# engineering & project delivery excellence

2012 ANNUAL REPORT


CLOUGH

pursuit of excellence

**Clough Limited**
ABN 59 008 678 813

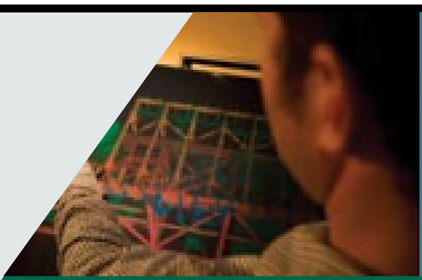
**Annual General Meeting**

The Annual General Meeting will be held at 10am on Tuesday 23 October 2012 at the Karri Room at the Parmelia Hilton Hotel located at 14 Mill Street, Perth.

# the **year** in **brief**

**Clough** is a leading provider of engineering and project services to the Energy, Chemical, Mining and Minerals markets in Australia and Papua New Guinea. Services range from early concept evaluation and feasibility studies through to detailed and specialised process engineering design, construction, commissioning and long term asset support, optimisation and troubleshooting.

Backed by an experienced management team, nearly 4800 personnel and sophisticated project management systems, Clough has embedded a culture of excellence and is recognised for a commitment to safety, sustainable development, and the wellbeing of the people, communities and environments in which it operates.



## engineering excellence across every phase

18

**Engineering /** From concept and feasibility studies through design, delivery and long term asset support and optimisation, Clough's engineering experts add value at every phase of the asset lifecycle.

## more than 90 years of project delivery excellence

20

**Capital Projects /** Clough delivers a fully integrated engineering, procurement and construction service underpinned by nine decades of project execution excellence.

## the market leader in near shore marine facilities

22

**Jetties and Near Shore Marine /** With a reputation for design and construction excellence, BAM Clough provides state of the art jetty and near shore marine facilities for energy and resources projects.

## seamless transition from construction to operations

24

**Commissioning and Asset Support /** Clough offers a complete commissioning and asset support solution to optimise the uptime of energy and resources facilities.

# our **vision** is to provide **superior value** to shareholders by **focussing** on:

## delivery
excellence in execution and contract delivery

## cost efficiency
reduction of cost base to improve profitability

## diversification
reduction of risk to earnings and improvement of blended margins through contract and portfolio diversification

## growth
organic growth of the business to meet market demand, increasing exposure to Mining and Mineral resources projects and strategic acquisitions to increase our engineering and project management capabilities

CLOUGH

pursuit of excellence

# our **4 + 2 + 3** strategy structures the business to achieve our vision


## **Pursuit of Excellence** is the philosophy adopted across the business to achieve our vision. It will become the 'Clough Way'

The Pursuit of Excellence philosophy drives:

- Investment in people to create a high performance culture.
- Creative thinking and innovation to continuously improve the way we do things.
- A culture that never backs away from a challenge and never settles for outcomes that are less than excellent.

We support this culture of excellence with systems and processes to consistently achieve industry leading safety, environmental, and financial performance on all of our projects.

## financial and operating results

| | FY 2012 | FY 2011 | % change |
|---|---|---|---|
| **Net Profit After Tax (NPAT) from continuing operations ($m)** | **50.7** | 49.6 | ↑ 2% |
| **Basic earnings per share (EPS) from continuing operations (cents)** | **6.6** | 6.4 | ↑ 2% |
| **Full year dividend (cents)** | **2.6** | 2.2 | ↑ 18% |
| **Total Revenue Clough Operations *# ($m)** | **1,005.4** | 782.5 | ↑ 28% |
| **Underlying EBIT Clough Operations *# ($m)** | **37.2** | 35.8 | ↑ 4% |
| **Forge share of Profit Before Tax ($m)** | **24.0** | 18.9 | ↑ 27% |
| **Net Assets ($m)** | **349.5** | 310.6 | ↑ 13% |
| **Closing Order Book* ($m)** | **2,338** | 1,250 | ↑ 87% |
| **LTIFR (per million work hours)** | **0.13** | 0.21 | ↓ 38% |
| **TRIFR (per million work hours)** | **2.05** | 4.32 | ↓ 53% |
| **Workforce** | **4,785** | 3,636 | ↑ 32% |

* *Total revenue, Underlying EBIT and Order Book excluding Marine Construction and Forge.*

\# *Total revenue and Underlying EBIT are non-IFRS earnings measures - refer to page 11 for details on non-IFRS financial information and a full reconciliation of the detailed profit and loss account.*

| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 30.0 | 49.6 | **50.7** | *$ million* |

**NPAT from continuing operations** *$50.7 million*

↑ 2%

| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 4.1 | 6.4 | **6.6** | *cents* |

**basic EPS from continuing operations** *6.6 cents*

↑ 2%

| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 2.2 | 2.2 | **2.6** | *cents* |

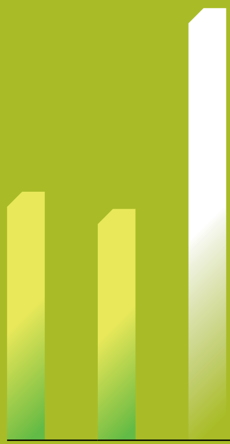
**full year dividend**
*2.6 cents*

↑ 18%

# financial & operating **highlights**

**closing order book***
*$2,338 million*

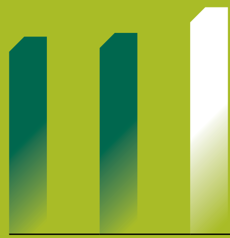
↑87%



| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 1,343 | 1,250 | **2,338** | *$ million* |

**net assets**
*$349.5 million*

↑13%



| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 304.8 | 310.6 | **349.5** | *$ million* |

| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 588.6 | 782.5 | **1,005.4** | *$ million* |

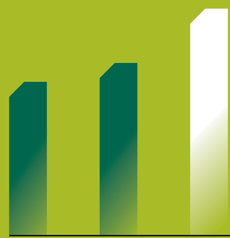
**total revenue Clough operations*#** *$1,005.4 million*

↑28%

| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 36.4 | 35.8 | **37.2** | *$ million* |

**underlying EBIT Clough operations*#** *$37.2 million*

↑4%



| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 3,243 | 3,636 | **4,785** | *people* |

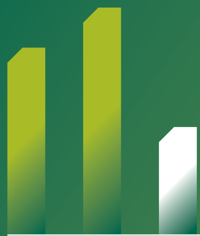
**workforce**
*4,785 people*

↑32%

| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 0.36 | 0.21 | **0.13** | *per million work hours* |

**LTIFR safety performance**
*0.13 per million work hours*

↓38%



| 2010 | 2011 | **2012** | |
|---|---|---|---|
| 3.58 | 4.32 | **2.05** | *per million work hours* |

**TRIFR safety performance**
*2.05 per million work hours*

↓53%

With a record order book of $2.3 billion, and a renewed focus on operational and commercial excellence, Clough has the foundations in place to improve financial performance and deliver superior value to shareholders.

↑ 28%

total revenue Clough Operations*# $1005.4 million

↑ 4%

underlying EBIT Clough Operations*# $37.2 million

↑ 87%

record order book* of $2,338 million

* *Total revenue, Underlying EBIT and Order Book excluding Marine Construction and Forge.*

\# *Total revenue and Underlying EBIT are non-IFRS earnings measures - refer to page 11 for details on non-IFRS financial information and a full reconciliation of the detailed profit and loss account.*

**Operational Highlights**

Your company performed well during the year, due to a renewed focus on operational and commercial performance across the organisation. This resulted in over $1 billion of revenue for the year, up 28%, and improved underlying earnings before interest and tax (EBIT) from Clough operations of $37.2 million. Second half underlying EBIT was $24.4 million, up 90% on the first half of the year.

In Q2, 2012 our leadership team conducted a comprehensive strategic review of the business and its operations.

As a result, in March this year we announced a new group-wide organisation structure and strategy to improve earnings and position Clough for the next phase of growth.

Our focus is on improving earnings across our four business lines:

- Engineering
- Capital Projects
- Jetties and Near Shore Marine
- Commissioning and Asset Support

Clough is currently leveraged heavily to the Energy and Chemical market sector, specifically LNG. Going forward, Clough will look to diversify its earnings by increasing exposure to the Mining and Minerals market, and growing our capabilities in Commissioning and Asset Support.

During the year Clough operated primarily in three key regions: Western Australia and the Northern Territory, Queensland, and Papua New Guinea.

The business is focussed on excellence in project execution; cost efficiency; contract and portfolio diversification; and organic and acquisitive growth.

**Record Order Book**

Clough secured 14 new contracts or contract extensions throughout the year, resulting in an order intake of more than $1.5 billion and contributing to our record order book of $2.3 billion.

In the first half we were awarded a number of major contracts including INPEX's Ichthys IPMS contract, the K128 contract on Santos' Gladstone LNG project and the EPC contract for CSBP's NAAN3 project, secured after the successful completion of the ECI phase.

A flurry of new contracts were awarded in the second half, particularly in our Jetties and Near Shore Marine business, which secured the Chevron Wheatstone Jetty contract and the INPEX Ichthys Jetty and MOF contracts, increasing that business fourfold.

Our Commissioning and Asset Support business received a significant award for Chevron's Wheatstone Offshore Hook-up and Commissioning contract, along with a number of long term awards for the Asset Support business. Approximately 40% of contracts secured by Clough in FY12 were awarded to this business, indicating a growing demand for these services.

Our four business lines are well positioned to achieve growth in the coming year, and we are increasing diversity in our project portfolio and revenue earnings, which is pleasing from a risk management perspective.

# the Clough report Keith Spence and Kevin Gallagher

CHAIRMAN AND CEO

**Kevin Gallagher**

CEO and Managing Director

**Keith Spence**

Independent
Non-Executive Chairman

**Safety Performance**

Over the past year Clough people worked over 45 million hours, more than double the hours recorded in the prior year. Despite the increased activity, safety performance improved with injuries at the lowest levels recorded.

Our Lost Time injuries were 0.13 per million work hours, a reduction of 38% on the prior year, while Total Recordable injuries reduced by 52% to 2.05 per million work hours.

Our three project teams in Papua New Guinea (PNG) have responded well to our disciplined Target Zero safety program, recording 16 million work hours without a lost time injury. This is a remarkable performance considering the challenging environment in which the work is being executed.

Safety performance across our Australian operations has not been as strong as in PNG, and we will focus on improving this during the year.

Overall we are well ahead of the industry, though we must always be vigilant. Our goal is Zero Harm.

**People and Talent**

Clough's total workforce grew by 32% in the past year, to a total of 4785 people. Over 1200 new employees were sourced by our in-house recruitment team, from a network of local and global candidates.

As part of our organisational restructure, our Executive Committee (Excom) was established in March 2012, to execute Clough's strategy and provide stewardship for the organisation during a period of growth and change.

Two key leadership appointments were made during the year. Catharine Payze was appointed to the position of Executive Vice President, People and Organisation Development in May 2012 and is responsible for developing the strategy required to sustain a high performance culture.

Rick Robinson will join the Excom in October 2012, taking the role of Executive Vice President, Projects, overseeing our Capital Projects and Jetties and Near Shore Marine businesses. Rick joined Clough in 2007 as Project Director for Infrastructure on Gorgon. He brings 35 years of international engineering, procurement and project execution experience for large energy and resource projects.

In June 2012, we established the operational committee (Opcom) to strengthen governance across our operations and ensure early detection and management of any project or business issues.

During the past year we also completed a comprehensive review of our training and development, succession planning and remuneration programs, to ensure these align with our vision and strategy. Innovative new programs will be implemented in the coming year to ensure we continue to attract and retain top talent in the industry.

**Business Challenges**

Workforce productivity in Australia is a real challenge. In our industry today we see projects falling behind early in their lifecycle, and teams learning how to deliver a project as they go. This is a very inefficient way to execute work.

At Clough, we are building an operating model that focuses on getting the planning right up front to deliver the engineering and procurement activities on time, so that the execution can be conducted efficiently.

The uncertainty in the Mining and Minerals sector due to the collapse of the iron ore price has presented many challenges for our industry. Although we expect this sector to eventually rebound, today Clough's strong position in the Oil and Gas sector provides a degree of protection from these market fluctuations. Clough's order book consists of 95% Oil and Gas projects, with a large percentage of these being LNG projects already under development. We will continue to grow our workforce on the back of our LNG work, while developing the skills to extend our services to the Mining and Minerals sector, when the industry eventually recovers.

**Strong Foundations for Growth**

With a record order book of $2.3 billion, we have the foundations in place to improve financial performance and deliver superior value to our shareholders.

Clough has $1.1 billion of revenue already secured for FY13, more than $750 million secured for FY14 and over $500 million for FY15 and beyond. This is a very healthy position to be in at the start of the financial year.

Our strong tender pipeline features a number of good quality, near term opportunities across all of our businesses. We are confident of further significant awards early in the financial year, and are well positioned to win more work in Australia and Papua New Guinea.

We have a strong balance sheet and cash position which provides the flexibility to pursue growth options. During the year we will consider strategic acquisitions to extend our project management and engineering capability, while taking a balanced approach to cash for acquisitions and returning cash to shareholders.

By driving a focus on excellence in operational and commercial performance, we expect to generate a minimum EBIT margin of 5% for FY13.

**Keith Spence**
Independent Non-Executive Chairman

K. T. Gallagher

**Kevin Gallagher**
CEO and Managing Director

Clough improved earnings in the second half, and closed the year with a strong balance sheet and cash position. Cash holdings increased to $146.5 million. The Board was pleased to declare an 18% increase in dividends to 2.6 cents per share.

**↑ 2%**

**net profit after tax continuing operations $50.7m**

**↑ 2%**

**basic earnings per share continuing operations 6.6 cents**

**↑ 18%**

**full year dividend (25% franked) 2.6 cents**

* *Total revenue, Underlying EBIT and Order Book excluding Marine Construction and Forge.*

\# *Total revenue and Underlying EBIT are non-IFRS earnings measures - refer to page 11 for details on non-IFRS financial information and a full reconciliation of the detailed profit and loss account.*

**Operating Performance**

The profit and loss performance for FY12 was characterised by a significantly improved second half performance following a disappointing first half. Full year Statutory Net Profit After Tax (NPAT) from continuing operations improved by 2% to $50.7 million, with the business also benefiting from increased interest income and a continued low tax rate. Statutory NPAT (net of non-controlling interests) increased by 29% to $42.9 million, and included a gain on the sale of the Marine Construction business, which was offset by a loss from further write-downs in Clough's legacy property holding at Airlie Beach, Queensland.

Total revenue from continuing Clough operations*# increased from $782.5 million in FY11 to $1005.4 million in FY12, whilst underlying EBIT from Clough operations*# increased by 4% in the year to $37.2 million, with $24.4 million of EBIT recorded in the second half of the year, compared to a first half EBIT of $12.8 million. The underlying EBIT margin for the year was 3.7% compared to the previous year of 4.6%. Second half underlying EBIT margin improved to 4.5%, compared to 2.7% in the first half of the year, with first half margin negatively impacted by a loss made on one small contract, and margin dilution on two larger contracts. The second half benefited from improved commercial and operational performance and we also saw the start of benefits from the cost efficiency initiative within the business which will reduce overheads by $10 million in FY13 compared to FY12.

A strong commercial focus on rectifying contractual issues which impacted the first half led to the loss making contract being closed out early in the second half without any further loss while fee renegotiations on the two larger contracts have been largely resolved in line with expectations.

**Business Line Results**

For the year ended 30 June 2012, Clough's reportable business lines were Capital Projects and Asset Support.

Revenue from Clough's Capital Projects business line was $902.6 million, 25% ahead of the prior year, however underlying EBIT reduced by $1.5 million to $37.2 million.

The second half saw a significant improvement with underlying earnings increasing to $25.7 million (H1 $11.5 million) with margins improving to 5.3% (H1 2.8%), due to strong performance on a number of projects, in particular the EPCM scope on Chevron's Gorgon LNG project where Clough now has over 700 employees working in the Kellogg Joint Venture; and the PNG LNG export jetty, which was over 70 per cent complete as at 30 June.

Asset Support revenues were 50% ahead year on year with underlying EBIT increasing from $2.5 million in FY11 to $3.7 million in FY12 with H2 earnings benefiting from the contribution from the Oil Search "Kumul" project and increased activity in the ConocoPhillips Bayu-Undan contract. The year saw a continued investment in business development which will continue into FY13, with an immediate focus on tendering the PNG LNG Integrated Services Contract.

With effect from 1 July 2012, Clough's new business lines of Engineering, Projects (an aggregation of Capital Projects and Jetties and Near Shore Marine) and Commissioning and Asset Support are fully in place and will form its reportable segments in respect of the half year ending 31 December 2012 and thereafter.

# financial review from **Neil Siford**

CHIEF FINANCIAL OFFICER

**Taxation**

The Group's effective tax rate (excluding Forge which had a 30% tax rate) was 13% of continuing underlying EBIT from Clough Operations again reflecting the benefit of prior year tax losses in Australia, with Clough's tax expense being principally driven by profits earned in PNG.

**Forge**

Forge recorded another year of strong, profitable growth, contributing $24 million of profit before tax to Clough. Profit after tax was $16.8 million compared to $13.2 million in the prior year (before amortisation of intangible assets arising on acquisition). Clough received dividends from Forge of $3.7 million in the year.

In May 2012, Clough increased its investment in Forge to 35.85% after acquiring an additional 3.25 million shares at $5.60 per share. The $18.2 million acquisition was made via a purchase of shares and options from senior management of Forge, followed by the exercise of the options. The purchase was part of the management transition plan announced by Forge in March 2011. The mark to market loss on the shares and options in the year was $1.2 million, which has been treated as an adjusting item(3) outside underlying earnings. The balance sheet investment in Forge at 30 June 2012 was $101.8 million.

**Marine Construction Sale**

On 22 December 2011, Clough completed the sale of the Marine Construction business to SapuraCrest of Malaysia for gross cash proceeds of $126 million. After repayment of debt and allowing for cash in the business, the net increase in cash as a result of the transaction was $45.4 million. The one off gain on sale was $5.8 million.

**Balance Sheet and Cash Flows**

Net assets increased from $310.6 million to $349.5 million with the statutory NPAT for the year of $42.9 million and foreign exchange and other movements in reserves and non-controlling interests of $12.9 million and dividends paid of $16.9 million. Approximately $2.3 million of the foreign exchange movements were due to hedging programs put in place to mitigate foreign exchange risk on the PNG LNG Jetty project. The foreign exchange risk in the balance of projects is limited with residual exposures hedged where appropriate.

The net book value of Clough's legacy property holding reduced to $17.3 million in the year, with the residual holding comprising lots and land at Airlie Beach in Queensland. Clough continues to execute its exit strategy from this holding, and subsequent to 30 June 2012, 11 developed lots were sold with sale agreements in place for a further 30 lots.

At 30 June 2012 total cash holdings excluding cash in joint ventures was $146.5 million, with nil external debt. Cash flows in the year included the benefit of $31.4 million of cash advances from customers net of cash retentions in lieu of bonding relating to joint ventures. These net cash advances should reverse during FY13. Whilst capital expenditure was very low in the year at $7.1 million, there was a modest increase in working capital of $26.6 million (excluding the short term advances of $31.4 million) primarily reflecting increased activity across the year.

**Dividends**

The Board declared a full year dividend of 2.6 cents per share (franked 25%) on fully diluted earnings per share from continuing operations of 6.55 cents, representing dividend cover of 2.52 times. This is an 18% increase over the prior year dividend of 2.2 cents per share.

**Neil Siford**
Chief Financial Officer

**Detailed Profit and Loss Account**

| Reportable Segments to 30 June 2012 | FY 12 Revenue $M | FY 12 $M | | FY 11 Revenue $M | FY 11 $M | |
|---|---|---|---|---|---|---|
| Asset Support | 80.0 | 3.7 | 4.6% | 53.2 | 2.5 | 4.7% |
| Capital Projects | 902.6 | 37.2 | 4.1% | 720.9 | 38.7 | 5.4% |
| Other (including fabrication) | 22.8 | (3.7) | | 8.4 | (5.4) | |
| Total Revenue Clough Operations (1) | **1,005.4** | | | **782.5** | | |
| Underlying EBIT Clough Operations (2) | | **37.2** | **3.7%** | | **35.8** | **4.6%** |
| Forge - share of profit before income tax | | 24.0 | | | 18.9 | |
| Forge - share of income tax and amortisation | | (7.2) | | | (8.7) | |
| Forge - share of net profit after income tax (NPAT) (4) | | **16.8** | | | **10.2** | |
| Net interest receivable | | 3.3 | | | 2.3 | |
| Adjusting items (3) | | (1.2) | | | 3.5 | |
| Share of jointly controlled entities income tax | | (0.5) | | | - | |
| **Statutory – Profit before income tax** | | **55.7** | | | **51.8** | |
| Income tax expense | | (4.9) | | | (2.2) | |
| **Statutory – Net profit after income tax Continuing operations** | | **50.7** | | | **49.6** | |
| One off gain on sale of Marine Construction business | | 5.8 | | | - | |
| Discontinued operations and non-controlling interests | | (13.7) | | | (16.3) | |
| Loss from discontinued operations (including non-controlling interests) | | **(7.8)** | | | **(16.3)** | |
| Statutory - Profit for the year attributable to Clough shareholders | | 42.9 | | | 33.3 | |

***Non-IFRS Financial Information***

*Clough Limited's consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS earnings and other financial information which are not prepared in accordance with IFRS and therefore are considered to be non-IFRS financial information. The non-IFRS financial information should only be considered in addition to and not as a substitute for, earnings and other financial information prepared in accordance with IFRS.*

*1) Total revenue from Clough operations is a non-IFRS revenue measure that includes both revenue from Clough controlled entities and Clough's share of revenue from jointly controlled operations. Clough undertakes many projects through joint ventures, and this measure is viewed by the Directors and management as the one which most accurately reflects the underlying level of trading activity within the business. This measure does not include any share of revenue of Forge Group Limited (Forge). The measure is used as an additional means to evaluate the Clough's performance, and is reflected in the segment note in the financial statements for Clough's operations.*

*2) Underlying EBIT from Clough operations is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to underlying EBIT presented by other companies. Underlying EBIT represents earnings before interest, income taxes and adjusting items (refer (3) below) for both Clough and jointly controlled operations but does not include any share of earnings from Forge. The measure is used as an additional means to evaluate Clough's performance and is viewed by the Directors and management as that which most accurately reflects the underlying trading performance of the business. It is also reflected in the segment note in the financial statements for Clough's operations.*

*3) Adjusting items in the view of Directors and management are non-recurring items which distort the underlying earnings of the business and should therefore be excluded from the underlying performance. Adjusting items in FY12 comprise only the "mark to market loss" on options and shares of Forge, which certain Forge shareholders had the right to "put" to Clough under a Put Option arrangement. The "put" was exercised in May 2012. In the prior year adjusting items primarily relate to the "mark to market" gain on options in Forge, acquired as part of the original acquisition of Forge in April 2010 and exercised in November 2010. These were both separate acquisition related, non-recurring, non-trading transactions.*

*4) Information extracted from the notes to the annual financial report for the year ended 30 June 2012 - note 39(c) - Investments in associates - share of associates' profits or losses.*

Henry Laas and Cobus Bester joined the Clough Board as Non-Executive Directors in July 2011, following the retirement of Brian Bruce and Roger Rees. CEO and Managing Director Kevin Gallagher replaced previous CEO John Smith, as an Executive Director on 3 November 2011, while Ian Henstock was appointed as a Non-Executive Director in January 2012, replacing Nigel Harvey.

