Half Year Report

MACMAHON

For the Half Year Ending 31 December 2005 – Issued 20 February 2006

Contents

MACMAHON Holdings Limited

Review of Operations

Highlights

$ million except where stated	31 Dec 05	31 Dec 04	% Change
Revenue Group	370	243	+ 52%
Revenue JV	36	38	- 5%
TOTAL Revenue	406	281	+ 45%
EBIT	20.5	11.2	+ 83%
EBIT Margin	5.1%	4.0%	+ 28%
PAT	11.7	5.7	+ 107%
Earnings Per Share - Basic	2.6 cents	1.4 cents	+ 82%
Dividends Per Share	0.5 cent	-	
Order Book	1,224	762	+61%

All figures restated for AIFRS – except where noted

Profit

For the half year ended 31 December 2005 MACMAHON achieved a profit after tax of $11.7 million, an increase of 107% on the half year ended 31 December 2004.

Earnings before Interest and Tax (EBIT) increased to $20.5 million delivering an EBIT margin on Total Revenue of 5.1% (2004: 4.0%).

Earnings per share were 2.6 cents, representing an 82% increase on the previous year.

The improved profit delivered a Return on Equity of 15.8%

Revenue

Total Revenue was $406 million (2004: $281 million). This included attributable joint venture revenue (from construction operations) of $36 million (2004: $38 million).

The 45% increase in Total Revenue reflected the buoyant resource sector and government infrastructure expenditure with new contracts won and increased activity across all divisions.

Dividend

The directors have declared an interim fully franked dividend of 0.5 cent per share payable on 14 April 2006 to shareholders registered on 21 March 2006.

The Dividend Re-Investment Plan ("the Plan") approved at the 2004 AGM will now be activated. Shareholders electing to participate will be allotted shares at a discount of 2.5%, calculated in accordance with the Plan rules.

Cashflow / Balance Sheet

Net operating cashflow for the half year was $30.7 million (2004: $21.3 million).

Replacement and growth capital expenditure totalled $48.5 million. Net balance sheet debt at December 2005 was $29.7 million compared to $61.5 million at 30 June 2005. Cash at bank at 31 December 2005 was $88.6 million.

Net debt to equity was 16.9% (50.9% : June 2005) and interest cover continued to improve to 5.6 times (2004: 3.9 times).

MACMAHON completed a successful $56.3 million (net of costs) equity raising in late 2005. Subsequent to 31 December 2005, MACMAHON has established a new corporate banking facility of $120 million with ANZ, BankWest and NAB as well as increasing its asset finance leasing capacity. These steps ensure that MACMAHON is in a very strong position to fund future growth.

Order Book

During the six months $705 million of new contracts and contract extensions were won, taking the total order book at year end to $1.2 billion. The order book is in its strongest position in the Company's history.

Australian International Financial Reporting Standards (AIFRS)

An extensive reconciliation of the impacts of AIFRS is provided in the detailed financial report. The most significant impacts are:

- The movement to a full prima facie tax rate of 30% for accounting purposes, which results in an increase of $1.9 million in the re-stated accounting tax charge for the half year to December 2004.

- The investment in Asia Pacific Transport (APT – MACMAHON 7% shareholding) the company that owns and operates the Alice Springs to Darwin railway was carried at cost at June 2005.

  Under the relevant AIFRS standard (AASB139 which was applicable from 1 July 2005) the APT investment is now classified as an asset available for sale and is required to be carried at fair value derived from discounted cash flows, as distinct from cost or recoverable amount under the previous accounting standard.

  The railway freight business operates under a 50 year government concession and is currently in ramp up phase. At this early stage accurate forecasting of future volumes and revenue is difficult. Accordingly any change in assumptions over such a long period has a significant impact on the discounted cash flow and fair value.

  Under the AIFRS transition rules, any difference in changing from the cost to fair value basis is required to be charged against accumulated losses and does not impact the P&L.

  The Directors of MACMAHON have valued the APT investment at 1July 2005 at $16.9 million. On comparison with the opening book value (at cost) of $29.6 million, the resulting difference of $12.7 million, less deferred tax of $2.7 million, has been charged to accumulated losses.

  Macmahon is now required to value the APT investment at each reporting period and make any adjustment through a fair value reserve. Accordingly, MACMAHON has made a further reduction in fair value adjustment of $1.1 million less deferred tax of $0.2 million at 31 December 2005.

  If, in the future, the APT asset is sold or becomes impaired, any variation against the fair value on transition to AIFRS at 1 July 2005 will be taken to the P&L.

People

MACMAHON employed some 2,550 people across its operations at December 2005.

The attraction and retention of employees is a significant challenge and MACMAHON has implemented a number of measures to assist in these areas including:

- Increased training;
- Career path development;
- Increased apprentice and graduate engineer intake;
- Overseas recruitment; and
- Flexible remuneration structures.

As MACMAHON values the important contribution made by its people, a new shareholder approved option scheme for long-term and senior employees (following a qualifying period) has been implemented. The scheme is designed to help build a stronger Macmahon and advance the interests of all stakeholders.

In the half year safety performance improved delivering a 18.2% improvement in Total Recordable Injury Frequency Rate to 15.2.

A core value for MACMAHON is the safety of our workforce and we are committed to continuous improvement at all levels to achieve a safe workplace. Less than three weeks ago the need to continually reinforce the importance of safety was brought home with two accidents that caused the tragic deaths of a sub-contractor in the Northern Territory and an employee at the Leinster underground operation in Western Australia. Comprehensive investigations of both these events are currently underway and the Company intends to do everything possible to eliminate the factors that contributed to the accidents.

Divisional Results

MACMAHON reports its business in three segments, Construction (Civil), Mining (Open Cut and Underground) and Services (Allplant).

These segments reflect the customer and business activities across the Group. All direct overhead costs are allocated to these segments. Unallocated corporate overheads are approximately 1.6 % of revenue.

Construction

$ million except where stated	Dec 05	Dec 04	Δ
Revenue	149	74	+102%
JV Revenue	36	38	-0.5%
Total Revenue	**185**	**112**	**+66%**
EBIT	**8.0**	**1.6**	**+391 %**
EBIT Margin	**4.3%**	**1.5%**	

Revenue, including joint ventures, from the Construction Division was $185 million, a 65% increase compared to $112 million in the corresponding period last financial year.

The EBIT figure of $8 million represents a significant improvement over the December 2004 result.

All of the Construction contracts during this period have been profitable and the Division has benefited from completing a number of fixed priced contracts which had been impacted by cost increases.

The Burnett River Dam in Queensland was successfully completed on time and under budget, during this half.

The Division won five major projects during this half

- Woodside Energy - LNG Phase 5
- Hamersley Iron - Dampier Port Upgrade Phase B
- Main Roads WA – Millstream Alliance (Karratha / Tom Price Road), and Eyre Highway
- North Queensland Water – Ross River Dam Upgrade

Revenue in the second half is expected to be similar to the first half but with improved margins.

