management attends certain committee meetings by invitation only.

All papers considered by the standing Committees are available on request to Directors who are not on that Committee.

Following each Committee meeting, generally at the next Board meeting, the Board is given a verbal update by the Chair of the respective Committee. In addition, minutes of all Committee meetings are available to all Directors.

A Company Secretary provides secretariat services for each Committee.

# Corporate governance statement

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## 2.2 Audit Committee

*ASXCGC Recommendations 4.1, 4.2, 4.3, 4.4*

The role of the Audit Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, compliance with related legal and regulatory requirements, and the internal and external audit functions. In doing so, it is the Committee's responsibility to maintain free and open communication between the Committee and the external auditors and the management of Macmahon.

The Audit Committee is required to have a minimum of three members and be composed of all Non-executive Directors, a majority of who must be independent. The Chair of the Audit Committee must not be the Chair of the Board and must be an independent Director.

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.

Key activities undertaken by the Audit Committee during the year included:

- monitoring developments in accounting and financial reporting relevant to Macmahon;
- approval of the scope, plan and fees for the 2012 external audit;
- review of the independence and performance of the External Auditor;
- review of significant accounting policies and practices;
- review of Internal Audit reports and approval of the 2012 Internal Audit program;
- review and recommendation to the Board for the adoption of the Group's half-year and annual financial statements; and
- assessment of the impact of material commercial disputes on the Company's financial performance.

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 in the Directors' Report.

## 2.3 Remuneration & Nomination Committee

*ASXCGC Recommendations 2.4, 2.6, 8.1, 8.2, 8.3, 8.4*

The role of the Remuneration & Nomination Committee is to assist the Board by reviewing and approving the Company's remuneration policies and practices for Directors and executives and the appointment of Directors to the Board. The Committee's responsibilities include:

- assessing the necessary and desirable competencies of Board members;
- reviewing Board succession plans;
- reviewing the Company's remuneration framework, which is used to attract, retain and motivate Directors and employees to achieve operational excellence and create value for shareholders;
- reviewing the remuneration packages and incentive schemes for the CEO and executives, to establish rewards, which are fair and responsible, having regard to the Company's strategic goals, individual performance and general remuneration conditions; and
- reviewing the performance and succession planning for the CEO and executives.

The Remuneration & Nomination Committee is required to have a minimum of three members and be composed of a majority of independent Non-executive Directors. Mr Vella is the Chair of this Committee and is a Non-independent Director. Despite the ASX Principles, the Board has determined that given Mr Vella's industry participation and experience, and based on a strong working understanding of relevant employment terms and conditions, Mr Vella is best placed to discharge this function in accordance with the Committee Charter.



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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.

The Company's Executives Remuneration Policy is available on the Company's website. The Company's executives are remunerated in accordance with the principles described in that policy, which provides that 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 executive remuneration are set out in the Remuneration Report.

Key activities undertaken by the Remuneration & Nomination Committee during the year included:

- monitoring legislative and corporate governance developments in relation to employment and remuneration matters relevant to Macmahon;
- reviewing the Company's remuneration policies and practices and recommending for adoption by the Board an internal procedure on the use of remuneration consultants;
- reviewing the Company's recruitment and retention strategies;
- recommendation of the appointment and remuneration packages of executives reporting directly to the CEO;
- monitoring progress against measurable objectives in respect of gender diversity; and
- reviewing and making recommendations to the Board on remuneration for Non-executive Directors and the CEO and the criteria for the evaluation of the performance of the CEO.

The Directors who are not members of the Remuneration & Nomination Committee, the CEO and the Executive General Manager of Human Resources are invited to attend Committee meetings at the discretion of the Remuneration & Nomination Committee. The CEO is not present where decisions are being made in respect of his own remuneration.

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 in the Directors' Report.

## 2.4 Corporate Governance Committee

The role of the Corporate Governance Committee is to assist the Board to oversee the Company's implementation and compliance with best practice in corporate governance applicable to the circumstances of the Company.

Further details of this Committee and key activities undertaken by this Committee were outlined earlier in this report.

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 in the Directors' Report.

# Corporate governance statement

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## 3. Shareholders and Corporate Responsibility

Macmahon aims to produce positive outcomes for all stakeholders in managing its business and to maximise financial, social and environmental value from our activities. In practice this means having a commitment to transparency, fair dealing, responsible treatment of employees and customers and positive links into the community.

Sustainable and responsible business practices within Macmahon are viewed as an important long-term driver of performance and shareholder value. Through such practices Macmahon seeks to reduce operational and reputation risk and enhance operational efficiency while contributing to a more sustainable society. Macmahon accepts that the responsibilities of the Board and management, which flow from this approach, go beyond strict legal and financial obligations. In particular, the Board seeks to take a practical and broad view of Directors' fiduciary duties, in line with stakeholders' expectations.

### 3.1 Shareholder Communications

*ASXCGC Recommendations 6.1, 6.2*

Directors recognise that shareholders, as the ultimate owners of the Company, are entitled to receive timely and relevant high quality information about their investment. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of shares.

Macmahon's Continuous Disclosure Policy (which is available on the Company's website) encourages effective communication with its shareholders by requiring:

- the disclosure of full and timely information about Macmahon's activities in accordance with the disclosure requirements contained in the ASX Listing Rules and the Corporations Act;
- all information released to the market to be placed on Macmahon's website promptly following release;
- the Company's market announcements to be maintained on Macmahon's website for at least three years; and
- all disclosures, including notices of meetings and other shareholder communications, are drafted clearly and concisely using plain English.

Macmahon endeavours to 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 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 endeavours to provide advance notification of Group briefings and make them widely accessible, including through the use of webcasting or conference calls where possible. Macmahon also keeps 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.

### 3.2 Continuous Disclosure

*ASXCGC Recommendations 5.1, 5.2*

Macmahon is committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information.

Macmahon's Continuous Disclosure Policy reinforces the Company's commitment to ASX continuous disclosure requirements and outlines management's accountabilities and the processes to be followed for ensuring compliance. The policy also describes Macmahon's guiding principles for market communications.

The Continuous Disclosure Policy is available on the Company's website.

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## 4. Promoting Ethical and Responsible Behaviour

### 4.1 Code of Conduct and Whistleblower Policy

*ASXCGC Recommendations 3.1, 3.2, 3.5*

Macmahon has a Code of Conduct which outlines Macmahon's commitment to appropriate and ethical corporate practices and reflects the high ethical standards of conduct necessary to maintain confidence in the Company's integrity.

The Board recently approved an updated version of the Code of Conduct that applies to Directors, officers, employees and consultants of the Company. It describes the standards of ethical behaviour that Directors and employees are required to maintain. A roll-out of the updated Code of Conduct required all staff to undergo an interactive online training module and successful completion of an assessment.

The Code of Conduct describes Macmahon's mission, vision and values together with the business principles approved by the Board. It sets out the principles, practices and standards of personal and corporate behaviour Macmahon expects in daily business activities. The Code of Conduct covers matters such as compliance with laws and regulations, responsibilities to shareholders and the community, sound employment practices, confidentiality, privacy, conflicts of interest, giving and accepting business courtesies and the protection and proper use of Macmahon's assets. Compliance with the Code of Conduct also assists Macmahon in effectively managing its operating risks and meeting its legal and compliance obligations, as well as enhancing Macmahon's corporate reputation.

The Company's Code of Conduct is available on the Company's website.

The Company's Whistleblower Provisions highlight Macmahon's commitment to maintaining an open working environment in which employees and contractors are able to report instances of unethical, unlawful or undesirable conduct without fear of intimidation or reprisal. The Whistleblower Provisions are available on the Company's website.

### 4.2 Trading in Shares Policy

*ASXCGC Recommendation 8.4*

During the year the Company's Trading in Shares Policy was reviewed and updated to ensure it met with the ASX Listing Rules and the latest in corporate governance thinking.

Macmahon's Trading in Shares Policy provides a brief summary of the law on insider trading and the ASX Listing Rule requirements, and sets out the restrictions on dealing in securities by Directors and Officers. The Policy is intended to assist in maintaining market confidence in the integrity of dealings in the Company's securities.

Directors and Officers are encouraged to follow a long-term holding policy and are prohibited from any trading of a short-term or speculative nature in the securities of Macmahon. Directors and Officers may not deal in securities of Macmahon (other than the exercise of employee options and performance rights, dividend reinvestment and rights issues and transfers to related parties) in the four week period leading up to the profit announcement in respect of each June and December half year, or immediately prior to announcements in relation to any material changes in Macmahon's financial performance or changes to major contracts.

Any Director wishing to deal in the Company's securities may only do so after first having obtained the prior approval of the Chairman (who will consult with the CEO and CFO). Any dealings by the Chairman require prior approval of the Deputy Chairman (who will consult with the CEO and CFO). An Officer (which includes executives and those employees, who in the performance of their duties, are in possession of price sensitive information, may only deal in the Company's securities after first having obtained the prior approval of the CFO (who will consult with the CEO). Confirmation to the Company of any dealing must also be given by the Director or executive within two business days after the dealing.

All Officers and employees are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme. Any hedging of unvested equity will result in immediate forfeiture.

The Company's Trading in Shares Policy is available on the Company's website.

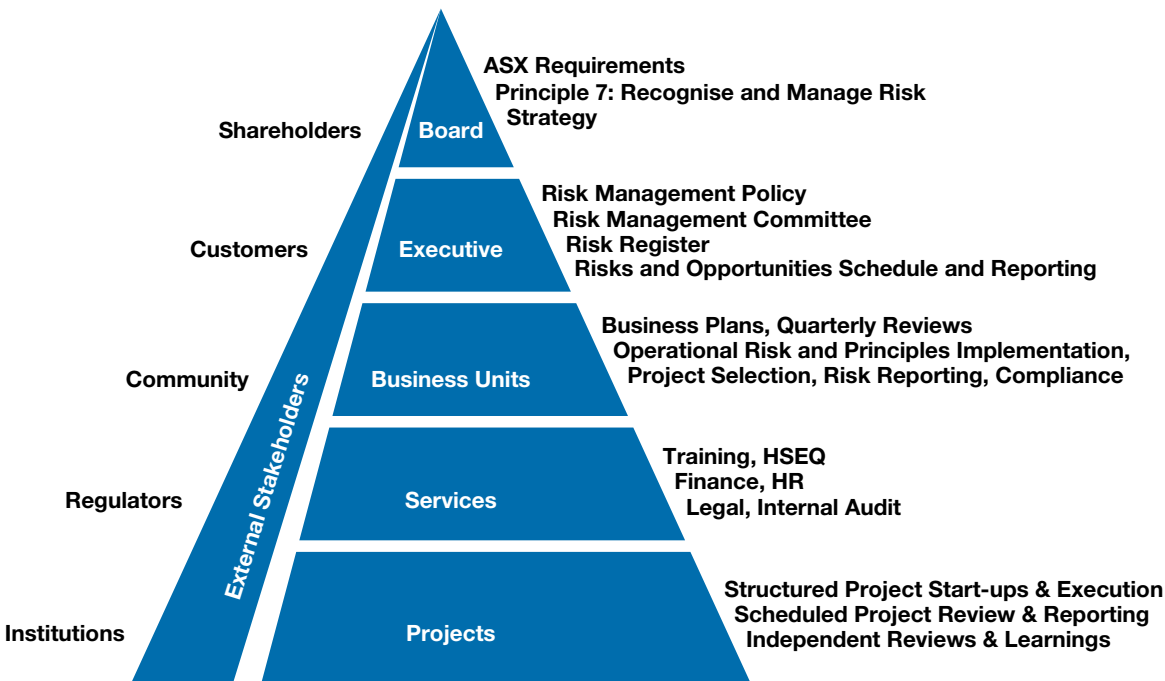
## 5. Risk Management and Internal Controls

### 5.1 Approach to Risk Management

*ASXCGC Recommendations 7.1, 7.2, 7.4*

Macmahon recognises that risk is inherent to its business and effective management of risk is vital to delivering on its objectives, success and continued growth. Macmahon's approach to risk enhances opportunities, reduces threats and sustains Macmahon's competitive advantage. Macmahon is committed to managing all risk in a proactive and effective manner.

The Company's aim is to ensure that risk management is embedded in all aspects of the Company's operations, by aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing uncertainties. This whole of business approach impacts all levels of the organisation and all stages of the project cycle and is outlined in the diagram below:



During the year the Board and management completed a review of the Company's Risk Management Policy and adopted a revised policy commensurate with the Company's strategic plan and operational activities. The Company's Risk Management Policy is available on the Company's website.



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## 5.2 Risk Management Roles and Responsibilities

*ASXCGC Recommendations 7.1, 7.2, 7.4*

The Board is responsible for reviewing and approving Macmahon's risk management strategy, policy and key risk parameters, including determining the Group's appetite for country risk and major investment decisions. The Board is also responsible for satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Management is responsible for designing, implementing, reviewing and providing assurance as to the effectiveness of the Risk Management Policy. This responsibility includes developing business risk identification, implementing appropriate risk treatment, strategies and controls, monitoring effectiveness of controls and reporting on risk management capability and performance.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include:

- regular updates to the Board at monthly meetings on key risks associated with the business' operations;
- Board approved annual operating budgets and plans, with ongoing monitoring of progress against budget;
- Internal Audit reports to the Audit Committee on areas of material business risk;
- ensuring that the executive management group is responsible for developing policies, processes and procedures to identify risks and mitigation strategies in Macmahon's activities; and
- ensuring that the executive management group is responsible for monitoring compliance with these policies, processes and procedures.

## 5.3 CEO and CFO Assurance on Corporate Reporting

*ASXCGC Recommendations 7.3, 7.4*

The Board receives monthly reports about the financial condition and operational results of Macmahon and its controlled entities.

At the end of each six monthly period the CEO and CFO provide a formal declaration to the Board confirming that the Company's financial reports present a true and fair view, in all material respects, and the Group's financial condition and operational results have been prepared in accordance with the relevant accounting standards. The statement also confirms that the integrity of the Company's financial statements and notes to the financial statements, are founded on a sound system of risk management and controls.

In addition, all executives and key business managers complete a questionnaire from the Directors on a half-yearly basis. The questions relate to the financial position of the Company, market disclosure, the application of Company policies and procedures (including the Risk Management Policy), compliance with external obligations and other governance matters. This process assists the CEO and the CFO in making the declarations to the Board referred to above.

## 6. External Auditor Relationship

*ASXCGC Recommendation 4.4*

The Board has adopted an External Auditor Selection Policy which requires rotation of the audit partner at least every five years, prohibits the reinvolverment of a previous audit partner in the audit service for two years following their rotation, and provides that a former partner of the audit firm, or member of the audit team, may only be recruited into a position as a Director or senior employee of Macmahon after the expiry of at least two years.

Furthermore, in accordance with the External Auditor Selection Policy, the Audit Committee oversees detailed External Auditor Guidelines covering the terms of engagement of Macmahon's external auditor. The guidelines include provisions directed to maintaining the independence of the external auditor and in assessing whether the provision of any non-audit services by the external auditor that may be proposed is appropriate. Such provisions are referenced to the Code of Ethics published by the International Federation of Accountants ("IFAC").

The External Auditor Guidelines contain a set of controls which address threats to the independence of the external auditor including, in particular, any threat which may arise by reason of self interest, self review, advocacy, familiarity or intimidation (all terms defined by the IFAC's Code of Ethics). The External Auditor Guidelines classify a range of non-audit services which are considered not acceptable for provision by the external auditor.

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## 7. Diversity

ASXCGC Recommendations 3.2, 3.3, 3.4, 3.5

Macmahon recognises and appreciates the value inherent in a diverse workforce. Diversity management seeks to proactively support and manage the similarities among and differences between employees in the belief that it will assist the Company to achieve its goals and objectives and offer a sustainable competitive advantage having regard to the industry and locations in which it operates.

The objectives of Macmahon's Diversity Policy include:

- enhancing the employee talent pool - to foster recruitment, retention and promotion practices that take account of the diversity within the communities in which Macmahon operates;
- supportive environment - to ensure a supportive workplace in which employee differences are treated fairly and with respect and dignity within a safe working environment;
- work / life balance - to promote workplace structures, systems and procedures that assist employees to balance their work, family and other responsibilities effectively; and
- social responsibility - to ensure Macmahon contributes positively to the social wellbeing of the communities it serves.

### Targets

The following table outlines Macmahon's measurable diversity objectives and the progress made towards achieving those objectives as disclosed in the 2011 Annual Report. It also contains Macmahon's new targets.

| Group                    | Target 2012 | Actual 2012 | Target 2014 |
|--------------------------|-------------|-------------|-------------|
| Indigenous Australians   | -           | 5.5%        | 7.5%        |
| Female Directors         | 1           | 1           | 1           |
| Senior Female Leadership | 20%         | 16.6%       | 20%         |
| All Female Employees     | 13%         | 13.1%       | 14%         |

### Indigenous Employees

As part of Macmahon's ongoing commitment to diversity, Macmahon has set a target to increase the number of Indigenous Australians as a percentage of its total Australian workforce. Over the last year, Indigenous participation rates have increased from 4.2 per cent in June 2011 to 5.5 per cent in June 2012. The Company's target going forward is to achieve an Indigenous representation of 7.5 per cent of its total Australian workforce by 2014.

Further, Macmahon became a signatory to the Australian Employment Covenant in August 2010, pledging to create 500 new jobs for Indigenous people over five years. Through its highly successful ROCKSTAR Program, Macmahon is well on track to exceeding this target. At 30 June 2012 the Company had already employed 55 per cent of this target (275 people) across both the Mining and Construction Businesses.

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## Female Employees

At 30 June 2012, 13.1 per cent of all Australian employees were female, while 16.6 per cent of the Senior Management Group were women. Whilst there was an increase in total employees of approximately 34 per cent during the period, there was a greater increase in female employment of approximately 45 per cent. Also during the period, diversity was enhanced at Board level with the appointment of Ms Eva Skira on 26 September 2011.