### 01 / Ian Henstock

*BCompt (Hons), CA(SA), HDip Tax Law, MBA*

**Non-Executive Director**

Ian Henstock joined the Clough Board in January 2012. He is the Group Commercial Executive of Murray & Roberts, and also serves on the Boards of Murray & Roberts Limited and of Murray & Roberts International Holdings Limited.

Prior to joining Murray & Roberts, Ian held a number of leadership roles in the financial sector. He commenced his career with Ernst & Young as an articled clerk, and rose to the position of Executive Deputy Chairman, before joining Capital Partners as Executive Director. Following a period with Deloitte & Touche as Corporate Finance Managing Partner, he took the role as the Chief Executive of Bridge Capital, growing that business into a successful niche investment banking firm.

He joined ABSA Group in 2004 to head up ABSA Merchant Bank, and within six months he was promoted to lead ABSA Corporate & Merchant Bank. He transferred to ABSA Private Bank in April 2006 after Barclays acquired control of the ABSA Group, in the role of Senior Executive: Strategic Wealth Management.

He joined Murray & Roberts as Commercial Director on 1 July 2008.

### 02 / Henry Laas

*BEng (Mining), MBA*

**Non-Executive Director**

Henry Laas is the Group Chief Executive of Murray & Roberts Holdings Limited. He holds a Bachelor of Engineering (Mining) degree from the University of Pretoria and an MBA from the University of the Witwatersrand. He has extensive experience in the mineral resources and mining contracting sectors. As former Managing Director of Murray & Roberts Cementation and its predecessor RUC Mining Contractors for more than 10 years, he played an instrumental role in the expansion of the Cementation Mining Group's global footprint. Henry joined the Clough Board in July 2011.

### 03 / Emma Stein

*BSc (Physics) (Hons), MBA, FAICD*

**Independent Non-Executive Director**

Emma Stein is an experienced Non-Executive Director and Audit Committee Chair serving on the boards of listed companies DUET (majority owner of the Dampier to Bunbury Pipeline), Alumina Ltd, Transpacific Industries and Programmed Maintenance Group.

Ms Stein has considerable experience with industrial customers and comprehensive set of commercial skills in the international energy and utilities markets, investments in long life assets and projects, and the upstream oil and gas sector.

Formerly the UK Managing Director for French utility Gaz de France's energy retailing operations, Ms Stein moved to Australia in 2003. Beginning a career as a Non-Executive Director, Ms Stein took up board appointments at Integral Energy, the NSW Growth Centres Commission and Arc Energy.

She is an Ambassador for the Guides and a member of the Board of Trustees for the University of Western Sydney.

### 04 / Neil Siford

*BSc (Geography) (Hons), ACA*

**Chief Financial Officer and Executive Director**

Neil joined Clough in 2006 as Finance Manager for Capital Projects and Asset Support and held a variety of senior finance management positions before being promoted to his current role of Chief Financial Officer in November 2009. He is a Chartered Accountant with more than 25 years of business and financial management experience gained in international organisations in the UK and Australia.

### 05 / Kevin Gallagher

*B.Eng (Mechanical) (Hons), FIEAust*

**Chief Executive Officer and Managing Director**

Kevin joined Clough as CEO and Managing Director on 3 November 2011.

Kevin is a senior executive with more than 21 years experience in managing oil and gas operations in Australia, the USA and North and West Africa. A qualified mechanical engineer, Kevin commenced his career as a drilling engineer with Mobil North Sea, before joining Woodside in 1998.

During his 13 year tenure with Woodside, Kevin led the drilling organisation through rapid growth, delivering several Australian and international development projects and exploration campaigns and setting drilling performance records whilst improving safety. He also led the Australian Oil Business Unit.

**strong**
leadership

BOARD OF DIRECTORS

Prior to joining Clough, Kevin was responsible for production on Australia's largest resource project, the North West Shelf, where he held the positions of Executive Vice President, North West Shelf Business Unit and CEO, North West Shelf Venture at Woodside.

During his time at Clough, Kevin has conducted a detailed strategic review of the business, providing strategic clarity and streamlining operations to improve project delivery performance and profitability. He has restructured the business and has established the leadership team, systems and people capabilities to deliver on the company's extensive project portfolio and drive strong, profitable growth.

## 06 / David Crawford

*B.Com (Economics) (Hons), MA (Pol Sc), FAICD*

**Independent Non-Executive Director**

David Crawford joined the Clough Limited Board in May 2011 as a Non-Executive Director. He is also Non-Executive Chairman of Westralia Airports Corporation Pty Ltd, President of the National Competition Council, and Chairman of the Board of Advisors of Curtin University Graduate School of Business. Prior to joining Clough, David was Corporate Affairs Director at Wesfarmers Limited and held senior executive positions with Ranger Minerals NL, Western Collieries Ltd and CSR Limited. He has been a member and/or Chairman of a number of government and non-government committees in the agriculture and mining industries and a management committee member of both educational and service organisations.

## 07 / Keith Spence

*BSc (Geophysics) (Hons), FAIM*

**Independent Non-Executive Chairman**

Keith Spence joined the Clough Limited Board in August 2008 and was appointed Independent Non-Executive Chairman in August 2010. Mr Spence has more than 30 years experience in the oil and gas industry, including 18 years with Shell and 14 years with Woodside. During his tenure with Woodside he held top executive positions with the company.

Mr Spence currently holds a number of board, council and advisory positions relating to the Australian energy, resources and education sectors. He chairs the Board of the National Offshore Petroleum Safety and Environmental Management Authority, is Non-Executive Chairman of Geodynamics Limited and a Non-Executive Director of Oil Search Limited and Verve Energy.

He chairs the Australian Institute of Management (WA), the State Training Board of Western Australia and the Industry Advisory Board of the Australian Centre for Energy and Process Training. He is a member of the Board of the Australian Workforce and Productivity Agency and a member of Curtin University Council.

Mr Spence is a member of the National Carbon Capture and Storage (CCS) Council which advises the Australian Government on the accelerated development and deployment of CCS in Australia.

## 08 / Cobus Bester

*BCom (Acc) (Hons), CA(SA)*

**Non-Executive Director**

Cobus Bester is the Group Financial Director of Murray & Roberts Holdings Limited. He is a Chartered Accountant with more than 23 years experience in the construction and engineering industry. He was the Group Financial Director for Basil Read and Concor Limited for three and six years respectively and was appointed Managing Director of Concor in 2005. Concor was acquired by Murray & Roberts in 2006 and subsequently delisted from JSE Limited (previously the Johannesburg Stock Exchange). Cobus has been a Director of Murray & Roberts Limited since 2007 and joined the Clough Board in July 2011.

As part of Clough's organisation restructure, the Executive Committee (Excom) was established in March 2012, to execute Clough's strategy and provide stewardship for the organisation during a period of growth and change.

## 01 / Gary Bowtell

*B.Eng (Mechanical), FIEAust, MAICD*

**Executive Vice President, Engineering**

Gary Bowtell joined Clough in July 2010 and has more than 30 years experience in the development, execution and operations in the Energy and Chemicals Sector.

Gary's career has spanned assignments not only within Australia but also internationally in the United Kingdom, Germany, Italy, Brunei and Japan. Prior to joining Clough he held General Management roles for Woodside in LNG Development from 1984 and he has also held senior engineering and management roles with INPEX, Shell, and Worley Parsons.

As Executive Vice President, Engineering, Gary oversees all of Clough Engineering's business and functional leadership. Clough Engineering covers all of the services provided in the EPCM, PMC and Engineering disciplines.

## 02 / Max Bergomi

*B.Eng (Management and Production)*

**Executive Vice President, Commissioning and Asset Support**

Max joined Clough in February 2008 in the role of Executive General Manager, Business Acquisitions and was promoted to the role of Executive Vice President in February 2009. In March 2012 Max's role was expanded to take on the Executive Vice President Commissioning and Asset Support role.

As Executive Vice President of Strategy and Business Acquisitions, Max was responsible for the strategic planning, tendering and business development functions for Clough. The role of Executive Vice President of Commissioning and Asset Support involves developing Clough's capability and capacity in this business to deliver on growth targets.

As well as being part of Clough's Excom he also represents the Company on the Board of the Clough AMEC joint venture.

With an engineering background, Max brings significant global experience in engineering, project management and commercial responsibilities primarily in the oil and gas industry. His prior experience includes senior positions with Saipem and Maverick Tube Corporation in Milan, Houston, Jakarta and London.

## 03 / Neil Siford

*BSc (Geography) (Hons), ACA*

**Chief Financial Officer and Executive Director**

Neil joined Clough in 2006 as Finance Manager for Capital Projects and Asset Support and held a variety of senior finance management positions before being promoted to his current position of Chief Financial Officer in November 2009. He is a Chartered Accountant with over 25 years of business and financial management experience gained in international organisations in the UK and Australia.

## 04 / Rajiv (Raj) Ratneser

*B.Com, LLB*

**Senior Vice President, Corporate Centre and General Counsel**

Raj Ratneser is a practicing solicitor and commenced with Clough as a Legal Counsel in 2004 before becoming General Counsel in 2008. Raj assumed his current role in March 2012.

Raj has over 15 years of legal experience in both dispute resolution and front end contract negotiation of large capital projects. He has extensive experience and knowledge in Clough's major forms of contracting. He has been heavily involved with the negotiation and administration of many of Clough's project contracts in all of the markets in which Clough operates.

## 05 / Rick Robinson

*B.Eng (Civil), MSc*

**Executive Vice President, Projects**

Rick will join the Excom in October 2012, taking the role of Executive Vice President, Projects. Rick joined Clough in 2007 as the Project Director for Infrastructure on the Gorgon Downstream LNG project. He has more than 35 years of international engineering, procurement and project execution experience for large oil and gas and mining projects.

Prior to joining Clough, Rick held senior executive positions in project and general management at Fluor, including the position of President, Fluor Constructors. His international work experience spans five continents including the countries of USA, Canada, Puerto Rico, South Africa, The Netherlands and Russia, working on both upstream and downstream projects.


# strong leadership

EXECUTIVE COMMITTEE

Rick is a qualified Civil Engineer with a Bachelor of Science in Engineering attained from the University of Southern California, and a Master of Science in Engineering attained from Stanford University. He also attained professional engineering registrations in both the USA and Canada.

## 06 / Kevin Gallagher

*B.Eng (Mechanical) (Hons), FIEAust*

### Chief Executive Officer and Managing Director

Kevin joined Clough as CEO and Managing Director on 3 November 2011.

Kevin is a senior executive with more than 20 years experience in managing oil and gas operations in Australia, the USA and North and West Africa. A qualified mechanical engineer, Kevin commenced his career as a drilling engineer with Mobil North Sea, before joining Woodside in 1998.

During his 13 year tenure with Woodside, Kevin led the drilling organisation through rapid growth, delivering several Australian and international development projects and exploration campaigns and setting drilling performance records whilst improving safety. He also led the Australian Oil Business Unit.

Prior to joining Clough, Kevin was responsible for production on Australia's largest resource project, the North West Shelf, where he held the positions of Executive Vice President, North West Shelf Business Unit and CEO, North West Shelf Venture at Woodside.

During his time at Clough, Kevin has conducted a detailed strategic review of the business, providing strategic clarity and streamlining operations to improve project delivery performance and profitability. He has restructured the business and has established the leadership team, systems and people capabilities to deliver on the company's extensive project portfolio and drive strong, profitable growth.

## 07 / Barry Howard

*MCQI CQP*

### Executive Vice President, Group Functions and Systems

Barry Howard joined Clough in June 2009 and has 25 years of international oil and gas experience, previously with Leighton, Transocean and KBR.

Barry commenced his career within the shipbuilding industry, followed by roles within oil and gas EPC and drilling contractors. With a project execution background, Barry has extensive experience in the control of Engineering, Procurement and Construction activities on projects for the leading oil and gas operators, including Amerada Hess, Shell, BP, ConocoPhillips and Petrobras, operating out of Europe, South America and Asia. Barry is accountable for leading Group Functions and Systems covering project controls, procurement and asset management, quality, risk and assurance, information technology, information management and corporate services.

## 08 / Catharine Payze

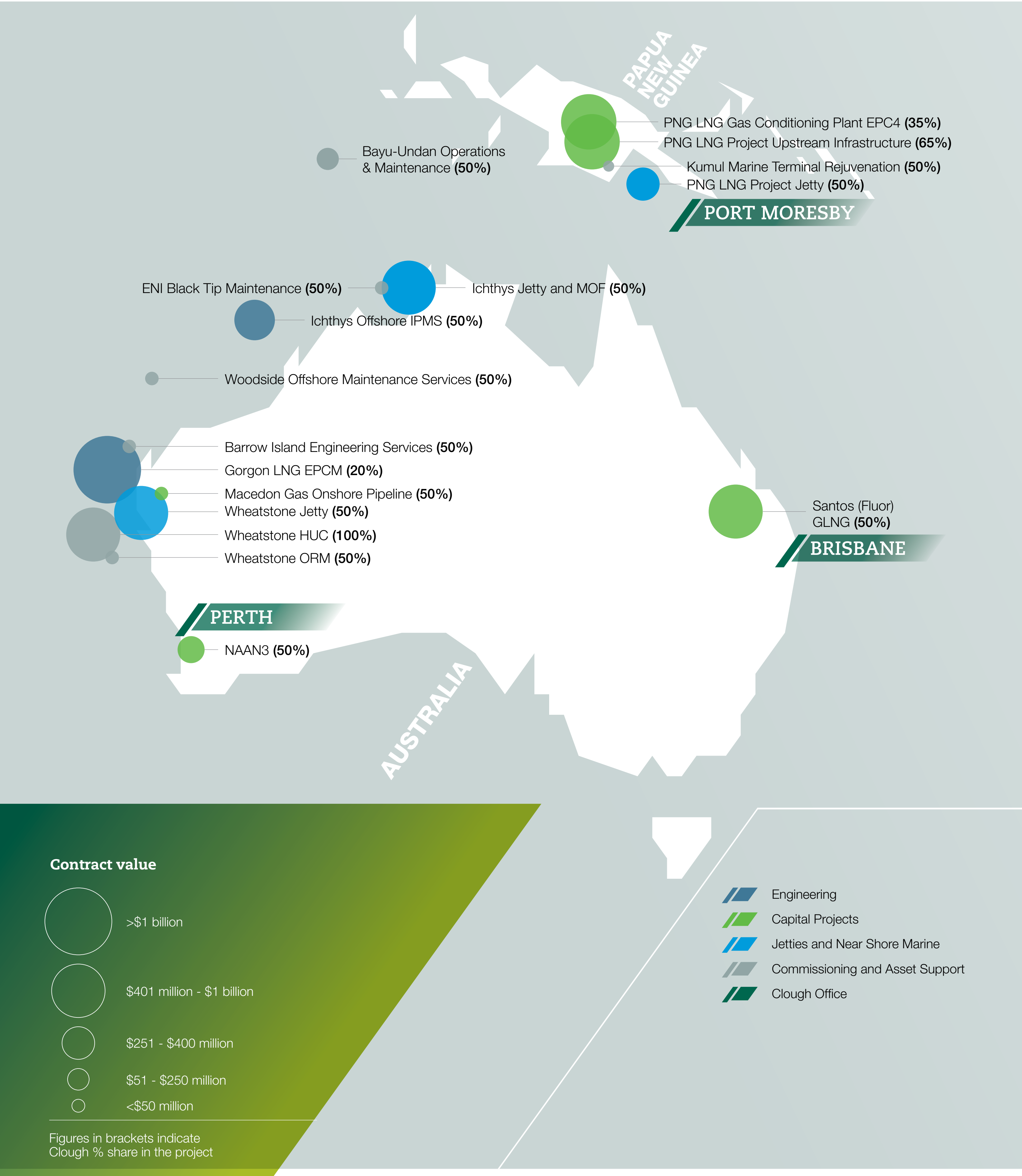
*MA (Counselling Psychology)*

### Executive Vice President, People and Organisation Development

Catharine joined Clough in May 2012 as Executive Vice President, People and Organisation Development, and is responsible for working with Clough's Board and leadership team to develop the frameworks, policies and strategies required to enhance and sustain a high performance culture, especially during periods of growth and change.

Catharine has extensive experience in the engineering and construction industry, traversing contracting and maintenance services. Prior to joining Clough, Catharine held senior Human Resources and Change Management positions with Hastie Group in Australia and Murray & Roberts in South Africa. She specialises in working alongside Boards and senior executive teams to undertake agendas that optimise organisation design by aligning people and culture with business and commercial strategy.

Prior to joining the engineering and construction industry, Catharine was a lecturer in Psychology at the University of South Africa, where she instructed and supervised post graduates in various fields of psychology, including optimal functioning, managing change and understanding human systems.


PAPUA NEW GUINEA
Bayu-Undan Operations & Maintenance (50%)
PNG LNG Gas Conditioning Plant EPC4 (35%)
PNG LNG Project Upstream Infrastructure (65%)
Kumul Marine Terminal Rejuvenation (50%)
PNG LNG Project Jetty (50%)
PORT MORESBY
ENI Black Tip Maintenance (50%)
Ichthys Jetty and MOF (50%)
Ichthys Offshore IPMS (50%)
Woodside Offshore Maintenance Services (50%)
Barrow Island Engineering Services (50%)
Gorgon LNG EPCM (20%)
Macedon Gas Onshore Pipeline (50%)
Wheatstone Jetty (50%)
Wheatstone HUC (100%)
Wheatstone ORM (50%)
Santos (Fluor) GLNG (50%)
BRISBANE
PERTH
NAAN3 (50%)
AUSTRALIA
Contract value
>$1 billion
$401 million - $1 billion
$251 - $400 million
$51 - $250 million
<$50 million
Figures in brackets indicate Clough % share in the project
Engineering
Capital Projects
Jetties and Near Shore Marine
Commissioning and Asset Support
Clough Office

# business lines

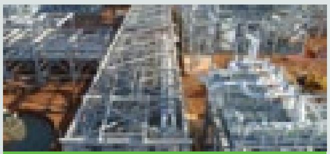
in place from 1 July 2012

## PROJECTS

### Engineering

Engineering excellence across every phase.

- Concept Evaluation
- Project Feasibility Studies
- Front End Engineering Design
- Detailed Design
- Specialised Process LNG Engineering Design
- Engineering, Procurement, Construction and Project Management (EPCM)
- Project Management Consultant (and Services)
- Asset Support, Process Optimisation and Debottlenecking



### Capital Projects

Integrated EPC and Construct Only services.

- Process Facilities
- Balance of Plant Infrastructure
- Power Generation
- Compression Facilities and Infield Pipelines
- Offshore Fabrication

### Jetties & Near Shore Marine

The Market Leader in Jetties and Near Shore Marine.

- Oil, Gas and Minerals Import and Export Jetties / Terminals
- Ports and Port Development
- Berthing Structures, Quay Walls and Breakwaters
- Intake and Outfall Structures / Pipelines
- In-house Design and Construct Capability

### Commissioning & Asset Support

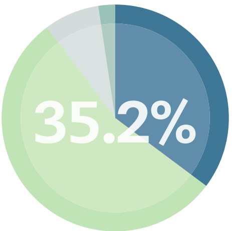
Seamless transition from construction to operations.

- Onshore and Offshore Pre-commissioning and Commissioning
- Brownfield Engineering
- Operations and Maintenance
- Shutdowns and Campaign Management
- Supply Chain Management
- Decommissioning
- Competency Assurance and Training

# clough **operations**

Our Engineering business represents a key growth area. Throughout the year we built capacity and were awarded new engineering study work, whilst continuing to deliver Engineering, Procurement and Construction Project Management (EPCM) services to Australia's two largest resource projects, Chevron's Gorgon LNG Project, and INPEX's Ichthys LNG Project.

**contibution to total revenue**




**$354m**

FY12 revenue

**$769m**

order book

**846**

people

**Gary Bowtell**

Executive Vice President, Engineering

### Low Risk, High Value Engineering and EPCM Services

Clough's Engineering business delivers low risk, high value engineering and EPCM services across the entire phase of a project. The business provides engineering study services from concept and feasibility studies, front end engineering design (FEED) and detailed design work, through to project management services (EPCM) for major Energy and Chemical and Mining and Minerals projects. Supporting our Projects and Commissioning and Asset Support businesses with in-house engineering services is also an important function.

### New Work Expands Capacity

During the year we strategically diversified our client portfolio to minimise risk. Engineering packages were awarded and delivered to over 12 blue chip clients throughout the year including Woodside, Chevron, Total, Oil Search, Queensland Gas Company (QGC) and Apache.

One of the most pleasing awards for the year was the 'Owners Engineer' contract awarded by BP for the Asia Pacific region. This contract involves integrating with the client team to provide engineering services traditionally provided by the operator's in-house engineering team. This cements our process engineering group's position as one of Australia's leading providers of process and cryogenic engineering solutions for major LNG projects. Initially Clough's process team will help with the basis of design work in preparation for expansion of the Tangguh LNG facilities in Indonesia.