The current focus on large infrastructure projects is driving strong tendering activity and together with the recent acquisition of a 60 % share of MVM Rail Pty Ltd, revenue is expected to increase in 2007.

Mining

$ million except where stated	Dec 05	Dec 04	Δ
Revenue	**207**	**161**	**+ 28 %**
EBIT	**13.9**	**9.8**	**+ 42 %**
EBIT Margin	**6.7%**	**6.1%**	

Revenue from the Mining Division was $207 million up from $161 million in the December 2004 half.

The EBIT of $13.9 million was an increase on the 2004 half but the EBIT margin of 6.7% was below the target for the Division. Margins from the Division are expected to improve over the next 12 months as a result of new work and contract extensions.

In this period the Division won the contract for the new BHP Billiton Orebody 18 ("OB18") open cut iron ore mine in the Pilbara region of Western Australia. In addition the contract at the Nifty mine was extended and production increased at the Eaglefield coal mine in Queensland.

The Division was successful in being awarded extensions to its underground contracts for BHP Billiton's Olympic Dam and Cannington mines and Xstrata's Mt Isa mine.

BHP Billiton is now the largest client of MACMAHON with work at a number of projects around Australia.

Although the underground contract for Bendigo Mining will finish at the end March 2006, the equipment and personnel will transfer to other projects.

A combination of contract extensions, the commencement of the OB18 contract and the expectation for the BHP Billiton Jimblebar contract will deliver significant revenue growth in 2007.

Services (Allplant)

$ million except where stated	Dec 05	Dec 04	Δ
Revenue Internal	16	10	53%
Revenue External	13	8	68%
Total Revenue	**29**	**18**	**59%**
EBIT	**4.5**	**3.6**	**+ 28 %**
EBIT Margin	**15.6%**	**19.4%**	

Total Revenue generated by the Services Division increased by 59% to $29 million.

EBIT increased by 28% to $4.5 million but there was a reduction in EBIT margin as a result of the changing mix of business within the Division (plant hire and maintenance services) and expenditure to prepare the business for future growth.

The new Nebo workshop complex, which services Queensland's coal mines, is now operational and the national plant hire fleet has increased to 132 units.

Allplant is well positioned to generate further revenue and profit growth in second half.

Market Conditions

The market conditions relating to the three MACMAHON business segments remain extremely positive. Throughout Australia there is a high level of Government investment in roads, rail and water infrastructure.

Activity across the resources sector is high, with increased production and the commissioning of new mines. In particular, the outlook in iron ore, coal and copper is excellent and buoyant conditions are expected to continue.

Strategy

There are two key pillars of the MACMAHON strategy to increase Total Shareholder Return:

- Grow the Business; and
- Increase EBIT margins (profitability)

Areas identified as providing opportunities for growth include:

- Construction
  - Large government infrastructure projects
  - Mining expansion projects (iron ore and coal)

- Mining
  - Iron ore, coal and copper with growth from existing contracts and new mines

- Allplant
  - Maintenance services and plant hire

- "Bolt-on" acquisitions (similar to MVM Rail Pty Ltd)

Targets

MACMAHON established a set of financial targets in June 2005. The table below compares the actual results to the Targets.

	Targets	Actual December 05 Results
EBIT Margin	5% in 2006 – 6% in 2007	5.1 %
PAT Growth	+20% pa	+ 107 %
Debt/Equity	<50% short term <30% long term	16.9 %
ROE	+15%	15.8 %
Safety (TRIFR)	Continual Improvement	18.2% Improvement

Outlook

With existing contracts MACMAHON already has $392 million of revenue secured for second half of the 2006 financial year. Combined with expected contract extensions and new work full year Total Revenue in the vicinity of $850 million is expected.

Second half EBIT margins will be maintained at above 5% which should deliver a 25% increase in full year profit after tax.

It is anticipated that capital expenditure for 2006 will be approximately $130 million and that the Debt to Equity will remain below 50%.

Further growth is forecast in 2007 from existing and new contracts with revenue expected to exceed $1 billion for the first time in the Company's history.

Nick Bowen
CEO

20 February 2006

MACMAHON

APPENDIX 4D

Results for Announcement to the Market

For the six months ended 31 December 2005

Name of entity

MACMAHON HOLDINGS LTD

ACN

007 634 406

				$A'000
Revenues from ordinary activities	up	52%	to	370,057
Revenues from ordinary activities – Share of JV Revenue				53,399
Revenue from ordinary activities – Elimination of revenue (labour and cost recoveries) from Joint Ventures				(17,720)
Total revenues from ordinary activities – Group and JV Entities	up	45%	to	405,736
Profit from ordinary activities after tax attributable to members	up	107%	to	11,718
Net profit for the period attributable to members	up	107%	to	11,718

Dividends	Amount per security	Franked amount per security %
Interim dividend declared	0.5 ¢	100 %

The directors declared the payment of an interim dividend of 0.5c per share (franked to 100%) to the holders of fully paid ordinary shares, registered on 21 March 2006 to be paid on 14 April 2006

Shareholders have been invited to participate in the MACMAHON Dividend Reinvestment Plan (DRP), which was approved at the 2004 AGM. The last date for receipt of the election notice for participation in the DRP is 21 March 2006.

	31 Dec 2005	**31 Dec 2004**
Net Tangible Assets per Ordinary Share	$0.33	$0.30

Financial Report
for the Half-Year Ended 31 December 2005

The directors of Macmahon Holdings Limited present their report together with the consolidated financial report for the half year ended 31 December 2005 and the review report thereon.

Directors

The names of the directors of the company at any time during or since the end of the half-year are:

R J Carter (Chairman)	Director since 8 October 2001
N R Bowen (Chief Executive Officer)	Director since 3 February 2000
B L Cusack	Director since 25 June 2002
D J Humann	Director since 4 July 2000
M A Kinnaird	Director since 25 June 2004

Australian equivalents to International Financial Reporting Standards ("AIFRS")

Prior to 30 June 2005, MACMAHON prepared its financial statements in accordance with Generally Accepted Accounting Principles ("AGAAP"). MACMAHON is required to report its consolidated accounts under Australian Equivalents to International Financial Reporting Standards ("AIFRS") from 1 July 2005. This interim report, including comparative information for 2004, is the first set of financial statements produced by Macmahon under AIFRS. An explanation of the adjustments made in the transition from AGAAP to AIFRS is set out in note 13 to the financial statements.

Review of Operations

For the half year ended 31 December 2005 MACMAHON achieved a profit after tax of $11.7 million, an increase of 107% on the half year ended 31 December 2004.

Earnings before Interest and Tax (EBIT) increased to $20.5 million delivering an EBIT margin on Total Revenue of 5.1% (2004: 4.0%).

Earnings per share were 2.6 cents, representing an 82% increase on the previous year.

The improved profit delivered a Return on Equity of 15.8% (2004 - not AIFRS adjusted: 14.9%).

Revenue

Total Revenue was $ 406 million (2004: $281 million). This included attributable joint venture revenue (from civil operations) of $36 million (2004: $38 million).