One of the challenges for Macmahon, and other companies in the mining and construction sectors, is the traditionally low levels of female representation due to the nature and geographical isolation of the work to be performed. In an effort to enhance the appeal of Macmahon to potential female employees, a number of initiatives have been progressed, as outlined below.

| Aims of Diversity Policy           | Strategies to assist in increasing female participation rates  |
|------------------------------------|--|
| Enhancing the employee talent pool | <p>Introducing the ROCKSTAR Program which enables Indigenous females to participate in our workforce and in addition, the fast tracking of Indigenous females for training opportunities (currently there are 43 Indigenous females going through this training).</p> <p>Using leadership development programs and succession planning tools to ensure an equitable approach is taken and talent identified across all functions and operations.</p> <p>Marketing and branding Macmahon as an EEO Employer to young professionals through graduate fairs with females representing 17.2% of our graduates being recruited into engineering positions (a typically non-traditional female role), and sponsorship of events targeting women.</p> |
| Supportive environment             | <p>Enhancing on-line and workshop style across business EEO awareness sessions to educate all employees on the subject. A Company Level 1 policy on Equal Employment and Diversity was also introduced in January 2012.</p>  |
| Work / life balance                | <p>Continue to enhance flexible working arrangements. A working from home procedure has been developed and rolled-out to all business units. This forms part of our Flexible Work Policy, which is regularly reviewed. Employees continue to request and undertake flexible work hours with Company approval.</p>  |
| Social responsibility              | <p>Utilising traineeships that target women in disadvantaged situations, including the long-term unemployed and Indigenous youth. Macmahon have partnership arrangements with community organisations such as the Salvation Army to provide funding and support, such as commencing a program for employing administration trainees.</p> <p>Macmahon currently employs Indigenous females into its apprentice and trainee program, most recently with an increase to 28 per cent of total trainees. The ROCKSTAR program is looking to increase these numbers.</p>   |

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## ASX Principles Compliance Statement

| ASX Corporate Governance Council's Corporate Governance Principles and Recommendations |  | CG Statement Reference                 | Comply |
|--|--|--|--------|
| <b>Principle 1 – Lay solid foundations for management and oversight</b>                |  |  |        |
| 1.1  | Companies should establish the functions reserved to the board and those delegated to executives and disclose those functions.   | 1.1                                    | ✓      |
| 1.2  | Companies should disclose the process for evaluating the performance of executives   | Remuneration Report                    | ✓      |
| 1.3  | Companies should provide the information indicated in the Guide to reporting on Principle 1.   | 1.1, Remuneration Report               | ✓      |
| <b>Principle 2 – Structure the Board to add value</b>                                  |  |  |        |
| 2.1  | A majority of the Board should be independent directors.   | 1.2, 1.4                               | ✓      |
| 2.2  | The chair should be an independent director.   | 1.2, 1.3                               | ✓      |
| 2.3  | The roles of chair and chief executive officer should not be exercised by the same individual.   | 1.2, 1.3                               | ✓      |
| 2.4  | The Board should establish a nomination committee.   | 2.1, 2.3                               | ✓      |
| 2.5  | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.  | 1.6                                    | ✓      |
| 2.6  | Companies should provide the information indicated in the Guide to reporting on Principle 2.   | 1.2, 1.4, 1.6, 1.7, 1.8, 1.9, 2.1, 2.3 | ✓      |
| <b>Principle 3 – Promote ethical and responsible decision-making</b>                   |  |  |        |
| 3.1  | Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul> | 4.1, 4.2                               | ✓      |
| 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 for the board to assess annually both the objectives and progress in achieving them.  | 7                                      | ✓      |
| 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.   | 7                                      | ✓      |
| 3.4  | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in executive positions and women on the board.  | 7                                      | ✓      |
| 3.5  | Companies should provide the information indicated in the Guide to reporting on Principle 3.   | 4.1, 7                                 | ✓      |
| <b>Principle 4 – Safeguard integrity in financial reporting</b>                        |  |  |        |
| 4.1  | The board should establish an audit committee.   | 2.1, 2.2                               | ✓      |
| 4.2  | The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists of only non-executive directors;</li> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair, who is not chair of the board; and</li> <li>has at least three members.</li> </ul>  | 2.1, 2.2                               | ✓      |
| 4.3  | The audit committee should have a formal charter.  | 2.1, 2.2                               | ✓      |
| 4.4  | Companies should provide the information indicated in the Guide to reporting on Principle 4.   | 2.1, 2.2, 6                            | ✓      |

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## ASX Principles Compliance Statement continued

| ASX Corporate Governance Council's Corporate Governance Principles and Recommendations |   | CG Statement Reference   | Comply                                  |
|--|---|--------------------------|---|
| <b>Principle 5 – Make timely and balanced disclosure</b>                               |   |                          |   |
| 5.1  | Companies should establish written policies designed to ensure compliance and ASX Listing Rule disclosure requirements and to ensure accountability at executive level for that compliance and disclose those policies or a summary of those policies.  | 3.2                      | ✓                                       |
| 5.2  | Companies should provide the information indicated in the Guide to reporting on Principle 5.  | 3.2                      | ✓                                       |
| <b>Principle 6 – Respect the rights of shareholders</b>                                |   |                          |   |
| 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.  | 3.1                      | ✓                                       |
| 6.2  | Companies should provide the information indicated in the Guide to reporting on Principle 6.  | 3.1                      | ✓                                       |
| <b>Principle 7 – Recognise and manage risk</b>   |   |                          |   |
| 7.1  | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.   | 5.1, 5.2                 | ✓                                       |
| 7.2  | The board should require management to design and implement the risk management and internal control systems 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.  | 5.1, 5.2                 | ✓                                       |
| 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. | 5.3                      | ✓                                       |
| 7.4  | Companies should provide the information indicated in the Guide to reporting on Principle 7.  | 5.1, 5.2, 5.3            | ✓                                       |
| <b>Principle 8 – Remunerate fairly and responsibly</b>                                 |   |                          |   |
| 8.1  | The board should establish a remuneration committee.  | 2.1, 2.3                 | ✓                                       |
| 8.2  | The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors;</li> <li>• is chaired by an independent chair; and</li> <li>• has at least three members.</li> </ul>  | 2.1, 2.3                 | <div>✓</div> <div>✗*</div> <div>✓</div> |
| 8.3  | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and executives.  | 2.3, Remuneration Report | ✓                                       |
| 8.4  | Companies should provide the information indicated in the Guide to reporting on Principle 8.  | 2.1, 2.3, 4.2            | ✓                                       |

\* As noted at 2.3 of the Corporate Governance Statement, the Chair is not independent.

# Auditor's independence declaration



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

To: the directors of Macmahon Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

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

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Trevor Hart'.

Trevor Hart  
*Partner*

Perth

20 August 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# Consolidated statement of comprehensive income

For the year ended 30 June



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*In thousands of AUD*

|  | Note   | 2012             | 2011             |
|--|--------|------------------|------------------|
| Revenue  | 5      | 1,661,472        | 1,089,409        |
| Other income   | 6      | 1,591            | 1,220            |
|  |        | <b>1,663,063</b> | <b>1,090,629</b> |
| Materials and consumables used   |        | (539,814)        | (357,040)        |
| Employee benefits expense  | 7      | (670,584)        | (459,905)        |
| Subcontractor costs  |        | (259,947)        | (118,486)        |
| Depreciation and amortisation expenses   | 18, 19 | (78,205)         | (57,074)         |
| Equipment and office expenses under operating leases                                       | 8      | (22,143)         | (26,341)         |
| Other expenses   |        | (39,618)         | (36,316)         |
| <b>Results from operating activities</b>   |        | <b>52,752</b>    | <b>35,467</b>    |
| Finance income   | 9      | 2,978            | 1,597            |
| Finance expense  | 9      | (17,386)         | (13,637)         |
| Net finance costs  |        | (14,408)         | (12,040)         |
| Share of profit / (loss) in investments accounted for using the equity method (net of tax) | 17     | 36,871           | (27,214)         |
| <b>Profit / (loss) before income tax</b>   |        | <b>75,215</b>    | <b>(3,787)</b>   |
| Income tax (expense) / benefit   | 10     | (19,164)         | 1,071            |
| <b>Profit / (loss) for the year</b>  |        | <b>56,051</b>    | <b>(2,716)</b>   |
| <b>Other comprehensive income</b>  |        |                  |                  |
| Foreign currency translation differences for foreign operations                            |        | (827)            | (5,568)          |
| Effective portion of changes in fair value of cash flow hedges, net of tax                 | 9      | (5,665)          | (29)             |
| <b>Other comprehensive loss for the year, net of tax</b>                                   |        | <b>(6,492)</b>   | <b>(5,597)</b>   |
| <b>Total comprehensive income / (loss) for the year</b>                                    |        | <b>49,559</b>    | <b>(8,313)</b>   |
| <b>Profit / (loss) attributable to:</b>  |        |                  |                  |
| Equity holders of the Company  |        | 56,051           | 1,045            |
| Non-controlling interest   |        | -                | (3,761)          |
| <b>Profit / (loss) for the year</b>  |        | <b>56,051</b>    | <b>(2,716)</b>   |
| <b>Total comprehensive income / (loss) attributable to:</b>                                |        |                  |                  |
| Equity holders of the Company  |        | 49,559           | (4,552)          |
| Non-controlling interest   |        | -                | (3,761)          |
| <b>Total comprehensive income / (loss) for the year</b>                                    |        | <b>49,559</b>    | <b>(8,313)</b>   |
| <b>Earnings per share</b>  |        |                  |                  |
| Basic earnings per share (cents)   | 11     | 7.7              | 0.1              |
| Diluted earnings per share (cents)   | 11     | 7.4              | 0.1              |

The notes on pages 92 to 142 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

As at 30 June

In thousands of AUD

|   | Note | 2012           | 2011           |
|---|------|----------------|----------------|
| <b>Assets</b>   |      |                |                |
| <b>Current assets</b>   |      |                |                |
| Cash and cash equivalents   | 12   | 134,894        | 115,634        |
| Trade and other receivables                                       | 14   | 348,671        | 168,010        |
| Inventories   | 15   | 45,311         | 45,147         |
| Current tax receivables   | 16   | -              | 2,778          |
| <b>Total current assets</b>                                       |      | <b>528,876</b> | <b>331,569</b> |
| <b>Non-current assets</b>   |      |                |                |
| Investments accounted for using the equity method                 | 17   | 11,127         | 4,237          |
| Property, plant and equipment                                     | 18   | 417,754        | 311,201        |
| Intangible assets   | 19   | 31,066         | 35,351         |
| Deferred tax assets   | 20   | 173            | 3,367          |
| <b>Total non-current assets</b>                                   |      | <b>460,120</b> | <b>354,156</b> |
| <b>Total assets</b>   |      | <b>988,996</b> | <b>685,725</b> |
| <b>Liabilities</b>  |      |                |                |
| <b>Current liabilities</b>  |      |                |                |
| Trade and other payables  | 21   | 306,306        | 217,012        |
| Loans and borrowings  | 22   | 55,200         | 37,488         |
| Employee benefits   | 23   | 58,724         | 36,647         |
| Current tax liabilities   | 16   | 2,066          | 874            |
| Provisions  | 24   | 14,255         | 7,739          |
| Derivative financial instruments                                  | 27   | 8,134          | 42             |
| <b>Total current liabilities</b>                                  |      | <b>444,685</b> | <b>299,802</b> |
| <b>Non-current liabilities</b>                                    |      |                |                |
| Loans and borrowings  | 22   | 162,274        | 38,653         |
| Employee benefits   | 23   | 4,101          | 4,232          |
| Deferred tax liabilities  | 20   | 21,125         | 19,915         |
| <b>Total non-current liabilities</b>                              |      | <b>187,500</b> | <b>62,800</b>  |
| <b>Total liabilities</b>  |      | <b>632,185</b> | <b>362,602</b> |
| <b>Net assets</b>   |      | <b>356,811</b> | <b>323,123</b> |
| <b>Equity</b>   |      |                |                |
| Share capital   | 25   | 307,963        | 307,963        |
| Reserves  | 25   | (15,574)       | (9,057)        |
| Retained earnings   |      | 64,422         | 24,250         |
| <b>Total equity attributable to equity holders of the Company</b> |      | <b>356,811</b> | <b>323,156</b> |
| Non-controlling interest  |      | -              | (33)           |
| <b>Total equity</b>   |      | <b>356,811</b> | <b>323,123</b> |

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The notes on pages 92 to 142 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

For the year ended 30 June

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*In thousands of AUD*

Balance at 1 July 2011

Profit for the year

Foreign currency translation differences

Effective portion of changes in fair value of cash flow hedges

**Total comprehensive income for the year (net of tax)**

**Transactions with owners, recorded directly in equity:**

Treasury shares purchased for compensation plans (net of tax)

Treasury shares allocated on vesting of performance rights

Transactions with non-controlling interest

Dividends to owners

Share-based payment transactions

**Total transactions with owners**

**Balance at 30 June 2012**

Balance at 1 July 2010

Profit / (Loss) for the year

Foreign currency translation differences

Effective portion of changes in fair value of cash flow hedges

**Total comprehensive income for the year (net of tax)**

**Transactions with owners, recorded directly in equity:**

Treasury shares purchased for compensation plans (net of tax)

Dividends to owners

Share-based payment transactions

**Total transactions with owners**

**Balance at 30 June 2011**

| Attributable to equity holders of the Company |                     |                 |                        |                   |          | Non-controlling interest | Total equity |
|---|---------------------|-----------------|------------------------|-------------------|----------|--------------------------|--------------|
| Share capital                                 | Translation reserve | Hedging reserve | Reserve for own shares | Retained earnings | Total    |                          |              |
| 307,963                                       | (4,285)             | (29)            | (4,743)                | 24,250            | 323,156  | (33)                     | 323,123      |
| -   | -                   | -               | -                      | 56,051            | 56,051   | -                        | 56,051       |
| -   | (827)               | -               | -                      | -                 | (827)    | -                        | (827)        |
| -   | -                   | (5,665)         | -                      | -                 | (5,665)  | -                        | (5,665)      |
| -   | (827)               | (5,665)         | -                      | 56,051            | 49,559   | -                        | 49,559       |
| -   | -                   | -               | (3,657)                | -                 | (3,657)  | -                        | (3,657)      |
| -   | -                   | -               | 3,632                  | (3,632)           | -        | -                        | -            |
| -   | -                   | -               | -                      | (5,823)           | (5,823)  | 33                       | (5,790)      |
| -   | -                   | -               | -                      | (10,940)          | (10,940) | -                        | (10,940)     |
| -   | -                   | -               | -                      | 4,516             | 4,516    | -                        | 4,516        |
| -   | -                   | -               | (25)                   | (15,879)          | (15,904) | 33                       | (15,871)     |
| 307,963                                       | (5,112)             | (5,694)         | (4,768)                | 64,422            | 356,811  | -                        | 356,811      |
| 307,963                                       | 1,283               | -               | (3,567)                | 30,331            | 336,010  | 3,728                    | 339,738      |
| -   | -                   | -               | -                      | 1,045             | 1,045    | (3,761)                  | (2,716)      |
| -   | (5,568)             | -               | -                      | -                 | (5,568)  | -                        | (5,568)      |
| -   | -                   | (29)            | -                      | -                 | (29)     | -                        | (29)         |
| -   | (5,568)             | (29)            | -                      | 1,045             | (4,552)  | (3,761)                  | (8,313)      |
| -   | -                   | -               | (1,176)                | -                 | (1,176)  | -                        | (1,176)      |
| -   | -                   | -               | -                      | (10,885)          | (10,885) | -                        | (10,885)     |
| -   | -                   | -               | -                      | 3,759             | 3,759    | -                        | 3,759        |
| -   | -                   | -               | (1,176)                | (7,126)           | (8,302)  | -                        | (8,302)      |
| 307,963                                       | (4,285)             | (29)            | (4,743)                | 24,250            | 323,156  | (33)                     | 323,123      |

The notes on pages 92 to 142 are an integral part of these consolidated financial statements.



# Consolidated statement of cash flows

For the year ended 30 June

In thousands of AUD

|   | Note | 2012             | 2011            |
|---|------|------------------|-----------------|
| <b>Cash flows from operating activities</b>                                       |      |                  |                 |
| Receipts from customers   |      | 1,647,641        | 1,117,728       |
| Payments to suppliers and employees   |      | (1,564,643)      | (1,040,517)     |
| Net receipts from joint venture entities  |      | 17,776           | 28,049          |
| <b>Cash generated from operating activities</b>                                   |      | <b>100,774</b>   | <b>105,260</b>  |
| Interest paid   |      | (12,152)         | (13,637)        |
| Interest received   |      | 2,978            | 1,597           |
| Income taxes paid   |      | (4,833)          | (856)           |
| <b>Net cash from operating activities</b>   | 13   | <b>86,767</b>    | <b>92,364</b>   |
| <b>Cash flows from investing activities</b>                                       |      |                  |                 |
| Proceeds from sale of property, plant and equipment                               |      | 7,205            | 1,141           |
| Payment for property, plant and equipment <sup>1</sup>                            |      | (186,356)        | (82,072)        |
| Payment for intangibles   |      | -                | (88)            |
| Acquisition of non-controlling interest in subsidiary                             |      | (5,792)          | -               |
| <b>Net cash used in investing activities</b>                                      |      | <b>(184,943)</b> | <b>(81,019)</b> |
| <b>Cash flows from financing activities</b>                                       |      |                  |                 |
| Purchase of own shares  |      | (5,224)          | (1,680)         |
| Proceeds from borrowings  |      | 224,053          | 53,314          |
| Repayment of borrowings   |      | (77,000)         | (23,240)        |
| Repayment of hire purchase and finance lease liabilities                          |      | (4,247)          | (12,652)        |
| Payment of transaction costs related to loans and borrowings                      |      | (7,108)          | -               |
| Dividends paid  |      | (10,940)         | (10,885)        |
| <b>Net cash from financing activities</b>   |      | <b>119,534</b>   | <b>4,857</b>    |
| Net increase in cash and cash equivalents   |      | 21,358           | 16,202          |
| Effect of exchange rate changes on the balance of cash held in foreign currencies |      | (2,098)          | (2,761)         |
| Cash and cash equivalents at beginning of year                                    |      | 115,634          | 102,193         |
| <b>Cash and cash equivalents at end of year</b>                                   | 12   | <b>134,894</b>   | <b>115,634</b>  |

<sup>1</sup> The consolidated entity acquired plant and equipment under finance leases and hire purchase agreements amounting to \$1,134,000 (2011: \$302,000) during the year which have been excluded from the statement of cash flows.