A highlight for the year was the award of the INPEX Ichthys Integrated Project Management Services (IPMS) contract, to the Clough DORIS Joint Venture (CDJV). Clough now provides project management services for Australia's two largest resource projects, the Gorgon and Ichthys LNG projects.

# engineering

### Growth and Progress

Our core engineering team expanded to over 350 engineers during the year, in response to increased demand for our services.

In Brisbane our engineering team grew tenfold to more than 100 personnel, with one of their key projects being the Argyle and Bellevue detailed design work for QGC. Under the leadership of Terry Stamatiou our engineering team successfully completed the detailed design work on a very tight schedule.

Clough's workforce on the massive Gorgon LNG project grew to over 700 during the year, with our people playing a significant role in engineering, logistics, safety and quarantine services for the project.

Progress on Barrow Island was impressive given its unique and challenging environmental constraints. Key milestones include the arrival of the first modules on the island in June, and construction of the staff camp to provide accommodation to more than 5000 people.

On the Ichthys IPMS Project, the CDJV team successfully contributed to the project's Final Investment Decision, collaborating with other project partners to award major subcontracts in Korea for the Central Processing Facility and the Floating Production and Storage Facility. CDJV employs more than 100 people across global work sites, supported by the coordination team in Perth.

### New Challenges

An important consideration for the industry is attracting and retaining high quality engineers following the rapid growth in demand in the Australian market.

Our focus this year is on succession planning to build bench strength in our engineering workforce, while ensuring core engineering teams continue to enjoy a diverse and challenging career.

### The Year Ahead

In the coming year we will continue to diversify our project portfolio to sustain growth and deliver improved margins for shareholders.

On Ichthys, the CDJV team is set to grow to 250 people in the year, while our Gorgon workforce numbers should remain steady at around 700, with the focus on this project transitioning from overseas to Barrow Island for the construction phase of the project.

Extending our engineering expertise into the Mining and Minerals sector is another focus for the business. Mining and Minerals projects by nature are often smaller than the large LNG projects that make up the majority of Clough's current order book. This enables Clough to self-perform this work rather than executing via joint venture. We believe the growth fundamentals are still strong for this industry, despite the recent decline in activity.

### Outlook

Clough's Engineering business is well positioned to deliver long term growth with a solid order book valued at $769 million, and a diverse pipeline of opportunities on our radar.

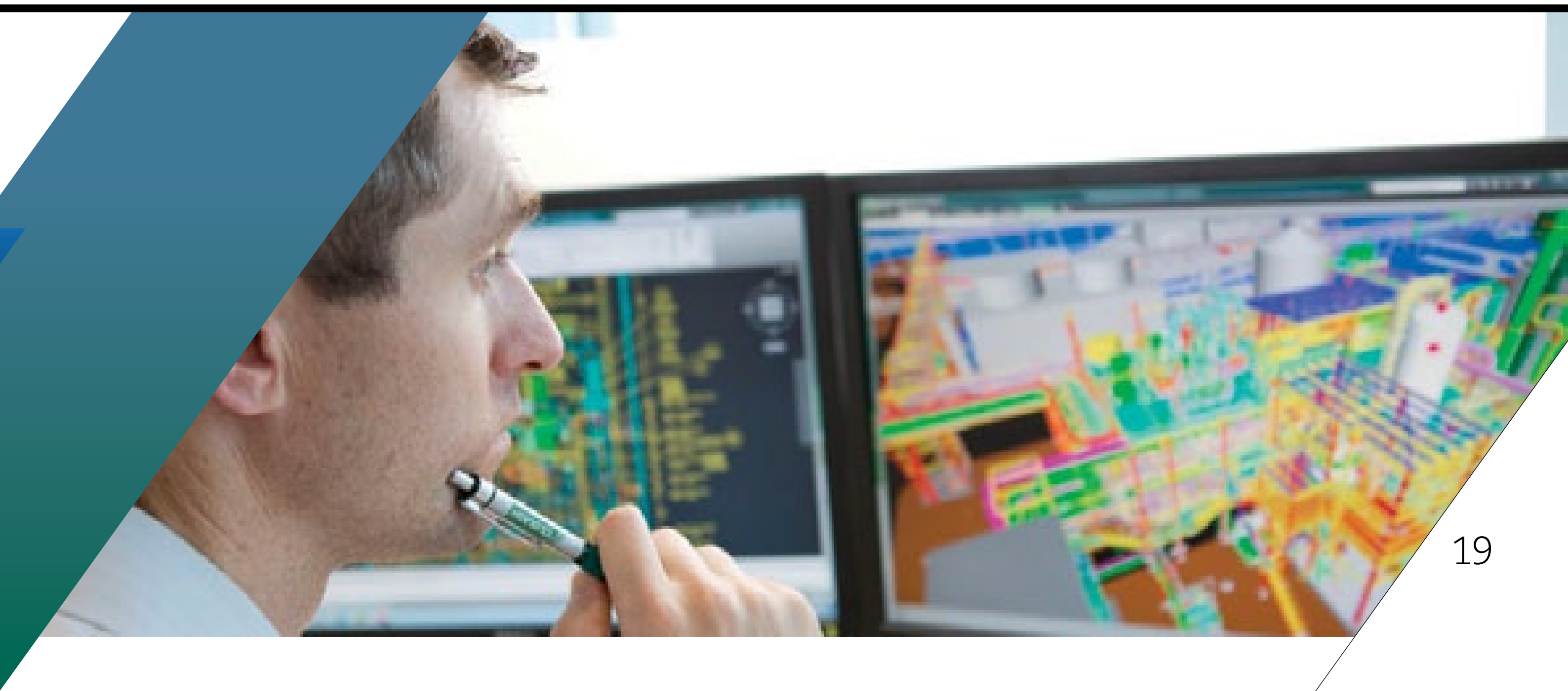
Engineering in Australia is experiencing one of the most exciting eras in its history, and Clough's engineering teams are at centre stage through our work on Gorgon and Ichthys. These nation defining projects provide a stepping stone to grow our engineering to be competitive in other markets such as Mining and Minerals and the expanding Coal Seam Gas industry in Queensland.

We will also seek to extend our services to all the associated and complementary work involved with LNG developments, including engineering solutions for gas turbine power plants.

With the industry moving from construction to operations, there are also opportunities to provide services to our Commissioning and Asset Support business, including operations, maintenance and optimisation engineering once construction work has been completed.

In the longer term we will aim to support bulk engineering services through a high value engineering strategy, which could potentially double our capacity.

While there will be challenges involved with the downturn in the Mining and Minerals market, we are in a strong position to capitalise on growing industry demands in the energy sector, and will proactively build engineering capability to service the Mining and Minerals markets to ensure we are in a strong position when the market recovers.

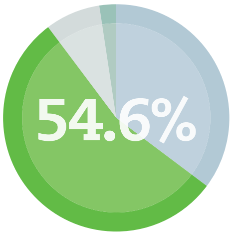


Clough's Capital Projects business continued to work on its portfolio of projects in Papua New Guinea and win new work with Fluor and CSBP in Australia. The business is well positioned to improve earnings in the coming year.

## Projects

**Aggregate Results: Capital Projects and Jetties and Near Shore Marine**

contibution to total revenue




**$549m**

FY12 revenue

**$1170m**

order book

**3214**

people

**Rick Robinson**

Executive Vice President, Projects

### Foundation Business

Capital Projects represents Clough's foundation business. The company has been executing Capital Projects work since it was established in 1919, and today offers a fully integrated, in-house Engineering, Procurement and Construction (EPC) service, with constructability built into every design.

The business also has the flexibility to deliver smaller contract scopes, such as Design and Construct and Construct-only solutions, and has the reputation for effectively delivering on client safety, quality, cost and schedule objectives.

Services are underpinned by key objectives regarding strong project management capability and established project management systems.

The business continued to deliver a diverse portfolio of Capital Projects during the past financial year across Australia and Papua New Guinea (PNG).

A strong focus for the business in the coming year will be improving margins by focusing on excellence in project execution, commercial discipline and providing value-added solutions to existing clients.

### New Projects Boost Order Book

A major achievement for the Capital Projects business was boosting the closing order book.

In August, Downer Clough Joint Venture (DCJV) was awarded the ECI contract for CSBP's Ammonium Nitrate/Nitric Acid Plant Number 3 (NAAN3). This contract was converted into a $200 million EPC contract in December, after the successful completion of the ECI scope definition phase.

The company's first major Coal Seam Gas (CSG) contract was secured in September, again in partnership with Downer, to deliver the $600 million K128 upstream scope for the Santos Gladstone LNG project, Queensland.

# projects:

# capital projects

In January, the Clough Curtain Joint Venture (CCJV) was awarded a $145 million work order, to continue their work on Exxon Mobil's PNG LNG project.

**Excellent Operational Performance**

Clough's successful 30 year track record in PNG continued to pay dividends, as the company delivered two capital project work scopes with an outstanding safety record, while successfully managing the cultural and logistical challenges asscoiated with working in the region.

On the PNG LNG Upstream Infrastructure project, the CCJV team achieved 12.3 million work hours without a lost time injury, and was recognised for this achievement through the award of ExxonMobil's Safety, Health and Environment 'best contractor in PNG' award. Work fronts on this project have now consolidated to Hides, as the team works towards a completion date in early 2013. The current workforce number is 1,300 – 87% of which are PNG nationals.

CBI Clough Joint Venture continued to progress well on the EPC4 contract for the PNG LNG gas conditioning plant in Hides. Over 1400 employees were mobilised to site throughout the year, as the focus on this project moved from design to execution.

In Western Australia's Pilbara region, the Streicher Clough Joint Venture completed the significant installation of 85 kilometres of onshore pipelines and 15 kilometres of onshore hydraulic and electrical umbilical cable for BHP Billiton's Macedon Project. The umbilical installation set a new record for the longest land lay ever performed in Australia.

DCJV successfully commenced the EPC phase of the NAAN3 project on Perth's Kwinana strip, Western Australia. Work on the project continues to progress on schedule with engineering progressing and procurement and fabrication activities underway. The construction team mobilised to site in April 2012.

Work on the K128 contract for Santos' Gladstone LNG project has progressed significantly throughout the year. The project involves constructing more than 400km of gas and water transmission pipelines, two compression facilities and associated infrastructure. Construction work has started with earthworks, pipeline construction and fabrication underway.

**Industry Challenges**

The primary challenge for our Capital Projects business is obtaining the resources to service the increasing client and market demands. This means attracting and retaining the right talent in a highly competitive environment.

In the coming year talent management and succession planning will continue to be paramount. Our strategy is to employ the best people in the industry, with a strong focus on project management skills, and to continue developing these people through robust training and development programs.

We are also seeing increased competition from international EPC companies interested in the emerging Queensland CSG market. This will increase competition to win contracts as well as recruit a quality workforce. Clough's 40 year track record in Queensland and local project delivery capability positions us well to continue servicing this market.

Improving our EBIT margin is a challenge for our Capital Projects business. Although we have delivered many successful projects to happy clients in the past, our recent earnings have been lower than desired. A focus for the group is to develop an efficient operating and cost model to optimise performance and improve EBIT margins.

**FY13 Objectives**

The Capital Projects business is a large contributor to the performance of the company and we anticipate a successful year ahead as we strive to further augment an already healthy order book with new projects.

In Queensland, our focus is on the growing CSG industry. We aim to increase our participation in this market by targeting the four major CSG projects in the region. Our dedicated focus in CSG puts the company in a strong position to service this industry, and we are confident we will announce a significant award in this sector early in the financial year.

In PNG we aim to cement our position as the preeminent EPC contractor with a reputation for assured project delivery. We will do this by focussing on excellence in project execution for our two current capital project work scopes in the region.

**Longer Term Outlook**

Despite the recent downturn in the Mining and Minerals sector, we believe the industry will eventually rebound, representing an attractive market for our Capital Projects business to re-enter in the future. Clough has 30 years experience in Mining and Minerals capital projects delivery in both Australia and PNG.

This is part of our longer term diversification strategy, to ensure we have the right mix of projects in both lump sum and reimbursable contract forms to minimise risk.

We will also aim to consolidate our market leading position in PNG and work with our asset support team to maximise construction skills in both Greenfield and Brownfield projects.

With an order book that has grown fourfold in the past year, and a reputation for consistently delivering on what we promise, BAM Clough are the market leaders in Jetties and Near Shore Marine developments in Australia and Papua New Guinea.

### 48 Years of Success

Clough first joined forces with BAM International, (then Royal Netherlands Harbourworks) in 1964 to provide jetty and near shore marine facility construction services to the resources industry in the Pilbara. Forty-eight years later and the outlook for the joint venture has never been stronger, with an order book that has grown fourfold in the past year.

BAM Clough represents the vehicle through which Clough delivers its jetties and near shore marine service. The joint venture has consistently proven itself to be the market leader in the delivery of high quality jetty and near shore marine developments for major energy and resource projects.

In FY12 the joint venture's reliable jetty design and construct delivery model has experienced a significant increase in demand, resulting in a number of high profile contracts. During the year, the joint venture was awarded the $400 million contract for Chevron's Wheatstone LNG Jetty, and two contracts valued at $515 million for INPEX's Ichthys LNG Jetty, and Module Offloading Facility (MOF). These contracts complement the current schedule of work being undertaken for ExxonMobil's PNG LNG Jetty project, located 20km northwest of Port Moresby on the coast of the Gulf of Papua.

### Project Delivery Excellence in PNG

BAM Clough continued to deliver the PNG LNG jetty project on budget and schedule, achieving an impressive array of technology and engineering feats since the project commenced. The project has completed a 2.4km approach trestle, loading platform and substation pile caps. Piling has been completed for navigation aids and beacon piles, while the sea water intake is installed.

Excellent safety performance continued, driven by the discipline of our people to adhere to our proven safety principles and practices outlined in our Target Zero program. Approximately 400 people work on the project with 330 onsite in PNG and the remainder spread between Brisbane and Thailand.

### The Right People

In today's competitive market the success of a project comes down to attracting and retaining the right people. Over our 48 year history BAM Clough has maintained close relationships with people that have worked on our projects. The joint venture's strategy involves getting the right people in place at the start of the project. We find our reputation as a high performance team means many past team members inquire about re-joining the BAM Clough organisation.

As one of Europe's largest construction firms, BAM also provides access to a worldwide talent pool of experienced personnel and specialist construction equipment while Clough supplies extensive expertise in local project delivery, experienced local talent and knowledge of the Australian and Papua New Guinea construction environment.

### FY13 Project Milestones

BAM Clough's immediate focus is to execute the current projects on our books by utilising our tried and tested project delivery model. Our two INPEX contracts, the Jetty and MOF, are running in parallel with the dual objective to mobilise to site in February 2013, having completed all engineering and procurement work.

The INPEX Jetty starts with non-permanent test piling, while the MOF will commence directly with permanent works. On the latter we are close to completing the soil investigation which was part of our scope and provides important input for finalising the design.

For the Wheatstone LNG Jetty project we are aiming to complete the engineering, procurement and preparation work to enable site mobilisation in Q1 of FY14.

The PNG LNG Jetty civil works is targeted to finish in October 2012. This is currently on schedule with mechanical works finalised and practical completion scheduled for March 2013.

### Outlook

The long term outlook for BAM Clough is to ensure we maintain our current order book levels by extending our services beyond the oil and gas sector. We will strive to capitalise on port developments, quay walls, intake and outfalls, and mineral offloading facilities projects, whilst looking for new opportunities outside Australia and PNG.

BAM Clough is well positioned to enhance our reputation as the market leader in the jetties and near shore marine sector and will proactively work to secure new contracts, strengthening our project order book. We have been shortlisted as one of the two final contractors for Rio Tinto Alcan's Weipa bauxite jetty in Queensland. There are also a number of other near and long term opportunities, though our current position enables the business to be very selective about the opportunities we pursue, ensuring we only target those that provide the right mix between risk and return for our shareholders.

# projects:

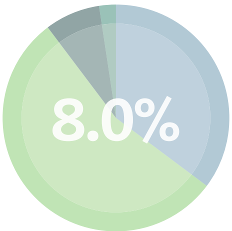
# **jetties** and **near shore marine**

Our tender pipeline contains a mix of oil and gas and minerals offloading facilities and port developments.

The oil and gas market provides a sound base to transfer our robust near shore marine skills into the mining and minerals offloading and port facilities markets. Despite the market downturn in minerals, we believe this market will bounce back, and we are well positioned to provide services when it does.


Clough's Commissioning and Asset Support business experienced significant growth in the past year, with this business line capturing approximately 40% of contracts awarded to Clough in FY12. There are significant, long term growth opportunities for the business with major LNG projects moving from construction through commissioning and into operational phases in the medium term.

contibution to total revenue




**$80m**
FY12 revenue

**$398m**
order book

**405**
people

**Max Bergomi**
Executive Vice President, Commissioning and Asset Support

### A New Business Built on Existing Skills

Clough has established a strong track record in asset support in the Energy industry through the long term joint venture partnership with AMEC. As operational expenditure in the market resets to a new level after this capital boom, the joint venture is positioned extremely well for sustained and consistent growth this year and through the rest of the decade. We are committed to building strong relationships with our key clients through operations support, with the advantage that support contracts provide low risk, long term base load income for the company.

The commissioning stage of a project is at a critical juncture between construction and operations. It can be fraught with problems at a time most clients can least afford. Many clients have come to the realisation that commissioning requires the careful analysis and diligent execution of a dedicated team, independent to services EPC contractors can provide.

By combining Clough's commissioning capability with asset support services, the business can make the most of the spike in the commissioning market whilst also using our niche capability to leverage opportunities in asset support.

Most importantly, the business had an incredibly safe year with no Lost Time Injuries and the lowest Total Recordable Injuries on record.

### Asset Support Success

We see our key role as taking the day-to-day worry away from our clients so they can focus on their own production objectives. This year we ramped up activities in support of ConocoPhillips performing a flawless shutdown campaign for their Bayu-Undan facility. At the same time we performed a highly complex platform rejuvenation for Oil Search in PNG without impacting tanker loadings. On Chevron's Wheatstone Project we kicked off a major four year Operations Readiness program that will allow our client to move into operations quicker and with greater confidence.

# **commissioning** and asset support

Chevron has demonstrated their satisfaction with our asset support offering by again extending the engineering services contract for Barrow and Thevenard Islands. Also this year we substantially increased the workforce dedicated to servicing our other long term relationship with Woodside.

Across the country, Clough AMEC was awarded the training and competency development for Queensland Gas Company (QGC) for their LNG plant operations. This contract award characterises our unique spectrum of offerings not only in ongoing maintenance, but for intellectual development and support of the operations.

The successful year was capped with another multinational, ENI, awarding Clough AMEC the asset support contract for the onshore gas treatment plant and the offshore unmanned wellhead platform for their Blacktip project.

This year we also grew our reach by entering a joint venture with Beca in New Zealand that immediately proved successful when we deployed 500 people for the execution of a notoriously difficult shutdown with Ballance Agri-Nutrients.

**Rapid Growth in Commissioning**

Our clients required commissioning capability independent to EPC contractors. We responded by supplementing our EPC commissioning skills with highly regarded subcontractor e2o, to develop specialist capability and just as importantly - dedicated capacity.

Our core competency is project management; hook-up and commissioning engineering; supply of Completions Maintenance Management System (CMMS) software; operational, safety and risk management and multi-disciplined hook-up and commissioning teams that includes engineers, technicians and a large blue collar workforce.

Winning the coveted multi-year $350 million Chevron operated Wheatstone Hook-Up and Commissioning contract (HUC) is a major highlight for the business and rewards Clough for the successful strategy of investing in capability for this niche market.

The contract will create work for around 500 people throughout three project phases, and provides an opportunity to showcase our expertise on one of Australia's largest offshore facilities. The scope is significant, including the onshore commissioning of the platform topsides, primary processing equipment in Korea and the offshore Hook-Up and final commissioning in the Carnarvon Basin.

To date we have achieved several project milestones including the rapid assembly of the program management team, the development and issue of the project plans and procedures, and the placement of initial large purchase orders.

**Competitive Advantage**

Clough AMEC is unique in that it offers strong local knowledge and project delivery capability with AMEC's world class Brownfield project management systems and access to a global workforce of over 35,000 people.

The joint venture was created to have a clear differentiator in the market; it offers clients an integrated engineering, maintenance and operational support service. This core skill set is complemented by numerous specialisations such as operational readiness, maintenance management system (MMS) development, training and competency framework creation, process and control optimisation, and safety studies.

Clients that engage with us for commissioning projects get significant value from Clough's access to Australian skilled and experienced hook up and commissioning teams as well as our multidiscipline engineering personnel. Certification and location of current and previous resources are managed through a custom-built web-based hook up and commissioning management tool.

This allows Clough to track over 2000 qualified personnel, and enables deployment of experienced teams into hook-up and commissioning projects – a much-preferred outcome to hiring a workforce with no track record of working together or no guarantee of actual competence.

**Outlook**

We are starting the year with a very strong order book that confirms our market leadership in Australasia for commissioning oil and gas facilities. We also kick off the year with a good foundation of successful asset support contracts for a number of operators, some of whom are tracking towards major increases in asset support requirements.

The Australasian asset support market is valued at approximately $1 billion per annum, but is destined to grow in the next four years to over $4 billion with many of the large LNG projects soon to move into the operations phase.

We are targeting additional penetration into the East Coast in engineering and maintenance support for the upstream and downstream CSG industry as well as in the Cooper Basin and Bass Strait regions.

Ultimately, the long term strategy to build capability in commissioning and asset support is now paying off as the business is well positioned to capitalise on the expected market growth. The business has the added advantage that Clough has played a major role in the engineering and construction of many of the projects soon to enter commissioning and operational phases.

During the year Clough people safely worked 45 million hours, more than double the hours worked in the previous year. Despite the increased workload, total recordable and lost time injuries reduced significantly, closing at the lowest levels recorded, as the company continues to work towards our vision of Zero Harm.

↓ **53%**

**total recordable injuries down to 2.05 per million hours**

↓ **38%**

**lost time injuries down to 0.13 per million hours**

**16m**

**hours LTI free in PNG**

### Industry Leading Safety Performance

Clough continued to record an Australian industry leading safety performance during the year. Total recordable injuries reduced by 53% from 4.32 to 2.05 per million hours, while lost time injuries decreased by 38% to 0.13 per million hours, down from 0.21 per million hours in the prior corresponding period.