The 45% increase in revenue reflected the buoyant resource sector, new contracts won and the increased activity across all divisions.

Dividend

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The Dividend Re-Investment Plan ("the Plan") approved at the 2004 AGM will now be activated. Shareholders electing to participate will be allotted shares at a discount of 2.5%, calculated in accordance with the Plan rules.

Cashflow / Balance Sheet

Net operating cashflow for the half year was $30.7 million (2004: $21.3 million).

Replacement and growth capital expenditure totalled $48.5 million. Net balance sheet debt at year end was $28.7 million compared to $64.7million in 2004 (not AIFRS adjusted). Cash at bank and on hand was $88.6 million.

Net debt to equity ratio was 16.9% (2004: 61.2%). Importantly interest cover continued to improve to 5.6 times (2004: 3.9 times).

MACMAHON completed a successful $56.3 million (net of costs) equity raising in late 2005. Subsequent to 31 December 2005, MACMAHON has completed a new corporate banking facility of $120 million with the ANZ, BankWest and NAB as well as increasing its finance leasing capacity. These steps ensure that MACMAHON is in a very strong position to fund future growth.

Order Book

During the six months $700 million of new contracts and contract extensions were won, taking the total order book at year end to $1.22 billion. The order book is in its strongest position in the Company's history.

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

The lead auditors' Independence Declaration forms part of this Directors' Report and is included on page 5.

Rounding Off Of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of directors.

On behalf of the Directors

N. R. Bowen
Managing Director
Perth, 20 February 2006

KPMG

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

To: the directors of Macmahon Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period year ended 31 December 2005 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Denise P McComish
Partner

Place: Perth

Date: 20 February 2006

KPMG

Independent review report to the members of Macmahon Holdings Limited

Scope

We have reviewed the financial report of Macmahon Holdings Limited ("the Company") for the half-year ended 31 December 2005, consisting of the condensed consolidated interim income statement, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 1 to 14 and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards.*

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macmahon Holdings Limited is not in accordance with:

(a) the Corporations Act 2001, including:

i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Denise P McComish
Partner

Place: Perth

Date: 20 February 2006

Macmahon Holdings Limited

Directors' Declaration

In the opinion of the directors of Macmahon Holdings Limited;

1. the financial statements and notes set out on pages 8 to 36, are in accordance with the Corporations Act 2001 including:

   a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

   b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporation Regulations 2001; and

2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

N.R. Bowen
Managing Director
Perth, 20 February 2006

Macmahon Holdings Limited

Condensed consolidated interim income statement
for the Half-Year Ended 31 December 2005

	Half-Year Ended 31 Dec 2005 $'000	Half-Year Ended 31 Dec 2004 $'000
Revenue	370,057	243,015
Other operating income	640	395
Materials and consumables used	(155,666)	(94,444)
Employee benefits expense	(152,255)	(100,182)
Subcontractor costs	(21,766)	(16,101)
Depreciation and amortisation expenses	(17,504)	(15,250)
Operating lease expenses	(721)	(1,046)
Other operating expenses	(8,473)	(6,197)
Share of net profits of joint ventures accounted for using the equity method	6,224	1,016
Operating profit before financing costs	**20,536**	**11,206**
Financial income	1,104	798
Financial expenses	(4,769)	(3,697)
Net financing costs	(3,665)	(2,899)
Profit before tax	***16,871***	**8,307**
Income tax expense	(5,153)	(2,653)
Profit for the period – *attributable to equity holders of the parent*	**11,718**	**5,654**
Earnings per Share:		
Basic (cents per share)	2.56	1.41
Diluted (cents per share)	2.55	1.40

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 36.

Macmahon Holdings Limited

Condensed consolidated interim statement of recognised income and expense for the Half-Year Ended 31 December 2005

		Half-Year Ended 31 Dec 2005 $'000	Half-Year Ended 31 Dec 2004 $'000
Foreign exchange translation differences		**(97)**	(458)
Cash flow hedges:			
Effective portion of changes in fair value (net of tax)		379	-
Change in fair value of financial assets available for sale (net of tax)		(851)	-
Net income recognised directly in equity		(569)	(458)
Profit for the period		11,718	5,654
Effect of change in accounting policy			
Effect of adoption of AASB 132 and AASB 139 on 1 July 2005 (with 2004 not restated)			
Net increase in accumulated losses			
Restatement of assets classified as held for sale			
from cost to fair value	(12,665)		-
Related deferred income tax	2,660		-
Net increase in cash flow hedge reserve			
Cumulative changes in fair value of effective cash			
flow hedges	(389)		-
Related deferred income tax	117	(10,277)	-
Total recognised income and expense for the period attributable to equity holders of the parent		872	5,196

The statement of recognised income and expense is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 36.

Macmahon Holdings Limited

Condensed consolidated interim balance sheet
as at 31 December 2005

	Note	31 Dec 2005 $'000	30 June 2005 $'000
Current Assets			
Cash and cash equivalents		88,616	40,074
Trade and other receivables		79,564	76,762
Inventories		15,520	11,411
Income tax receivable		-	325
Total Current Assets		183,700	128,572
Non-Current Assets			
Property, plant and equipment		183,328	153,243
Intangibles		6,791	6,791
Deferred tax assets		5,691	4,683
Investments accounted for using the equity method		3,379	1,246
Assets classified as available for sale	7	16,900	29,565
Other		-	14
Total Non-Current Assets		216,089	195,542
Total Assets		399,789	324,114
Current Liabilities			
Trade and other payables		79,973	79,653
Interest-bearing liabilities		31,819	25,426
Income tax payable		1,981	619
Provisions – employee entitlements		21,292	19,402
Provisions - other		333	164
Total Current Liabilities		135,398	125,264
Non-Current Liabilities			
Interest-bearing liabilities		86,511	76,155
Provisions – employee entitlements		1,016	1,278
Provisions - other		885	579
Total Non-Current Liabilities		88,412	78,012
Total Liabilities		223,810	203,276
Net Assets		175,979	120,838
Equity			
Issued capital		223,743	166,762
Reserves		(1,187)	(346)
Accumulated losses		(46,577)	(45,578)
Total Equity	12	175,979	120,838

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 36.