The notes on pages 92 to 142 are an integral part of these consolidated financial statements.

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# Notes to the Financial Statements

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## 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 2012 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 a for-profit entity 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.

The consolidated financial statements were authorised for issue by the Board of Directors on 20 August 2012.

## 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 ("IASB").

### (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

The consolidated financial statements are presented in Australian dollars, which is the functional currency of all wholly owned subsidiaries that are incorporated in Australia. Overseas incorporated entities which are wholly owned subsidiaries have functional currencies of: United States Dollar (USD), Mongolian Tugrik (MNT), Malaysian Ringgit (MYR), Indonesia Rupiah (IDR), Singapore Dollar (SGD) and New Zealand Dollar (NZD).

### (d) Rounding of amounts

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.

# Notes to the Financial Statements

continued

## (e) Basis of consolidation

### **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.

### **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.

### **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.

### **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.

### **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.

# Notes to the Financial Statements

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## (f) 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, including employee benefits, contract closure, doubtful debts, inventory obsolescence; and
- Measurement of defined benefit obligations.

## (g) Changes in accounting policies

### ***New standards and interpretations issued but not yet effective***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. None of these are 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 become 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.

### ***New accounting standards and interpretations issued and effective***

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. None of these have had any significant impact on the consolidated financial statements.

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.

# Notes to the Financial Statements

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## 3. Summary of significant accounting policies

### (a) Foreign currency

#### **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.

#### **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.

### (b) 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:

- (i) 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.
- (ii) 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.



# Notes to the Financial Statements

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## (c) Expenses

### ***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.

### ***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 which 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.

## (d) Dividends

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

## (e) 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.

# Notes to the Financial Statements

continued

## (f) 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.

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.

### **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. During the year, Macmahon Rail Pty Ltd (formerly MVM Rail Pty Ltd), now a wholly-owned subsidiary, joined the tax consolidated group as a result of the consolidated entity acquiring the 40% non-controlled interest in Macmahon Rail Pty Ltd. Refer to Note 32 for information about this transaction.

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 to / (receivable 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.

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## ***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.

## **(g) 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.

## **(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and at call deposits.

## **(i) Trade and other receivables**

### ***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 (b)) 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.

### ***Accrued revenue***

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

### ***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.

## **(j) Inventories**

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

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

# Notes to the Financial Statements

continued

## (k) Intangible assets

### **Goodwill**

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

#### *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).

### **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.

### **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.

### **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.

# Notes to the Financial Statements

continued

## (l) 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.

## (m) Property, plant and equipment

### ***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 within other income / other expenses in profit or loss.

### ***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.



# Notes to the Financial Statements

continued

## **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.

## **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 a 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

## **(n) Impairment**

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy 3(j)) and deferred tax assets (see accounting policy 3(f)), 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.

# Notes to the Financial Statements

continued

## **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 continued 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 which does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## **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.

## **(o) Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid at the end of the financial year. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## **(p) Employee benefits**

### **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 which 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.

# Notes to the Financial Statements

continued

## **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.

## **Other long-term employee benefits**

The consolidated entity's net obligation in respect of long-term employee benefits other than defined benefit and defined contribution plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; 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.

## **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.

## **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.

# Notes to the Financial Statements

continued

## **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 of the consolidated entity.

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 become unconditionally entitled to the awards. The fair value of the awards granted is measured using a Monte Carlo simulation model (for awards with market-based performance conditions) and a binomial model (for all other awards without market-based performance conditions), 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) (refer to Note 29). 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.

## **(q) 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.

## **(r) 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.

## **(s) Financial instruments**

### **Derivative financial instruments**

The consolidated entity uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk exposures, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

# Notes to the Financial Statements

continued

## **Hedge accounting**

For the purposes of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. The consolidated entity does not have any fair value hedges.

At the inception of a hedge relationship, the consolidated entity formally designates and documents the hedge 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, as to 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.

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. Any cumulative gain or loss existing in other comprehensive income (in the cash flow hedge reserve) at that time remains in other comprehensive income, and is recognised when the forecast transaction is ultimately recognised in the income statement. If the forecast transaction is no longer expected to occur, any balance in other comprehensive income relating to the hedging instrument is reclassified to the income statement immediately.

## **Cash flow hedges**

The consolidated entity uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The consolidated entity also uses interest rate swaps as hedges of its exposure to interest rate risk on variable interest rate loans and borrowings.

Gains or losses resulting from the change in fair value of a derivative financial instrument designated in a cash flow hedge relationship are recognised as an increase or decrease in the derivative financial instrument carrying amount. The effective portion of the gain or loss is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in finance costs.

When the forecast transaction that is designated as a cash flow hedge results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in other comprehensive income are reclassified and included in the initial measurement of the cost of the asset. These amounts are then ultimately recognised in the income statement as materials expenses (in the case of inventory), or as depreciation or impairment (in the case of fixed assets).

## **(t) Treasury shares**

Own equity instruments that are reacquired and equity instruments held in connection with an equity compensation plan (treasury shares), are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the reporting period are satisfied with treasury shares.

## **(u) Segment reporting**

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.



# Notes to the Financial Statements

continued

## 4. 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 complete mining service for surface and underground operations - from mine development to materials delivery, including the full range of engineering services, including design, construction and on site services to deliver on client needs from the design phase right through to completion. Macmahon manages mines for some of the world's largest mining companies, across a variety of base and precious metals and commodities.

### **Construction**

Provides government and resource sector clients a diverse and comprehensive range of construction capabilities that incorporate 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.

# Notes to the Financial Statements

continued

## Information about reportable segments:

In thousands of AUD

|  | Mining    |           | Construction |           | Total     |           |
|--|-----------|-----------|--------------|-----------|-----------|-----------|
|  | 2012      | 2011      | 2012         | 2011      | 2012      | 2011      |
| Total reportable segment revenue                       | 880,062   | 674,362   | 990,666      | 580,007   | 1,870,728 | 1,254,369 |
| Elimination of joint venture revenues                  |           |           |              |           | (246,275) | (221,371) |
| Elimination of joint venture recoveries                |           |           |              |           | 37,019    | 56,411    |
| Consolidated revenue                                   |           |           |              |           | 1,661,472 | 1,089,409 |
| Interest income  | 236       | 183       | 167          | 127       | 403       | 310       |
| Interest expense                                       | (5,760)   | (5,941)   | (1,245)      | (412)     | (7,005)   | (6,353)   |
| Depreciation and amortisation                          | (68,417)  | (49,469)  | (7,954)      | (5,662)   | (76,371)  | (55,131)  |
| Reportable segment profit / (loss) before income tax   | 72,269    | 42,635    | 25,910       | (35,694)  | 98,179    | 6,941     |
| Unallocated interest income                            |           |           |              |           | 2,575     | 1,287     |
| Unallocated interest expense                           |           |           |              |           | (10,381)  | (7,284)   |
| Unallocated depreciation and amortisation              |           |           |              |           | (1,834)   | (1,943)   |
| Unallocated corporate expenses                         |           |           |              |           | (13,324)  | (2,788)   |
| Consolidated profit / (loss) before income tax         |           |           |              |           | 75,215    | (3,787)   |
| Share of profit / (loss) of equity accounted investees | 636       | 2,015     | 36,235       | (29,229)  | 36,871    | (27,214)  |
| Reportable segment assets                              | 551,956   | 465,547   | 286,776      | 88,869    | 838,732   | 554,416   |
| Investments in equity accounted investees              | 353       | 523       | 10,774       | 3,714     | 11,127    | 4,237     |
| Unallocated corporate assets                           |           |           |              |           | 139,137   | 127,072   |
| Consolidated assets                                    |           |           |              |           | 988,996   | 685,725   |
| Reportable segment liabilities                         | (340,148) | (216,244) | (197,290)    | (104,652) | (537,438) | (320,896) |
| Unallocated corporate liabilities                      |           |           |              |           | (94,747)  | (41,706)  |
| Consolidated liabilities                               |           |           |              |           | (632,185) | (362,602) |
| Capital expenditure                                    | 134,139   | 77,552    | 51,232       | 4,294     | 185,371   | 81,846    |
| Unallocated corporate capital expenditure              |           |           |              |           | 2,119     | 528       |
| Consolidated capital expenditure                       |           |           |              |           | 187,490   | 82,374    |

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.

## 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.

|                            | Australia |           | Overseas |        | Total     |           |
|----------------------------|-----------|-----------|----------|--------|-----------|-----------|
|                            | 2012      | 2011      | 2012     | 2011   | 2012      | 2011      |
| Segment revenue            | 1,587,570 | 1,045,309 | 73,902   | 44,100 | 1,661,472 | 1,089,409 |
| Segment non-current assets | 395,142   | 323,561   | 64,805   | 27,228 | 459,947   | 350,789   |

## Major customer

Approximately 15.0% (2011: 21.5%) of the consolidated entity's revenue is attributable to sales transactions with a single customer.

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continued

## 5. Revenue

*In thousands of AUD*

|                                 | 2012      | 2011      |
|---------------------------------|-----------|-----------|
| Revenue from external customers |           |           |
| Mining                          | 876,068   | 660,547   |
| Construction                    | 785,404   | 428,862   |
|                                 | 1,661,472 | 1,089,409 |

The consolidated entity's revenue excludes its share of revenue from joint ventures accounted for as equity accounted joint ventures, in accordance with Accounting Standards. The delivery of a number of projects by the consolidated entity is in the form of equity accounted joint ventures. Details of the consolidated entity's share of joint venture revenues are provided at Note 4.

## 6. Other income

*In thousands of AUD*

|   | 2012  | 2011  |
|---|-------|-------|
| Net gain on disposal of plant and equipment | 970   | 148   |
| Other                                       | 621   | 1,072 |
|   | 1,591 | 1,220 |

## 7. Employee benefits expense

*In thousands of AUD*

|  | 2012   | 2011   |
|--|--------|--------|
| Employee benefits expense includes the following:          |        |        |
| - Contributions to defined contribution plans              | 41,680 | 30,001 |
| - Expenses related to defined benefit superannuation plans | 268    | 202    |
| - Share-based payment expense                              | 4,516  | 3,759  |

## 8. Equipment and office expenses under operating leases

During the year ended 30 June 2012, \$22,143,000 was recognised as an expense in respect of operating leases (2011: \$26,341,000). Operating leases relate to offices, industrial workshop facilities and plant and equipment. Information about operating lease commitments is disclosed in Note 30.

## 9. Finance income and finance expense

*In thousands of AUD*

|   | 2012     | 2011     |
|---|----------|----------|
| Interest income on financial assets (bank deposits)                 | 2,978    | 1,597    |
| Transaction costs written off                                       | (4,518)  | -        |
| Interest expense on financial liabilities carried at amortised cost | (12,868) | (13,637) |
| Net finance costs recognised in profit or loss                      | (14,408) | (12,040) |

*In thousands of AUD*

|  | 2012    | 2011 |
|--|---------|------|
| Effective portion of changes in fair value of cash flow hedges, net of tax                                       | (5,665) | (29) |
| Finance costs recognised in other comprehensive income, net of tax attributable to equity holders of the Company | (5,665) | (29) |

# Notes to the Financial Statements

continued

## 10. Income tax

*In thousands of AUD*

### Current tax:

Current year  
Adjustments in respect of current income tax of previous year

### Deferred tax:

Origination and reversal of temporary differences

Income tax (expense) / benefit excluding share of income tax of equity accounted investees

Income tax (expense) / benefit

Share of income tax of equity accounted investees

Total income tax (expense) / benefit

| 2012     | 2011  |
|----------|-------|
| (15,030) | (716) |
| 4,267    | -     |
| (10,763) | (716) |
| (8,401)  | 1,787 |
| (8,401)  | 1,787 |
| (19,164) | 1,071 |
| (19,164) | 1,071 |
| (394)    | (334) |
| (19,558) | 737   |

### Reconciliation of amounts recognised directly in equity and other comprehensive income

*In thousands of AUD*

|   | 2012       |             |            | 2011       |             |            |
|---|------------|-------------|------------|------------|-------------|------------|
|   | Before tax | Tax benefit | Net of tax | Before tax | Tax benefit | Net of tax |
| <i>Income tax recognised directly in equity:</i>            |            |             |            |            |             |            |
| Treasury share purchases                                    | (5,224)    | 1,567       | (3,657)    | (1,680)    | 504         | (1,176)    |
| <i>Income tax recognised in other comprehensive income:</i> |            |             |            |            |             |            |
| Derivatives in cash flow hedges                             | (8,093)    | 2,428       | (5,665)    | (42)       | 13          | (29)       |
|   | (13,317)   | 3,995       | (9,322)    | (1,722)    | 517         | (1,205)    |

### Reconciliation of effective tax rate:

*In thousands of AUD*

|   | 2012     | 2011    |
|---|----------|---------|
| Profit / (loss) before income tax   | 75,215   | (3,787) |
| Income tax using the domestic corporation tax rate of 30% (2011: 30%)       | (22,565) | 1,136   |
| Foreign tax rate differential   | 353      | 390     |
| (Increase) / decrease in income tax expense due to:                         |          |         |
| Share-based payment expense   | (1,355)  | (1,128) |
| Non-deductible expenses   | (294)    | (23)    |
| Utilisation of foreign and domestic income losses not previously recognised | 412      | 364     |
| Other   | (376)    | (2)     |
|   | (23,825) | 737     |
| Over provided in prior years  | 4,267    | -       |
| Income tax (expense) / benefit  | (19,558) | 737     |

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## 11. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2012 is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding.

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2012 is based on profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

*In thousands of AUD*

|   | 2012   | 2011  |
|---|--------|-------|
| Profit attributable to ordinary equity holders of the Company | 56,051 | 1,045 |

*In thousands of shares*

|   | Note | 2012     | 2011    |
|---|------|----------|---------|
| Issued ordinary shares at 1 July                                |      | 733,712  | 733,712 |
| Effect of shares issued   |      | 6,222    | -       |
| Effect of own shares held                                       |      | (10,486) | (8,054) |
| Undiluted weighted average number of ordinary shares at 30 June |      | 729,448  | 725,658 |
| Effect of performance rights on issue                           | 29   | 23,138   | 23,753  |
| Diluted weighted average number of ordinary shares at 30 June   |      | 752,586  | 749,411 |

## 12. Cash and cash equivalents

The consolidated entity's exposure to credit risk, interest rate risk and sensitivity analysis for cash and cash equivalents is disclosed in Note 28. Fair value of cash and cash equivalents is disclosed in Note 27.

*In thousands of AUD*

|                          | 2012    | 2011    |
|--------------------------|---------|---------|
| Cash at bank and in hand | 134,894 | 115,634 |
|                          | 134,894 | 115,634 |



# Notes to the Financial Statements

continued

## 13. Reconciliation of cash flows from operating activities

*In thousands of AUD*

### Cash flows from operating activities

Profit / (loss) for the year

### Adjustments for:

Depreciation of property, plant and equipment

Amortisation of intangibles

Transaction costs capitalised not yet paid

Transaction costs written off

Interest expense

Share of loss / (profit) of joint controlled entities

Gain on disposal of plant and equipment

Equity-settled share-based payment expense

Unrealised foreign exchange difference

Income tax expense / (benefit)

Net cash received from jointly controlled entities

### Operating profit before changes in working capital and provisions

(Increase) / decrease in trade and other receivables

(Increase) / decrease in inventories

Increase / (decrease) in trade and other payables

Increase / (decrease) in employee benefits and provisions

Interest paid

Income tax paid

### Net cash from operating activities

| Note  | 2012           | 2011           |
|-------|----------------|----------------|
|       | 56,051         | (2,716)        |
| 18    | 73,920         | 52,760         |
| 19    | 4,285          | 4,314          |
|       | (16)           | -              |
| 9     | 4,518          | -              |
| 9     | 12,868         | 13,637         |
| 17    | (36,871)       | 27,214         |
|       | (970)          | (148)          |
| 7, 29 | 4,516          | 3,759          |
|       | 92             | 390            |
| 10    | 19,164         | (1,071)        |
|       | 17,776         | 28,049         |
|       | <b>155,333</b> | <b>126,188</b> |
|       | (180,661)      | (92,138)       |
|       | (164)          | (8,100)        |
|       | 100,782        | 76,851         |
|       | 28,462         | 4,056          |
|       | (12,152)       | (13,637)       |
|       | (4,833)        | (856)          |
|       | <b>86,767</b>  | <b>92,364</b>  |

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# Notes to the Financial Statements

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## 14. Trade and other receivables

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. Trade receivables and accrued revenue shown below include amounts due from joint ventures of \$13,566,000 (2011: \$8,069,000).

*In thousands of AUD*

|                                   | 2012    | 2011    |
|-----------------------------------|---------|---------|
| Trade receivables                 | 148,084 | 65,375  |
| Accrued revenue                   | 68,663  | 54,437  |
| Other receivables and prepayments | 11,936  | 14,651  |
|                                   | 228,683 | 134,463 |
| Construction work in progress     | 119,988 | 33,547  |
|                                   | 348,671 | 168,010 |

*In thousands of AUD*

|   | 2012        | 2011        |
|---|-------------|-------------|
| <b>Construction work in progress comprises:</b> |             |             |
| Gross cost plus profit recognised to date       | 1,596,094   | 1,605,285   |
| Less: progress billings received                | (1,476,106) | (1,571,738) |
| Net construction work in progress               | 119,988     | 33,547      |

The consolidated entity's exposure to credit and currency risks related to trade and other receivables (excluding construction work in progress and prepayments) is disclosed in Note 28 and fair value of trade and other receivables is disclosed in Note 27.