Whilst this performance is significantly better than the Australian Petroleum industry average, our goal is Zero Harm, and we will continue to work towards that goal.

### Safety Highlights

Our Papua New Guinea (PNG) workforce continued to deliver outstanding safety performance, recording more than 16 million hours lost time injury free over our three scopes of work in the region.

The majority of these hours were recorded by the Clough Curtain Joint Venture (CCJV) working on ExxonMobil's PNG LNG Upstream Infrastructure Project. The team have worked 12.3 million hours since the project commenced in 2009, without recording a lost time injury. This is a remarkable effort considering the culturally and logistically challenging environment in which the project is being performed. CCJV's workforce numbers peaked at 2500 people, comprising of 87% PNG Nationals.

To acknowledge this performance ExxonMobil awarded CCJV the 2011 Project Executive SSHE Award, which recognises the contractor with the best safety performance across the company's PNG operations. You can read more on this performance in our case study 'Over 12 million hours, no LTIs'.

Elsewhere in PNG, CBI Clough's EPC4 contract to build the Hides Gas Conditioning Plant has achieved a similarly impressive safety milestone: 4.5 million LTI-free hours. As with Upstream Infrastructure, EPC4 has a culturally and linguistically diverse workforce, one that has grown from fewer than 600 in January 2012 to more than 1600 today.

In Australia and PNG, across seven projects, our Commissioning and Asset Support business also recorded a lost time injury free year, despite an increased workload.

On the Macedon project in the Pilbara region of Western Australia, the Streicher Clough Joint Venture (SCJV) also won the 'Safety and Environmental Recognition Scheme Contractor of the Month' for work on the BHP Billiton Macedon Project, acknowledging SCJV's continued commitment to health and safety.

### Safety Incidents

Despite our excellent statistics and focussed Target Zero program, there were still a small number of safety incidents recorded throughout the year, the most serious involving a worker at the Clough Fabrication Yard at Sattahip in Thailand.

The incident occurred when a worker was preparing an 11.2 ton pipe for welding. While positioning a support underneath the pipe with his hand, the slings holding the pipe in position failed and the load fell, crushing the worker's hand.

A thorough investigation was conducted with corrective actions implemented.

While our statistics show a strong performance in personal safety, we never forget the human impact of every safety incident. The staff member involved has been rehabilitated and counselled after the traumatic event and has returned to work full time. The lessons learnt from this incident will ensure safety procedures are implemented to reduce the risk of a future reoccurrence.

# safety

### New Safety Programs

Clough is committed to providing an environment that enables our employees to achieve our vision of Zero Harm. This environment encourages a safety culture supported by training and tools, so working safely is the natural thing to do. In this environment our people have the right and duty to say no to any task that they do not feel is safe.

Significant investment was made in the past year in educating our workforce on behavioural and process safety, promoting best practice through our Target Zero campaign.

Recognition programs were introduced across our projects, to encourage and recognise staff for the right safety behaviours. In PNG we initiated the Safety Champion and Safety Leader of the Week programs to focus on positive reinforcement.

Site Incident Review Committees were also introduced, to enable workers and supervisors to discuss nominated incidents openly and constructively.

Operational managers continued to be trained in risk analysis, planning and management techniques to ensure appropriate procedures are always in place to manage our work sites.

Senior managers across the Clough organisation were also required to undertake mandatory training to enhance their knowledge and awareness of safety.

Other safety initiatives introduced during the year included a Stop Work Authority and improvements to the HSSE Management System to ensure alignment between our project partners in PNG.

A successful hand safety awareness campaign also helped keep this important issue top of mind on the PNG LNG EPC4 project.

Strong leadership, visible safety supervision and communication are also key factors that have contributed to our strong safety performance throughout the year.

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### Safety Tools

Clough continued to use an innovative suite of safety tools throughout the year to reinforce safety behaviours and encourage participation and ownership. These tools represent the standard incident prevention procedures across all of our projects, with disciplined implementation being key to our record safety performance this year.

During the year we continued to implement Hazard Identification Workshops (HAZIDs) across our projects, to identify and mitigate or eliminate hazards prior to work commencing. Work Method Statements continue to be used to describe safety control measures for the execution of work while Job Hazard Analyses (JHA's) are developed to break down work tasks into steps to identify, control and communicate hazards.

Pre-start meetings were conducted daily on sites spanning Australia and Papua New Guinea. These involved the discussion of tasks at the work face to ensure the work will be done safely.

We also continued to run the highly effective Toolbox Meetings throughout the year to present on safety topics and encourage group discussion, while our Safety Culture Workshops focussed on driving the right safety behaviour.

### Safety Focus

Clough's commitment to safety never waivers - it's an absolute paramount value without compromise. While the improvement in our safety results are pleasing, we will continue to review and improve our processes as we move towards our vision of Zero Harm.

Our safety procedures and robust culture are complemented by the leadership shown by our people. These elements coupled with an existing reputation for outstanding safety, position the company to drive further improvement in the year ahead.

## Over 12 million hours, no LTIs

The numbers associated with the work that the Clough Curtain Joint Venture (CCJV) team are executing in Papua New Guinea are mind-boggling: 1500 employees, 200 kilometres of roads, ten bridges, two wharves and eight work sites hundreds of kilometres apart.

But the statistic that everyone at Clough is most interested in is 12.3 million. That is the number of hours the joint venture's employees have clocked up on ExxonMobil's Upstream Infrastructure project since 2009 – without a single lost time injury.

The terrain the team members are working on is diverse and challenging and stretches across various landowner boundaries. The workforce is as culturally diverse as the landscape and the work is often hazardous. Yet the fact that in June 2012 CCJV could celebrate the magical mark of 10 million LTI-free hours, and continue this performance to exceed 12 million, shows what can be achieved if everyone takes safety to heart.

Joining the team for a celebration in June, Clough CEO and Managing Director Kevin Gallagher commented: "It is outstanding to think we have achieved this safety milestone when we have people ahead of the construction crews felling tall trees and clearing jungle, people drilling and blasting as we cut our way through the mountains, and then constructing roads. These are high risk activities; it is an absolute credit to every team member that there have been no serious injuries on this project. They have put in a world-class effort."

This project entailed working from eight geographically dispersed worksites, from the River Port at Kopi in the Gulf of Papua New Guinea, through Gobe, Kantobo, and Mendi, to Hides in the Southern Highlands of the country.

CCJV's safety achievements reflect the disciplined safety culture that is promoted at each of the worksites. It is the result of effective team work, collaboration and communication between all employees to complete the job safely.

*CCJV's comprehensive safety and work skills training programs provide Papua New Guinea locals with life-changing skills that can be transferred across the many projects being undertaken in the region.*

Clough's workforce increased by 32% to 4785 people in FY12, to meet the growing demand for Clough's services. A comprehensive review of our people programs has resulted in a new approach to talent management and remuneration, to ensure we develop the workforce skills required to deliver on our strategy.

**↑ 32%**

**people numbers up to 4785**

**1200**

**people recruited**

**Catharine Payze**

Executive Vice President,
People and Organisation Development

### Attracting and Retaining High Performers

Attracting and retaining high performing people is critical to achieving our ambitious growth plans for the next five years. We attract people into the business by offering competitive salaries and benefits, though our people tend to stay because of our culture. Clough is small enough to provide career flexibility and choice though large enough to provide the challenge and excitement of working on some of the world's largest projects.

Over the last year our retention rate was above the industry norm and we recognised 23 people for achieving between 10 and 30 years of service. Some of our leaders have spent a lifetime with Clough, and have been rewarded with exciting and diverse careers (see 'A Career of a Lifetime' on page 30).

### Strategic Alignment

There have been some significant changes to our people and organisation function over the past year, as we build capacity to deliver on our strategy.

This follows the new business structure announced in March 2012, which removes complexity and improves authority and accountability for performance across the company's four business lines.

This business structure enables more targeted goal setting across our businesses, improves productivity, and better employs the skills of our people.

### Building Capacity

Growing our own leaders internally by developing the skills and systems they need to be successful, is another way Clough will overcome the skills shortage to deliver on our large portfolio of projects.

During the past financial year we completed a comprehensive review of our training, development and succession planning programs. As a result, a completely new approach will be implemented, with the launch of the 'My Pursuit of Excellence' talent management program in October 2012.

This initiative will map individual objectives to Clough's balanced scorecard; ensuring individuals understand how their role contributes to organisational success. The program also identifies any skill gaps that need to be closed through training, along with an individual's progression plan, based on employment level and area of focus.

The goal is to build the right skills, at the right level, to deliver on current and future roles, to ensure we develop a robust succession pipeline.

### Youth and Talent

Clough also aims to ensure sustainable business success by recruiting some of Australia's brightest graduates and students to inject new ideas and energy into the company. Participation numbers increased on Clough's 12 week student summer internship program and three year graduate program. Thirteen students participated in the internship, and 31 engineering graduates commenced the three year program.

An agreement in principal has been reached to reinvigorate our Clough Scholars program with the University of Western Australia (UWA).The Clough Scholars program was originally initiated by Harold Clough in 1969 and awarded more than 200 scholarships to the

# **people** and **organisation** development

university's top engineering students. Clough Scholars were guaranteed employment at Clough, though they were not obligated to take a position with the company. Today the Clough Scholars alumni consists of high profile leaders in government and business, many of which celebrate the scholarship at an annual dinner.

Clough will provide four scholarships per annum to top students at UWA, in their penultimate and final year of their Masters in Engineering degree. Scholars who take a position with Clough will receive an advanced training program, leadership training and executive mentoring.

**Women@Clough**

In August 2011, the Women@Clough initiative was formally launched with the mission of improving the attraction, retention and progression of women within Clough's workforce. Although Clough's female workforce composition of nearly 34% compares favourably with similar industries, there are low numbers of women in engineering, construction, project management and senior management positions.

A significant improvement for the year was the increase of women classified as management, with numbers more than doubling. In an environment experiencing a skills shortage, increasing female participation in Clough's workforce is a key focus and we will continue to work on this.

**Rewarding Performance**

Rewarding high performers and aligning functional and organisational performance with reward are the underpinning principals of Clough's revised remuneration standard, which will be launched later in the year.

The new standard will provide a more dynamic, fit for purpose solution, tailored to different employee segments.

Employees will also be offered the opportunity to purchase shares through a Clough Share purchase plan, which will also be offered to staff later in the year. We believe it is important for staff to have ownership in their company.


# a career of a lifetime

30 Years of Service

## Greg Rix

Project Manager

**Commenced April 1982**

30 years ago, a young South Australian footballer and civil engineer Greg Rix, joined Clough.

During his time with Clough Greg has worked as a Project Engineer, Construction Manager, Tender Manager and Project Manager, across a variety of projects including LNG facilities, jetty marine structures, offshore topsides, iron ore port developments, water treatment plants, and even a brewery upgrade. Projects have been located in Australia, Indonesia, Sumatra, Singapore, and Malaysia. He is currently seconded to Abesque Engineering (Forge Group) as Project Manager for the Simcoa Silicon Plant Furnace Expansion Project at Kemerton, near Bunbury, Western Australia.

Greg states it is the teams of great people he has worked with and the interesting and challenging projects that Clough undertakes that has kept him interested for the past 30 years.

20 Years of Service

## Andrew Gordon

General Manager, West Coast Projects

**Commenced January 1992**

Andrew Gordon, joined Clough in 1992 as a Quality Engineer on the Pagerungan Field Development in Indonesia. He has worked on many major projects including Dhodak Gas Plant, East Spar Development, Lihir Tailings Pipeline, PNG Oil Refinery, and Maari Field Development in Construction Manager, Deputy Project Manager, and Project Manager roles. He has also held roles as General Manager Project Services, and General Manager of the Clough Forge Joint Venture.

Andrew says its the technical and location challenges of the projects, especially overseas, which has kept him interested during his 20 years of service with Clough, along with the humour, commitment and talent of the people he works with.

There is a romantic twist to Andrew's history with Clough, as this is where he met his wife, Leanne. The pair now have two boys, Josh and Cameron.

20 Years of Service

## Michael Schoenauer

Deputy Project Manager, Clough DORIS JV

**Commenced May 1992**

Michael joined Clough in 1992 as a Site Engineer for a bridge project at Robe River, in Western Australia's Pilbara, and was quickly promoted to the Project Manager role for a blast proof building on the Burrup for Woodside. He has worked in Sri Lanka as a Construction Manager and has held senior or project management positions on numerous local and international projects including the Osborne Gold Mine and Kwinana Cogeneration Power Project in Australia and the Inco Nickel Mine Expansion in Sulawesi.

Michael has held the role of Manager for EPCM Operations and spent seven years on the Gorgon Downstream LNG Project as Business Director, a role he states was the highlight of his career. Michael is currently the Deputy Project Manager for the Clough DORIS JV on the INPEX Offshore IPMS project.

Clough's environmental teams continued to work diligently to prevent any impact of our work on the environment. Members of our Quarantine team helped implement the Gorgon Quarantine Management System, while in Papua New Guinea, tailored education programs helped significantly reduce environmental incidents.

**Award Winning Quarantine**

The expertise of Clough's Quarantine team sets an elite standard of environmental practice for the industry.

Through its work on the Gorgon project as part of the Kellogg Joint Venture - Gorgon (KJV-G), Clough employs highly experienced quarantine professionals capable of working through the challenges of logistics and supply at international borders and coordinating effective liaison with governments in Australia and other countries.

KJV-G's quarantine team has had a successful financial year, increasing its personnel to 210, including over 100 Clough personnel, to assist with the management of the increasing quarantine requirements for Chevron's Gorgon Project on Barrow Island.

The KJV-G quarantine team helps implement the Barrow Island Quarantine Management System (QMS). This system was recognised for demonstrating excellence in environmental management and sustainable development by the United Nations Association of Australia, at its 2012 World Environment Awards.

This award is an exceptional achievement and recognises how industry and conservation can coexist.

The QMS is the world's largest non government quarantine initiative and sets new global benchmarks for major capital projects in ecologically sensitive environments. It is a system on a scale not previously attempted by the private sector, comprised of a comprehensive and interrelated set of more than 300 procedures, specifications, checklists and guidelines. The QMS cascades to contractors and sub-contractors through a series of plans unique to each scope of work on Gorgon.

The QMS takes effect at every stage of the supply chain and is based on identifying the key pathways for people and materials to reach the island. It then imposes a system of barriers and border controls on each pathway.

The Gorgon project statistics demonstrate the efficiency of the system. To date more than 700,000 tonnes of freight has been shipped, almost 30,000 personnel have been trained in quarantine practices and more than 190,000 passengers have been screened at airports in Perth and Karratha. All this activity has occurred with zero introductions of non-indigenous species to Barrow Island or its surrounding waters.

**"Spills. Nogat!"**

Protecting the pristine environment in Papua New Guinea is a priority for Clough. One way the Clough Curtain Joint Venture (CCJV) team have achieved this is through tailored education programs aimed at reducing environmental incidents.

CCJV ran an environmental promotional campaign at the Hides site called "Spills. Nogat!", which is Tok Pisin for "No spills!"

The aim of the campaign was to reduce the number and volume of preventable hydrocarbon spills to ground.

A number of initiatives focussing on general education and awareness, targeted training and containment and response were implemented across the site, including:

- Spill Prevention Training at pre-start meetings.
- Environmental attendance at work group pre-starts to drive the spill prevention messages more regularly.
- Spill prevention banners placed at work sites, and table toppers placed in mess and offices.
- Placement of 'do not overfill' stickers on all plant and equipment.
- Placement of "Spills. Nogat!" commitment billboards around sites, including signatures to demonstrate individuals from workgroups commitment to "Spills. Nogat!"
- One on one coaching with the refuelling team.

'Spills. Nogat!' achieved excellent results, reducing the number of preventable spills by more than half from Q2 to Q3 and the volume of preventable hydrocarbon spills was 10 times less in Q3 than Q2.

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# environment and community

The Clough Cares community program was launched in 2011, with the purpose of engaging staff to drive greater participation in not-for-profit activities. The program encompasses corporate volunteering, dollar for dollar matching for employee fundraising, a community grants program, community and fundraising event participation, scholarships, sponsorships and disaster relief response.

### Children and Education

Clough supported a number of not-for-profit organisations that provide broad benefits to children and education throughout the year.

Clough's Perth and Brisbane offices rallied together two teams to participate in 20 half hour treadmill and exercise bike challenges to raise funds in support of the lifesaving work of the Murdoch Children's Research Institute. Clough matched fundraising efforts, donating more than $20,000 to the cause.

Clough employees also volunteered their time and raised funds for Radio Lollipop, an organisation which provides smiles and laughter to hospitalised children at a time when they need it most, and proudly supported the 2011 Smith Family Annual Christmas Appeal, donating $6000 in funds to Radio Lollipop, and nearly $3000 worth of gifts to the appeal.

As part of Clough's commitment to help build strong and thriving communities and deliver ongoing benefits in the areas of children, youth and education, Clough announced a sponsorship with Perth Glory's Community Program which reaches 20,000 children per annum to help develop physical, social and educational skills.

### Inspiring Women and Girls

In an effort to improve the number of girls who chose engineering as a career, Clough undertook some strategic sponsorships, including sponsoring the Year 5 and 6 girls from Iona Girls Primary School for the National Tournament of the Minds Maths and Engineering competition. The girls travelled to Hobart to compete in and win the Australia Pacific Final for their category.

Clough also sponsored the Women in Engineering Curtin Division (WIECD) at Curtin University of Technology and is a proud supporter of the Hunger Project, which helps make a positive difference to the lives of underprivileged women and girls in poverty-stricken regions of the world.

### Engineering

Clough is committed to helping grow a thriving engineering industry in Australia, and provides a number of not-for-profit and academic sponsorships in support of the profession.

We were proud to sponsor The 'Spark' Engineering Camp initiative in Queensland which introduces engineering to bright students from disadvantaged backgrounds. Along with monetary support, a number of Clough engineers acted as mentors during the camp.

The official opening of the new Clough Engineering Student Centre at The University of Western Australia (UWA) took place on 8 March 2012. Clough donated $375,000 towards the development of the centre. Clough is also a major sponsor of the Curtin University Engineering Pavillion, which was formally opened by Prime Minister Julia Gillard in 2011.

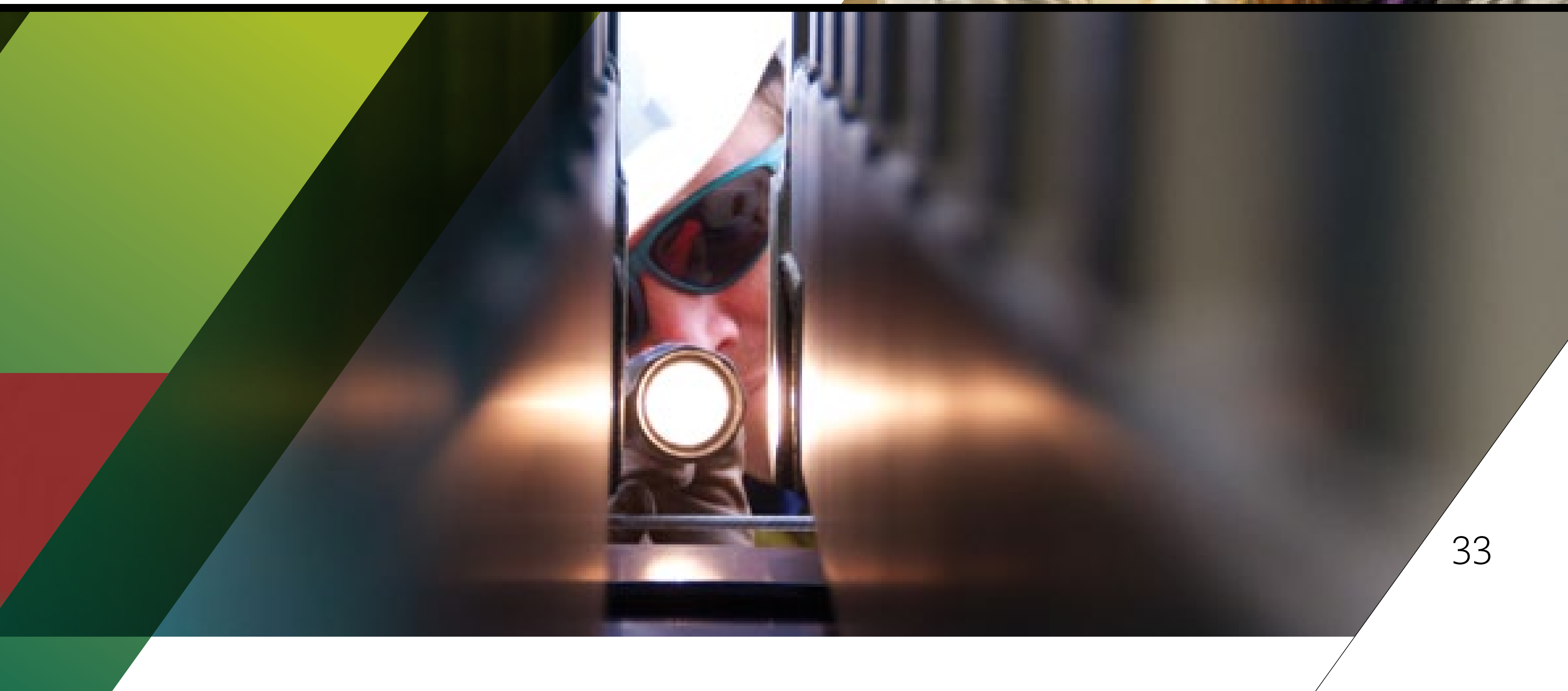
We also announced the reinvigoration of the Clough Scholars program in conjunction with UWA during the year, which will see Clough provide four scholarships per annum.

### Thailand Flood Relief

The flooding that occurred in Thailand in July through to December 2011 affected over 12.8 million people. Clough people donated nearly $6000 to the Thailand Red Cross Appeal to assist local families in their recovery efforts. This amount was matched by Clough, bringing the total donation to $12,000.

### Movember

Many male employees take the opportunity to forego the razor for the month of November in support of the Movember cause. In 2011, Clough employees raised $16,000 which Clough topped up with an extra $5000, to bring the grand total to $21,000. Funds raised through Movember support the two biggest health issues faced by men – prostate cancer and depression.