Macmahon Holdings Limited

Condensed consolidated interim statement of cash flows for the Half-Year Ended 31 December 2005

	Inflows/(Outflows)	
	Half-Year Ended 31 Dec 2005 $'000	Half-Year Ended 31 Dec 2004 $'000
Cash Flows from Operating Activities		
Cash receipts from customers	408,607	255,962
Cash receipts from joint venture entities	3,613	833
Cash payments to suppliers and employees	(376,832)	(231,640)
Interest received	1,104	798
Interest and other costs of finance paid	(4,769)	(3,697)
Income tax paid	(999)	(963)
Net cash provided by operating activities	30,724	21,293
Cash Flows From Investing Activities		
Payment for investment securities	(1,078)	(760)
Payment for property, plant and equipment	(48,491)	(33,136)
Proceeds from sale of property, plant and equipment	1,248	551
Net cash used in investing activities	(48,321)	(33,345)
Cash Flows From Financing Activities		
Proceeds from issues of equity securities	58,706	593
Costs of capital raising	(2,396)	-
Dividends Paid	(3,816)	(1,878)
Proceeds from borrowings	32,921	30,248
Repayment of finance lease and hire purchase obligations	(15,557)	(13,430)
Repayment of other borrowings	(3,719)	(1,024)
Net cash provided by financing activities	66,139	14,509
Net Increase In Cash Held	48,542	2,457
Cash At The Beginning Of The Half-Year	40,074	32,896
Cash At The End Of The Half-Year	88,616	35,353

This statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 36.

Note 1 Summary of Significant Accounting Policies

Macmahon Holdings Limited (the "Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The condensed consolidated interim financial report for the six months ended 31 December 2005 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 condensed consolidated interim financial report was authorised for issue by the directors on 20 February 2006.

a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The interim financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first condensed consolidated interim financial report prepared based on AIFRS for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by Macmahon Holdings Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRS has affected the financial position, financial performance and cash flows of the consolidated entity is provided in note 13 which includes reconciliations of equity and profit for comparative periods reported under Australian GAAP to those reported under AIFRS.

b) Basis of Preparation

The financial report, which is presented in Australian dollars, is prepared on the historical cost basis, except that available-for-sale financial instruments and derivatives are stated at their fair value.

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

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting*, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ending 30 June 2006.

Note 1 Summary of Significant Accounting Policies (cont'd)

b) Basis of Preparation (cont'd)

The entity has elected to early adopt the revised accounting standard AASB 119 Employee Benefits (December 2004).
The Australian Accounting Standards and UIG interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ending 30 June 2006 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Australian GAAP. Except for the change in accounting policy relating to the classification and measurement of financial instruments, the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRSs, as required by AASB 1. The impact of the transition from Australian GAAP to AIFRSs is explained in note 13. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

c) Basis of Consolidation

i) Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

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

iii) Jointly Controlled Entities
Jointly controlled entities are those entities, including partnerships, over whose activities the consolidated entity has joint control, established by contractual agreement. In the condensed consolidated interim financial report, investments in jointly controlled entities are accounted for using equity accounting principles and are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the income statement from the date the joint control commenced until the date joint control ceases.

iv) Transactions eliminated on consolidation
In preparing the condensed consolidated interim financial statements, all intercompany balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in full.

Note 1 Summary of Significant Accounting Policies (cont'd)

d) Foreign Currency

i) Foreign Currency Transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate ruling at the date of the transaction. Foreign currency monetary items at reporting date are translated to Australian dollars at the exchange rate existing at that date. Foreign exchange differences arising on translation are recognised in the income statement.

ii) Financial statements of foreign operations.
Financial statements of foreign operations are translated using the exchange rates prevailing at reporting date. Income and expenses are translated at the average exchange rates for the period.

iii) Net investment in foreign operations
Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are recognised in the foreign currency translation reserve. In respect of all foreign operations, any differences that have arisen before 1 July 2004, the date of transition to AIFRS, have been transferred to accumulated losses (see note 13e).

e) Derivative financial instruments

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

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on restatement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

f) Hedging

Current accounting policy
(i) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.
When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e., when interest income or expense is recognised). For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Note 1 Summary of Significant Accounting Policies (cont'd)

f) Hedging (cont'd)

Comparative period policy
Exchange differences on forward exchange contracts to hedge the purchase of specific goods and services are deferred and included in the measurement of the purchase.
In the event of the early termination of a foreign currency hedge of an anticipated purchase of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- Deferred and included in the measurement of the purchase when it takes place, where the anticipated transaction is still expected to occur as designated; or
- Recognised in net profit or loss at the date of termination, if the anticipated transaction is no longer expected to occur as designated.

The quantitative effect of the change in accounting policy is set out in note 14.

g) Property, Plant and Equipment

(i) Owned assets
Items of property, plant and equipment acquired are stated at the cost of acquisition, being the purchase consideration determined as at the date of acquisition less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.
In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.
Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased Assets
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property. Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments. Lease payments, including operating leases are accounted for as described in accounting policy (r).

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

(iv) Depreciation
Assets other than land are depreciated at rates based upon their expected useful economic lives. Estimates of remaining useful lives are made on a regular basis for all assets, with annual re-assessments for major items.
Depreciation on buildings, leasehold improvements and minor plant and equipment is calculated on a straight-line basis. Depreciation on major plant and equipment is calculated on machinery hours worked over their estimated useful life. The expected useful lives in the current and comparative periods are as follows:

Buildings	40 years
Leasehold improvements	period of the lease
Plant and equipment – major	4–8 years
Plant and equipment – minor	3–5 years

Finance leased assets are amortised based on hours used over the useful life of the asset.

Note 1 Summary of Significant Accounting Policies (cont'd)

h) Intangible assets

Goodwill
(i) Business combinations prior to 1 July 2003
Goodwill is included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2003 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004
(ii) Business combinations since 1 July 2003
All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.
Negative goodwill arising on an acquisition is recognised directly in profit or loss.

i) Investments

Current accounting policy
Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through 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 and, in the case of monetary items such a debt securities, foreign exchange gains and losses. When these investments are derecognised, 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.

Comparative period policy
Interests in listed and unlisted securities, other than in controlled entities, are brought to account at cost and dividend income is recognised as revenue when received. Subsequently, interests in listed and unlisted securities are measured at the lower of cost and recoverable amount.
The interest in partnerships is accounted for using the equity method of accounting.
The quantitative effect of the change in accounting policy is set out in note 14.

j) Trade and other receivables

(i) Construction work in progress
Construction work in progress only relates to construction contracts and is stated at cost plus attributable profit to date less progress billings.
(ii) Other trade and other receivables
Trade receivables and other receivables are stated at cost less impairment losses.

k) Inventories

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

Note 1 Summary of Significant Accounting Policies (cont'd)

l) Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.
Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill was tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.
When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.
(i) Calculation of recoverable amount
The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as 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.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Receivables that are not assessed as impaired are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

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

(ii) Reversals of impairment
An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.
An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.
An impairment loss in respect of goodwill is not reversed.
In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.
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.

Note 1 Summary of Significant Accounting Policies (cont'd)

m) Interest-bearing borrowings

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

Comparative period policy
Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in Trade and Other Payables.

n) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.
(ii) Defined benefit plans
The consolidated entity has early adopted the revised AASB119 *Employee Benefits (December 2004)*.
The consolidated entity's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating to the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.
All actuarial gains and losses as at 1 July 2004, the date of transition to AIFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 July 2004 in calculating the consolidated entity's obligation in respect of a plan, 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 plan 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.
Where the calculation results in plan assets exceeding liabilities, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

(iii) Wages, salaries and leave benefits
Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service 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, sick leave and long service leave expected to be settled in 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Note 1 Summary of Significant Accounting Policies (cont'd)

n) Employee benefits (cont'd)

(iii) Wages, salaries and leave benefits (cont'd)

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date. Provisions include related on costs such as workers compensation and payroll tax.