### Impairment losses

The ageing analysis of the consolidated entity's trade receivables at the reporting date was:

*In thousands of AUD*

|                               | 2012    | 2011    |
|-------------------------------|---------|---------|
| Neither past due nor impaired | 152,213 | 102,617 |
| Past due 0 - 30 days          | 63,290  | 26,700  |
| Past due 31+ days             | 13,180  | 5,146   |
|                               | 228,683 | 134,463 |

Impairment:

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 2012 the consolidated entity does not have any impairment on its trade receivables (2011: nil).

## 15. Inventories

*In thousands of AUD*

|                             | 2012   | 2011   |
|-----------------------------|--------|--------|
| Spare parts and consumables | 45,311 | 45,147 |
|                             | 45,311 | 45,147 |

## 16. Current tax receivables / liabilities

The current tax receivable for the consolidated entity of nil (2011: \$2,778,000) and current tax liability of \$2,066,000 (2011: \$874,000) represent the amounts of income tax receivable and payable in respect of current and prior periods.

# Notes to the Financial Statements

continued

## 17. Investments accounted for using the equity method

| Name of Joint Venture                | Principal activity                        | Country of operation | Ownership percentage |       |
|--------------------------------------|---|----------------------|----------------------|-------|
|                                      |   |                      | 2012                 | 2011  |
| Active as at 30 June:                |   |                      |                      |       |
| XRL 822 Hong Kong Tunnel JV          | Tunnel construction                       | Hong Kong            | 25%                  | 25%   |
| Macmahon/John Holland JV             | Onshore site development civil works      | Australia            | 50%                  | n/a   |
| Roy Hill Rail JV                     | Early contractor involvement              | Australia            | 30%                  | n/a   |
| Pilbara Logistics Macmahon JV        | Infrastructure construction               | Australia            | 20%                  | 20%   |
| Alkimos Joint Venture                | Waste water treatment plant construction  | Australia            | 22.7%                | 22.7% |
| Macmahon/Leighton JV                 | Railway construction                      | Australia            | 50%                  | 50%   |
| Wyaralong Joint Venture <sup>1</sup> | Dam construction                          | Australia            | 60%                  | 60%   |
| Macmahon/Adasa JV                    | Irrigation scheme design and construction | Australia            | 50%                  | n/a   |
| Urban Superway JV                    | Highway construction                      | Australia            | 40%                  | 40%   |
| Glenfield Rail Alliance <sup>1</sup> | Railway construction                      | Australia            | 60%                  | 60%   |
| Southern Improvement Alliance JV     | Railway construction                      | Australia            | 20%                  | 20%   |
| K2RQ Project Alliance                | Railway construction                      | Australia            | 9%                   | 9%    |
| Richmond Line Alliance               | Railway construction                      | Australia            | 18%                  | 18%   |
| Gooring Jimbila Contracting JV       | Mine site general maintenance             | Australia            | 50%                  | 60%   |
| Dhurawine JV                         | Labour hire                               | Australia            | 50%                  | n/a   |
| Triodia JV                           | Labour hire and workshop maintenance      | Australia            | 50%                  | n/a   |
| Malana JV                            | Labour and plant hire                     | Australia            | 50%                  | n/a   |
| Marapikurrinya JV                    | Labour and plant hire                     | Australia            | 45%                  | n/a   |
| Inactive as at 30 June:              |   |                      |                      |       |
| Karara Yamatji JV                    |   |                      | 50%                  | 50%   |
| Tonkin Highway JV                    |   |                      | 50%                  | 50%   |
| Roe Highway JV                       |   |                      | 50%                  | 50%   |
| Hale Street Link JV                  |   |                      | 33.3%                | 33.3% |
| Ross River Dam JV                    |   |                      | 50%                  | 50%   |
| Bell Bay Alliance JV                 |   |                      | 20%                  | 20%   |
| Rail Link JV                         |   |                      | 25%                  | 25%   |
| Eyre Peninsula JV                    |   |                      | 50%                  | 50%   |

<sup>1</sup> Although the consolidated entity holds more than 50% ownership of these joint ventures, they are considered to be jointly controlled as the consolidated entity has only half the voting rights of the venture.

### Share of profits from joint ventures:

*In thousands of AUD*

|   | 2012          | 2011            |
|---|---------------|-----------------|
| Share of joint venture profit                                 | 36,867        | (21,916)        |
| Adjustments for timing differences on recognition of earnings | 4             | (5,298)         |
|   | <b>36,871</b> | <b>(27,214)</b> |

Summary financial information for equity accounted investees, unadjusted for percentage of ownership held by the consolidated entity:

*In thousands of AUD*

|             | Revenues | Expenses  | Profit / (loss) | Current assets | Non-current assets | Current liabilities | Non-current liabilities |
|-------------|----------|-----------|-----------------|----------------|--------------------|---------------------|-------------------------|
| <b>2012</b> | 852,242  | (787,352) | 64,890          | 361,897        | -                  | (322,284)           | (178)                   |
| <b>2011</b> | 757,434  | (683,892) | 73,542          | 252,663        | -                  | 260,500             | 294                     |

Revenues and recoveries from the jointly controlled entities are disclosed in Note 4. Amounts receivable from jointly controlled entities are \$13,566,000 (2011: \$8,069,000) 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 30.

# Notes to the Financial Statements

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## 18. Property, plant and equipment

*In thousands of AUD*

### At Cost

|   | Buildings and freehold land | Leasehold improvements | Owned plant and equipment | Equipment under finance lease | Total    |
|---|-----------------------------|------------------------|---------------------------|-------------------------------|----------|
| Balance at 1 July 2011                  | 2,533                       | 7,956                  | 544,725                   | 36,327                        | 591,541  |
| Acquisitions                            | 373                         | -                      | 185,983                   | 1,134                         | 187,490  |
| Disposals                               | -                           | (375)                  | (16,024)                  | -                             | (16,399) |
| Effect of movements in foreign exchange | (9)                         | -                      | (1,002)                   | 479                           | (532)    |
| Reclassification and transfers          | -                           | -                      | 11,319                    | (11,319)                      | -        |

### Balance at 30 June 2012

|              |              |                |               |                |
|--------------|--------------|----------------|---------------|----------------|
| <b>2,897</b> | <b>7,581</b> | <b>725,001</b> | <b>26,621</b> | <b>762,100</b> |
|--------------|--------------|----------------|---------------|----------------|

### Depreciation

|   |     |       |         |         |          |
|---|-----|-------|---------|---------|----------|
| Balance at 1 July 2011                  | 425 | 3,236 | 260,489 | 16,190  | 280,340  |
| Depreciation charge for the year        | 567 | 1,011 | 68,983  | 3,359   | 73,920   |
| Disposals                               | -   | (375) | (9,789) | -       | (10,164) |
| Effect of movements in foreign exchange | -   | -     | 237     | 13      | 250      |
| Reclassification and transfers          | -   | -     | 3,759   | (3,759) | -        |

### Balance at 30 June 2012

|            |              |                |               |                |
|------------|--------------|----------------|---------------|----------------|
| <b>992</b> | <b>3,872</b> | <b>323,679</b> | <b>15,803</b> | <b>344,346</b> |
|------------|--------------|----------------|---------------|----------------|

### Carrying amount at 30 June 2012

|              |              |                |               |                |
|--------------|--------------|----------------|---------------|----------------|
| <b>1,905</b> | <b>3,709</b> | <b>401,322</b> | <b>10,818</b> | <b>417,754</b> |
|--------------|--------------|----------------|---------------|----------------|

### At Cost

|   |       |         |          |          |          |
|---|-------|---------|----------|----------|----------|
| Balance at 1 July 2010                  | 491   | 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

|              |              |                |               |                |
|--------------|--------------|----------------|---------------|----------------|
| <b>2,533</b> | <b>7,956</b> | <b>544,725</b> | <b>36,327</b> | <b>591,541</b> |
|--------------|--------------|----------------|---------------|----------------|

### Depreciation

|   |     |       |          |          |          |
|---|-----|-------|----------|----------|----------|
| 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

|            |              |                |               |                |
|------------|--------------|----------------|---------------|----------------|
| <b>425</b> | <b>3,236</b> | <b>260,489</b> | <b>16,190</b> | <b>280,340</b> |
|------------|--------------|----------------|---------------|----------------|

### Carrying amount at 30 June 2011

|              |              |                |               |                |
|--------------|--------------|----------------|---------------|----------------|
| <b>2,108</b> | <b>4,720</b> | <b>284,236</b> | <b>20,137</b> | <b>311,201</b> |
|--------------|--------------|----------------|---------------|----------------|

### Equipment under finance lease

The consolidated entity leases equipment under a number of finance lease and hire purchase agreements. At the end of each lease, the consolidated entity may purchase the equipment at a beneficial price (see Note 22).

### Security

Freehold land, buildings, leasehold improvements and plant and equipment are subject to a registered charge to secure banking facilities (see Note 22).

# Notes to the Financial Statements

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## 19. Intangible assets

*In thousands of AUD*

### At Cost

Balance at 1 July 2011

Acquisitions

**Balance at 30 June 2012**

### Amortisation

Balance at 1 July 2011

Amortisation for the year

**Balance at 30 June 2012**

**Carrying amount at 30 June 2012**

|  | Goodwill      | Software development costs | Other intangible assets | Total         |
|--|---------------|----------------------------|-------------------------|---------------|
| Balance at 1 July 2011                 | 22,550        | 19,905                     | 3,203                   | 45,658        |
| Acquisitions                           | -             | -                          | -                       | -             |
| <b>Balance at 30 June 2012</b>         | <b>22,550</b> | <b>19,905</b>              | <b>3,203</b>            | <b>45,658</b> |
| <b>Amortisation</b>                    |               |                            |                         |               |
| Balance at 1 July 2011                 | -             | 7,975                      | 2,332                   | 10,307        |
| Amortisation for the year              | -             | 4,003                      | 282                     | 4,285         |
| <b>Balance at 30 June 2012</b>         | <b>-</b>      | <b>11,978</b>              | <b>2,614</b>            | <b>14,592</b> |
| <b>Carrying amount at 30 June 2012</b> | <b>22,550</b> | <b>7,927</b>               | <b>589</b>              | <b>31,066</b> |

### At Cost

Balance at 1 July 2010

Acquisitions

**Balance at 30 June 2011**

### Amortisation

Balance at 1 July 2010

Amortisation for the year

**Balance at 30 June 2011**

**Carrying amount at 30 June 2011**

|  |               |               |              |               |
|--|---------------|---------------|--------------|---------------|
| Balance at 1 July 2010                 | 22,550        | 19,905        | 3,115        | 45,570        |
| Acquisitions                           | -             | -             | 88           | 88            |
| <b>Balance at 30 June 2011</b>         | <b>22,550</b> | <b>19,905</b> | <b>3,203</b> | <b>45,658</b> |
| <b>Amortisation</b>                    |               |               |              |               |
| Balance at 1 July 2010                 | -             | 3,973         | 2,020        | 5,993         |
| Amortisation for the year              | -             | 4,002         | 312          | 4,314         |
| <b>Balance at 30 June 2011</b>         | <b>-</b>      | <b>7,975</b>  | <b>2,332</b> | <b>10,307</b> |
| <b>Carrying amount at 30 June 2011</b> | <b>22,550</b> | <b>11,930</b> | <b>871</b>   | <b>35,351</b> |

The following cash-generating units ("CGU") have significant carrying amounts of goodwill:

*In thousands of AUD*

|  | 2012          | 2011          |
|--|---------------|---------------|
| Underground Mining and Maintenance Services                            | 6,791         | 6,791         |
| Australian Raised Drilling (ARD) / Combined Resource Engineering (CRE) | 11,506        | 11,506        |
| Macmahon Rail (formerly MVM Rail)                                      | 4,253         | 4,253         |
|  | <b>22,550</b> | <b>22,550</b> |

The recoverable amounts of CGU's are based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and future cash flow projections for a 3 year forecast period (2011: 3 years), incorporating various annual revenue growth rates, ranging from 9% to 37% (2011: 5% to 15%), estimated for each CGU. Additionally, a terminal value was calculated after 3 years, incorporating perpetual growth rates between 0% and 2% (2011: 2%), estimated for each CGU. Pre-tax discount rates ranging from 17.7% to 19.0% (2011: 22%) were used in discounting the projected cash flows, based on industry weighted average cost of capital and a gearing ratio of 23% (2011: 20%). The resulting value-in-use exceeds the carrying amounts of the CGU's including goodwill. Value-in-use calculations are not sensitive to reasonably probable changes in any of the key assumptions.



# Notes to the Financial Statements

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## 20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

|                                | Assets   |          | Liabilities |          | Net      |          |
|--------------------------------|----------|----------|-------------|----------|----------|----------|
|                                | 2012     | 2011     | 2012        | 2011     | 2012     | 2011     |
| <i>In thousands of AUD</i>     |          |          |             |          |          |          |
| Inventories                    | -        | -        | (13,302)    | (13,235) | (13,302) | (13,235) |
| Trade and other receivables    | -        | -        | (238)       | (144)    | (238)    | (144)    |
| Property, plant and equipment  | -        | 4,505    | (19,392)    | (37,616) | (19,392) | (33,111) |
| Accrued revenue                | -        | -        | (20,185)    | (28,295) | (20,185) | (28,295) |
| Income in advance              | -        | 3,539    | -           | -        | -        | 3,539    |
| Other creditors and accruals   | 1,877    | 1,425    | -           | -        | 1,877    | 1,425    |
| Employee benefits              | 23,894   | 15,871   | -           | -        | 23,894   | 15,871   |
| Tax loss carry-forward         | 3,704    | 37,213   | -           | -        | 3,704    | 37,213   |
| Other items                    | 2,690    | 261      | -           | (72)     | 2,690    | 189      |
| Tax assets / (liabilities)     | 32,165   | 62,814   | (53,117)    | (79,362) | (20,952) | (16,548) |
| Set off of tax                 | (31,992) | (59,447) | 31,992      | 59,447   | -        | -        |
| Net tax assets / (liabilities) | 173      | 3,367    | (21,125)    | (19,915) | (20,952) | (16,548) |

### Movement in temporary differences during the year

|                               | Balance<br>1 July 2010 | Recognised<br>in profit<br>or loss | Recognised<br>in equity | Balance<br>30 June 2011 | Recognised<br>in profit<br>or loss | Recognised<br>in equity | Balance<br>30 June 2012 |
|-------------------------------|------------------------|------------------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|-------------------------|
| <i>In thousands of AUD</i>    |                        |                                    |                         |                         |                                    |                         |                         |
| Inventories                   | (3,472)                | (9,763)                            | -                       | (13,235)                | (67)                               | -                       | (13,302)                |
| Trade and other receivables   | 68                     | (212)                              | -                       | (144)                   | (94)                               | -                       | (238)                   |
| Property, plant and equipment | (28,818)               | (4,293)                            | -                       | (33,111)                | 13,719                             | -                       | (19,392)                |
| Accrued revenue               | -                      | (28,295)                           | -                       | (28,295)                | 8,110                              | -                       | (20,185)                |
| Income in advance             | -                      | 3,539                              | -                       | 3,539                   | (3,539)                            | -                       | -                       |
| Other creditors and accruals  | 1,074                  | 351                                | -                       | 1,425                   | 452                                | -                       | 1,877                   |
| Employee benefits             | 12,856                 | 3,015                              | -                       | 15,871                  | 8,023                              | -                       | 23,894                  |
| Partnership income            | (1,714)                | 1,714                              | -                       | -                       | -                                  | -                       | -                       |
| Tax loss carry-forward        | 757                    | 35,952                             | 504                     | 37,213                  | (33,509)                           | -                       | 3,704                   |
| Other items                   | 397                    | (221)                              | 13                      | 189                     | (1,494)                            | 3,995                   | 2,690                   |
|                               | (18,852)               | 1,787                              | 517                     | (16,548)                | (8,399)                            | 3,995                   | (20,952)                |

## 21. Trade and other payables

*In thousands of AUD*

|   | 2012    | 2011    |
|---|---------|---------|
| Trade payables and accrued operating expenses | 237,002 | 168,916 |
| Other payables                                | 69,304  | 48,096  |
|   | 306,306 | 217,012 |

The consolidated entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28 and fair value of trade and other payables is disclosed in Note 27.

# Notes to the Financial Statements

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## 22. Loans and borrowings

*In thousands of AUD*

### Current

|                           | 2012   | 2011   |
|---------------------------|--------|--------|
| Hire purchase liabilities | 3,426  | 5,956  |
| Finance lease liabilities | 1,673  | 885    |
| Term facility             | 47,734 | 29,133 |
| Other loans               | 2,367  | 1,514  |
|                           | 55,200 | 37,488 |

### Non-current

|                           |         |        |
|---------------------------|---------|--------|
| Hire purchase liabilities | 678     | 3,633  |
| Finance lease liabilities | 2,384   | 827    |
| Term facility             | 159,212 | 33,393 |
| Other loans               | -       | 800    |
|                           | 162,274 | 38,653 |

The consolidated entity's loans and borrowings are carried at amortised cost. Information about the consolidated entity's exposure to interest rate, foreign currency and liquidity risk is disclosed in Note 28 and fair value of loans and borrowings is disclosed in Note 27.

The following table provides information about the contractual terms of the consolidated entity's loans and borrowings:

|                                      | Currency | Interest rate | Calendar year of maturity | <i>In thousands of AUD</i> |        |
|--------------------------------------|----------|---------------|---------------------------|----------------------------|--------|
|                                      |          |               |                           | 2012                       | 2011   |
| <b>Total current and non-current</b> |          |               |                           |                            |        |
| Hire purchase liabilities            | AUD      | 7.0%-8.0%     | 2014                      | 4,104                      | 9,589  |
| Finance lease liabilities            | AUD      | 7.0%-8.0%     | 2013                      | 827                        | 1,712  |
| Finance lease liabilities            | NGN      | 15.0%-16.0%   | 2015                      | 3,230                      | -      |
| Term facility                        | AUD      | 7.0%-10.0%    | 2015, 2016                | 206,946                    | 62,526 |
| Other loans                          | AUD      | 5.00%         | 2012                      | 2,367                      | 2,314  |
|                                      |          |               |                           | 217,474                    | 76,141 |

## Financing arrangements

### Term facilities

On 16 December 2011, the consolidated entity negotiated and signed a new \$475 million Syndicated Facility Agreement ("SFA") with financial close on 6 January 2012, at which point the existing facility that had a maturity date of 18 May 2013 was retired. \$4.5 million of capitalised transaction costs associated with the retired facility were expensed as finance costs during the year. The new SFA is led by Commonwealth Bank of Australia Limited and HSBC Bank Australia Limited, and is secured by fixed and floating charges over the consolidated entity's assets. The facility is used for general corporate requirements and equipment financing and attracts a variable rate of interest, which is hedged through interest rate swaps.