# Corporate Governance Statement 2012

## Clough places great importance on high levels of corporate governance and believes in the correlation between good governance and performance.

Clough's corporate governance statement has been prepared in line with the Australian Securities Exchange (ASX) "Corporate Governance Principles and Recommendations with 2010 Amendments" 2nd edition (**Corporate Governance Principles**).

| | ASX P & R[1] | If not, why not[2] |
|---|---|---|
| Recommendation 1.1 | • | |
| Recommendation 1.2 | • | |
| Recommendation 1.3 [3] | • | |
| Recommendation 2.1 | | • |
| Recommendation 2.2 | • | |
| Recommendation 2.3 | • | |
| Recommendation 2.4 | • | |
| Recommendation 2.5 | • | |
| Recommendation 2.6 [3] | • | |
| Recommendation 3.1 | • | |
| Recommendation 3.2 | • | |
| Recommendation 3.3 | | • |
| Recommendation 3.4 | • | |
| Recommendation 3.5 [3] | • | |
| Recommendation 4.1 | • | |
| Recommendation 4.2 | • | |
| Recommendation 4.3 | • | |
| Recommendation 4.4 [3] | • | |
| Recommendation 5.1 | • | |
| Recommendation 5.2 [3] | • | |
| Recommendation 6.1 | • | |
| Recommendation 6.2 [3] | • | |
| Recommendation 7.1 | • | |
| Recommendation 7.2 | • | |
| Recommendation 7.3 | • | |
| Recommendation 7.4 [3] | • | |
| Recommendation 8.1 | • | |
| Recommendation 8.2 | • | |
| Recommendation 8.3 | • | |
| Recommendation 8.4 [3] | • | |

1 Indicates where the Company has followed the recommendations contained in the Corporate Governance Principles

2 Indicates where the Company has provided "if not, why not" disclosure.

3 Information based recommendations 1.3, 2.6, 3.5, 4.4, 5.2, 6.2, 7.4 and 8.4 are not adopted or reported against using the "if not, why not" disclosure - information is either provided or it is not.

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

Clough has a corporate governance section on its website www.clough.com.au. This website contains the key Clough corporate governance documents, including the Board Charter, which explains the functions reserved for the Board and those functions delegated to the CEO and other senior executives. The Board has further delegated, by way of delegation of authority, certain Board functions to the CEO and management.

The Remuneration and Human Resources Committee undertakes an annual review of the CEO's performance. Performance measures are established between the CEO and the Remuneration and Human Resources Committee, which are approved by the Board. The outcome of the CEO review is reported to the Board. All senior executives are subject to a formal annual performance evaluation which is undertaken by the relevant manager. This process involves a meeting between the senior executive and employee at which performance objectives and behavioural competencies are assessed. This process is described in further detail in the Directors' Report, at page 42.

An evaluation of senior executives' performance took place during the reporting period in accordance with this process.

### Principle 2: *Structure the Board to add value*

The Clough Board comprises eight directors:

| | | |
|---|---|---|
| Keith Spence | Chairman and Non-Executive Director | Independent |
| David Crawford | Non-Executive Director | Independent |
| Emma Stein | Non-Executive Director | Independent |
| Cobus Bester | Non-Executive Director | Non-Independent |
| Henry Laas | Non-Executive Director | Non-Independent |
| Ian Henstock | Non-Executive Director | Non-Independent |
| Neil Siford | CFO and Executive Director | Non-independent |
| Kevin Gallagher | CEO and Managing Director | Non-Independent |

**Performance Evaluation**

In 2012 a review was undertaken of the way in which board and committee performance is evaluated. Following that review, the Board resolved to adopt annual evaluations of the performance of the Board, each Committee, the Chairman, and the Chairs of each Committee and of each individual director. Questionnaires developed by an independent consultant will be completed by each director. The responses will be compiled by the independent consultant and a report delivered to the Chairman. Responses relating to the performance of the Chairman will be delivered to the two independent non-executive directors. The Chairman will discuss the results with each individual director and with the whole Board. The two independent non-executive directors will discuss the Chairman's performance with him. The current review is scheduled to be discussed at the October 2012 Board meeting.

The process for the evaluation of board performance is contained within the Standard for Evaluating Board Performance. This standard can be found in the Corporate Governance Section of the Company's website.

**Nomination and Appointment**

The Board has established a Governance and Nominations Committee, whose members include Keith Spence (Chair), Emma Stein and Henry Laas. Emma Stein and Keith Spence are independent, non-executive directors. Henry Laas is a non-independent, non-executive director. The qualifications of members of the Governance and Nominations Committee are set out in this Annual Report under the heading 'Board of Directors', at page 12. Members of the Governance and Nominations Committee attended the number of meetings set out in the Directors' Report under the heading 'Directors' Meetings', at page 53.

The procedure in relation to the nomination and appointment of directors is contained within the Standard for the Selection and Appointment of Directors. This Standard can be found in the Corporate Governance section of the Company's website. The Governance and Nominations Committee Charter deals with additional aspects of the Company's nomination and appointment policy, and is also available on the Company's website.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in a comprehensive induction program which covers the operation of the Board and its Committees, together with financial, strategic, operations and risk management issues.

The skills, experience and expertise relevant to the position of director held by each director in office, and their term of office, as at the date of this Annual Report is set out under the heading 'Board of Directors', at page 12.

**Independence**

Clough has a majority shareholder, Murray & Roberts that requires representation on the Clough Board. Murray & Roberts nominated directors include senior executives from Murray & Roberts who bring significant industry experience and expertise to the Board. Clough acknowledges that as a result of this representation, the Board does not have a majority of independent directors, and has therefore not followed recommendation 2.1 of the Corporate Governance Principles.

The status of each member of the Board in this regard is set out in the table below.

| Director | Status |
|---|---|
| Keith Spence | Independent. |
| David Crawford | Independent. |
| Emma Stein | Independent. |
| Cobus Bester (since 17 July 2011) | Mr Bester is an officer of Murray & Roberts (the controlling shareholder of Clough) and is therefore not considered to be independent. |
| Henry Laas (since 17 July 2011) | Mr Laas is an officer of Murray & Roberts (the controlling shareholder of Clough) and is therefore not considered to be independent. |
| Ian Henstock (since 20 January 2012) | Mr Henstock is an officer of Murray & Roberts (the controlling shareholder of Clough) and is therefore not considered to be independent. |
| Neil Siford | Mr Siford is the CFO and an Executive Director of Clough and is therefore not considered to be independent. |
| Kevin Gallagher (since 3 November 2011) | Mr Gallagher is the CEO and Managing Director of Clough and is therefore not considered to be independent. |

Directors who left their position during the current reporting period.

| Name | Former status |
|---|---|
| John Smith (resigned on 2 November 2011) | Mr Smith is the former CEO and Managing Director of Clough and was therefore not considered to be independent. |
| Nigel Harvey (resigned on 20 January 2012) | Mr Harvey is an officer of Murray & Roberts (the controlling shareholder of Clough) and was therefore not considered to be independent. |

The Board measures the independence of its directors having regard to the relationships listed in Box 2.1 of the Corporate Governance Principles. Keith Spence, Emma Stein and David Crawford are independent directors, as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

Clough believes that employing a materiality concept is essential in judging whether customer, supplier, consultant or professional adviser relationships affect the independence of Clough directors. Clough has adopted AASB Standard 1031 to determine levels of materiality.

### Board Committees

Clough has four Board committees: Governance and Nominations Committee, Audit and Risk Committee, Remuneration and Human Resources Committee and Health, Safety, Environment and Sustainability Committee. The Health, Safety, Environment and Sustainability Committee was re-established in June 2012.

All Board committees have a formal operating charter which set out their respective roles and responsibilities and these are disclosed in the Corporate Governance Section of the Company's website. The number of meetings held by each committee and attendance at those meetings is outlined in the Directors' Report under the heading 'Directors' Meetings', at page 53.

### Independent Advice

Clough directors may seek external professional advice at the expense of the Company on matters relating to their roles as directors of Clough. They must first obtain approval from the Chairman, which must not be unreasonably withheld. If permission is withheld the matter may be referred to the whole Board. All directors have access to the Company Secretary.

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

### Code of Conduct

Clough has formally adopted a Code of Conduct, which prescribes standards of honesty, integrity, fairness and equity in all aspects of employment within Clough. The Code of Conduct addresses responsibility to shareholders, health and safety, environment, confidentiality, conflicts of interest and financial inducements. The Code of Conduct can be found in the Corporate Governance section of the Company's website.

Clough encourages the reporting of matters that may cause financial and non-financial loss to the Company or damage to the Company's reputation. All employees are required to immediately report circumstances that may involve a breach of the Code of Conduct. An independent whistleblower hotline has been established for this purpose.

Clough has also adopted a Share Trading Policy which sets out how and when directors, officers and senior staff may trade in the Company's shares.

The Share Trading Policy is available in the Corporate Governance section of the Company website.

### Diversity

Clough's commitment to diversity is set out in the Diversity Policy which can be found in the Corporate Governance Section of the Company's website. Clough aims to create a workforce profile which reflects the talent available in the many communities in which we work, by offering flexible and fair working arrangements focussed on outputs, not hours.

As stated in last year's Annual Report, Clough's key diversity goal remains to improve female participation in the Clough workforce. Clough's current workforce composition is shown in the following table.

| | Number | Percentage |
|---|---|---|
| Number of women employees in the whole organisation | 407 | 33.7% |
| Number of women in senior executive positions | 1 | 12.5% |
| Number of women on the Board | 1 | 12.5% |

The proportion of women in Clough's overall workforce compares favourably with other companies in similar industries such as construction, mining and resources, however, not surprisingly, women are underrepresented in traditionally male dominated roles such as engineering, construction, project management and senior management.

In last year's Annual Report, Clough stated that it was developing a number of metrics and measurable targets for objectives relating to gender diversity. However, during the current reporting period, the company experienced significant Board renewal, which resulted in the timeline for developing those measurable diversity metrics and targets being extended. Clough ultimately formed the view that refreshing the human resources position on Clough's Executive Committee would be conducive to finalising this process. In May 2012, Clough appointed Catharine Payze as Executive Vice President People and Organisation Development. Catharine is a member of the eight member Executive Committee. This appointment represents a significant step towards the goal of increasing the representation of women in senior management and reinforces Clough's commitment to developing its diversity policy, through Catharine's skills in the area of human resources. With Catharine's appointment, a review is being undertaken of all people and organisation development policies and standards including diversity targets. Clough acknowledges that, as a result of this review, measurable objectives for achieving gender diversity have not yet been set and therefore recommendation 3.3 of the Corporate Governance Principles has not been met. It is anticipated that targets will be established during the year and will be reported in the 2013 Annual Report.

## Principle 4: *Safeguard integrity in financial reporting*

The ASX recommends the Company have in place a structure to independently verify and safeguard the integrity of financial reporting.

Clough complies with this requirement in a number of ways. The Company has an Audit and Risk Committee whose members include Emma Stein (Chair), Keith Spence and Cobus Bester. Emma Stein and Keith Spence are independent, non-executive directors. Cobus Bester is a non-independent, non-executive director. The qualifications of members of the Audit and Risk Committee are set out in this Annual Report under the heading 'Board of Directors', at page 12. Members of the Audit and Risk Committee attended the number of meetings set out in the Directors' Report under the heading 'Directors' Meetings', at page 53. The Audit and Risk Committee Charter can be found in the Corporate Governance section of the Company's website.

The role of the Audit and Risk Committee is to report to the Board in relation to the following:

***External Reporting.*** Whether external reporting is consistent with the committee member's information and knowledge of the business and is adequate for shareholders' needs, including an assessment of the management processes supporting external reporting.

***External Audit.*** The procedure for the selection and appointment of the external auditor and the rotation of the external audit engagement partner. Recommendations for the appointment and, if necessary, the removal of the external auditor. Review and approve the annual external audit plan and audit fee. An assessment of the performance and independence of the external auditor and, where the external auditor provides non-audit services, that the provision of those services does not compromise the auditor's independence.

***Accounting Policies and Standards.*** Ensure compliance with the appropriate accounting standards and ensure the consistency, quality and appropriateness of the accounting policies and practices adopted by the Company.

***Internal Audit.*** An assessment of the performance and objectivity of the internal audit function and recommendations for the appointment and, if necessary, the dismissal of the head of internal audit.

***Risk Management and Internal Control.*** As assessment of the risk management and internal control system.

***Assurance.*** Assess the performance and objectivity of the governance and assurance processes operating within the business.

***Code of Conduct.*** The adequacy of and compliance with the Code of Conduct and Governance and Ethics Promotion Policy.

***Legal Compliance.*** Oversight of the processes to ensure compliance with legislation in the respective jurisdictions in which the Company operates.

***Related Party Transactions.*** Oversight of all related party transactions.

***Fraud.*** Oversight of the fraud prevention and detection measures taken within the business.

The Audit and Risk Committee has access to both internal audit and the external auditor without the presence of other management.

Internal audit has a direct reporting relationship with the Audit and Risk Committee and provides written reports to the committee. The Audit and Risk Committee leads the review of the performance of the external auditor. The Standard for the Selection, Appointment and Rotation of the External Auditor can be found in the Corporate Governance section of the Company's website.

The CEO, CFO, Company Secretary, Executive Vice President Group Functions and Systems, Group Manager Risk and Assurance and external auditors attend the Audit and Risk Committee meetings by invitation. The Committee meets and reports to the Board four times each year. Meetings are timed to coincide with profit announcements made to the ASX and audit engagement.

The CEO and CFO provide appropriate representations to the Audit and Risk Committee and the Board in support of the full year and half year accounts.

## Principle 5: *Make timely and balanced disclosure*

Clough's Continuous Disclosure Policy details the process by which information is disclosed to the market. This policy is available in the Corporate Governance section of the Company's website.

The Board has ultimate authority and responsibility for market disclosure. This responsibility is delegated to the CEO and CFO, who seek approval from the Chairman on all significant matters. The Chairman seeks the approval of the Board as required.

## Principle 6: *Respect the rights of shareholders*

Clough's Shareholder Communications Policy details the means by which the Company promotes and maintains effective communications with its shareholders. This policy is available in the Corporate Governance Section of the Company's website.

Shareholder meetings represent an opportunity for shareholders to meet with and question the Board and management of Clough. Clough's external auditor attends all Annual General Meetings and is available to answer shareholder questions.

Clough's website is a key source of information for the Company's shareholders and prospective shareholders. Clough places all Company announcements on the site immediately following confirmation of their release to ASX. Clough also displays on its website annual and half-year reports, notices of meeting and information briefings given to analysts and media.

## Principle 7: *Recognise and manage risk*

Clough is committed to risk management as part of good governance and business practice.

The Board has adopted a Risk and Opportunity Management Policy which is available in the Corporate Governance Section of the Company's website.

Clough has developed a risk management approach that is consistent with International Standard ISO 31000. The Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control. Risk is managed at three levels – enterprise, business portfolio and project lifecycle.

Under the policy the Board delegates day-to-day management of risk to the CEO who is responsible for defining the Company's risk appetite and for identifying, assessing, monitoring and managing risks. The CEO is also responsible for the maintenance of the risk registers for encompassing the three levels defined above.

The Board has established a separate Audit and Risk Committee to monitor and review the integrity of financial reporting and the Company's internal control and risk management systems.

The Audit and Risk Committee requires management to maintain risk management and internal control systems to manage the Company's material business risks and to report to it confirming that those risks are being managed effectively.

The Audit and Risk Committee received throughout the year periodic reports from management on the status of Clough's risk management and internal control systems and material business risks. The Internal Audit function also provided reports to the Committee detailing compliance with existing statutory requirements, adherence to internal policies and an assessment of control effectiveness. The internal auditor in addition provides guidance to improve practices within the Company.

The categories of risk reported on or referred to as part of the Company's system and processes for managing material business risk include: operational risk, health, safety, environmental and security risk, legal / regulatory, sustainability, compliance, people, strategic, ethical conduct, reputation/brand, product service quality, human capital, financial reporting and market-related risk.

The CEO and the CFO have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

## Principle 8: *Remunerate fairly and responsibly*

The ASX recommends the Company ensure that the level of remuneration is sufficient and reasonable and that its relationship to performance is clear. The Board has established a Remuneration and Human Resources Committee. The Remuneration and Human Resources Committee Charter is available in the Corporate Governance section of the Company's website. The Committee oversees the following:

**Remuneration Strategy and Policy.** The overall remuneration framework including short term incentive and long term incentive plans.

**Human Resources Strategy and Policy.**

***CEO Engagement***

- Recruitment, appointment, retention and termination.
- Setting annual performance targets and KPI's.
- Performance evaluation.
- Determination of annual salary adjustments and incentive payments.
- Succession planning.

***Senior Executives Engagement.***

- Approving the CEO's recommendations in relation to the appointment and termination of senior executives and direct reports.
- Approving the CEO's recommendations in relation to annual salary adjustments and incentive payments.
- Succession planning.

***Superannuation.*** Oversight of the Clough Superannuation Fund.

***Non-Executive Directors Fees.***

- The annual review of non-executive director's fees.
- Ensuring the non-executive directors' fees remain within the cap approved by the shareholders.

***Short Term Incentive Scheme.*** Review and approve the CEO's recommendations in relation to annual targets, performance against targets and the quantum of annual payments.

***Long Term Incentive Scheme.*** Review and approve the CEO's recommendation in relation to the annual grant of options and performance rights to employees.

***Key Talent.*** Oversight of the processes employed within the business to identify and develop key talent.

Clough distinguishes the structure of non-executive remuneration from that of executive directors and senior executives. Details of Clough's director and senior management remuneration policies are set out in the Directors' Report, at page 40. There are no schemes for retirement benefits for non-executive directors.

The Share Trading Policy prohibits executives from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

The members of the Remuneration and Human Resources Committee are David Crawford (Chair), Keith Spence and Ian Henstock. Keith Spence and David Crawford are independent non-executive directors and Ian Henstock is a non-independent, non-executive director. Members of the Remuneration and Human Resources Committee attended the number of meetings set out in the Directors' Report under the heading 'Directors' Meetings', at page 53.

# financial contents



These financial statements cover the consolidated financial statements for the consolidated entity consisting of Clough Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Clough Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Clough Limited
Level 15, 58 Mounts Bay Road
Perth WA 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report contained in this financial report.

The financial report was authorised for issue by the directors on 21 August 2012. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investors & Media Centre on our website: **www.clough.com.au**

# Directors' Report

The Directors of Clough Limited ABN 59 008 678 813 present the report of the Company and of the Clough Group, the consolidated entity, for the financial year ended 30 June 2012 and in accordance with a resolution of the Directors' report as follows:

## 1 Directors

The Directors of Clough Limited at the date of this report are:

| Director | Qualifications | Main Duties |
|---|---|---|
| AJ Bester | BCom (Acc)(Hons), CA(SA) | Director |
| DI Crawford | BCom (Economics)(Hons), MA(Political Science), FAICD | Director |
| KT Gallagher | BEng (Mechanical)(Hons), FIEAust | Chief Executive Officer & Managing Director |
| IW Henstock | BCompt (Hons), CA(SA), HDip Tax Law, MBA | Director |
| HJ Laas | BEng (Mining), MBA | Director |
| NE Siford | BSc (Geography)(Hons), ACA | Chief Financial Officer & Executive Director |
| K Spence | BSc (Geophysics)(Hons), FAIM | Chairman |
| ER Stein | BSc (Physics)(Hons), MBA, FAICD | Director |

All Directors held office during the whole of the year and up to the date of this report except for:

- AJ Bester who was appointed as a Non-Executive Director on 17 July 2011.
- HJ Laas who was appointed as a Non-Executive Director on 17 July 2011.
- J Smith who resigned as Chief Executive Officer and Managing Director on 2 November 2011.
- KT Gallagher who was appointed as Chief Executive Officer and Managing Director on 3 November 2011.
- NWR Harvey who resigned as a Non-Executive Director on 20 January 2012.
- IW Henstock who was appointed as a Non-Executive Director on 20 January 2012.

The details relating to Directors' qualifications, experience and special responsibilities appear on pages 12 to 13 and these pages are incorporated in and form part of this report.

JC Whitehand (B Com, CPA) and MJ Uchanski (B Bus, FCIS, CA, FCDA Dip CD, FTIA, FASFA, FAIST) held office as Joint Company Secretary during the year and up to the date of this report.

Details relating to the Directors' directorships of other listed companies over the last three years are as follows:

- KT Gallagher was appointed as a Director of Forge Group Limited on 3 November 2011.
- HJ Laas and AJ Bester are Directors of Murray & Roberts Holdings Limited. HJ Laas was appointed as a Director on 1 April 2011 and AJ Bester was appointed as a Director on 1 July 2011.
- ER Stein has been a Director of the Duet Group since 16 June 2004. ER Stein was appointed as a Director of Programmed Maintenance Services Limited on 16 June 2010. ER Stein was appointed as a Director of Transfield Services Infrastructure Fund on 13 October 2010 and resigned as a Director on 5 July 2011. ER Stein was appointed as a Director of Alumina Limited on 3 February 2011. ER Stein was appointed as a Director of Transpacific Industries Group Limited on 1 August 2011.
- K Spence was appointed as a Director of Geodynamics Limited on 10 July 2008. K Spence was appointed as a Director of Oil Search Limited on 9 May 2012.
- NE Siford was appointed as a Director of Forge Group Limited on 8 August 2011.

## 2 Principal Activities

The principal activities of the consolidated entity during the financial year were delivery of engineering, engineering and construction contracting and procurement and construction services primarily to the oil and gas and minerals sectors. There were no significant changes in the nature of these activities during the year.

## 3 Trading Results

The net profit of the consolidated entity for the year was $42,898,000 (2011: $33,345,000) after deducting income tax expense of $4,936,000 (2011: $2,219,000); deducting the loss from discontinued operations of $7,510,000 (2011 Loss: $16,719,000); and after deducting the profit attributable to non-controlling interests in controlled entities of $324,000 (2011 Loss: $449,000).