Interest rates attaching to government bonds as reported by The Reserve Bank of Australia at reporting date have been used to discount future cash flows.

(iv) Share-based payment transactions

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

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

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

The fair value of options and Performance Shares granted are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at Grant Date and spread over the period during which the employees become unconditionally entitled to the options or Performance Shares. The fair value of the options and Performance Shares granted is measured using a binomial model and Monte Carlo simulation model respectively, taking into account the terms and conditions upon which the options or Performance Shares were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options or Performance Shares that vest except where forfeiture is only due to total shareholder returns or market prices not achieving the threshold for vesting.

o) Provisions

Provisions are recognised when the consolidated entity has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

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

Provision for project closure

At the completion of some projects the consolidated entity may have a liability for redundancy and the cost of relocating mobile plant. An assessment is undertaken on the probability that such expenses will be incurred in the normal business of contracting services and is provided for in the financial statements.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Note 1 Summary of Significant Accounting Policies (cont'd)

p) Trade and other payables

Trade payables and other accounts payable are recognised at cost when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

q) Revenue

Revenue Recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised in the income statement in proportion to the work performed or stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. In addition, for construction contracts, the following specific recognition criteria are applied:

- For cost reimbursable and alliance contracts, where profit is reliably measurable from the outset, contract revenue and expenses are recognised in the income statement in proportion to the costs incurred.
- For all other construction contracts, contract revenue and expenses are progressively recognised, over the balance of the contract, based on the percentage cost of completion 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. Management reviews and reports to the board monthly on each individual contract performance and where a loss is deemed to be unavoidable on completion, the projected loss is recognised immediately.

r) Expenses

Operating lease payments
Payments under operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight line basis over the term of the lease.
Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs
Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.
Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

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

Note 1 Summary of Significant Accounting Policies (cont'd)

s) Income Tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

t) Segment reporting

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

u) Goods and Services Tax

Revenues, 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, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
Receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.
Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

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

2. Segment Reporting

BUSINESS SEGMENTS

Segment information is presented in the condensed consolidated interim financial statements in respect of the consolidated entity's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the consolidated entity's management and internal reporting structure.

The consolidated entity comprises of the following main business segments:

- Construction
- Mining
- Services

Also presented is revenue from joint venture entities which is not recognised in the financial statements as these entities are equity accounted, which recognises the share of net profits and not revenues.

	Half-Year Ended 31 Dec 2005 $'000	Half-Year Ended 31 Dec 2004 $'000
SEGMENT REVENUE		
Construction (including joint ventures)	185,362	111,745
Mining	207,249	160,879
Services (including internal sales)	29,270	18,395
Total Segment Revenue	**421,881**	**291,019**
Elimination of internal sales	(16,145)	(10,380)
Total revenue from ordinary activities – group and joint venture entities	405,736	280,639
Elimination of attributable joint venture revenue	(53,399)	(43,302)
Labour and cost recoveries from joint ventures	17,720	5,678
Consolidated Revenue	**370,057**	**243,015**
SEGMENT RESULTS		
Construction (includes share of net profits of joint ventures)	8,031	1,636
Mining	13,924	9,806
Services	4,554	3,566
Total Segment Result	**26,509**	**15,008**
Unallocated corporate expenses	(5,973)	(3,802)
Operating Profit before financing costs (EBIT)	**20,536**	**11,206**
Net financing costs	(3,665)	(2,899)
Profit before tax	16,871	8,307
Income tax expense	(5,153)	(2,653)
Profit for the period	**11,718**	**5,654**

Changes in segment reporting

The mining segment was previously reported as two segments, Open Cut Mining and Underground Mining. Since these sub segments exhibit similar performance and other factors they have been combined. Previously shared services were not attributed to divisions. Since they reflect costs incurred on behalf of the business segments, they are now allocated to segments on the basis of activity.

3. Contingent Liabilities

	31 Dec 2005 $'000	30 Jun 2005 $'000
Contingent Liabilities		
Bank guarantees		
• In favour of clients	18,268	9,868
Insurance Performance Bonds		
• In favour of clients	43,636	41,731
Letters of Credit		
• In relation to contingent support to APT	1,963	3,041

4. Dividends

	Half-year ended 31 Dec 2005		Half-year Ended 31 Dec 2004	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully Paid Ordinary Shares				
Recognised Amounts				
Dividend paid on 30 September 2005 (fully franked)	1.0	3,816	0.5	1,877
Unrecognised Amounts				
Interim dividend proposed by Directors after 31 December 2005 (fully franked)	0.5	2,580	-	-

5. Issuances, Repurchases and Repayment of Securities

5.1 Share Options and Performance Shares

There were 2,327,000 shares and 4,000,000 Performance Shares issued during the half year as a result of the exercise of options issued under the 2000 Executive Option Scheme and a long term incentive to the CEO.

	Half-Year Ended 31 Dec 2005 No. 000's	Half-Year Ended 31 Dec 2004 No. 000's
Share Options		
Balance at the beginning of the half year	12,552	11,477
Granted during the half year	-	1,000
Exercised during the half year	(2,327)	(3,950)
Lapsed during the half year	-	-
Balance at the end of the half year	**10,225**	**8,527**
Unvested Unlisted Performance Shares		
Balance at the beginning of the half year	-	-
Incentive shares issued to CEO	4,000	-
Balance at the end of the half year	**4,000**	**-**

5. Issuances, Repurchases and Repayment of Securities (cont'd)

5.2 Share Capital

	31 Dec 2005 $'000	30 Jun 2005 $'000
(a) Issued and Paid Up Capital		
Ordinary Shares fully paid 516,019,261 (30 Jun 2005: 379,302,403) refer note 12	223,743	166,762

(b) Movements in Issued Share Capital during the half year

Fully Paid Ordinary Shares	Half-Year Ended 31 Dec 2005 No '000	Half-Year Ended 31 Dec 2004 No '000
Balance at the beginning of the half year	379,302	373,952
Issue of Shares under Executive options plan	2,327	3,950
Incentive shares issued to CEO	4,000	-
Rights Issue for cash	73,146	-
Share placement for cash	57,244	-
Balance at the end of the half year	**516,019**	**377,902**

6. Associates and joint venture entities

The consolidated entity's interests in associates and joint ventures are accounted for using the equity method.