In October 2007, the consolidated entity entered into a \$230 million domestic operating lease facility for plant and equipment, which expired on 31 October 2009. As at 30 June 2012, the domestic operating lease facility was drawn down by \$37.8 million (2011: \$65.3 million). Outstanding individual lease agreements drawn under the facility remain in place until their expiry date. Information about operating leases is disclosed in Note 30.

# Notes to the Financial Statements

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## 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. Hire purchase and finance lease liabilities of the consolidated entity are payable as follows:

|                            | Minimum lease payments |        | Interest |      | Principal |       |
|----------------------------|------------------------|--------|----------|------|-----------|-------|
|                            | 2012                   | 2011   | 2012     | 2011 | 2012      | 2011  |
| <i>In thousands of AUD</i> |                        |        |          |      |           |       |
| Hire purchase liabilities: |                        |        |          |      |           |       |
| Less than one year         | 3,626                  | 6,411  | 200      | 455  | 3,426     | 5,956 |
| Between one and five years | 685                    | 3,866  | 7        | 233  | 678       | 3,633 |
|                            | 4,311                  | 10,277 | 207      | 688  | 4,104     | 9,589 |
| Finance lease liabilities: |                        |        |          |      |           |       |
| Less than one year         | 2,164                  | 984    | 491      | 99   | 1,673     | 885   |
| Between one and five years | 2,864                  | 856    | 480      | 29   | 2,384     | 827   |
|                            | 5,028                  | 1,840  | 971      | 128  | 4,057     | 1,712 |

## Other loans

In May 2011, the consolidated entity entered into a loan agreement with COMSA SA who held a non-controlling interest in Macmahon Rail Pty Ltd, formerly MVM Rail Pty Ltd for \$2,314,000, which matures on 31 December 2012. Interest accrues at a fixed rate of 5% per annum. On 22 December 2011, the consolidated entity acquired COMSA SA's non-controlling interest (see Note 32).

## 23. Employee benefits

*In thousands of AUD*

|                                  | 2012   | 2011   |
|----------------------------------|--------|--------|
| <b>Current</b>                   |        |        |
| Liability for long service leave | 11,423 | 6,233  |
| Liability for annual leave       | 37,814 | 28,753 |
| Provision for bonuses            | 5,566  | 613    |
| Other employee benefits          | 3,921  | 1,048  |
|                                  | 58,724 | 36,647 |
| <b>Non-current</b>               |        |        |
| Liability for long service leave | 3,779  | 3,713  |
| Provision for bonuses            | 322    | 519    |
|                                  | 4,101  | 4,232  |

Accrued wages and salaries between the last pay date and 30 June 2012 of \$6,583,000 (2011: \$2,925,000) are included within the trade payables and accrued operating expenses balance as disclosed in Note 21.

# Notes to the Financial Statements

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## 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 2012, only 7 members (2011: 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 4,598 members at 30 June 2012 (2011: 3,949 members). 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 Equitiesuper 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 is deemed to have adequate net assets to meet vested benefits as at 30 June 2012. 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(p).

*In thousands of AUD*

|                                  | 2012    | 2011    |
|----------------------------------|---------|---------|
| Fair value of plan assets        | 1,670   | 2,730   |
| Present value of net obligations | (1,723) | (2,460) |
|                                  | (53)    | 270     |

The amount recognised as current service expense in respect of the Defined Benefit section of the Fund during the year was \$268,000 (2011: \$202,000).

## 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(q).

*In thousands of AUD*

|                    | 2012   | 2011  |
|--------------------|--------|-------|
| Current provisions | 14,255 | 7,739 |
|                    | 14,255 | 7,739 |

## Movements in provisions:

*In thousands of AUD*

|                                     | 2012    | 2011    |
|-------------------------------------|---------|---------|
| Balance at 1 July                   | 7,739   | 6,651   |
| Provisions made during the year     | 14,322  | 7,318   |
| Provisions used during the year     | (4,620) | (3,314) |
| Provisions reversed during the year | (3,186) | (2,916) |
| Balance at 30 June                  | 14,255  | 7,739   |

# Notes to the Financial Statements

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## 25. Capital and reserves

Contributed equity as at the end of the reporting period was as follows:

|                        | 2012     |                     | 2011     |                     |
|------------------------|----------|---------------------|----------|---------------------|
|                        | No. '000 | In thousands of AUD | No. '000 | In thousands of AUD |
| On issue at 1 July     | 733,712  | 307,963             | 733,712  | 307,963             |
| Issued during the year | 4,920    | -                   | -        | -                   |
| On issue at 30 June    | 738,632  | 307,963             | 733,712  | 307,963             |

### Ordinary shares

On 23 August 2011, the Company issued 4.9 million ordinary shares pursuant to the vesting of CEO performance rights (2011: nil ordinary shares issued).

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 currency exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity 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 (net of tax) of the Company's shares held by the trustee of the consolidated entity's equity compensation plans which were purchased on-market in anticipation of vesting of share-based payment awards under equity compensation plans. During the year, 6,980,000 shares (2011: 3,000,000 shares) were purchased for a total cost of \$5.2 million (2011: \$1.7 million). As at 30 June 2012, there are 9,877,075 (2011: 8,075,776) unallocated Macmahon shares held in the trust.



# Notes to the Financial Statements

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## 26. Dividends paid and proposed

*In thousands of AUD*

### Recognised amounts:

*Current year interim*

Interim franked dividend for 2012 (1.5 cents per share) (2011: unfranked 1.5 cents per share)

*Previous year final*

Final dividend for 2011 (nil cents per share) (2010: unfranked 1.5 cents per share)

### Unrecognised amounts:

*Current year final*

Final franked dividend for 2012 (2.5 cents per share) (2011: nil cents per share)

### Franking credit balance:

Amount of franking credits available to shareholders of the Company for subsequent financial years

|  | 2012   | 2011   |
|--|--------|--------|
|  |        |        |
|  | 11,079 | 11,006 |
|  | -      | 11,006 |
|  | 18,466 | -      |
|  | 2,120  | 31     |

## 27. Financial instruments

### Derivative financial instruments in cash flow hedges

Derivative financial instruments are used by the consolidated entity in the normal course of business in order to hedge exposure to fluctuations in foreign currency and interest rates. The carrying amounts of derivative financial instruments as at the reporting date are as follows:

*In thousands of AUD*

|                                    | 2012    | 2011 |
|------------------------------------|---------|------|
| Interest rate swaps                | (6,213) | (42) |
| Foreign exchange forward contracts | (1,921) | -    |
|                                    | (8,134) | (42) |

Foreign exchange forward contracts with a notional value of \$119.2 million (2011: nil), measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of committed forecast purchase transactions in United States dollars, Japanese Yen and Euro. The foreign exchange forward contract balances vary with the level of committed forecast purchases and changes in foreign exchange forward rates.

The cash flow hedges of committed forecast transactions were assessed to be highly effective, and as at 30 June 2012 a net unrealised loss of \$1.9 million, with a related deferred tax asset of \$0.6 million related to foreign exchange forward contracts is included in other comprehensive income.

At 30 June 2012, the consolidated entity has interest rate swap agreements in place with a total notional amount of \$152.2 million (2011: \$40.1 million), whereby the consolidated entity pays a weighted average fixed rate of interest of 7.15% and receives variable rate of interest on the notional amount. The swaps are being used to hedge the consolidated entity's exposure to changes in the fair value of its term facility (see Note 22).

The cash flow hedges of interest rate exposures on the term facility were assessed to be highly effective, and as at 30 June 2012 a net unrealised loss of \$6.2 million with a related deferred tax asset of \$1.9 million related to the interest rate swaps is included in other comprehensive income.

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## Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair value of the consolidated entity's financial instruments that are carried in the financial statements.

| <i>In thousands of AUD</i>          | 2012            |            | 2011            |            |
|-------------------------------------|-----------------|------------|-----------------|------------|
|                                     | Carrying amount | Fair value | Carrying amount | Fair value |
| Receivables (excluding prepayments) | 221,321         | 221,321    | 134,463         | 134,463    |
| Cash and cash equivalents           | 134,894         | 134,894    | 115,634         | 115,634    |
| Trade and other payables            | (306,306)       | (306,306)  | (217,012)       | (217,012)  |
| Derivative financial instruments    | (8,134)         | (8,134)    | (42)            | (42)       |
| Hire purchase liabilities           | (4,104)         | (3,817)    | (9,589)         | (9,035)    |
| Finance lease liabilities           | (4,057)         | (3,762)    | (1,712)         | (1,611)    |
| Term facility                       | (206,946)       | (192,790)  | (62,526)        | (58,143)   |
| Other loans                         | (2,367)         | (2,367)    | (2,314)         | (2,152)    |
|                                     | (175,699)       | (160,961)  | (43,098)        | (37,898)   |

The fair values of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, receivables and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of derivative financial instruments are determined by applying valuation techniques such as forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.
- Fair value of loans from banks and other financial liabilities, obligations under finance and hire purchase leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## Financial instruments carried at fair value

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   |
|------------------------------------|---------|---------|---------|---------|
| <b>2012</b>                        |         |         |         |         |
| Interest rate swaps                | -       | (6,213) | -       | (6,213) |
| Foreign exchange forward contracts | -       | (1,921) | -       | (1,921) |
|                                    | -       | (8,134) | -       | (8,134) |
| <b>2011</b>                        |         |         |         |         |
| Interest rate swaps                | -       | (42)    | -       | (42)    |
|                                    | -       | (42)    | -       | (42)    |

# Notes to the Financial Statements

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## 28. Financial risk management

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. This framework is designed to identify, access, monitor and manage the material risks throughout the consolidated entity, to ensure risks remain within appropriate 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.

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 qualitative and quantitative 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.

### 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.

#### *Cash and cash equivalents*

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

#### *Trade and other receivables*

The consolidated entity's exposure to credit risk is influenced mainly by the characteristics of each individual customer. The demographics of the consolidated entity's customer base, including the default risk of the industries and countries in which customers operate, has less influence on credit risk. Approximately 15.0% (2011: 21.5%) 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 analysis includes external ratings, when available, and in some cases bank references.

Credit risk is minimised by managing payment terms, receiving advance payments, receiving the benefit of a bank guarantee or by purchasing credit insurance for customers considered to be at risk.

More than 32.0% (2011: 55.0%) 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 its estimate of expected / incurred losses in respect of trade and other receivables. There has been no impairment charge made in the current period for external parties (2011: nil).

#### *Guarantees*

The consolidated entity's policy is to provide financial guarantees only to or for subsidiaries. Details of outstanding guarantees are provided in Note 30.

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## 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:

*In thousands of AUD*

|                           | 2012    | 2011    |
|---------------------------|---------|---------|
| Cash and cash equivalents | 134,894 | 115,634 |
| Receivables <sup>1</sup>  | 221,321 | 134,463 |
|                           | 356,215 | 250,097 |

<sup>1</sup> Receivables are shown excluding work in progress and prepayments.

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

*In thousands of AUD*

|             | 2012    | 2011    |
|-------------|---------|---------|
| Australasia | 203,791 | 127,387 |
| Asia        | 10,971  | 4,689   |
| Africa      | 6,559   | 2,387   |
|             | 221,321 | 134,463 |

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

*In thousands of AUD*

|                        | 2012    | 2011    |
|------------------------|---------|---------|
| Mining customers       | 122,233 | 89,036  |
| Construction customers | 94,156  | 30,772  |
| Other debtors          | 4,932   | 14,655  |
|                        | 221,321 | 134,463 |

The consolidated entity's most significant trade receivable, a construction customer, accounts for \$42,805,000 of the trade receivables carrying amount at 30 June 2012 (2011: a mining customer, \$19,628,000).

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## 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 cash reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Information about changes in term facilities during the year is disclosed in Note 22. As at 30 June 2012, the undrawn amount on the new term facility was \$189.2 million (2011: total undrawn on the previous facility \$111.6 million) of which \$52.2 million of bank guarantees remains undrawn (2011: \$31.0 million). Outstanding individual lease agreements drawn under past facilities remain in place until their expiry date. In addition, the consolidated entity has a \$240 million (2011: \$200 million) insurance bond facility with \$83.2 million (2011: \$130 million) available at year end.

The following table summarises the maturity profile of the consolidated entity's financial liabilities based on contractual undiscounted payments.

|                                  | Contractual cash flows |             |           |           |
|----------------------------------|------------------------|-------------|-----------|-----------|
|                                  | < 1 year               | 1 - 5 years | > 5 years | Total     |
| <i>In thousands of AUD</i>       |                        |             |           |           |
| <b>At 30 June 2012</b>           |                        |             |           |           |
| Trade and other payables         | (306,306)              | -           | -         | (306,306) |
| Derivative financial instruments | (2,134)                | (6,000)     | -         | (8,134)   |
| Hire purchase liabilities        | (3,626)                | (685)       | -         | (4,311)   |
| Finance lease liabilities        | (2,164)                | (2,864)     | -         | (5,028)   |
| Term facility                    | (59,610)               | (176,896)   | -         | (236,506) |
| Other loans                      | (2,367)                | -           | -         | (2,367)   |
|                                  | (376,207)              | (186,445)   | -         | (562,652) |
| <b>At 30 June 2011</b>           |                        |             |           |           |
| Trade and other payables         | (217,012)              | -           | -         | (217,012) |
| Derivative financial instruments | (42)                   | -           | -         | (42)      |
| Hire purchase liabilities        | (6,411)                | (3,866)     | -         | (10,277)  |
| Finance lease liabilities        | (984)                  | (856)       | -         | (1,840)   |
| Term facility                    | (34,288)               | (35,516)    | -         | (69,804)  |
| Other loans                      | (1,585)                | (847)       | -         | (2,432)   |
|                                  | (260,322)              | (41,085)    | -         | (301,407) |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. The derivative financial liabilities disclosed in the table above are the net undiscounted cash flows. However, those amounts may be settled gross or net.

## 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.



# Notes to the Financial Statements

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## 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 entities within the consolidated Group, which are primarily the Australian dollar (AUD), but also the US dollar (USD), New Zealand dollar (NZD), Malaysian ringgit (MYR), Hong Kong dollar (HKD), Nigerian Naira (NGN) and Mongolian Tugrik (MNT). The consolidated entity is also 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), Japanese Yen (JPY) and NGN.

The consolidated entity uses foreign exchange forward contracts to hedge its purchases of major items of plant and equipment that are denominated in a foreign currency when a firm commitment is made. As at 30 June 2012, 57% of the notional value of the foreign exchange forward contracts have maturities of less than one year after the balance sheet date, and 43% of the notional value have maturities between 1 year and 3.5 years 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.

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.

### Exposure to currency risk

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

|                                    | 30 June 2012 |       |     |         | 30 June 2011 |       |       |       |
|------------------------------------|--------------|-------|-----|---------|--------------|-------|-------|-------|
|                                    | EUR          | USD   | JPY | MNT     | USD          | NZD   | MYR   | NGN   |
| <i>In thousands of AUD</i>         |              |       |     |         |              |       |       |       |
| Trade receivables                  | -            | -     | -   | 7       | 717          | 9     | 1,615 | 2,366 |
| Trade payables                     | -            | -     | -   | (3,463) | -            | (435) | (375) | (177) |
| Foreign exchange forward contracts | (1,989)      | (495) | 563 | -       | -            | -     | -     | -     |
| Net balance sheet exposure         | (1,989)      | (495) | 563 | (3,456) | 717          | (426) | 1,240 | 2,189 |

The following significant exchange rates applied during the year:

| One AUD to: | Reporting Date Spot Rate |            | Average Rate |            |
|-------------|--------------------------|------------|--------------|------------|
|             | 2012                     | 2011       | 2012         | 2011       |
| EUR         | 0.8092                   | 0.7362     | 0.7893       | 0.7147     |
| USD         | 1.0191                   | 1.0739     | 1.0377       | 0.9881     |
| NZD         | 1.2771                   | 1.2953     | 1.2843       | 1.3044     |
| MYR         | 3.2331                   | 3.2421     | 3.1953       | 3.0455     |
| HKD         | 7.9040                   | 8.3581     | 8.0664       | 7.4843     |
| JPY         | 80.8900                  | 85.8000    | 81.1717      | 80.4950    |
| NGN         | 158.3783                 | 162.4700   | 159.8482     | 148.0000   |
| MNT         | 1,364.4400               | 1,350.2100 | 1,363.8213   | 1,263.2500 |

# Notes to the Financial Statements

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## Sensitivity analysis

The following analysis demonstrates the amount of increase / (decrease) to profit or loss and equity at the reporting date, assuming a 10 percent strengthening of the Australian dollar against the following currencies. This analysis also assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

|                            | Equity |         | Income statement |       |
|----------------------------|--------|---------|------------------|-------|
|                            | 2012   | 2011    | 2012             | 2011  |
| <i>In thousands of AUD</i> |        |         |                  |       |
| EUR                        | (190)  | -       | -                | -     |
| USD                        | (50)   | (144)   | -                | 4     |
| NZD                        | -      | (210)   | -                | (181) |
| MYR                        | -      | (1,067) | -                | (132) |
| JPY                        | 56     | -       | -                | -     |
| NGN                        | -      | (7)     | -                | 28    |
| MNT                        | -      | -       | 346              | -     |

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

## Interest rate risk

Interest rate risk on variable rate borrowings is managed under the consolidated entity's approved Financial Risk Management Policy. Under this 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.