# 4 State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in the Financial Report.

# 5 Dividends

The following dividend was paid during the year under review:

| | Parent entity | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **(a) Ordinary shares** | | |
| Final dividend for the year ended 30 June 2011 of 2.2 cents (2010: 2.2 cents) per fully paid share paid on 6 October 2011 | | |
| Franked to 45% based on tax paid at 30% (2010: Franked to 9%) | **16,936** | 16,980 |
| Total dividends paid | **16,936** | 16,980 |

Subsequent to the year end, the Directors have recommended the payment of a final dividend of 2.6 cents per fully paid ordinary share franked to 25%, based on tax paid at 30%.

For further information, refer to note 31 "Dividends" to the financial statements.

# 6 Operating and Financial Review

A review of the operations, strategy and operating performance of the consolidated entity are contained in the Clough Report on pages 6 to 8 and the Financial Review on pages 10 to 11. These pages are incorporated in and form part of this report.

# 7 Events Occurring after the Reporting Period

No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of the affairs of the consolidated entity in periods subsequent to the year ended 30 June 2012, apart from the matter noted below.

Subsequent to the year end, the Directors have recommended the payment of a final dividend of 2.6 cents per fully paid ordinary share franked to 25%, based on tax paid at 30%. For further information, refer to note 31.

# 8 Likely Developments

Disclosure of information relating to likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, which will not in the opinion of the Directors unreasonably prejudice the interests of the consolidated entity, is contained in the Clough Report on pages 6 to 8 and the Financial Review on pages 10 to 11. These pages are incorporated in and form part of this report.

# 9 Environmental Regulations

The operations of the consolidated entity are subject to environmental regulations under Commonwealth, State and Territory legislation. Overseas operations are also subject to relevant environmental regulations. The standard policy of the Company in relation to the environment requires all operations to be conducted in a manner to protect and preserve the environment. The Directors are not aware of any material breaches of environmental regulations during or since the end of the financial year.

# 10 Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

For additional information on risk management, refer to the Corporate Governance Statement 2012 - Principle 7: Recognise and manage risk set out on page 36.

# Directors' Report

## 11 Remuneration Report - Audited

### Introduction

The Directors are pleased to present the Company's 2012 Remuneration Report, which sets out remuneration information for Clough Limited's Non-Executive Directors, Executive Directors and other Key Management Personnel.

This Remuneration Report outlines remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director of the parent company.

### 11.1 Remuneration Philosophy and Principles used to determine the nature and amount of remuneration

Remuneration levels are set with the objective of attracting and retaining appropriately qualified and experienced employees. Remuneration packages are structured to recognise, encourage and reward improved performance and business growth, balanced between short-term and long-term goals. Benchmarking is undertaken on a regular basis to ensure remuneration packages are competitively positioned in the market. The short-term incentive plan is designed to align employees' interests with the objectives of the business and to incentivise individual contribution to achieving overall results. The long-term incentive plan is designed to align senior employees' interests with the Company's longer term objective of **growth in market capitalisation and earnings per share**.

### Remuneration and Human Resource Committee

The objective of the Remuneration and Human Resource Committee is to review the Company's remuneration and human resource policies and strategies and to take appropriate action by reporting and making recommendations to the Board as it deems advisable. The Committee consists of three appropriately qualified and experienced Non-Executive Directors. The Committee is chaired by an independent Non-Executive Director. The Committee will generally meet three times per annum but as often as it is required to discharge its responsibilities. Members are generally appointed for a term of three years.

The Committee will oversee:

(i) Remuneration policy and strategy including the overall remuneration framework, including incentive plans.

(ii) Human resource policy and strategy.

(iii) The engagement of the Chief Executive Officer (CEO) including:
- Recruitment, appointment, retention, termination and succession planning.
- Setting annual performance targets and key performance indicators.
- Determination of annual salary adjustments and incentive payments.

(iv) The engagement of Senior Executives including CEO direct reports:
- Approving CEO recommendations in relation to the appointment and termination of senior executives and direct reports.
- Approving CEO's recommendations in relation to annual salary adjustments and incentive payments.
- Succession planning.

(v) The Clough Superannuation Fund.

(vi) Non-Executive Directors fees:
- Review the Non-Executive Directors' fees annually.
- Ensure the Non-Executive Directors' fees remain within the limit approved by the shareholders.

(vii) Short-Term Incentive Plan:
- Review and approve CEO's recommendations in relation to annual targets, performance against targets and the quantum of annual payments.

(viii) Long-Term Incentive Plan:
- Review and approve CEO's recommendations in relation to the grant of performance rights and options to employees.

(ix) Key talent:
- Oversee the processes employed within the business to identify and develop key talent.

# 11 Remuneration Report - Audited (continued)

## 11.1 Remuneration Philosophy and Principles used to determine the nature and amount of remuneration (continued)

### Non-Executive Director Remuneration

Fees paid to Non-Executive Directors reflect the demands made on, and the responsibilities of the position. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fee is determined independently of the fees of other Non-Executive Directors based on comparative roles in the external market and includes committee fees. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-Executive Directors who are members of a Board sub-committee receive an additional fee.

The Constitution of Clough Limited and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by the members at a general meeting. The current limit of $900,000 was approved by shareholders at the Annual General Meeting of the Company held on 9 November 2005.

### Executive Remuneration including the Chief Executive Officer

Executive Directors do not receive Directors' fees.

The executive remuneration framework has three components and the combination of these comprise the executive's total remuneration:

- Base Salary and Benefits
- Short-Term Incentives
- Long-Term Incentives

### Base Salary and Benefits

Employees are offered a competitive base salary and benefits that comprises the fixed component of the remuneration package. Base salary and benefits are reviewed every six months to ensure the employee's remuneration is competitive in relation to the market. Base salary is also reviewed on promotion. Employment contracts do not guarantee increases in base salary and benefits.

Benefits include superannuation, wellbeing, vehicle and parking allowances, further education assistance, parental leave and salary continuance. Employees are encouraged to join the Clough Superannuation Fund. The superannuation fund is a self-managed corporate accumulation fund established for the benefit of Clough employees.

### Short-Term Incentives

The objective of the short-term incentive plan is to align the interests of employees with those of the shareholders through the payment of short-term incentives linked to pre-agreed targets. The targets include earnings before interest and tax, order intake, margin in order intake and operating cash flow chosen for short-term operational management and long-term sustainability.

The Short-Term Incentive Plan (STIP) includes a threshold earnings target to be met as a prerequisite for any short-term incentive payment. The plan is structured and incentivises employees to earn 50% of the maximum short-term incentive payout if the agreed business plan targets are met and a further 50% if the stretch objectives are met. The aggregate STIP payment in any one year is limited to a maximum 10% of Earnings Before Interest and Tax (EBIT).

The key determinants of the actual short-term incentive amount paid to an individual employee are:

- Base salary (including vehicle allowance)
- Employment band and therefore STIP %
- Company performance against target
- Individual performance against individual performance targets and objectives

At the start of each year, the Board of Directors set a threshold earnings target that must be achieved for that year before any short-term incentive becomes potentially payable to employees.

### Long-Term Incentives

Senior employees participate in a long-term incentive plan through the granting of performance rights and options issued pursuant to the Clough Limited Executive Incentive Scheme and the Clough Limited Employee Option Plan. The objective of the incentive scheme and option plan is to align the interests of senior employees with shareholders through the granting of performance rights and options with a deferred vesting date. Under the current policy, performance rights will vest at the end of a three year vesting period. Options will vest at the end of a four year vesting period if the Total Shareholder Return (TSR) of Clough shares has averaged 12% per annum or more over the vesting period and is conditional upon continuing employment. The Share Trading Policy prohibits executives from entering into transactions or arrangements that limit the economic risk of participating in unvested security entitlements.

# Directors' Report

## 11 Remuneration Report - Audited (continued)

### 11.1 Remuneration Philosophy and Principles used to determine the nature and amount of remuneration (continued)

#### Use of a Remuneration Consultant

Whilst during the financial year under review, Clough Limited's Remuneration & Human Resource Committee did not employ the services of a remuneration consultant, the committee had access to a variety of industry available benchmarks and makes decisions based on these in settling the remuneration levels for the Chief Executive Officer and other Key Management Personnel.

#### Performance Evaluation

Individual performance is measured through the Performance Development Plan process. Individual objectives, measures and outputs flow from the annual Clough business plan by way of the Balanced Scorecard. Objectives and measures from the Balanced Scorecard cascade down throughout all levels of the organisation and form the basis for assessing performance for the purposes of the annual salary review and STIP review processes. Increases as a result of salary reviews are consequently not guaranteed. Individuals must meet performance objectives and behavioural competencies in order to qualify for any market based salary movements.

#### Group Performance

The table below shows the performance of the Group for the past five years.

| Financial Year End | Net Profit attributable to owners of Clough Limited $'000 | Share Price at beginning of the financial year Cents | Share Price at end of the financial year Cents | Market Capitalisation $'000 | Dividend paid per share Cents |
|---|---|---|---|---|---|
| 2008 | 66,605 | 48.49 | 73.00 | 487,597 | Nil |
| 2009 | 52,426 | 73.00 | 71.00 | 475,783 | 1.0 |
| 2010 | 50,090 | 71.00 | 77.00 | 591,957 | 2.0 |
| 2011 | 33,345 | 77.00 | 71.00 | 546,559 | 2.2 |
| 2012 | 42,898 | 71.00 | 74.50 | 577,275 | 2.2 |

### 11.2 Details of Remuneration

**Amounts of Remuneration**

Details of the nature and amount of each element of the remuneration of each Non-Executive Director and Executive Director of Clough Limited and the Key Management Personnel of the consolidated entity are set out in the following tables. The short-term incentives are dependent on the satisfaction of the performance conditions as set out in the section headed "Short-Term Incentives," as disclosed in section 11.1.

**Non-Executive Directors of Clough Limited**

| 2012 | Short-Term Benefits | | | | Post-Employment Benefits | Total |
|---|---|---|---|---|---|---|
| Name | Directors' Fee $ | Travel Allowance $ | Non-Monetary Benefits ^ $ | Other * $ | Super-annuation $ | $ |
| AJ Bester (i), (v) | 65,341 | 24,768 | - | - | - | 90,109 |
| DI Crawford | 70,007 | - | - | 387 | 6,301 | 76,695 |
| IW Henstock (i), (vii) | 31,088 | 11,785 | - | - | - | 42,873 |
| NWR Harvey (i), (vi) | 38,162 | 14,465 | - | - | - | 52,627 |
| HJ Laas (i), (v) | 59,965 | 24,768 | - | - | - | 84,733 |
| K Spence | 173,250 | - | 8,136 | 480 | 15,593 | 197,459 |
| ER Stein | 80,949 | 26,250 | - | 560 | 9,648 | 117,407 |

# 11 Remuneration Report - Audited (continued)

## 11.2 Details of Remuneration (continued)

| 2011 | Short-Term Benefits | | | | Post-Employment Benefits | Total |
|---|---|---|---|---|---|---|
| Name | Directors' Fee $ | Travel Allowance $ | Non-Monetary Benefits ^ $ | Other * $ | Super-annuation $ | $ |
| BC Bruce (i), (iv) | 67,833 | 25,833 | - | - | - | 93,666 |
| DI Crawford (iii) | 10,500 | - | - | - | 945 | 11,445 |
| RM Harding (ii) | 53,096 | 8,045 | 780 | 847 | 5,503 | 68,271 |
| NWR Harvey (i) | 72,000 | 25,833 | - | - | - | 97,833 |
| RW Rees (i), (iv) | 78,333 | 25,833 | - | - | - | 104,166 |
| K Spence (ii) | 140,500 | - | 959 | 350 | 12,645 | 154,454 |
| ER Stein | 79,917 | 25,833 | - | 406 | 9,518 | 115,674 |

^ Non-monetary benefits include fringe benefits tax and parking paid by the Company.

* Other short-term benefits include life insurance and income protection.

(i) The Directors' fees for AJ Bester (from 17 July 2011), IW Henstock (from 20 January 2012), HJ Laas (from 17 July 2011), NWR Harvey (until 20 January 2012), BC Bruce (until 30 June 2011) and RW Rees (until 30 June 2011) are paid to Murray & Roberts Pty Ltd.

(ii) RM Harding resigned as Chairman and K Spence was appointed as Chairman on 26 October 2010.

(iii) DI Crawford was appointed as a Non-Executive Director on 2 May 2011.

(iv) BC Bruce resigned as a Non-Executive Director and RW Rees resigned as a Non-Executive Director & Deputy Chairman on 30 June 2011.

(v) AJ Bester was appointed as a Non-Executive Director on 17 July 2011. HJ Laas was appointed as a Non-Executive Director on 17 July 2011.

(vi) NWR Harvey resigned as a Non-Executive Director on 20 January 2012.

(vii) IW Henstock was appointed as a Non-Executive Director on 20 January 2012.

### Executive Directors of Clough Limited

| 2012 | Short-Term Benefits | | | | Post-Employment Benefits | Share-Based Payments | Share-Based Payments | Share-Based Payments | Total | Proportion of Remun-eration Performance Related § | Share-Based Payments value as Proportion of Remun-eration |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Salary # $ | Incentive ‡ $ | Non-Monetary Benefits ^ $ | Other * $ | Super-annuation $ | Shares $ | Perfor-mance Rights $ | Options $ | $ | % | % |
| KT Gallagher (iii) | 709,829 | 512,863 | 6,143 | 403,332 | 63,885 | 900,000 | - | 21,678 | 2,617,730 | 20 | 35 |
| J Smith (ii) | 531,218 | 666,912 | 50,112 | 36,937 | 47,810 | - | - | (484,299) | 848,690 | 36 | (57) |
| NE Siford (iv) | 427,171 | 186,923 | 8,136 | 4,145 | 38,445 | - | 25,229 | 38,527 | 728,576 | 31 | 9 |

| 2011 | Short-Term Benefits | | | | Post-Employment Benefits | Share-Based Payments | Total | Proportion of Remuneration Performance Related § | Share-Based Payments value as Proportion of Remuneration |
|---|---|---|---|---|---|---|---|---|---|
| Name | Salary # $ | Incentive ‡ $ | Non-Monetary Benefits ^ $ | Other * $ | Super-annuation $ | Options $ | $ | % | % |
| J Smith | 1,153,716 | - | 35,714 | 52,446 | 106,343 | 257,778 | 1,605,997 | 12 | 16 |
| NE Siford (i) | 337,221 | - | 6,754 | 2,492 | 30,525 | 15,432 | 392,424 | 4 | 4 |

\# Salary includes the movement in the provision for annual leave.

§ Options with performance conditions are included in performance related remuneration.

^ Non-monetary benefits include fringe benefits tax and parking paid by the Company.

* Other short-term benefits include life insurance, income protection, airfares and sign-on payments.

‡ The short-term incentive payment is based on the Company's performance relative to the targets set at the beginning of the year and the remuneration band of the employee moderated by the individual's assessed performance. No short-term incentives were paid or accrued for the 2011 financial year as the relevant targets set were not met.

# Directors' Report

## 11 Remuneration Report - Audited (continued)

### 11.2 Details of Remuneration (continued)

(i) NE Siford was appointed as an Executive Director on 19 August 2010. The 2011 remuneration disclosed above was for the period 19 August 2010 to 30 June 2011.

(ii) J Smith resigned as Chief Executive Officer and Managing Director on 2 November 2011. J Smith's final date of service was 23 December 2011. The remuneration disclosed above was for the period 1 July 2011 to 23 December 2011.

As previously reported, on 17 December 2010 J Smith provided the Company with six months written notice in accordance with the terms of his Executive Service Agreement. Subsequent discussions were held with the Board and it was agreed that J Smith's final date of service be extended to 23 December 2011, on the same terms as his existing Executive Service Agreement plus a guarantee incentive payment of $222,304. On 23 December 2011, J Smith received an incentive payment of $666,912 being the guaranteed incentive payment of $222,304 and an additional incentive payment of $444,608 in recognition of the critical role J Smith undertook with regards to the successful completion of the sale of the Marine Construction business. J Smith's departure resulted in a share-based payment expense write-back of $491,970 due to 2 million options being forfeited on leaving the Company.

(iii) KT Gallagher was appointed as Chief Executive Officer and Managing Director on 3 November 2011. As part of KT Gallagher's appointment the Board approved a sign-on payment of $1.3 million ($400,000 cash and $900,000 shares). The sign-on payment compensated KT Gallagher for remuneration foregone when leaving his previous employer, and was negotiated when finalising KT Gallagher's employment contract (for further details refer to note 11.3). As KT Gallagher is a related party of the Company (i.e. a Director), in accordance with Listing Rule 10.11, the proposed issue of securities required prior approval of shareholders. The issue of the sign-on shares was approved by the shareholders at the Annual General Meeting of the Company held on 18 October 2011.

(iv) Subject to shareholder approval at the Company's Annual General Meeting to be held on 23 October 2012; 305,885 performance rights will be issued to NE Siford on the same terms as the performance rights granted to certain other executives on 1 March 2012. In accordance with Accounting Standard AASB 2 Share-based Payment, the grant date of the performance rights to be issued to NE Siford will be the date of shareholder approval. The Standard requires that when the grant date occurs after an employee has begun rendering a service, the entity is to recognise the services when received. The above stated performance rights value of $25,229 represents the estimated grant date fair value of the performance rights for the purposes of recognising the services received during the period from the service commencement date (being 1 March 2012) to 30 June 2012.

#### Other Key Management Personnel of the Consolidated Entity

| 2012 | Short-Term Benefits | | | | Post-Employment Benefits | Share-Based Payments | Share-Based Payments | | Total | Proportion of Remuneration Performance Related § | Share-Based Payments value as Proportion of Remuneration |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Salary # $ | Incentive ‡ $ | Non-Monetary Benefits ^ $ | Other * $ | Superannuation $ | Performance Rights $ | Options $ | Termination Benefits $ | $ | %˘ | %˘ |
| MCG Bergomi ! *Executive Vice President - Strategy & Business Acquisition and Commissioning & Asset Support* | 428,853 | 161,820 | 14,584 | 4,746 | 38,597 | 25,229 | 68,683 | - | 742,512 | 31 | 13 |
| GN Bowtell ! *Executive Vice President - Engineering* | 438,792 | 135,861 | 12,183 | 3,624 | 39,491 | 25,229 | 21,670 | - | 676,850 | 23 | 7 |
| WJ Boyle (i) ! *Former Group Chief Operating Officer* | 515,424 | - | 28,968 | 47,841 | 123,047 | - | (13,222) | 947,311 | 1,649,369 | (1) | (1) |
| B Howard (ii) ! *Senior Vice President Group – Functions & Systems* | 117,658 | 113,515 | 2,498 | 919 | 10,589 | 18,348 | 5,872 | - | 269,399 | 23 | 6 |
| C Payze (iii) ! *Executive Vice President – People & Organisation Development* | 36,330 | - | 804 | 10,696 | 3,270 | - | - | - | 51,100 | 0 | 0 |
| RV Ratneser (ii) ! *Senior Vice President – Corporate Centre & General Counsel* | 123,686 | 117,011 | 2,498 | 1,176 | 11,132 | - | 11,988 | - | 267,491 | 29 | 6 |

# Salary includes the movement in the provision for annual leave and the movement in entitled long service leave.

§ Options with performance conditions are included in performance related remuneration.

^ Non-monetary benefits include fringe benefits tax and parking paid by the Company.

* Other short-term benefits include life insurance, income protection, relocation costs and airfares.

# 11 Remuneration Report - Audited (continued)

## 11.2 Details of Remuneration (continued)

### Other Key Management Personnel of the Consolidated Entity (continued)

! An executive that in the opinion of the Directors meets the definition of 'key management personnel' as defined in *AASB 124 Related Party Disclosures*. In the opinion of the Directors, no other executives met the definition of key management personnel.

˘ Percentage based on total remuneration for the year.

‡ The short-term incentive payment is based on the Company's performance relative to the targets set at the beginning of the year and the remuneration band of the employee moderated by the individual's assessed performance.

(i) WJ Boyle's contract was terminated on 7 February 2012. WJ Boyle received a termination payment in accordance with the terms and conditions of his employment contract of $947,311, including accrued annual leave of $95,551 and payment in lieu of notice of $851,760. WJ Boyle's termination resulted in a share-based payment expense write-back of $65,264 due to 986,471 options being forfeited on leaving the Company.

(ii) B Howard and RV Ratneser were both regarded as being key management personnel from 12 March 2012. The remuneration disclosed above was from the date that they were regarded as being key management personnel.

(iii) C Payze was regarded as being a key management person from 28 May 2012. The remuneration disclosed above was from the date C Payze was regarded as being a key management person.

| **2011** ¥ | Short-Term Benefits | | | | Post-Employment Benefits | Share-Based Payments | Total | Proportion of Remuneration Performance Related § | Share-Based Payments value as Proportion of Remuneration |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | Salary # $ | Incentive ‡ $ | Non-Monetary Benefits ^ $ | Other * $ | Super-annuation $ | Options $ | $ | % | % |
| MCG Bergomi ! *Executive Vice President – Business Acquisitions* | 384,571 | - | 19,166 | 3,093 | 33,116 | 80,740 | 520,686 | 12 | 16 |
| GN Bowtell (iii) ! *Executive Vice President - Engineering* | 423,077 | - | 6,488 | 1,871 | 35,340 | 5,211 | 471,987 | 1 | 1 |
| WJ Boyle ! *Group Chief Operating Officer* | 818,002 | - | 38,468 | 49,960 | 73,008 | 281,992 | 1,261,430 | 18 | 22 |
| JC Hartman (ii) ! *General Manager – East Coast & PNG* | 392,197 | - | 3,186 | 3,101 | 37,800 | 14,805 | 451,089 | 3 | 3 |
| NE Siford (i) ! *Chief Financial Officer* | 51,320 | - | 1,032 | 387 | 4,665 | 2,393 | 59,797 | 4 | 4 |

\# Salary includes the movement in the provision for annual leave.

§ Options with performance conditions are included in performance related remuneration.

^ Non-monetary benefits include fringe benefits tax and parking paid by the Company.

* Other short-term benefits include life insurance, income protection and airfares.

! An executive that in the opinion of the Directors meets the definition of 'key management personnel' as defined in *AASB 124 Related Party Disclosures*. In the opinion of the Directors, no other executives met the definition of key management personnel.

‡ The short-term incentive payment is based on the Company's performance relative to the targets set at the beginning of the year and the remuneration band of the employee moderated by the individual's assessed performance. No short-term incentives were paid or accrued for the 2011 financial year as the relevant targets set were not met.