	2005 Ownership %	2004 Ownership %
Active		
Tonkin Highway Joint Venture	50	50
Burnett River Dam Joint Venture	85	42.5
Rail Link Joint Venture	25	25
Millstream Alliance	85	-
Ross River Dam Joint Venture	50	-
Non Active		
ADrail Joint Venture	10	10
Jervoise Bay Joint Venture	50	50
Eastern Gas Pipeline Joint Venture	30	30
Learmonth Joint Venture	50	50
Roe Highway Joint Venture	50	50
Associates (Non-active)		
PT Sarpindo Graha Sawit Tani	25	25
Bluff Harbour Pty Ltd	50	50
Encounter Lakes Pty Ltd	50	50

7. Assets classified as available for sale

The consolidated entity has a combined investment in Asia Pacific Transport Corporation and Freightlink Pty Ltd ("APT") via shares, debt instruments and interests in joint ventures. Under Australian GAAP, the consolidated entity recorded this investment at cost. Under AIFRS the APT investment is classified as an available for sale equity security and accordingly the investment is now recognised at fair value.

The effect in the consolidated entity at 1 July 2005 is to decrease equity securities available for sale and increase accumulated losses by $12,665,000 and $10,005,000, respectively ($12,665,000 less increase in deferred tax asset of $2,660,000).

The effect in the consolidated entity in the current period is to decrease assets classified as available for sale and the fair value reserve by $1,077,000 and $851,000 respectively ($1,077,000 less increase in deferred tax asset of $226,000).

As there is no active market for the instruments comprising the APT investment, it is valued by a discounted cash flow model using cash flow projections of equity distributions from and contributions to APT over a 26 year period. The underlying operating cash flow projections are based upon growth factors for each key freight revenue stream prepared by the APT business.

APT owns and operates the Alice Springs to Darwin railway, where freight operations commenced on 15 January 2004. At this early stage of the business development, freight volumes for the minerals, bulk liquids and international freight segments of the business remain in a significant ramp up stage. Volume and pricing assumptions are consequently volatile through the growth phase of the business.

Cash flows have been discounted by reference to an appropriate discount rate derived under the Capital Asset Pricing Model. The discount rate incorporates assumptions with respect to risk free rate, market risk premium and volatility. Risk free rate and market risk premium are based on 10 year Australian government bonds and historical Australian market data respectively. Volatility is estimated from publicly quoted beta factors of 5 similar companies using approximately 4 years worth of weekly time series data. The discount rate used is 11.85% at 1 July 2005 and 12.15% at 31 December 2005.

Sensitivity Analysis
At 31 December 2005 it is estimated that a change in discount rate of 1% would provide a range of values for the APT investment from $14,000,000 to $20,000,000, compared to the carrying value of $16,900,000 at 31 December 2005.

8. Income Taxes

Current Tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Deferred Tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented.

The primary components of the entity's recognised deferred tax assets include temporary differences related to lease liabilities, employee benefits, other investments, provisions and other items, and the value of recognised tax losses carried forward.

The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant & equipment and inventories.

Deferred tax expense arises from the origination and reversal of temporary differences, the effect of changes in tax rates and the benefit of tax losses recognised. The primary components of deferred tax expense for the six months ended 31 December 2005 are related to a reduction in deferred tax assets, primarily relating to tax losses utilised and an increase in deferred tax liabilities, relating primarily to property, plant and equipment.

Total deferred tax recognised directly in equity was $671,000 for the six months ended 31 December 2005 (six months ended 31 December 2004: nil)

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2005 is as follows:

Profit Attributable to ordinary shareholders	**2005**	**2004**
For the six months ended 31 December 2005	**$'000**	**$'000**
Profit for the period	11,718	5,654

Weighted average number of ordinary shares	**2005**	**2004**
For the six months ended 31 December 2005	**No. '000**	**No. '000**
Issued ordinary shares at 1 July adjusted for bonus factor	402,943	399,871
Effect of shares issued on exercise of options	1,928	1,225
Effect of incentive shares issued to Chief Executive Officer	652	-
Effect of shares issued Sep 05 share placement	30,612	-
Effect of shares issued Nov 05 rights issue	21,634	-
Weighted average number of ordinary shares at 31 December	457,769	401,096

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2005 is as follows:

Profit Attributable to shareholders (diluted)		
For the six months ended 31 December 2005	**2005** **$'000**	**2004** **$'000**
Profit attributable to ordinary shareholders	11,718	5,654

Weighted average number of ordinary shares (diluted)	**2005**	**2004**
For the six months ended 31 December 2005	**No. '000**	**No. '000**
Weighted average number of ordinary shares at 31 December adjusted for bonus factor	457,769	401,096
Effect of share options on issue	638	3,248
Effect of unvested unlisted performance shares	630	-
Weighted average number of ordinary shares at 31 December (diluted)	459,037	404,344

10. Employee Benefits

Share based payments

At 1 July 2004, the consolidated entity had an established Executive Option Scheme that entitles executives and certain directors to purchase shares in the entity. The terms and conditions of the Scheme and grants made during the year ended 30 June 2005 are disclosed in the most recent annual financial report.

Under the terms of the Chief Executive Officer's previous employment contract dated 23 April 2004, a long term incentive, subject to shareholder approval, entitled the Chief Executive Officer to receive up to 4 million company shares ("CEO shares") for nil consideration. The share issue was conditional on the total shareholder return of the entity exceeding the total shareholder returns of a group of listed companies which are in direct competition to the company for the period 1 July 2003 to 31 August 2005. The share issue was approved at the 2005 Annual General Meeting on 11 November 2005 and the shares were issued on 2 December 2005.

Under the terms of the Chief Executive Officer's current employment contract dated 2 December 2005, as a new long term incentive, the Chief Executive Officer was issued 4 million unlisted Performance Shares ("CEO Performance Shares") for nil consideration on 2 December 2005. The CEO Performance Shares are convertible into the company's ordinary shares, conditional on the total shareholder return of the entity exceeding the total shareholder returns of a peer group of listed companies for the period 1 September 2005 to 30 June 2008. The Performance Share issue was approved at the 2005 Annual General Meeting on 11 November 2005.

The fair value of services received in return for options and shares granted to executives and directors is measured by reference to the fair value of share options and shares granted.

Fair value of share based payments and assumptions

For the six months ended 31 December 2005

	2005			2004		
	Executive Options [1]	CEO Shares [2]	CEO Performance Shares	Executive Options [1]	CEO Shares [2]	CEO Performance Shares
Fair value at measurement date	\$0.11-\$0.14	\$0.58	\$0.36	\$0.08-\$0.11	\$0.45	-
Valuation Model	Binomial	Market Price	Monte Carlo	Binomial	Monte Carlo	-
Share price	\$0.48-\$0.54	\$0.58	\$0.58	\$0.31-\$0.47	\$0.46	-
Exercise Price	\$0.61	N/A	N/A	\$0.41-\$0.61	N/A	-
Expected life (years)	3.22-3.26	N/A	2.58	2.85-3.25	0.42	-
Company volatility	42.5%	N/A	40%	42.5%-55.0%	40%	-
Peer volatility	N/A	N/A	20%	N/A	25%	-
Peer correlation	N/A	N/A	20%	N/A	15%	-
Dividend yield	0.50%	N/A	1.98%	0.0%-0.5%	0.50%	-
Risk free interest rate	5.03%-5.17%	N/A	5.23%	4.88%-5.50%	5.08%	-

[1] Options were issued at various dates (as disclosed in the most recent annual financial report). Fair values and assumptions above relate to those options newly impacting on the share based payment expense recognised for the period, and were provided by independent valuers

[2] CEO shares were granted at the Annual General Meeting on 11 November 2005 and issued on 2 December 2005. Final measurement date was 2 December 2005, when the shares were valued at market price. Prior estimates of fair value were provided by independent valuers.