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

|                                  | 2012      | 2011     |
|----------------------------------|-----------|----------|
| <i>In thousands of AUD</i>       |           |          |
| <b>Fixed rate instruments</b>    |           |          |
| Financial liabilities            | (10,528)  | (13,615) |
|                                  | (10,528)  | (13,615) |
| <b>Variable rate instruments</b> |           |          |
| Financial assets                 | 134,894   | 115,634  |
| Financial liabilities            | (206,946) | (62,526) |
|                                  | (72,052)  | 53,108   |

## 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

The following analysis demonstrates the amount of increase / (decrease) to profit or loss and equity at the reporting date, assuming a change in interest rates of 100 basis points ("bp"). This analysis also assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

|                            | Equity         |                | Income statement |                |
|----------------------------|----------------|----------------|------------------|----------------|
|                            | 100bp increase | 100bp decrease | 100bp increase   | 100bp decrease |
| <i>In thousands of AUD</i> |                |                |                  |                |
| <b>30 June 2012</b>        |                |                |                  |                |
| Variable rate instruments  | -              | -              | (721)            | 721            |
| Interest rate swap         | 1,343          | (1,340)        | -                | -              |
| Cash flow sensitivity      | 1,343          | (1,340)        | (721)            | 721            |
| <b>30 June 2011</b>        |                |                |                  |                |
| Variable rate instruments  | -              | -              | 906              | (906)          |
| Interest rate swap         | 46             | (46)           | -                | -              |
| Cash flow sensitivity      | 46             | (46)           | 906              | (906)          |

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## **Other market price risk**

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

## **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 Company 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.

# Notes to the Financial Statements

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## 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 22), cash and cash equivalents (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.

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

*In thousands of AUD*

|                           | 2012      | 2011      |
|---------------------------|-----------|-----------|
| Debt                      | 217,474   | 76,141    |
| Cash and cash equivalents | (134,894) | (115,634) |
| Net debt / (cash)         | 82,580    | (39,493)  |
| Equity                    | 356,811   | 323,123   |
| Net debt to equity ratio  | 23.1%     | (12.2%)   |

Debt is defined as long and short-term borrowings net of transaction costs, as detailed in Note 22. 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 various equity compensation plans. The consolidated entity does not have a defined share buy-back plan.

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

# Notes to the Financial Statements

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## 29. Share-based payments

The consolidated entity has four equity compensation plans in place to remunerate executives and employees of the Group:

- Macmahon Executive Equity Plan ("EEP" or "LTI Plan")
- Macmahon CEO LTI Plan
- Macmahon Executive Option Scheme
- Macmahon Employee Share Plan ("ESP")

### Macmahon Executive Equity Plan ("EEP" or "LTI Plan")

The EEP provides executives (excluding the CEO) and other senior personnel 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 / member must also remain an employee of Macmahon during this time. The EEP is designed to assist with employee retention, and to incentivise employees to maximise Total Shareholder Return (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 Board determines which executives are eligible to participate and the number of rights granted. Each right will entitle the participant to receive one fully paid ordinary Macmahon share on vesting.

Relative TSR was chosen by the Board as a suitable performance measure as it provides alignment between shareholder returns and executive remuneration. The Performance Rights lapse if the employee ceases employment with Macmahon, or the TSR performance condition has not been achieved within a 5½ year period.

| Performance rights granted 15 January 2010   | Time-based condition ending 15/1/2012 | Performance period                              |   |   |   |
|--|---------------------------------------|---|---|---|---|
|  |                                       | 2 years ending 15/1/2012                        | 3 years ending 15/1/2013                        | 4 years ending 15/1/2014                        | 5 years ending 15/1/2015                        |
| Tranche and number of Performance Rights   | 3,843,750                             | Tranche 1<br>2,882,812                          | Tranche 2<br>2,882,812                          | Tranche 3<br>2,882,812                          | Tranche 4<br>2,882,812                          |
| <b>Vesting performance condition:</b>  |                                       |   |   |   |   |
| TSR Ranking 75% or higher of the TSR of two peer groups (50% weighting to each peer group) | -                                     | 2,882,812                                       | 2,882,812                                       | 2,882,812                                       | 2,882,812                                       |
| TSR Ranking 50% - 75% of the TSR of two peer groups (50% weighting to each peer group)     | -                                     | 1,441,406 plus 2% for each percentile above 50% | 1,441,406 plus 2% for each percentile above 50% | 1,441,406 plus 2% for each percentile above 50% | 1,441,406 plus 2% for each percentile above 50% |
| TSR Ranking below 50% of the TSR of two peer groups (50% weighting to each peer group)     | -                                     | Nil   | Nil   | Nil   | Nil   |

| Performance rights granted 17 June 2011  | Time-based condition ending 17/6/2013 | Performance period                              |   |   |   |
|--|---------------------------------------|---|---|---|---|
|  |                                       | 2 years ending 17/6/2013                        | 3 years ending 17/6/2014                        | 4 years ending 17/6/2015                        | 5 years ending 17/6/2016                        |
| Tranche and number of Performance Rights   | 3,268,750                             | Tranche 1<br>2,451,562                          | Tranche 2<br>2,451,562                          | Tranche 3<br>2,451,562                          | Tranche 4<br>2,451,562                          |
| <b>Vesting performance condition:</b>  |                                       |   |   |   |   |
| TSR Ranking 75% or higher of the TSR of two peer groups (50% weighting to each peer group) | -                                     | 2,451,562                                       | 2,451,562                                       | 2,451,562                                       | 2,451,562                                       |
| TSR Ranking 50% - 75% of the TSR of two peer groups (50% weighting to each peer group)     | -                                     | 1,225,781 plus 2% for each percentile above 50% | 1,225,781 plus 2% for each percentile above 50% | 1,225,781 plus 2% for each percentile above 50% | 1,225,781 plus 2% for each percentile above 50% |
| TSR Ranking below 50% of the TSR of two peer groups (50% weighting to each peer group)     | -                                     | Nil   | Nil   | Nil   | Nil   |

# Notes to the Financial Statements

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The two comparator groups for the TSR calculation are:

- **ASX 200:** the constituents of the ASX 200 index; and
- **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.

Testing is undertaken annually for the 2010 and 2011 EEP grants. Testing was recently reduced from two retests per annum to one subject to Board discretion.

## Macmahon CEO LTI Plan

Mr Bowen 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 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 rights is dependent on the conditions detailed in the table below. Each class of Performance Rights will vest immediately following the end of the relevant period referred to above, provided Mr Bowen remains as CEO of the Company and if the following criteria are met in respect of that period:

|   | Performance period         |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
|   | 2 years ending<br>1/7/2011 | 3 years ending<br>1/7/2012 | 4 years ending<br>1/7/2013 |
| Class and number of Performance Rights granted  | Class A<br>6,000,000       | Class B<br>3,000,000       | Class C<br>3,000,000       |
| <b>Vesting condition Test 1:</b><br>TSR greater than the average of two peer groups                 | 2,000,000                  | 1,000,000                  | 1,000,000                  |
| <b>Vesting condition Test 2:</b><br>TSR Ranking 80% or higher of the average TSR of two peer groups | 4,000,000                  | 2,000,000                  | 2,000,000                  |
| TSR Ranking 50% - 80% of the average TSR of two peer groups   | pro-rata % of<br>4,000,000 | pro-rata % of<br>2,000,000 | pro-rata % of<br>2,000,000 |
| TSR Ranking 50% or below of the average TSR of two peer groups                                      | Nil                        | Nil                        | Nil                        |

The two comparator groups for the TSR calculation are:

- **ASX 200:** the constituents of the ASX 200 index; and
- **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.

## Class A Performance Rights

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. On 1 July 2012, 2,684,333 of Mr Bowen's Class B Performance Rights vested and he became entitled to convert them to shares on 10 August 2012.

## Macmahon Executive Option Scheme

The Macmahon Executive Option Scheme provided executives with options over ordinary shares of the Company under the approval by shareholders at the 2005 Annual General Meeting.

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. 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.

Each grant of options is divided into 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 TSR has been at least 15% per annum compound for all of the measurement periods preceding the date the options became eligible for exercise.

The performance hurdles are cumulative. This means, for example, 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 subsequently meet the performance hurdle can be exercised.

Unexercised options do not entitle their holder to dividends, and options are not quoted on the ASX. Shares issued upon exercise of options will rank equally in all respects with existing shares.



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## Macmahon Employee Share Plan ("ESP")

During this financial year, the Company introduced the Macmahon Employee Share Plan ("ESP") to reward the commitment of long serving employees to the Group. Subject to certain eligibility criteria, all employees of the Group are entitled to participate in the ESP. The rules of the ESP permit the Company to make an annual offer of shares in the Company to eligible employees with three years service, at the discretion of the Board of Directors. The maximum value of shares which may be offered to any employee in any one financial year is \$1,000.

## Information about performance rights and share options outstanding at year end

The following unvested unlisted Executive Performance rights and CEO Performance Rights were outstanding at year end under the Macmahon EEP and Macmahon CEO LTI Plan respectively:

|                           | CEO Performance Rights |            | Executive Performance Rights |             |
|---------------------------|------------------------|------------|------------------------------|-------------|
|                           | 2012                   | 2011       | 2012                         | 2011        |
| Balance at 1 July         | 12,000,000             | 12,000,000 | 24,362,000                   | 14,575,000  |
| Granted during the year   | -                      | -          | -                            | 13,075,000  |
| Forfeited during the year | (1,080,000)            | -          | (2,065,139)                  | (3,288,000) |
| Vested during the year    | (4,920,000)            | -          | (4,110,381)                  | -           |
| Balance at 30 June        | 6,000,000              | 12,000,000 | 18,186,480                   | 24,362,000  |

The following unlisted share options were outstanding at year end:

| In AUD                           | Grant date | Exercise price | Number of options |           |
|----------------------------------|------------|----------------|-------------------|-----------|
|                                  |            |                | 2012              | 2011      |
| Macmahon executive option scheme | 14/02/2006 | 0.60           | -                 | 4,432,124 |
| Macmahon executive option scheme | 8/09/2006  | 0.84           | -                 | 2,000,000 |
| Macmahon executive option scheme | 20/04/2007 | 0.82           | 825,000           | 1,017,000 |
| Macmahon executive option scheme | 14/07/2008 | 1.62           | 125,000           | 225,000   |
|                                  |            |                | 950,000           | 7,674,124 |

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

| In AUD                             | Weighted average exercise price |      | Number of options |             |
|------------------------------------|---------------------------------|------|-------------------|-------------|
|                                    | 2012                            | 2011 | 2012              | 2011        |
| Outstanding at 1 July              | 0.72                            | 0.79 | 7,674,124         | 8,917,124   |
| Cancelled/lapsed during the period | 0.92                            | 1.22 | (451,000)         | (1,243,000) |
| Expired during the period          | 0.68                            | -    | (6,273,124)       | -           |
| Outstanding at 30 June             | 0.93                            | 0.72 | 950,000           | 7,674,124   |
| Exercisable at 30 June             | 0.88                            |      | 887,500           | 2,458,500   |

## Share based payments recognised in employee benefits expense

The following amounts were recognised as employee benefits expense in profit or loss, in connection with the Company's equity compensation plans:

| In thousands of AUD  | 2012  | 2011  |
|--|-------|-------|
| Equity settled performance rights, shares and share options: |       |       |
| Share options  | 615   | (5)   |
| Performance rights   | 3,025 | 3,764 |
| 2012 ESP   | 876   | -     |
| Total expense recognised within employee benefits expense    | 4,516 | 3,759 |

# Notes to the Financial Statements

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## 30. Commitments and contingencies

### Capital commitments

*Plant and Equipment:*

*In thousands of AUD*

|  | 2012    | 2011   |
|--|---------|--------|
| Contracted but not provided for and payable:   |         |        |
| Within one year                                | 100,195 | 20,257 |
| One year or later and no later than five years | 132,818 | 6,339  |
|  | 233,013 | 26,596 |

### Operating leases

*Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

*In thousands of AUD*

#### At 30 June 2012

|   | < 1 year | 1 - 5 years | > 5 years | Total  |
|---|----------|-------------|-----------|--------|
| Office and industrial workshop facilities | 8,584    | 27,709      | 10,382    | 46,675 |
| Plant and equipment facilities            | 11,530   | 14,453      | -         | 25,983 |
|   | 20,114   | 42,162      | 10,382    | 72,658 |

#### At 30 June 2011

|   |        |        |        |         |
|---|--------|--------|--------|---------|
| Office and industrial workshop facilities | 8,490  | 30,980 | 15,731 | 55,201  |
| Plant and equipment facilities            | 20,150 | 55,178 | -      | 75,328  |
|   | 28,640 | 86,158 | 15,731 | 130,529 |

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 2012, the domestic operating lease facility was drawn down by \$37.9 million (2011: \$65.3 million).

### Contingencies

The following identifiable contingencies exist at 30 June 2012:

*In thousands of AUD*

|                             | 2012    | 2011   |
|-----------------------------|---------|--------|
| Bank guarantees             | 72,767  | 44,647 |
| Insurance performance bonds | 156,809 | 70,422 |

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.

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. 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.

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## 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 nature of the Company's construction contracts necessarily requires variations and claims to be submitted to clients in the normal execution of these contracts. The Company believes its variations and extension of time claims are valid and applies judgement in the determination of whether any amounts should be recorded as revenue in accordance with AASB 111 *Construction Contracts*. Actual outcomes may differ from the amounts recognised within profit or loss at reporting date.

## 31. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2012 the parent company of the consolidated entity was Macmahon Holdings Limited.

*In thousands of AUD*

### Result of the parent entity

|                                       | 2012    | 2011    |
|---------------------------------------|---------|---------|
| Profit / (loss) for the year          | 2,993   | (4,920) |
| Other comprehensive loss              | (5,665) | -       |
| Total comprehensive loss for the year | (2,672) | (4,920) |

### Financial position of parent entity at year end

|                     |         |         |
|---------------------|---------|---------|
| Current assets      | 148,522 | 115,708 |
| Total assets        | 297,984 | 424,876 |
| Current liabilities | 9,715   | 1,493   |
| Total liabilities   | 9,738   | 123,740 |

### Total equity of the parent entity comprising of:

|                   |          |         |
|-------------------|----------|---------|
| Share capital     | 307,963  | 307,963 |
| Reserves          | (10,462) | (4,772) |
| Retained earnings | (9,255)  | (2,055) |
| Total equity      | 288,246  | 301,136 |

### Parent entity contingencies

The parent entity does not have any contingent liabilities (2011: nil).

### 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.

# Notes to the Financial Statements

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## 32. Group entities

|  | Country of<br>incorporation | Ownership interest |      |
|--|-----------------------------|--------------------|------|
|  |                             | 2012               | 2011 |
| <b>Ultimate parent entity:</b>   |                             |                    |      |
| Macmahon Holdings Limited  | Australia                   |                    |      |
| <b>Incorporated subsidiaries:</b>                                      |                             |                    |      |
| Macmahon Contractors Pty Ltd   | Australia                   | 100%               | 100% |
| Macmahon Contractors (WA) Pty Ltd                                      | Australia                   | 100%               | 100% |
| Macmahon Properties Pty Ltd  | Australia                   | 100%               | 100% |
| Macmahon (Southern) Pty Ltd  | Australia                   | 100%               | 100% |
| Macmahon Mining Services Pty Ltd                                       | Australia                   | 100%               | 100% |
| Macmahon Construction Pty Ltd  | Australia                   | 100%               | 100% |
| Macmahon Civil Construction Pty Ltd                                    | Australia                   | 100%               | 100% |
| Doorn-Dijl Yoordaning Mining and Construction Pty Ltd                  | Australia                   | 100%               | 100% |
| Macmahon Underground Pty Ltd   | Australia                   | 100%               | 100% |
| Macmahon Africa Pty Ltd  | Australia                   | 100%               | 100% |
| Macmahon Asia Pty Ltd  | Australia                   | 100%               | 100% |
| Macmahon Malaysia Pty Ltd  | Australia                   | 100%               | 100% |
| Macmahon Rail Pty Ltd (formerly MVM Rail Pty Ltd)                      | Australia                   | 100%               | 60%  |
| Macmahon Contractors (NZ) Ltd  | New Zealand                 | 100%               | 100% |
| PT Macmahon Indonesia  | Indonesia                   | 100%               | 100% |
| Macmahon Contractors Nigeria Ltd                                       | Nigeria                     | 100%               | 100% |
| Macmahon Sdn Bhd   | Malaysia                    | 100%               | 100% |
| Macmahon Constructors Sdn Bhd  | Malaysia                    | 100%               | 100% |
| MVM (Malaysia) Sdn Bhd   | Malaysia                    | 100%               | 100% |
| Macmahon Contracting International Pte Ltd                             | Singapore                   | 100%               | 100% |
| Macmahon Mongolia Holdings Pte Ltd                                     | Singapore                   | 100%               | N/A  |
| Five Hills Holdings Pte Ltd  | Singapore                   | 100%               | N/A  |
| Five Hills Leasing Pte Ltd   | Singapore                   | 100%               | N/A  |
| Macmahon Mongolia LLC  | Mongolia                    | 100%               | N/A  |
| TT JV CO LLC   | Mongolia                    | 100%               | N/A  |
| <b>Interest in trusts:</b>   |                             |                    |      |
| Macmahon Holdings Executive Equity Plan Trust A/c                      | Australia                   | 100%               | 100% |
| Macmahon Underground Unit Trust  | Australia                   | 100%               | 100% |
| <b>Subsidiaries with receivers and managers appointed:<sup>1</sup></b> |                             |                    |      |
| Macmahon Rail Holdings Pty Ltd   | Australia                   | 100%               | 100% |
| Macmahon Rail Investments Pty Ltd                                      | Australia                   | 100%               | 100% |
| Macmahon Rail Operations Pty Ltd                                       | Australia                   | 100%               | 100% |
| Thomco (No. 2020) Pty Ltd  | Australia                   | 100%               | 100% |
| Thomco (No. 2021) Pty Ltd  | Australia                   | 100%               | 100% |
| Thomco (No. 2022) Pty Ltd  | Australia                   | 100%               | 100% |

<sup>1</sup> 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.