¥ RE Hogan and RW Robinson were included in the 2011 Remuneration Report being one of the five highest paid executives of the Group. They have been removed from the above 2011 table as their remuneration disclosure is no longer required by the Corporations Act.

(i) NE Siford was appointed as an Executive Director on 19 August 2010. The remuneration disclosed above was for the period he was regarded as being a key management person for the period 1 July 2010 to 18 August 2010.

(ii) JC Hartman resigned on 24 May 2011. JC Hartman was regarded as being a key management person for the period 1 July 2010 to 24 May 2011. The remuneration disclosed above was for the period 1 July 2010 to 24 May 2011.

(iii) GN Bowtell is regarded as being a key management person from 26 July 2010, the date of his appointment.

# Directors' Report

## 11 Remuneration Report - Audited (continued)

### 11.3 Senior Executive Employment Contracts

Remuneration and other terms of employment for the Chief Executive Officer are formalised in a senior executive employment contract. At 30 June 2012, major provisions of the agreement and relevant remuneration information are set out below.

**KT Gallagher - Chief Executive Officer**

Employment commenced on 3 November 2011.

- Fixed remuneration comprising a base salary of $1,000,000 per annum and superannuation of $90,000, being 9% of the base salary.
- Sign-on payment of $1.3 million, being $400,000 cash and $900,000 Clough Limited shares.

  1,136,394 fully paid ordinary Clough Limited shares were issued to KT Gallagher. The shares are currently unlisted and are not freely transferable until the 1st anniversary of employment. The number of contractual shares issued to KT Gallagher was calculated as follows:

  – $900,000 / the five day volume weighted average price of Clough Limited shares traded on the ASX up to and including the trading day before the employment commencement date.

  If the employee resigns within 12 months of the employment commencement date, the employee agrees to immediately repay an amount of $715,000 (being the estimated after tax value of the sign-on payments).
- An annual incentive payment of up to 70% of base salary (including superannuation), based on successful performance to the satisfaction of the Board. Refer to Short-Term Incentives contained in section 11.1 of the Directors' Report for further details.
- Other benefits include parking, salary continuance insurance and reasonable telephone costs.
- Share options will be granted to KT Gallagher in accordance with the terms and conditions of the Clough Limited Employee Option Plan or such other long-term incentive plan as may be approved by the Board from time to time.
- Clough Limited may terminate the employee's employment by giving 12 months written notice or 12 months payment in lieu of notice, or a combination of notice and payment in lieu of notice.
- The employee may resign from Clough Limited by giving 12 month's written notice.

**Use of a Remuneration Consultant - Chief Executive Officer's appointment**

On 26 November 2010, Clough Limited appointed Gerard Daniels Australia Pty Ltd to undertake an executive search for the position of Chief Executive Officer. Gerard Daniels Australia Pty Ltd assisted with the negotiations and finalisation of the remuneration package of KT Gallagher. From 26 November 2010 to 31 August 2011, Gerard Daniels Australia Pty Ltd was paid a total of $408,736, which included reimbursable costs of $96,236 for their services.

**Other Senior Executives**

Remuneration and other terms of employment for other senior executives are formalised in service agreements. At 30 June 2012, major provisions of the agreements are set out below.

| Name | Term of Agreement | Base salary, allowances and superannuation $ | Maximum Incentive % of base salary (including travel allowance) ^ | Contractual Notice Period: Employee | Contractual Notice Period: Employer * |
|---|---|---|---|---|---|
| MCG Bergomi | On-going commencing 11 February 2008 | 465,102 | 50 % | 3 months | 12 months |
| GN Bowtell | On-going commencing 26 July 2010 | 480,130 | 50 % | 3 months | 3 months |
| B Howard | On-going commencing 8 June 2009 | 388,471 | 50 % | 3 months | 6 months |
| C Payze | On-going commencing 28 May 2012 | 374,400 | 50 % | 3 months | 6 months |
| RV Ratneser | On-going commencing 22 March 2004 | 395,316 | 50 % | 3 months | 6 months |
| NE Siford | On-going commencing 29 May 2006 | 467,535 | 50 % | 3 months | 6 months |

* Termination benefits are payable on early termination by the Company, other than for gross misconduct; unless otherwise indicated they are equal to the base salary including allowances and superannuation for the remaining term of the agreement.

^ Refer to Short-Term Incentives contained in section 11.1 of the Directors' Report for further details.

# 11 Remuneration Report - Audited (continued)

## 11.4 Voting and comments made at the Company's 2011 Annual General Meeting

Clough Limited received more than 95% of "yes" votes on its Remuneration Report for the 2011 financial year.

## 11.5 Share-based compensation

### Options

Options are granted to senior employees under the Clough Limited Employee Option Plan ("Plan") to align their interests with those of the shareholders of the Company and for staff retention purposes. The maximum number of Options that can be issued is subject to the following test.

The Company must not grant any Options or procure the issue of any Shares under this Plan if immediately following the grant of Options or an issue of Shares from an exercise of Options, the aggregate of: the total number of unissued Shares over which Options or Performance Rights have been granted; and the total number of Shares issued during the preceding five years under the Clough Limited Employee Option Plan and the Clough Limited Executive Incentive Scheme, would exceed 5% of the number of Shares on issue at the time of the proposed grant or issue, except for an issue of Options or Performance Rights to Executive Directors for which separate shareholder approval is obtained.

During the year, the Company issued 5,578,685 (2011: 5,801,166) options to employees under the Plan, 4,927,994 (2011: 3,325,000) options were exercised, 60,000 options expired (2011: Nil) and a total of 7,491,098 (2011: 1,185,114) options were forfeited by employees leaving the Company.

In addition to the above mentioned issues, 164,692 options were issued to NE Siford in the current year on the same terms as the options granted on 24 February 2011, once they had been approved by shareholders at the Company's Annual General Meeting held on 18 October 2011.

At 30 June 2012, the terms of each grant of options *affecting remuneration* in the current or a future reporting period are:

| Grant date | Vesting date | Number of Options Balance at year end | Exercise price | Value per option at grant date | Date exercisable |
|---|---|---|---|---|---|
| 23 November 2007 | 1 August 2011 | - | $0.58 | $0.3229 | - |
| 23 November 2007 | 1 August 2012 | - | $0.58 | $0.3460 | - |
| 23 November 2007 | 1 August 2013 | - | $0.58 | $0.3577 | - |
| 8 September 2008 | 8 September 2011 | - | $0.69 | $0.3130 | - |
| 1 February 2009 | 1 February 2012 | 660,000 | $0.34 | $0.1182 | 01/02/12 – 01/02/15 |
| 11 February 2009 | 11 February 2012 | 2,293,487 | $0.34 | $0.0873 | 11/02/12 – 11/02/15 |
| 16 March 2010 | 16 March 2013 | 680,000 | $0.90 | $0.3570 | 16/03/13 – 16/03/16 |
| 16 March 2010 | 16 March 2014 | 2,282,263 | $0.82 | $0.3210 | 16/03/14 – 16/03/17 |
| 24 February 2011 * | 23 February 2015 | 3,922,828 | $0.89 | $0.3437 | 23/02/15 – 23/02/18 |
| 24 February 2012 (i) | 24 February 2016 | 5,453,917 | $0.68 | $0.3629 | 24/02/16 – 24/02/19 |

* Includes 164,692 options issued to NE Siford in the current year which were approved by shareholders at the Company's Annual General Meeting held on 18 October 2011. These options were issued on the same terms as the options granted on 24 February 2011.

(i) The model inputs for the options granted during the year ended 30 June 2012 are:

- The options have a seven year life, are granted for no consideration and are exercisable at any time between the vesting date and the expiry date.
- Grant date: 24 February 2012; Vesting date: 24 February 2016; and Expiry date: 24 February 2019.
- Share price at grant date: 81 cents; and Exercise price: 68 cents.
- Expected price volatility of the shares: 62%; Expected dividend yield: 2.7%; and Risk-free interest rate: 3.72%.

# Directors' Report

## 11 Remuneration Report - Audited (continued)

### 11.5 Share-based compensation (continued)

**Performance Rights**

Performance Rights are granted to key management personnel and senior executives under the Clough Limited Executive Incentive Scheme ("Scheme") to align their interests with those of the shareholders of the Company and for executive retention purposes. The maximum number of Performance Rights that can be issued is subject to the following test.

The Company must not grant any Performance Rights or procure the issue of any Shares under this Scheme if immediately following the grant of Performance Rights or an issue of Shares from the vesting of Performance Rights, the aggregate of: the total number of unissued Shares over which Performance Rights or Options have been granted; and the total number of Shares issued during the preceding five years under the Clough Limited Executive Incentive Scheme and the Clough Limited Employee Option Plan, would exceed 5% of the number of Shares on issue at the time of the proposed grant or issue, except for an issue of Performance Rights or Options to Executive Directors for which separate shareholder approval is obtained.

During the year, the Company issued 1,284,717 (2011: Nil) performance rights under the Scheme. Nil (2011: Nil) performance rights were exercised and a total of Nil (2011: Nil) performance rights were forfeited by employees leaving the Company.

In addition, a further 305,885 performance rights will be issued to NE Siford on the same terms as the performance rights granted on 1 March 2012 above, subject to shareholder approval at the Company's Annual General Meeting to be held on 23 October 2012.

At 30 June 2012, the terms of each grant of performance rights affecting remuneration in the current or a future reporting period are:

| Grant date | Vesting date | Number of Performance Rights Balance at year end | Exercise price | Value per Performance Right at grant date |
|---|---|---|---|---|
| 1 March 2012 (a) | 1 March 2015 | 1,284,717 | $Nil | $0.7464 |

(a) The model inputs for the performance rights granted during the year ended 30 June 2012 are:

- The Performance rights have a six year life, are granted for no consideration and automatically vest on the vesting date. The current tranche of rights have no performance criteria that must be met before they vest. However, participants must remain employed by the Company until the vesting date to take ownership of the rights. In addition, if a Change of Control Event occurs, then all performance rights granted under the Scheme vest automatically.
- Each performance right which vests entitles the participant to either, at the Company's election, to receive one share or receive in cash the market price of one share at the vesting date.
- Grant date: 1 March 2012; Vesting date: 1 March 2015; and Expiry date: 1 March 2018.
- Share price at grant date: 81 cents; and Exercise price: Nil cents.
- Expected price volatility of the shares: 62%; Expected dividend yield: 2.7%; and Risk-free interest rate: 3.68%.

For additional information, refer to note 46 "Share-based payments" of the notes to the financial statements.

# 11 Remuneration Report - Audited (continued)

## 11.5 Share-based compensation (continued)

### Incentive and share-based compensation benefits – Directors and Key Management Personnel

For each incentive and grant of options / performance rights included in the Remuneration Report, the percentage of the available incentive or grant that was paid, or that vested, in the financial year, the percentage that was forfeited because the person did not meet the service or performance criteria and the maximum total value of the grant yet to vest is set out below.

| | Incentive | | Share-based compensation (Options and Performance Rights) | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Paid % | Forfeited % | Number of Options / Performance Rights ^ granted | Grant Date | Vested % | Forfeited % | Financial years in which Options / Performance Rights vest | Maximum total value of grant yet to vest $ |
| KT Gallagher | ‡ 66 | 34 | 687,185 | 24/02/2012 | - | - | 30/06/2016 | 227,701 |
| NE Siford | 66 | 34 | 20,000 | 23/04/2007 | 100 | - | 30/06/2010 | Nil |
| | | | 50,000 | 05/03/2008 | 100 | - | 30/06/2011 | Nil |
| | | | 94,185 | 11/02/2009 | 100 | - | 30/06/2012 | Nil |
| | | | 141,364 | 16/03/2010 | - | - | 30/06/2014 | 19,381 |
| | | | 164,692 | * 18/10/2011 | - | - | 30/06/2015 | 37,529 |
| | | | 202,474 | 24/02/2012 | - | - | 30/06/2016 | 67,091 |
| J Smith | ¥ 50 | 50 | 1,000,000 | 23/11/2007 | 25 | 75 | 30/06/2012 | - |
| | | | 1,000,000 | 23/11/2007 | - | 100 | - | - |
| | | | 1,000,000 | 23/11/2007 | - | 100 | - | - |
| MCG Bergomi | 70 | 30 | 330,000 | 01/02/2008 | 100 | - | 30/06/2011 | Nil |
| | | | 330,000 | 01/02/2009 | 100 | - | 30/06/2012 | Nil |
| | | | 340,000 | 16/03/2010 | - | - | 30/06/2013 | 28,684 |
| | | | 160,717 | 24/02/2011 | - | - | 30/06/2015 | 36,625 |
| | | | 209,444 | 24/02/2012 | - | - | 30/06/2016 | 69,400 |
| | | | ^ 305,885 | 01/03/2012 | - | - | 30/06/2015 | 203,084 |
| GN Bowtell | 58 | 42 | 175,671 | 24/02/2011 | - | - | 30/06/2015 | 40,032 |
| | | | 207,137 | 24/02/2012 | - | - | 30/06/2016 | 68,636 |
| | | | ^ 305,885 | 01/03/2012 | - | - | 30/06/2015 | 203,084 |
| WJ Boyle | - | - | 2,000,000 | 08/09/2008 | 100 | - | 30/06/2012 | - |
| | | | 667,347 | 11/02/2009 | 100 | - | 30/06/2012 | - |
| | | | 487,705 | 16/03/2010 | - | 100 | - | - |
| | | | 498,766 | 24/02/2011 | - | 100 | - | - |
| B Howard | 58 | 42 | 57,061 | 16/03/2010 | - | - | 30/06/2014 | 7,823 |
| | | | 66,693 | 24/02/2011 | - | - | 30/06/2015 | 15,199 |
| | | | 100,042 | 24/02/2012 | - | - | 30/06/2016 | 33,149 |
| | | | ^ 244,708 | 01/03/2012 | - | - | 30/06/2015 | 162,467 |
| RV Ratneser | 58 | 42 | 15,000 | 23/04/2007 | 100 | - | 30/06/2010 | Nil |
| | | | 40,000 | 05/03/2008 | 100 | - | 30/06/2011 | Nil |
| | | | 214,286 | 11/02/2009 | 100 | - | 30/06/2012 | Nil |
| | | | 147,824 | 16/03/2010 | - | - | 30/06/2014 | 20,267 |
| | | | 143,962 | 24/02/2011 | - | - | 30/06/2015 | 32,806 |
| | | | 168,944 | 24/02/2012 | - | - | 30/06/2016 | 55,981 |

^ Represents performance rights.

* The 18 October 2011 grant date represents the date of shareholders approval at the Company's Annual General Meeting.

¥ Excludes the additional incentive payment of $444,608 paid to J Smith in recognition of the successful completion of the sale of the Marine Construction business.

‡ Incentive paid to KT Gallagher as approved by the Board was calculated based on a full year of service rather than the actual period of service.

# Directors' Report

## 11 Remuneration Report - Audited (continued)

### 11.5 Share-based compensation (continued)

#### Incentive and share-based compensation benefits – Directors and Key Management Personnel (continued)

Details of options and performance rights over ordinary shares in the Company provided as remuneration during the year to each Director of Clough Limited and Key Management Personnel of the Group are set out below.

| Name | Number of options granted and issued during the year | Number of options vested during the year |
|---|---|---|
| **Directors of Clough Limited** | | |
| KT Gallagher | 687,185 | - |
| NE Siford | 367,166 | 94,185 |
| J Smith (resigned as a director on 2 November 2011) | - | 250,000 |
| **Key Management Personnel of the Group** | | |
| MCG Bergomi | 209,444 | 330,000 |
| GN Bowtell | 207,137 | - |
| WJ Boyle (terminated on 7 February 2012) | - | 2,667,347 |
| B Howard | 100,042 | - |
| RV Ratneser | 168,944 | 214,286 |

| Name | Number of performance rights granted and issued during the year | Number of performance rights vested during the year |
|---|---|---|
| **Key Management Personnel of the Group** | | |
| MCG Bergomi | 305,885 | - |
| GN Bowtell | 305,885 | - |
| B Howard | 244,708 | - |

The assessed fair value of the options and performance rights granted to Directors and Key Management Personnel is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in section 11.2. Fair values at grant date are independently determined using a Binomial pricing model that takes into account the exercise price, the term, the vesting and expected life, the non-tradeable nature, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate.

Further details relating to remuneration and options in Clough Limited is set out below:

| Name | A Value of options granted during the year $ | B Intrinsic value of options exercised during the year $ | C Intrinsic value of options lapsed during the year $ |
|---|---|---|---|
| KT Gallagher | 249,379 | - | - |
| NE Siford | 130,083 | - | - |
| MCG Bergomi | 76,007 | - | - |
| GN Bowtell | 75,170 | - | - |
| B Howard | 36,305 | - | - |
| RV Ratneser | 61,310 | * 8,700 | - |

* On 21 September 2011, RV Ratneser exercised 20,000 options for a consideration of $6,200. The fair value of 20,000 Clough ordinary shares on 21 September 2011 was $14,900.

A The fair value of the options is determined at the grant date in accordance with AASB 2 Share-based Payment.
B The fair value is determined at the date of exercise and reflects the intrinsic value of the options.
C The fair value is determined at the date of lapse and reflects the intrinsic value of the options.

# 11 Remuneration Report - Audited (continued)

## 11.5 Share-based compensation (continued)

### Incentive and share-based compensation benefits – Directors and Key Management Personnel (continued)

Further details relating to performance rights in Clough Limited is set out below:

| Name | A<br>Value of performance rights granted during the year<br>$ | B<br>Intrinsic value of performance rights exercised during the year<br>$ | C<br>Intrinsic value of performance rights lapsed during the year<br>$ |
|---|---|---|---|
| MCG Bergomi | 228,313 | - | - |
| GN Bowtell | 228,313 | - | - |
| B Howard | 182,650 | - | - |

A The fair value of the performance rights is determined at the grant date in accordance with AASB 2 Share-based Payment.
B The fair value is determined at the date of exercise and reflects the intrinsic value of the performance rights.
C The fair value is determined at the date of lapse and reflects the intrinsic value of the performance rights.

For additional information, refer to note 46 “Share-based payments” of the notes to the financial statements.

# 12 Share Options and Performance Rights

Further details relating to options and performance rights in Clough Limited are set out below.

Details of options over ordinary shares in the Company provided as remuneration to one of the five highest paid officers of the Group that are not key management persons during the financial year under review are set out below.

| Name | Number of options granted and issued during the year | Number of options vested during the year | A<br>Value of options granted during the year<br>$ | B<br>Intrinsic value of options exercised during the year<br>$ | C<br>Intrinsic value of options lapsed during the year<br>$ |
|---|---|---|---|---|---|
| RW Robinson * | 220,116 | 315,493 | 79,880 | ^ 186,437 | - |

* Officers who are one of the five highest remunerated officers of the Group but are not key management persons and hence not disclosed in the Remuneration Report.

^ On 11 April 2012, RW Robinson exercised 815,493 options for a consideration of $482,268. The fair value of 815,493 Clough ordinary shares on 11 April 2012 was $668,705.

A The fair value of the options is determined at the grant date in accordance with AASB 2 Share-based Payment.
B The fair value is determined at the date of exercise and reflects the intrinsic value of the options.
C The fair value is determined at the date of lapse and reflects the intrinsic value of the options.

# Directors' Report

## 12 Share Options and Performance Rights (continued)

Unissued ordinary shares of Clough Limited under option / performance right at the date of this report are as follows:

| Grant date | Vesting date | Number of Options / Performance Rights ^ | Exercise price | Date exercisable |
|---|---|---|---|---|
| 23 April 2007 (i) | Vested | 405,000 | $0.57 | 23/04/10 – 23/04/13 |
| 26 November 2007 (i) | Vested | 1,700,000 | $0.75 | 26/11/10 – 26/11/13 |
| 1 February 2008 | Vested | 660,000 | $0.86 | 01/02/11 – 01/02/14 |
| 5 March 2008 | Vested | 1,170,000 | $0.86 | 05/03/11 – 05/03/14 |
| 1 February 2009 | Vested | 660,000 | $0.34 | 01/02/12 – 01/02/15 |
| 11 February 2009 | Vested | 2,235,094 | $0.34 | 11/02/12 – 11/02/15 |
| 16 March 2010 (ii) | 16 March 2013 | 680,000 | $0.90 | 16/03/13 – 16/03/16 |
| 16 March 2010 (iii) | 16 March 2014 | 2,282,263 | $0.82 | 16/03/14 – 16/03/17 |
| 24 February 2011 (iv) * | 23 February 2015 | 3,776,123 | $0.89 | 23/02/15 – 23/02/18 |
| 24 February 2012 (v) | 24 February 2016 | 5,317,707 | $0.68 | 24/02/16 – 24/02/19 |
| 1 March 2012 (vi) | 1 March 2015 | ^ 1,284,717 | $Nil | 01/03/15 |

^ Represents performance rights.

* Includes 164,692 options issued to NE Siford in the current year which were approved by shareholders at the Company's Annual General Meeting held on 18 October 2011. These options were issued on the same terms as the options granted on 24 February 2011.

(i) The exercise price of outstanding options at 28 November 2007 has been adjusted as a result of the impact of the renounceable rights issue on 31 December 2007.

(ii) 25% of the options will vest irrespective of the performance of the Company, 50% of the options will vest if Clough's Total Shareholder Return (TSR) is equal to or greater than the average return of the ASX 200 during the period between the issue of the options and the vesting date and 25% of the options will vest if Clough's TSR is 25% or more above the average return of the ASX 200 during the period between the issue of the options and the vesting date.

(iii) The options will vest if the share price at the vesting date (adjusted for any dividends paid between grant date and vesting date) is equal to or above $1.29.

(iv) The options will vest if the share price at the vesting date (adjusted for any dividends paid between grant date and vesting date) is equal to or above $1.39.

(v) The options will vest if the share price at the vesting date (adjusted for any dividends paid between grant date and vesting date) is equal to or above $1.07.

(vi) The performance rights have no performance criteria that must be met before they vest. However, the employees must remain employed by the Company until vesting date to take ownership of the rights.

For additional information, refer to note 46 "Share-based payments" to the financial statements.