10. Employee Benefits (cont'd)

Share based payments (cont'd)

During the six months ended 31 December 2005, the consolidated entity recognised expense of $ 1,104,000 related to the fair value of the shares (six months ended 31 December 2004: $620,024).

Options and shares are granted subject to service conditions and market performance conditions related to movement in share price of the company. Market performance conditions are reflected only in the initial estimate of fair value at grant date and there is no true up for differences between estimated and actual vesting due to market conditions.
The impact of service conditions is estimated at grant date. Subsequently these estimates are trued up for differences between number of instruments expected to vest and the actual number of instruments vested.

The expected volatility has been based on historical volatility calculated from weekly returns over periods of up to 4 years.

11. Financial Instruments

The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and measures them at fair value. The fair value of forward exchange contracts at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date (see note 14). The net fair value of forward exchange contracts used as hedges of forecasted transactions at 31 December 2005 was $152,000 (after tax : $ 107,000), comprising assets of $604,000 and liabilities of $ 452,000 that were recognised as derivatives measured at fair value.

12. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent.

	Note	Share Capital	Translation Reserve	Hedging Reserve	Fair Value Reserve	Accumu-lated Losses	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2005		166,762	(346)	-	-	(45,578)	120,838
Total recognised income and expense		-	(97)	107	(851)	1,713	872
Equity settled transactions net of tax	10	-	-	-	-	1,104	1,104
Shares issued	5	58,706	-	-	-	-	58,706
Dividends to shareholders	4	-	-	-	-	(3,816)	(3,816)
Capital raising costs		(1,725)	-	-	-	-	(1,725)
Balance as at 31 December 2005		223,743	(443)	107	(851)	(46,577)	175,979

13. Explanation of transition to AIFRS

As stated in note 1, these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRSs.
The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).
In preparing the opening AIFRS balance sheet, comparative information for the six months ended 31December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity had adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).
An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and in the notes that accompany the tables.

Reconciliation of Equity	Note	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS
			1 July 2004			31 Dec 2004			30 June 2005	
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS										
Cash and cash equivalents		32,896		32,896	35,353		35,353	40,074		40,074
Trade and other receivables		43,952		43,952	65,965		65,965	76,762		76,762
Inventories		7,944		7,944	9,038		9,038	11,411		11,411
Current Tax Assets		292		292	-		-	325		325
Total current assets		85,084		85,084	110,356		110,356	128,572		128,572
Property, Plant & Equipment	a, e	126,032	(2,296)	123,736	144,174	(2,701)	141,473	155,613	(2,370)	153,243
Intangibles	b	6,790		6,790	6,297	493	6,790	6,135	656	6,791
Deferred tax assets	c,f	-	7,857	7,857	-	5,958	5,958	-	4,683	4,683
Investments Accounted for using the Equity Method		1,768		1,768	1,408		1,408	1,246		1,246
Assets classified as held for sale		27,223		27,223	27,984		27,984	29,565		29,565
Other		181		181	97		97	14		14
Total non current assets		161,994	5,561	167,555	179,960	3,750	183,710	192,573	2,969	195,542
Total assets		247,078	5,561	252,639	290,316	3,750	294,066	321,145	2,969	324,114

13. Explanation of transition to AIFRS (continued)

Reconciliation of Equity (continued)	Note	Previous GAAP	Effect of transition to AIFRS 1 July 2004	AIFRS	Previous GAAP	Effect of transition to AIFRS 31 Dec 2004	AIFRS	Previous GAAP	Effect of transition to AIFRS 30 June 2005	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities										
Trade and other payables		48,507		48,507	68,675		68,675	79,653		79,653
Interest bearing liabilities		17,663		17,663	29,256		29,256	25,426		25,426
Current tax liabilities		894		894	229		229	619		619
Provisions		11,926		11,926	13,574		13,574	19,566		19,566
Total current liabilities		78,990		78,990	111,734		111,734	125,264		125,264
Interest bearing liabilities		66,706		66,706	70,803		70,803	76,155		76,155
Provisions		1,991		1,991	2,046		2.046	1,857		1,857
Total non current liabilities		68,697		68,697	72,849		72,849	78,012		78,012
Total Liabilities		147,687		147,687	184,583		184,583	203,276		203,276
Net Assets		99,391	5,561	104,952	105,733	3,750	109,483	117,869	2,969	120,838
Equity										
Contributed equity	f, g	165,746	213	165,959	166,339	213	166,552	166,549	213	166,762
Reserves	e, g	(4,455)	4,455	-	(4,455)	3,997	(458)	(4,455)	4,109	(346)
Accumulated losses	g	(61,900)	893	(61,007)	(56,151)	(460)	(56,611)	(44,225)	(1,353)	(45,578)
Total equity		99,391	5,561	104,952	105,733	3,750	109,483	117,869	2,969	120,838

13. Explanation of transition to AIFRS (continued)

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note (c).

a Property, plant and equipment

The AIFRS impairment rules are more prescriptive than the previous GAAP in relation to idle plant and equipment and require cashflow forecasts to be discounted.

The cumulative impact on the financial position of the consolidated entity was to reduce the fair value of the plant and equipment by $2,671,000 at 1 July 2004, $2,647,000 at 31 Dec 2004 and $2,378,000 at 30 June 2005. The cumulative impact on profit and loss was to increase profits by $24,000 at 31 Dec 2004, and $293,000 at 30 June 2005 being a write back of the losses brought to account on the impaired assets.

b Goodwill amortisation

Under AIFRS, goodwill is not subject to amortisation, but tested annually for impairment. As a result, goodwill amortisation charge has been written-back by $493,000 for the six months ended 31 Dec 2004 and by $656,000 for the year ended 30 June 2005.

c Deferred tax assets and liabilities

Under previous GAAP the consolidated entity did not recognise a deferred tax asset for the carry forward of unused tax losses, or the deferred tax assets or liabilities arising from temporary differences to the extent that they were sheltered by tax losses. In accordance with AIFRS, tax losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The effect of the change at the transition date amounts to an increase in deferred tax assets of $16,198,000 relating to tax losses and $15,259,000 relating to temporary differences as well as an increase in deferred tax liabilities of $23,813,000 relating to temporary differences. The effect on the income statement for the six months ended 31 December 2004 and for the year ended 30 June 2005 was to increase the previously reported tax charge for the period by $1,899,000 and $3,174,000 respectively.

d Share based payments

Under previous GAAP, the consolidated entity did not account for equity settled share based payments, such payments are now recognised at fair value in accordance with AASB 2. The fair value determined at grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the estimated number of equity instruments that will vest. As a consequence, employee benefit expense has increased by $311,000 as at 1 July 2004, $620,000 at 31 Dec 2004, and $1,382,000 at 30 June 2005. Accumulated losses have been decreased for the corresponding increase in equity arising from the receipt of services for equity settlement.

e Foreign currency translation reserve

On initial adoption of AIFRS the directors have determined that the functional currency for its foreign operations is the local currency in the country of operation. Accordingly, non monetary assets are translated at current rates rather than historic rates. As a consequence, a foreign currency translation reserve of $375,000 has been recognised at 1 July 2004, $428,000 has been recognised at 31 December 2004 and $367,000 at 30 June 2005. The corresponding effect was an increase/reduction in values of plant and equipment of $375,000 at 1 July 2004, -$53,000 at 31 December 2004 and $8,000 at 30 June 2005.