### Acquisition of non-controlling interest in Macmahon Rail Pty Ltd (formerly MVM Rail Pty Ltd)

On 22 December 2011, the consolidated entity acquired the remaining 40% of issued share capital of MVM Rail Pty Ltd (MVM), through Macmahon Southern Pty Ltd for \$5.75 million, resulting in 100% ownership of MVM. The entity incurred acquisition-related costs of \$0.04 million. The impact of the transaction resulted in an adjustment to equity of \$5.79 million which has been recognised in the condensed consolidated statement of changes in equity. Subsequent to becoming a wholly-owned subsidiary, MVM Rail Pty Ltd changed its name to Macmahon Rail Pty Ltd.

Macmahon Rail Pty Ltd specialises in the provision of rail track construction and maintenance services in Australia and Asia.

# Notes to the Financial Statements

continued

## Associates – non active:

|                           | Country of<br>incorporation | Ownership interest<br>2012 | 2011 |
|---------------------------|-----------------------------|----------------------------|------|
| Bluff Harbour Pty Ltd Ltd | Australia                   | 50%                        | 50%  |
| Encounter Lakes Pty Ltd   | Australia                   | 50%                        | 50%  |

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.

## 33. Related parties

Compensation for Key Management Personnel included within employee benefits expense is as follows:

| <i>In AUD</i>            | 2012       | 2011      |
|--------------------------|------------|-----------|
| Short-term benefits      | 9,827,086  | 5,344,308 |
| Other long-term benefits | 210,953    | 89,087    |
| Post-employment benefits | 615,050    | 493,148   |
| Share-based payments     | 2,372,769  | 2,666,283 |
| Termination payments     | -          | 524,934   |
|                          | 13,025,858 | 9,117,760 |

## Individual directors and executives compensation disclosures

Information regarding individual Directors' and executives' compensation and 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.

## Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see Note 32), jointly controlled entities (see Note 17) and with its Key Management Personnel.

## Subsidiaries

There were no related party transactions between the Company and its subsidiaries during the year except for loans and borrowings (2011: nil).

## Options and performance rights over equity instruments

The following were Key Management Personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were Key Management Personnel for the entire period. The movement during the reporting period in the number of options and 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:

# Notes to the Financial Statements

continued

| 2012                    | Held at<br>1 July 2011 |            | Granted as<br>compensation |        | Exercised |             | Other changes <sup>1</sup> |             | Held at<br>30 June 2012 |           | Vested during<br>the year |           | Vested and<br>exercisable at 30<br>June 2012 |        |
|-------------------------|------------------------|------------|----------------------------|--------|-----------|-------------|----------------------------|-------------|-------------------------|-----------|---------------------------|-----------|--|--------|
|                         | Options                | Rights     | Options                    | Rights | Options   | Rights      | Options                    | Rights      | Options                 | Rights    | Options                   | Rights    | Options                                      | Rights |
| <b>Directors</b>        |                        |            |                            |        |           |             |                            |             |                         |           |                           |           |  |        |
| N R Bowen               | -                      | 12,000,000 | -                          | -      | -         | (4,920,000) | -                          | (1,080,000) | -                       | 6,000,000 | -                         | 4,920,000 | -  | -      |
| <b>Executives</b>       |                        |            |                            |        |           |             |                            |             |                         |           |                           |           |  |        |
| R A Carroll             | 2,000,000              | 4,000,000  | -                          | -      | -         | (768,463)   | (2,000,000)                | -           | -                       | 3,231,537 | -                         | 768,463   | -  | -      |
| T Mlikota               | -                      | 1,000,000  | -                          | -      | -         | -           | -                          | -           | -                       | 1,000,000 | -                         | -         | -  | -      |
| A T Mason               | -                      | 1,000,000  | -                          | -      | -         | -           | -                          | -           | -                       | 1,000,000 | -                         | -         | -  | -      |
| N J Wilson              | 400,000                | 650,000    | -                          | -      | -         | (153,693)   | (400,000)                  | -           | -                       | 496,307   | -                         | 153,693   | -  | 21,307 |
| F E Ramsay              | 75,000                 | 1,000,000  | -                          | -      | -         | (192,116)   | -                          | -           | 75,000                  | 807,884   | -                         | 192,116   | 75,000                                       | 26,634 |
| G J Miller              | 112,500                | 900,000    | -                          | -      | -         | (153,693)   | (93,750)                   | -           | 18,750                  | 746,307   | -                         | 153,693   | 18,750                                       | 21,307 |
| S G Maddison            | 375,000                | 700,000    | -                          | -      | -         | (115,270)   | (375,000)                  | -           | -                       | 584,730   | -                         | 115,270   | -  | 15,980 |
| A C Young               | -                      | 450,000    | -                          | -      | -         | (57,635)    | -                          | -           | -                       | 392,365   | -                         | 57,635    | -  | 7,990  |
| M H Hamilton            | 100,000                | 900,000    | -                          | -      | -         | (192,116)   | (100,000)                  | -           | -                       | 707,884   | -                         | 192,116   | -  | 26,634 |
| R C Wilson <sup>2</sup> | 112,500                | 600,000    | -                          | -      | -         | (115,270)   | (112,500)                  | -           | -                       | 484,730   | -                         | 115,270   | -  | 15,980 |

| 2011              | Held at<br>1 July 2010 |            | Granted as<br>compensation |           | Exercised |        | Other changes <sup>1</sup> |             | Held at<br>30 June 2011 |            | Vested during<br>the year |        | Vested and<br>exercisable at 30<br>June 2011 |        |
|-------------------|------------------------|------------|----------------------------|-----------|-----------|--------|----------------------------|-------------|-------------------------|------------|---------------------------|--------|--|--------|
|                   | Options                | Rights     | Options                    | Rights    | Options   | Rights | Options                    | Rights      | Options                 | Rights     | Options                   | Rights | Options                                      | Rights |
| <b>Directors</b>  |                        |            |                            |           |           |        |                            |             |                         |            |                           |        |  |        |
| N R Bowen         | -                      | 12,000,000 | -                          | -         | -         | -      | -                          | -           | -                       | 12,000,000 | -                         | -      | -  | -      |
| <b>Executives</b> |                        |            |                            |           |           |        |                            |             |                         |            |                           |        |  |        |
| R A Carroll       | 2,000,000              | 2,000,000  | -                          | 2,000,000 | -         | -      | -                          | -           | 2,000,000               | 4,000,000  | -                         | -      | 500,000                                      | -      |
| T Mlikota         | -                      | -          | -                          | 1,000,000 | -         | -      | -                          | -           | -                       | 1,000,000  | -                         | -      | -  | -      |
| A T Mason         | -                      | -          | -                          | 1,000,000 | -         | -      | -                          | -           | -                       | 1,000,000  | -                         | -      | -  | -      |
| N J Wilson        | 400,000                | 400,000    | -                          | 250,000   | -         | -      | -                          | -           | 400,000                 | 650,000    | -                         | -      | 200,000                                      | -      |
| F E Ramsay        | 75,000                 | 500,000    | -                          | 500,000   | -         | -      | -                          | -           | 75,000                  | 1,000,000  | -                         | -      | -  | -      |
| G J Miller        | 112,500                | 400,000    | -                          | 500,000   | -         | -      | -                          | -           | 112,500                 | 900,000    | -                         | -      | 46,875                                       | -      |
| S G Maddison      | 375,000                | 300,000    | -                          | 400,000   | -         | -      | -                          | -           | 375,000                 | 700,000    | -                         | -      | 125,000                                      | -      |
| A C Young         | -                      | 150,000    | -                          | 300,000   | -         | -      | -                          | -           | -                       | 450,000    | -                         | -      | -  | -      |
| M H Hamilton      | 100,000                | 500,000    | -                          | 400,000   | -         | -      | -                          | -           | 100,000                 | 900,000    | -                         | -      | -  | -      |
| P F Doyle         | 500,000                | 1,500,000  | -                          | -         | -         | -      | (500,000)                  | (1,500,000) | -                       | -          | -                         | -      | -  | -      |
| D J Jaksa         | -                      | 150,000    | -                          | -         | -         | -      | -                          | (150,000)   | -                       | -          | -                         | -      | -  | -      |

<sup>1</sup> Other changes relate to options or rights that lapsed during the year.

<sup>2</sup> R C Wilson was appointed as Key Management Personnel on 18 October 2011.

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# Notes to the Financial Statements

continued

## 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:

| 2012                    | Held at<br>1 July 2011 | Purchases | Received<br>on exercise<br>of options /<br>granted | Net change<br>other <sup>1</sup> | Held at<br>30 June 2012 |
|-------------------------|------------------------|-----------|--|----------------------------------|-------------------------|
| <b>Directors</b>        |                        |           |  |                                  |                         |
| K B Scott-Mackenzie     | 50,000                 | -         | -  | -                                | 50,000                  |
| N R Bowen               | 15,889,604             | -         | 4,920,000  | -                                | 20,809,604              |
| B L Cusack              | 900,000                | -         | -  | -                                | 900,000                 |
| B R Ford                | 122,782                | -         | -  | -                                | 122,782                 |
| E Skira <sup>2</sup>    | -                      | -         | -  | -                                | -                       |
| D M Smith               | 30,000                 | -         | -  | -                                | 30,000                  |
| V A Vella               | 200,000                | -         | -  | -                                | 200,000                 |
| <b>Executives</b>       |                        |           |  |                                  |                         |
| R A Carroll             | 80,000                 | -         | 768,463  | -                                | 848,463                 |
| T Mlikota               | 553,807                | -         | -  | -                                | 553,807                 |
| N J Wilson              | -                      | -         | 153,693  | -                                | 153,693                 |
| F E Ramsay              | -                      | -         | 192,116  | -                                | 192,116                 |
| G J Miller              | -                      | -         | 153,693  | -                                | 153,693                 |
| S G Maddison            | 187,163                | -         | 115,270  | -                                | 302,433                 |
| A C Young               | -                      | -         | 57,635   | -                                | 57,635                  |
| M H Hamilton            | -                      | -         | 192,116  | (120,000)                        | 72,116                  |
| R C Wilson <sup>3</sup> | 58,116                 | -         | 115,270  | -                                | 173,386                 |

<sup>1</sup> Other changes relate to shares that were sold during the year

<sup>2</sup> E Skira was appointed as a Non-Executive Director on 26 September 2011.

<sup>3</sup> R C Wilson was appointed as Key Management Personnel on 18 October 2011.

As at 30 June 2012, there are 6,000,000 Performance Rights granted to Mr Bowen. Subsequent to year end (on 1 July 2012), 2,684,333 of Mr Bowen's Class B Performance Rights vested and he became entitled to convert them to shares on 10 August 2012.

| 2011                | Held at<br>1 July 2010 | Purchases | Received<br>on exercise<br>of options /<br>granted | Net change<br>other <sup>1</sup> | Held at<br>30 June 2011 |
|---------------------|------------------------|-----------|--|----------------------------------|-------------------------|
| <b>Directors</b>    |                        |           |  |                                  |                         |
| 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                 |
| D M Smith           | -                      | 30,000    | -  | -                                | 30,000                  |
| V A Vella           | 193,378                | 200,000   | -  | (193,378)                        | 200,000                 |
| J C Massey          | 120,000                | -         | -  | -                                | N/A                     |
| <b>Executives</b>   |                        |           |  |                                  |                         |
| R A Carroll         | 80,000                 | -         | -  | -                                | 80,000                  |
| T Mlikota           | -                      | 553,807   | -  | -                                | 553,807                 |
| S G Maddison        | 187,163                | -         | -  | -                                | 187,163                 |
| A C Young           | -                      | 1,000     | -  | (1,000)                          | -                       |

<sup>1</sup> Other changes relate to shares that were sold during the year

# Notes to the Financial Statements

continued

## Other related party transactions

| <i>In thousands of AUD</i>   | Transactions value year ended<br>30 June |        | Balance outstanding as at 30<br>June |       |
|--|--|--------|--------------------------------------|-------|
|  | 2012                                     | 2011   | 2012                                 | 2011  |
| Jointly controlled joint ventures - provision of contract services | 37,019                                   | 56,411 | 13,566                               | 8,069 |

## 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 2012 (for the entire financial year) are set out as follows.

# Notes to the Financial Statements

continued

## Statement of comprehensive income and retained earnings

*In thousands of AUD*

|  | <b>Consolidated</b> |                 |
|--|---------------------|-----------------|
|  | <b>2012</b>         | <b>2011</b>     |
| Revenue  | 1,253,360           | 780,881         |
| Operating expenses   | (1,235,139)         | (768,433)       |
| Finance income   | 2,687               | 1,734           |
| Finance expense  | (14,455)            | (12,157)        |
| Share of profit / (loss) in investments accounted for using the equity method (net of tax) | 27,962              | (25,497)        |
| <b>Profit / (loss) before tax</b>  | <b>34,415</b>       | <b>(23,472)</b> |
| Income tax (expense) / benefit   | (5,599)             | 7,240           |
| <b>Profit / (loss) after tax</b>   | <b>28,816</b>       | <b>(16,232)</b> |
| Other comprehensive (loss) / income  | (5,484)             | 890             |
| Total comprehensive income / (loss) for the year   | 23,332              | (15,342)        |
| Retained earnings at beginning of the year   | 9,126               | 32,484          |
| Transfers to and from reserves   | 1,851               | (890)           |
| Dividends recognised during the year   | (10,940)            | (10,885)        |
| Equity settled transactions  | 4,516               | 3,759           |
| <b>Retained earnings at end of the year</b>  | <b>27,885</b>       | <b>9,126</b>    |
| Attributable to:   |                     |                 |
| Equity holders of the Company  | 28,816              | (16,232)        |
| <b>Profit / (loss) for the year</b>  | <b>28,816</b>       | <b>(16,232)</b> |

# Notes to the Financial Statements

continued

## Statement of financial position

*In thousands of AUD*

|   | <b>Consolidated</b> |                |
|---|---------------------|----------------|
|   | <b>2012</b>         | <b>2011</b>    |
| <b>Assets</b>                                     |                     |                |
| <b>Current assets</b>                             |                     |                |
| Cash and cash equivalents                         | 88,440              | 93,585         |
| Trade and other receivables                       | 276,728             | 134,584        |
| Inventories                                       | 31,956              | 31,715         |
| Current tax receivables                           | 11,125              | 1,797          |
| <b>Total current assets</b>                       | <b>408,249</b>      | <b>261,681</b> |
| <b>Non-current assets</b>                         |                     |                |
| Trade and other receivables                       | 460,465             | 130,662        |
| Other financial assets                            | 50,500              | 44,778         |
| Investments accounted for using the equity method | 9,341               | 1,768          |
| Property, plant and equipment                     | 306,919             | 235,639        |
| Intangible assets                                 | 20,370              | 24,655         |
| <b>Total non-current assets</b>                   | <b>847,595</b>      | <b>437,502</b> |
| <b>Total assets</b>                               | <b>1,255,844</b>    | <b>699,183</b> |
| <b>Liabilities</b>                                |                     |                |
| <b>Current liabilities</b>                        |                     |                |
| Trade and other payables                          | 257,121             | 177,023        |
| Loans and borrowings                              | 51,520              | 33,381         |
| Employee benefits                                 | 45,458              | 26,776         |
| Provisions  | 11,101              | 5,393          |
| Derivative financial instruments                  | 8,134               | 42             |
| <b>Total current liabilities</b>                  | <b>373,334</b>      | <b>242,615</b> |
| <b>Non-current liabilities</b>                    |                     |                |
| Trade and other payables                          | 380,482             | 95,257         |
| Loans and borrowings                              | 159,762             | 37,632         |
| Employee benefits                                 | 3,243               | 2,862          |
| Deferred tax liabilities                          | 13,728              | 8,772          |
| <b>Total non-current liabilities</b>              | <b>557,215</b>      | <b>144,523</b> |
| <b>Total liabilities</b>                          | <b>930,549</b>      | <b>387,138</b> |
| <b>Net assets</b>                                 | <b>325,295</b>      | <b>312,045</b> |
| <b>Equity</b>                                     |                     |                |
| Issued capital                                    | 307,963             | 307,963        |
| Reserves  | (10,553)            | (5,044)        |
| Retained earnings                                 | 27,885              | 9,126          |
| <b>Total equity</b>                               | <b>325,295</b>      | <b>312,045</b> |

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# Notes to the Financial Statements

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## 35. Auditors' remuneration

*In AUD*

### Audit services

KPMG Australia

- Audit and review of financial reports
- Additional costs in respect of prior years
- Other regulatory audit services

Overseas audit firms

- Audit and review of financial reports

### Other services

KPMG Australia

- Taxation services
- Employee migration services
- Other

**2012**

**2011**

|  |         |         |
|--|---------|---------|
|  |         |         |
|  | 438,000 | 520,613 |
|  | 11,375  | -       |
|  | 4,273   | 4,000   |
|  |         |         |
|  | 109,068 | 74,265  |
|  | 562,716 | 598,878 |
|  |         |         |
|  | 81,605  | -       |
|  | -       | 9,000   |
|  | 44,868  | 17,200  |
|  | 126,473 | 26,200  |

## 36. Events subsequent to balance date

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.

On 20 August 2012, the Directors of the Company declared a fully franked final dividend on ordinary shares in respect of the 2012 Financial Year. The total amount of the dividend is \$18.5 million, which represents a fully franked dividend of 2.5 cents per share and is payable on 17 October 2012.

# 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 88 to 142 and the Remuneration Report, set out on pages 53 to 70, 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 2012 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 2012.
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 20 August 2012 at Sydney





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

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

We have audited the accompanying financial report of Macmahon Holdings Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2012, 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.

# Independent audit report

continued



## *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 2012 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 which forms part of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Trevor Hart  
*Partner*

Perth

20 August 2012

# 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 15 August 2012.

- a) The twenty largest shareholders held 72.88% of the Ordinary Shares.
- b) There were 9,009 ordinary shareholders as follows:

| Size of holdings   | Total holders |
|--------------------|---------------|
| 1 - 1,000          | 938           |
| 1,001 - 5,000      | 2,693         |
| 5,001 - 10,000     | 1,800         |
| 10,001 - 100,000   | 3,281         |
| 100,001 - and over | 297           |
|                    | 9,009         |

The number of shareholders holding less than a marketable parcel of ordinary shares is 676.