As a result of the directors electing to apply the first-time adoption exemption relating to the balance of the foreign currency translation reserve as at 30 June 2004, the balance of $4,455,000 has been reduced to nil. Accumulated losses have increased by the corresponding amount.

Foreign currency translation movements on the net investment in foreign subsidiaries of $30,000 to 31 December 2004 and ($21,000) to 30 June 2005 have been added back to profits and the foreign currency translation reserve.

13. Explanation of transition to AIFRS (continued)

f Contributed Equity

Under previous GAAP deferred tax assets relating to timing differences were not recognised. Contributed equity as at 1 July 2004 has been increased by the deferred income tax benefit of capital raising costs of $213,000.

g Equity

The effect of the above adjustments on components of equity are as follows:

	Note	(Increase)/ decrease in equity		
		1 July 2004	31 Dec 2004	30 June 2005
		$'000	$'000	$'000
Issued Capital				
Deferred income tax benefit of capital raising costs	f	(213)	(213)	(213)
		(213)	(213)	(213)
Foreign Currency Translation Reserve				
Opening balance of foreign currency reserve	e	(4,455)	(4,455)	(4,455)
Foreign currency translation of non monetary assets	e	-	428	367
Foreign currency losses previously recognised	e	-	30	(21)
Total adjustment to reserves		(4,455)	(3,997)	(4,109)
Accumulated Losses				
Impairment write-down of idle plant	a	2,671	2,671	2,671
Profit/(loss) on sale of impaired assets previously recognised	a	-	(23)	(293)
Goodwill	b	-	(493)	(656)
Deferred Tax	c, f	(7,644)	(5,745)	(4,470)
Foreign currency translation	e	-	(30)	21
Opening balance of foreign currency reserve	e	4,080	4,080	4,080
Total adjustment to retained earnings		(893)	460	1,353
Total adjustment to Equity		(5,561)	(3,750)	(2,969)

Macmahon Holdings Limited

Notes to the condensed consolidated interim financial statements for the Half-Year Ended 31 December 2005

13. Explanation of transition to AIFRS (continued)

Reconciliation of Profit for 2005

	Note	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS
		For the six months ended 31 Dec 2004			For the year ended 30 June 2005		
		$'000	$'000	$'000	$'000	$'000	$'000
Revenue		243,015		243,015	555,393		555,393
Other operating income	a, h	922	(432)	490	2,694	(1,353)	1,341
Materials and consumables used		(94,444)		(94,444)	(216,001)		(216,001)
Employee benefits expense	d	(99,562)	(620)	(100,182)	(229,953)	(1,382)	(231,335)
Subcontractor costs		(16,101)		(16,101)	(40,372)		(40,372)
Depreciation and amortisation expenses	b	(15,743)	493	(15,250)	(30,987)	656	(30,331)
Rental expenses relating to operating leases		(1,046)		(1,046)	(1,803)		(1,803)
Written down value of assets sold	h	(456)	456	0	(1,646)	1,646	0
Other expenses from ordinary activities	e	(6,322)	30	(6,292)	(13,175)	(21)	(13,196)
Share of net profits of assoc & joint ventures		1,016		1,016	3,683		3,683
Operating profit before financing costs		**11,279**	**(73)**	**11,206**	**27,833**	**(454)**	**27,379**
Financial Income		798		798	1,396		1,396
Financial expenses		(3,697)		(3,697)	(8,067)		(8,067)
Net financing costs		(2,899)		(2,899)	(6,671)		(6,671)
Profit before tax		**8,380**	**(73)**	**8,307**	**21,162**	**(454)**	**20,708**
Income tax expense	c	(754)	(1,899)	(2,653)	(1,610)	(3,175)	(4,784)
Profit/(Loss) from ordinary activities attributable to equity holders of the parent		**7,626**	**(1,972)**	**5,654**	**19,552**	**(3,629)**	**15,924**
Basic earnings per share from continuing operations (AUD)		2.00		1.41	5.19		3.96
Diluted earnings per share from continuing operations (AUD)		2.00		1.40	5.14		3.93

13. Explanation of transition to AIFRS (continued)

Notes to the reconciliation of Profit

h Revenue from ordinary activities

The adoption of A-IFRS has resulted in the reclassification of the written down value of assets sold, to other operating income in the income statement. The written down value of non current assets sold for the six months ended 31 December 2004 was $456,000 and for the year ended 30 June 2005 was $1,646,000. There was no impact on the net profit.

14. Change in accounting policy

In the current financial year the consolidated entity adopted AASB 132: Financial Instruments Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity (accumulated losses and hedging reserve) at 1 July 2005.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet as at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

Reconciliation of opening balances affected by application of AASB 139 at 1 July 2005

	Note	Previous GAAP $'000	Impact of change in Accounting Policy $'000	A-IFRS $'000
Assets classified as available for sale	b)	29,565	(12,665)	16,900
Deferred Tax Asset	a)/b)	4,683	2,777	7,460
Fair value derivatives – asset	a)	-	109	109
Fair value derivatives – liability	a)	-	(498)	(498)
Hedging reserve	a)	-	272	272
Accumulated losses	b)	45,911	10,005	55,916

(a) Under previous GAAP, the consolidated entity did not recognise derivatives at fair value on the balance sheet. In accordance with AIFRS derivatives are now recognised at fair value.

The effect in the consolidated entity at 1 July 2005 is to decrease fair value derivatives by $389,000 (comprising assets of $109,000 and liabilities of $498,000), increase deferred tax assets by $117,000 and decrease hedging reserve by $272,000.

14. Change in accounting policy (continued)

(b) The consolidated entity has a combined investment in Asia Pacific Transport Corporation and Freightlink Pty Ltd ("APT") via shares, debt instruments and interests in joint ventures. Under previous GAAP, the consolidated entity recorded this investment at cost. Under AIFRS the APT investment is classified as an available for sale equity security and accordingly the investment is now recognised at fair value.

The effect in the consolidated entity at 1 July 2005 is to decrease equity securities available for sale and increase accumulated losses by $12,665,000 and $10,005,000, respectively ($12,665,000 less increase in deferred tax asset of $2,660,000).