# ASX additional information

continued

## Twenty largest shareholders as at 15 August 2012

| Name   | Number of ordinary shares held | Percentage of capital held |
|--|--------------------------------|----------------------------|
| Leighton Holdings Investments Pty Limited                              | 143,669,102                    | 19.38%                     |
| National Nominees Limited  | 96,272,457                     | 12.99%                     |
| J P Morgan Nominees Australia Limited                                  | 79,123,282                     | 10.67%                     |
| HSBC Custody Nominees <Australia>                                      | 59,838,422                     | 8.07%                      |
| J P Morgan Nominees Australia Limited <Cash Income A/C>                | 37,185,328                     | 5.02%                      |
| Citicorp Nominees Pty Limited  | 35,165,649                     | 4.74%                      |
| BNP Paribas Noms Pty Ltd <Master Cust Drp>                             | 13,943,303                     | 1.88%                      |
| Mr Nicholas Ronald Bowen   | 12,284,333                     | 1.66%                      |
| Alkat Pty Ltd <Bowen Welsh A/C>  | 11,107,604                     | 1.50%                      |
| CPU Share Plans Pty Limited <MAH Eep Unallocated A/C>                  | 9,871,005                      | 1.33%                      |
| Mr Conway Jeffrey Jones  | 8,500,000                      | 1.15%                      |
| HSBC Custody Nominees <Australia>                                      | 4,751,332                      | 0.64%                      |
| AMP Life Limited   | 4,732,390                      | 0.64%                      |
| JBWere (NZ) Nominees Limited <45307 A/C>                               | 4,068,526                      | 0.55%                      |
| RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>      | 3,490,740                      | 0.47%                      |
| Dalran Pty Ltd <Smith Family A/C>                                      | 3,394,537                      | 0.46%                      |
| CPU Share Plans Pty Limited <MAH VEP Control A/C>                      | 3,369,705                      | 0.45%                      |
| Queensland Investment Corporation                                      | 3,330,643                      | 0.45%                      |
| HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C> | 3,154,811                      | 0.43%                      |
| Jingie Investments Pty Ltd   | 3,000,000                      | 0.40%                      |
|  | 540,253,169                    | 72.88%                     |

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Macmahon  
Holdings Limited  
Annual Report 2012

# ASX additional information

continued

## Shareholding summary (continued)

### Substantial shareholders

As at 15 August 2012, the register of substantial shareholders disclosed the following information:

| Holders giving notice     | Number of ordinary shares in which interest is held |
|---------------------------|---|
| Leighton Holdings Limited | 139,405,224   |
| Northcape Capital Pty Ltd | 38,928,465  |

## 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.

## 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

|   | 2012    | 2011    | 2010    | 2009    | 2008    |
|---|---------|---------|---------|---------|---------|
| <b>Profit &amp; Loss (\$m)</b>  |         |         |         |         |         |
| Operating revenue   | 1,661.5 | 1,089.4 | 896.4   | 1,358.5 | 1,201.2 |
| Joint Venture revenue   | 246.3   | 221.4   | 419.9   | 153.3   | 63.3    |
| Joint Venture recoveries  | (37.0)  | (56.4)  | (61.9)  | (26.2)  | (20.2)  |
| Total revenue   | 1,870.7 | 1,254.4 | 1,254.4 | 1,485.6 | 1,244.3 |
| Underlying EBITDA   | 167.8   | 123.2   | 99.6    | 73.6    | 114.4   |
| Depreciation and amortisation   | (78.2)  | (57.1)  | (44.3)  | (43.8)  | (39.7)  |
| Underlying EBIT   | 89.6    | 66.1    | 55.3    | 29.8    | 74.7    |
| Significant and non-recurring items <sup>1</sup>                          | -       | (57.9)  | -       | -       | -       |
| Reported EBIT   | 89.6    | 8.2     | 55.3    | 29.8    | 74.7    |
| Net interest  | (14.4)  | (12.0)  | (5.8)   | (8.9)   | (7.5)   |
| Reported operating profit / (loss)  | 75.2    | (3.8)   | 49.5    | 20.9    | 67.2    |
| Tax (expense) / benefit   | (19.2)  | 1.1     | (10.7)  | (2.7)   | (17.8)  |
| Reported NPAT   | 56.1    | (2.7)   | 38.8    | 18.3    | 49.4    |
| Minority interest ("MI")  | -       | 3.8     | (0.9)   | (1.1)   | (0.6)   |
| Reported NPAT attributable to Macmahon                                    | 56.1    | 1.0     | 37.9    | 17.2    | 48.8    |
| Add: Significant and non-recurring items (net of tax and MI) <sup>1</sup> | -       | 37.8    | -       | -       | -       |
| Underlying NPAT attributable to Macmahon                                  | 56.1    | 38.8    | 37.9    | 17.2    | 48.8    |
| <b>Balance Sheet (\$m)</b>  |         |         |         |         |         |
| Plant and equipment   | 417.8   | 311.2   | 286.3   | 268.7   | 257.9   |
| Total assets  | 989.0   | 685.7   | 580.8   | 632.8   | 630.2   |
| Net assets  | 356.8   | 323.1   | 339.7   | 311.0   | 251.0   |
| Equity attributable to Macmahon   | 356.8   | 323.2   | 336.0   | 308.2   | 249.3   |
| Net debt / (net cash)   | 82.6    | (39.5)  | (43.8)  | 1.8     | 29.2    |
| <b>Cash Flow (\$m)</b>  |         |         |         |         |         |
| Reported EBITDA   | 167.8   | 65.3    | 99.6    | 73.6    | 114.4   |
| Net interest paid   | (9.2)   | (12.0)  | (5.8)   | (8.9)   | (7.5)   |
| Income tax (paid) / refunded  | (4.8)   | (0.9)   | 2.1     | (14.7)  | (10.0)  |
| Miscellaneous   | -       | -       | -       | -       | (0.2)   |
| Working capital and provisions decrease / (increase)                      | (67.0)  | 40.0    | 21.2    | 3.4     | (8.0)   |
| Operating cashflow including JV   | 86.8    | 92.4    | 117.1   | 53.4    | 88.7    |
| Investing and financing cashflows (net)                                   | (65.4)  | (76.2)  | (125.0) | (64.2)  | (82.3)  |
| Effect of exchange rates on cash  | (2.1)   | (2.8)   | 0.8     | -       | (0.9)   |
| Cash at beginning of financial year                                       | 115.6   | 102.2   | 109.3   | 120.1   | 114.6   |
| Closing cash balance  | 134.9   | 115.6   | 102.2   | 109.3   | 120.1   |

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

<sup>1</sup> Significant and non-recurring items includes the write-down of equity-accounted profit in RGP5 project and wet weather impacts.



# Summary of consolidated results

continued

## Statistical/ratio summary

|  | 2012  | 2011   | 2010   | 2009  | 2008  |
|--|-------|--------|--------|-------|-------|
| <b>People &amp; Safety</b>                     |       |        |        |       |       |
| Number of employees                            | 4,791 | 3,536  | 3,021  | 3,098 | 3,628 |
| LTIFR  | 1.4   | 0.2    | 0.4    | 0.8   | 2.0   |
| TRIFR  | 7.7   | 3.5    | 4.6    | 7.4   | 12.9  |
| <b>Order Book</b>                              |       |        |        |       |       |
| Work in hand (\$m)                             | 3,139 | 2,013  | 2,215  | 1,412 | 2,138 |
| New contracts & extensions (\$m)               | 2,997 | 1,052  | 2,057  | 1,108 | 1,377 |
| <b>Profit &amp; Loss Ratios</b>                |       |        |        |       |       |
| Revenue growth (%)                             | 49.1  | -      | (15.6) | 19.4  | 28.8  |
| Reported NPAT/Total revenue (%)                | 3.0   | 0.1    | 3.0    | 1.2   | 3.9   |
| Underlying NPAT/Total revenue (%) <sup>1</sup> | 3.0   | 3.1    | 3.0    | 1.2   | 3.9   |
| Net interest cover (x)                         | 6.2   | 0.7    | 9.5    | 3.4   | 9.9   |
| Reported basic EPS (cents)                     | 7.7   | 0.1    | 5.2    | 3.1   | 9.2   |
| Underlying basic EPS (cents) <sup>1</sup>      | 7.7   | 5.3    | 5.2    | 3.1   | 9.2   |
| Diluted EPS (cents)                            | 7.4   | 0.1    | 5.1    | 3.1   | 9.1   |
| <b>Balance Sheet Ratios</b>                    |       |        |        |       |       |
| Gearing (Net debt/Equity) (%)                  | 23.1  | (12.2) | (12.9) | 0.6   | 11.6  |
| Reported ROC (%)                               | 13.8  | 1.9    | 13.1   | 6.8   | 17.4  |
| Underlying ROC (%) <sup>1</sup>                | 13.8  | 11.8   | 13.1   | 6.8   | 17.4  |
| Reported ROE (%)                               | 16.5  | 0.3    | 11.3   | 5.6   | 19.6  |
| Underlying ROE (%) <sup>1</sup>                | 16.5  | 10.7   | 11.3   | 5.6   | 19.6  |
| Reported ROA (%)                               | 5.7   | 0.2    | 6.6    | 2.7   | 7.8   |
| Underlying ROA (%) <sup>1</sup>                | 5.7   | 5.2    | 6.6    | 2.7   | 7.8   |
| NTA per share (\$)                             | 0.4   | 0.4    | 0.4    | 0.4   | 0.4   |
| <b>Cash Flow Ratios</b>                        |       |        |        |       |       |
| Operating cash flow per share (cents)          | 11.7  | 12.6   | 16.0   | 7.3   | 16.6  |
| <b>Shareholders</b>                            |       |        |        |       |       |
| Shares on issue (m) @ 30 June                  | 738.6 | 733.7  | 733.7  | 733.7 | 535.3 |
| Share price @ 30 June (cents)                  | 57.5  | 56.0   | 54.5   | 34.0  | 166.5 |
| Dividend (cents)                               | 4.0   | -      | 3.0    | 1.5   | 5.5   |
| Percentage franked (%)                         | 100.0 | n/a    | -      | 100.0 | 100.0 |
| Market capitalisation (\$m)                    | 424.7 | 410.9  | 399.9  | 249.5 | 891.0 |
| Enterprise Value (EV)                          | 507.3 | 371.4  | 356.1  | 251.3 | 920.5 |
| Price/NTA (x)                                  | 1.3   | 1.4    | 1.3    | 0.9   | 4.1   |

<sup>1</sup> Calculated based on underlying profit and balance sheet which excludes the write-down of equity-accounted profit in RGP5 project and wet weather impacts in 2011.

# Glossary

|        |  |
|--------|--|
| 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 – $\text{NPAT} / \text{Average Net Assets}$   |
| ROA    | Return on Assets – $\text{NPAT} / \text{Total Assets at year end}$   |

## Calendar of events

### 9 November 2012

Annual General Meeting

### February 2013

Release of half year results

### August 2013

Release of full year results

## Offices and officers

### Company Secretaries

Mr Greg Gettingby

Mr Chris 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.

ACN 007 634 406

## 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](mailto:investors@macmahon.com.au)) or mail to:

Investor Relations

PO Box 198

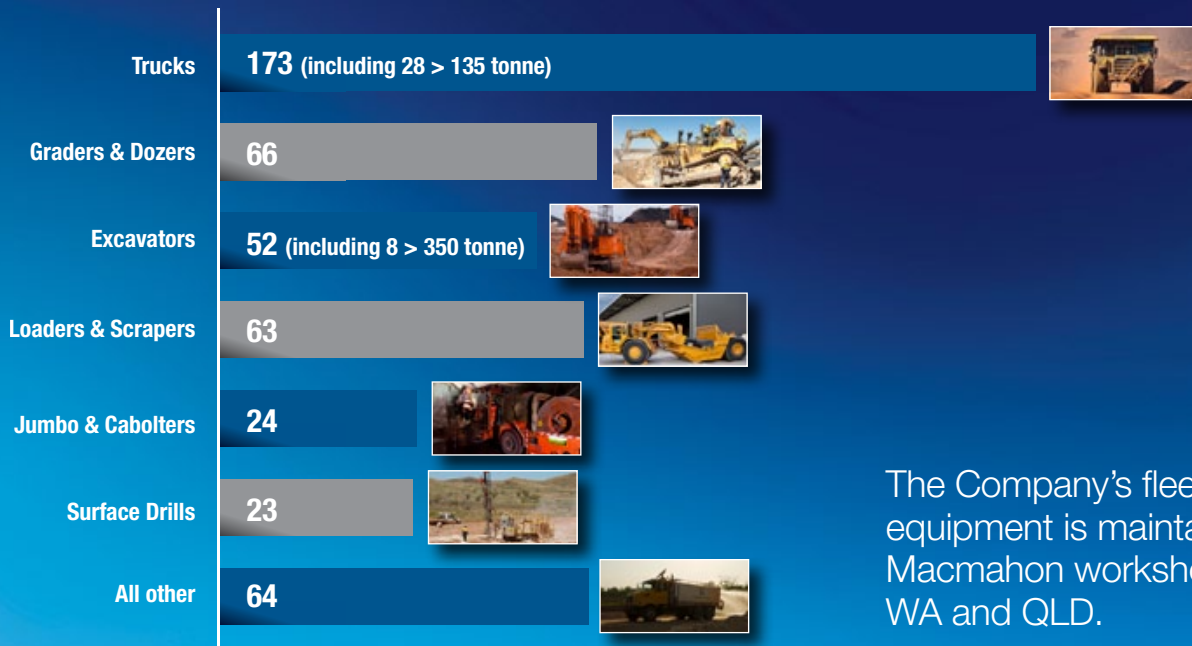
Cannington WA 6987

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

# Snapshot

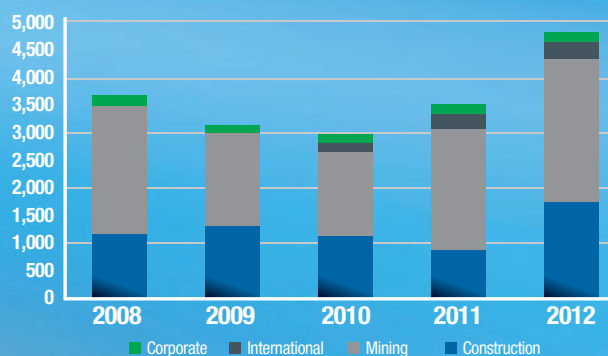
## 2012 snapshot

Current fleet of equipment as at 30 June 2012



The Company's fleet of equipment is maintained by Macmahon workshops in WA and QLD.

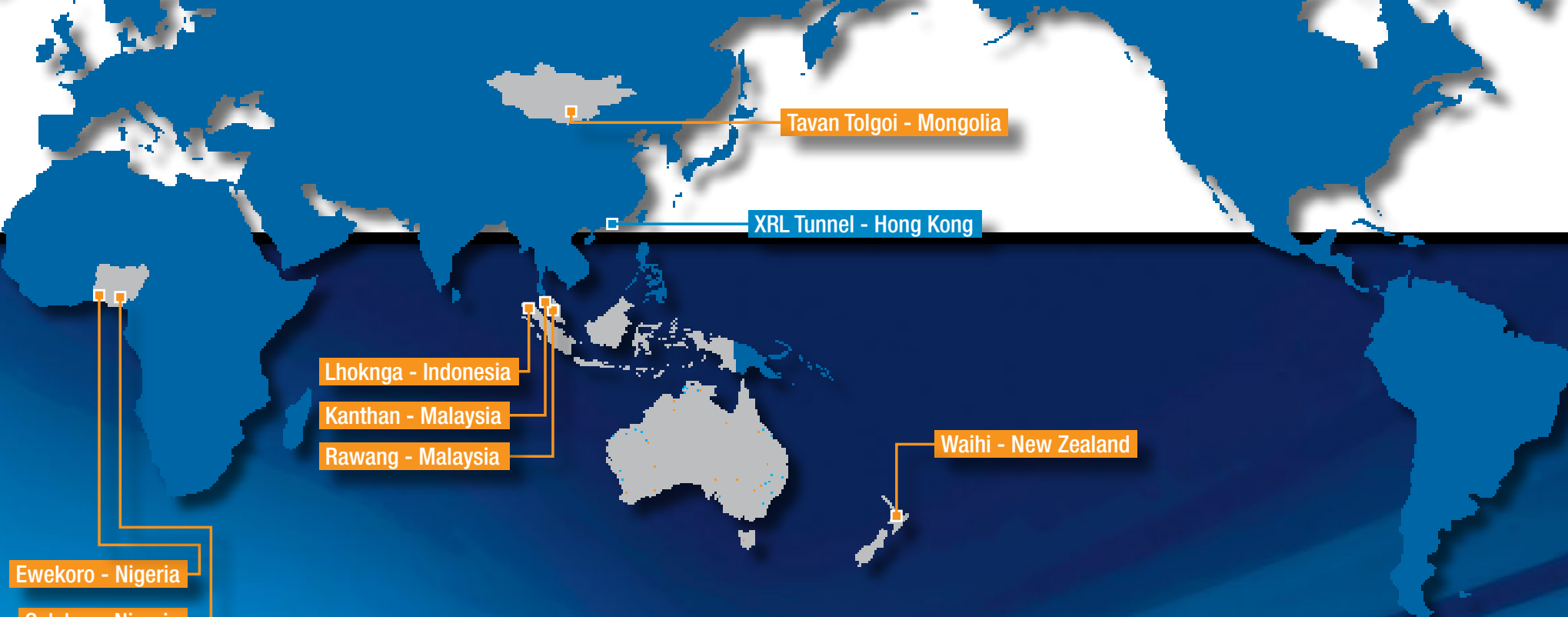
Group headcount summary



Macmahon has 4791 direct employees as of 30 June 2012.

# Map

## Macmahon operations



### Map Key

- Construction Project
- Mining Project



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