## 13 Rounding of Amounts

Clough Limited is a company of the kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. All amounts have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 14 Directors' Interests

Interests of Directors of Clough Limited in the ordinary shares, options and performance rights of the Company *at the date of this report* are:

| Director | Ordinary Shares | Options | Performance Rights |
|---|---|---|---|
| HJ Laas and AJ Bester through Murray & Roberts Limited ^ | 478,957,478 | - | - |
| KT Gallagher | # 1,136,394 | 687,185 | - |
| NE Siford | - | 672,715 | - |
| ER Stein | 74,900 | - | - |

^ HJ Laas and AJ Bester are directors of Murray & Roberts Holdings Limited whose related entities hold ordinary shares in Clough Limited through Murray & Roberts Limited.

# These shares are unlisted fully paid ordinary shares and were issued to KT Gallagher as part of his sign-on arrangements. The issue of the shares was approved by shareholders at the Company's Annual General Meeting held on 18 October 2011. The shares are to be listed from 3 November 2012, being KT Gallagher's 1st anniversary of employment.

## 15 Directors' Meetings

The number of Directors meetings and number of meetings attended by each of the Directors of Clough Limited during the financial year are as follows:

| Director | Board of Directors | | Directors - Special * | | Audit & Risk Committee | | Remuneration & HR Committee | | Health, Safety, Environment & Sustainability | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| AJ Bester | 6 | 6 | 4 | 4 | 5 | 5 | ** | ** | ** | ** |
| DI Crawford | 6 | 6 | 4 | 4 | ** | ** | 5 | 5 | 1 | 1 |
| KT Gallagher | 4 | 4 | 3 | 3 | ** | ** | ** | ** | 1 | 1 |
| IW Henstock | 3 | 3 | 1 | 1 | ** | ** | 3 | 3 | ** | ** |
| NWR Harvey | 3 | 2 | 2 | 0 | ** | ** | 2 | 1 | ** | ** |
| HJ Laas | 6 | 5 | 4 | 3 | ** | ** | ** | ** | 1 | 0 |
| NE Siford | 6 | 6 | 4 | 4 | ** | ** | ** | ** | ** | ** |
| J Smith | 2 | 2 | 1 | 1 | ** | ** | ** | ** | ** | ** |
| K Spence | 6 | 6 | 4 | 4 | 5 | 5 | 5 | 5 | 1 | 1 |
| ER Stein | 6 | 6 | 4 | 4 | 5 | 5 | ** | ** | ** | ** |

* Special meetings related to organisational restructure, continuous disclosure matters and the sale of the Marine Construction business.

** Not a member of the relevant committee.

# Directors' Report

## 16 Indemnification and Insurance of Officers and Auditors

The Company has entered into agreements to indemnify all Directors of the Company named in section 1 of this report and current and former executive officers of the Company and its controlled entities against all liabilities to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as Director or executive officer unless the liability relates to conduct involving a lack of good faith.

The Company has agreed to indemnify the Directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

During the financial year the Company paid insurance premiums in respect of Directors' and Officers' Liability insurance. The policy does not specify the premium for individual Directors and executive officers. Disclosure of the premium paid is subject to confidentiality requirements under the contract of insurance.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or auditor.

## 17 Auditor Independence and Non-Audit Services

A copy of the auditors' independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 55.

The following non-audit services were provided by the Company's auditors, Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu received or is due to receive the following amounts for the provision of non-audit services:

- Other services $ 5,273
- Taxation seminars $ 350

The Board of Directors has considered the position and in accordance with the advice received from the Audit & Risk Committee is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that the auditor independence was not compromised.

This report is made in accordance with a resolution of the Directors.

PERTH

21 August 2012

K. T. Gallagher

**Kevin Thomas Gallagher**
Director

**Keith Spence**
Director

# Auditor's Independence Declaration

**Deloitte.**

Deloitte Touche Tohmatsu
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The Board of Directors
Clough Limited
58 Mounts Bay Road
Perth WA 6000

21 August 2012

Dear Board Members

## Auditor's Independence Declaration to Clough Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Clough Limited.

As lead audit partner for the audit of the consolidated financial statements of Clough Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

**Deloitte Touche Tohmatsu**

A T Richards

**A T Richards**
Partner

Chartered Accountants

# Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2012

| | NOTES | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 5 | **431,442** | 248,566 |
| Other income | 6 | **1,039** | 4,692 |
| Depreciation and amortisation expense | 7 | **(3,263)** | (3,739) |
| Other expenses | | **(59,932)** | (54,693) |
| Materials, plant and subcontractor costs | | **(94,688)** | (37,265) |
| Labour costs | | **(288,145)** | (173,881) |
| Finance costs | 7 | **(392)** | (169) |
| Share of net profit of associates and jointly controlled entities accounted for using the equity method | | **69,607** | 68,323 |
| **Profit before income tax** | | **55,668** | 51,834 |
| Income tax expense | 8 | **(4,936)** | (2,219) |
| Profit from continuing operations | | **50,732** | 49,615 |
| Loss from discontinued operations | 9 | **(7,510)** | (16,719) |
| **Profit for the year** | | **43,222** | 32,896 |
| **Other comprehensive income (expense)** | | | |
| Cash flow hedges | 30 | **3,320** | (5,733) |
| Exchange differences on translation of foreign operations | 30 | **7,432** | (6,727) |
| Income tax relating to components of other comprehensive income | 30 | **(996)** | 1,720 |
| Other comprehensive income (expense) for the year, net of tax | | **9,756** | (10,740) |
| **Total comprehensive income for the year** | | **52,978** | 22,156 |
| Profit for the year is attributable to: | | | |
| Owners of Clough Limited | | **42,898** | 33,345 |
| Non-controlling interests | | **324** | (449) |
| | | **43,222** | 32,896 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of Clough Limited | | **52,654** | 22,788 |
| Non-controlling interests | | **324** | (632) |
| | | **52,978** | 22,156 |
| | | **Cents** | Cents |
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | 45 | **6.58** | 6.44 |
| Diluted earnings per share | 45 | **6.55** | 6.40 |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | 45 | **5.56** | 4.33 |
| Diluted earnings per share | 45 | **5.54** | 4.30 |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

# Consolidated balance sheet

AS AT 30 JUNE 2012

| | NOTES | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | **146,511** | 64,555 |
| Receivables | 11 | **97,468** | 45,709 |
| Work in progress | 12 | **6,523** | 8,699 |
| Derivative financial instruments | 13 | **2** | 1,439 |
| | | **250,504** | 120,402 |
| Assets classified as held for sale | 9 | **21,998** | 33,772 |
| Assets of a disposal group held for sale | 9 | **-** | 139,475 |
| Total current assets | | **272,502** | 293,649 |
| **Non-current assets** | | | |
| Receivables | 14 | **9,686** | 7,690 |
| Investments accounted for using the equity method | 15 | **157,807** | 104,150 |
| Other non-current assets | 19 | **622** | 736 |
| Property, plant and equipment | 16 | **23,305** | 22,152 |
| Intangible assets | 18 | **1,763** | 690 |
| Deferred tax assets | 17 | **41,341** | 36,184 |
| Total non-current assets | | **234,524** | 171,602 |
| **Total assets** | | **507,026** | 465,251 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables | 20 | **82,377** | 27,598 |
| Amounts due to customers for contract work | 24 | **22,482** | 6,603 |
| Borrowings | 21 | **-** | 1,236 |
| Current tax liabilities | 23 | **13,646** | 4,531 |
| Provisions | 22 | **20,126** | 13,905 |
| Derivative financial instruments | 13 | **1,758** | 5,562 |
| | | **140,389** | 59,435 |
| Liabilities directly associated with assets classified as held for sale | 9 | **4,557** | 5,416 |
| Liabilities directly associated with a disposal group held for sale | 9 | **-** | 79,308 |
| Total current liabilities | | **144,946** | 144,159 |
| **Non-current liabilities** | | | |
| Payables | 25 | **5,205** | 5,789 |
| Provisions | 28 | **7,330** | 4,702 |
| Total non-current liabilities | | **12,535** | 10,491 |
| **Total liabilities** | | **157,481** | 154,650 |
| **Net assets** | | **349,545** | 310,601 |
| **EQUITY** | | | |
| Contributed equity | 29 | **232,614** | 229,792 |
| Reserves | 30(a) | **(8,092)** | (18,570) |
| Retained earnings | 30(b) | **125,023** | 99,061 |
| Capital and reserves attributable to owners of Clough Limited | | **349,545** | 310,283 |
| Non-controlling interests | | **-** | 318 |
| **Total equity** | | **349,545** | 310,601 |

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2012

| | | Attributable to members of Clough Limited | | | |
|---|---|---|---|---|---|
| | | Contributed equity | Convertible note premium reserve | Hedging reserve - cash flow hedges | Share-based payments reserve |
| **Consolidated** | **Notes** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Balance at 1 July 2010** | | **229,728** | **394** | **(21)** | **4,209** |
| Profit for the year | | - | - | - | - |
| Other comprehensive expense | | - | - | (4,013) | - |
| **Total comprehensive income (expense) for the year** | | **-** | **-** | **(4,013)** | **-** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Contributions of equity, net of transaction costs | 29 | 1,894 | - | - | - |
| Share buy-backs including transaction costs | 29 | (1,830) | - | - | - |
| Employee share options | 46 | - | - | - | 937 |
| Removed on disposal of subsidiaries during the year | | - | - | - | - |
| Dividend paid to non-controlling interests by a subsidiary | | - | - | - | - |
| Dividends provided for or paid | 31 | - | - | - | - |
| | | 64 | - | - | 937 |
| **Balance at 30 June 2011** | | **229,792** | **394** | **(4,034)** | **5,146** |

| | | Attributable to members of Clough Limited | | | |
|---|---|---|---|---|---|
| | | Contributed equity | Convertible note premium reserve | Hedging reserve - cash flow hedges | Share-based payments reserve |
| **Consolidated** | **Notes** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Balance at 1 July 2011** | | **229,792** | **394** | **(4,034)** | **5,146** |
| Profit for the year | | - | - | - | - |
| Other comprehensive income | | - | - | 2,324 | - |
| **Total comprehensive income for the year** | | **-** | **-** | **2,324** | **-** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Contributions of equity, net of transaction costs | 29 | 3,560 | - | - | - |
| Share buy-back including transaction costs | 29 | (738) | - | - | - |
| Employee share options and performance rights | 46 | - | - | - | 722 |
| Non-controlling interests removed on disposal of a subsidiary | | - | - | - | - |
| Dividends provided for or paid | 31 | - | - | - | - |
| | | 2,822 | - | - | 722 |
| **Balance at 30 June 2012** | | **232,614** | **394** | **(1,710)** | **5,868** |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

| | Attributable to members of Clough Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Minority buy-back reserve** | **Foreign currency translation reserve** | **Capital reserve** | **Total reserves** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| | **(7,952)** | **(6,275)** | **720** | **(8,925)** | **82,696** | **303,499** | **1,251** | **304,750** |
| | - | - | - | - | 33,345 | 33,345 | (449) | 32,896 |
| | - | (6,544) | - | (10,557) | - | (10,557) | (183) | (10,740) |
| | **-** | **(6,544)** | **-** | **(10,557)** | **33,345** | **22,788** | **(632)** | **22,156** |
| | | | | | | | | |
| | - | - | - | - | - | 1,894 | - | 1,894 |
| | - | - | - | - | - | (1,830) | - | (1,830) |
| | - | - | - | 937 | - | 937 | - | 937 |
| | - | (25) | - | (25) | - | (25) | - | (25) |
| | - | - | - | - | - | - | (301) | (301) |
| | - | - | - | - | (16,980) | (16,980) | - | (16,980) |
| | - | (25) | - | 912 | (16,980) | (16,004) | (301) | (16,305) |
| | **(7,952)** | **(12,844)** | **720** | **(18,570)** | **99,061** | **310,283** | **318** | **310,601** |

| | Attributable to members of Clough Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Minority buy-back reserve** | **Foreign currency translation reserve** | **Capital reserve** | **Total reserves** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| | **(7,952)** | **(12,844)** | **720** | **(18,570)** | **99,061** | **310,283** | **318** | **310,601** |
| | - | - | - | - | 42,898 | 42,898 | 324 | 43,222 |
| | - | 7,432 | - | 9,756 | - | 9,756 | - | 9,756 |
| | **-** | **7,432** | **-** | **9,756** | **42,898** | **52,654** | **324** | **52,978** |
| | | | | | | | | |
| | - | - | - | - | - | 3,560 | - | 3,560 |
| | - | - | - | - | - | (738) | - | (738) |
| | - | - | - | 722 | - | 722 | - | 722 |
| | - | - | - | - | - | - | (642) | (642) |
| | - | - | - | - | (16,936) | (16,936) | - | (16,936) |
| | - | - | - | 722 | (16,936) | (13,392) | (642) | (14,034) |
| | **(7,952)** | **(5,412)** | **720** | **(8,092)** | **125,023** | **349,545** | **-** | **349,545** |

# Consolidated statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2012

| | NOTES | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **476,008** | 327,256 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(490,851)** | (365,346) |
| | | **(14,843)** | (38,090) |
| Interest received | | **3,056** | 2,538 |
| Dividends and distributions received from equity accounted entities | | **28,899** | 55,352 |
| Interest paid | | **(2,057)** | (4,065) |
| Income taxes (paid) received | | **(2,886)** | 600 |
| **Net cash inflow from operating activities** | 43 | **12,169** | 16,335 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(7,056)** | (6,792) |
| Payments for intangible assets - computer software | | **(1,280)** | (381) |
| Payments for investments in equity accounted entities | | **(18,200)** | (1,255) |
| Contributions to equity accounted entities | | **(5,912)** | - |
| Loans to equity accounted entities | | **(3,512)** | (3,640) |
| Repayment of loans provided by equity accounted entities | | **(10,974)** | (2,402) |
| Proceeds from sale of property, plant and equipment | | **3,767** | 639 |
| Proceeds from disposal of assets classified as held for sale | | **524** | - |
| Loans from equity accounted entities | | **34,914** | 4,779 |
| Advances from equity accounted entities | | **20,653** | - |
| Repayment of loans made to other persons | | **-** | 3,238 |
| Repayment of loans made to equity accounted entities | | **2,200** | 1,264 |
| Proceeds from disposal of subsidiaries, net of cash disposed | 37 | **-** | (349) |
| Proceeds from the sale of the Marine Construction business, net of cash disposed | 9,37 | **87,830** | - |
| **Net cash inflow (outflow) from investing activities** | | **102,954** | (4,899) |
| **Cash flows from financing activities** | | | |
| Proceeds from conversion of options | | **2,660** | 1,894 |
| Shares bought back by Clough Limited | 29 | **(738)** | (1,830) |
| Proceeds from borrowings | | **5,949** | 4,821 |
| Repayment of borrowings | | **(50,175)** | (10,212) |
| Dividends paid | 31 | **(16,936)** | (16,980) |
| Dividends paid to non-controlling interests in subsidiaries | | **-** | (301) |
| **Net cash outflow from financing activities** | | **(59,240)** | (22,608) |
| **Net increase (decrease) in cash and cash equivalents** | | **55,883** | (11,172) |
| Cash and cash equivalents at the beginning of the financial year | | **90,450** | 106,990 |
| Effects of exchange rate changes on cash and cash equivalents | | **178** | (5,368) |
| **Cash and cash equivalents at end of year** | 9,10 | **146,511** | 90,450 |
| Financing arrangements | 26 | | |
| Non-cash investing and financing activities | 44 | | |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Clough Limited and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Clough Limited is a for-profit entity for the purpose of preparing the financial statements.

#### (i) Compliance with IFRS

The consolidated financial statements of the Clough Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### (ii) New and amended standards adopted by the Company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011:

- *AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- *AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- *AASB 2010-5 Amendments to Australian Accounting Standards*
- *AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*
- *AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*
- *AASB 124 Related Party Disclosures*
- *AASB 1054 Australian Additional Disclosures*

The adoption of these standards did not have any material impact on any amounts recognised in the financial statements or on the Group's disclosures in the current period or any prior period.

#### (iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

#### (iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss or equity. Cost is based on the fair values of the consideration given in exchange for assets.

#### (v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

#### (vi) Comparative information

Comparative amounts have been reclassified where necessary so they are consistent with amounts reported in the current period.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Clough Limited (''Company" or ''parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Clough Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

#### (i) Subsidiaries (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

#### (ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 39).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (iii) Joint ventures

*Jointly controlled entities*

Interests in jointly controlled entities are accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the jointly controlled entities is recognised in profit or loss, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details of the jointly controlled entities are set out in note 40.

Profits or losses on transactions establishing a jointly controlled entity and transactions with a jointly controlled entity are eliminated to the extent of the Group's ownership interest until such time as they are realised by the jointly controlled entity on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

#### (iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Clough Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# 1 Summary of significant accounting policies (continued)

## (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, the Chief Financial Officer and the Board of Directors.

## (d) Foreign currency translation

### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Clough Limited's functional and presentation currency.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

### (iii) Group companies

The results and financial position of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

### (i) Land development and resale

Land is not sold until the development work is completed, and revenue is recognised when risks and rewards of ownership have passed to the buyer.

# Notes to the consolidated financial statements

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## 1 Summary of significant accounting policies (continued)

### (e) Revenue recognition (continued)

#### (ii) Construction contracting

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a construction contract, the excess of total costs over revenue is recognised as an expense immediately.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

The Directors do not consider it appropriate to recognise profits earned on contracts during the establishment and initial stages and accordingly recognition of profit is deferred during that period. For such contracts, the difference between the progress claims rendered (less contract retentions held by the client in cash or bonds) and direct costs (including an appropriate proportion of fixed and variable overheads) is carried forward as either construction work in progress (amounts due from customers for contract work) or amounts due to customers for contract work. Where a contract has progressed beyond the early stages, contract revenue and expenses are recognised on a percentage completion basis as noted above.

For fixed price contracts the stage of completion is measured by reference to contract costs for work performed to date as a percentage of estimated total contract costs for each contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus the percentage of fees earned. Percentage of fees earned is measured by the proportion of total costs incurred compared to the estimated total costs of the contract.

#### (iii) Interest income

Interest income is accrued on a time basis, by reference to the principal amount outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset of that asset's net carrying amount.

#### (iv) Dividends

Dividends from investments are recognised as revenue when the Group's right to receive payment is established. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Clough Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

# 1 Summary of significant accounting policies (continued)

## (g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term.

## (h) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Acquisition related costs are expensed as incurred and the transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## (j) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if applicable, are shown within borrowings in current liabilities in the balance sheet.

## (k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. Trade receivables are generally settled within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. No interest is charged on outstanding trade receivables.

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies (continued)

### (k) Trade receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (l) Work in progress, spare parts and property developments

#### (i) Spare parts

Spare parts are stated at the lower of cost and net realisable value.

#### (ii) Work in progress

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings, and the net amounts are presented in assets as amounts due from customers for contract work. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented in liabilities as amounts due to customers for contract work.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the Group's construction activities in general.

#### (iii) Property developments

Property developments are stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

### (m) Investments and other financial assets

#### Classification

The Group classifies its investments and other financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 11) and non-current receivables (note 14) in the balance sheet.

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

# 1 Summary of significant accounting policies (continued)

## (m) Investments and other financial assets (continued)

**(iv) Available-for-sale financial assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

**Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

**Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit and loss are expensed in profit and loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

**Fair value**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**Impairment**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 1(k).

## (n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies (continued)

### (n) Derivatives and hedging activities (continued)

Where the Group determines that it wants to establish a hedge relationship, the Group documents at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 13. Movements in the hedging reserve in shareholders' equity are shown in note 30. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging sales is recognised in profit or loss within 'revenue'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

#### (iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### (o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on-market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and may include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

# 1 Summary of significant accounting policies (continued)

## (p) Property, plant and equipment (continued)

All property, plant and equipment, other than freehold land, is depreciated or amortised at rates appropriate to the estimated useful life of the assets or in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The expected useful lives are as follows:

| | |
|---|---|
| – Land | Not depreciated |
| – Buildings | 5 - 20 years |
| – Leasehold improvements - owned | 5 - 12 years |
| – Plant and equipment - owned | 5 - 20 years |
| – Plant and equipment - leased | 15 years |

Buildings and leasehold improvements are depreciated using the straight line method. Plant and equipment - owned is depreciated using the reducing balance method and the straight line method. Plant and equipment - leased is depreciated using the straight line method.

Plant and equipment are depreciated to their estimated residual value. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

## (q) Intangible assets

### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

### (ii) Customer contracts

Customer contracts acquired as part of a business combination or investment in an associate are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently are up to 3 years.

### (iii) Computer software

Computer software has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight line method to allocate the cost of the computer software over their estimated useful lives, which vary from 4 to 5 years.

## (r) Trade and other payables

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

## (s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies (continued)

### (s) Provisions (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

### (t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of the convertible notes is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (u) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### (v) Employee benefits

#### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave, long service leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### (ii) Other long-term employee benefit obligations

The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (iii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

# 1 Summary of significant accounting policies (continued)

## (v) Employee benefits (continued)

### (iv) Share-based payments

Share-based compensation benefits are provided to employees via the Clough Limited Executive Option Plan (options) and the Clough Limited Executive Incentive Scheme (performance rights) as detailed in note 46.

The fair value of options granted under the Clough Limited Executive Option Plan and performance rights granted under the Clough Limited Executive Incentive Scheme are recognised as an employee benefit expense (in labour costs) with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options / performance rights.

The fair value at grant date is independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option / performance right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option / performance right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option / performance right.

The fair value of the options / performance rights granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options / performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options / performance rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Upon the exercise of options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

## (w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

## (x) Dividends

Provision is made for the amount of any dividend declared on or before the end of the reporting period but not distributed at the end of the reporting period.

## (y) Assets (or disposal groups) held for sale and discontinued operations

Assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the asset (or disposal group) is recognised at the date of derecognition.

Assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities directly associated with assets classified as held for sale and liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operation, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies (continued)

### (z) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (aa) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (ab) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (ac) Parent entity financial information

The financial information for the parent entity, Clough Limited, disclosed in note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### (i) Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and jointly controlled entities are accounted for at cost in the financial statements of Clough Limited. Dividends and distributions received from associates and jointly controlled entities are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

#### (ii) Tax consolidation legislation

Clough Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Clough Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Clough Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Clough Limited for any current tax payable assumed and are compensated by Clough Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Clough Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

# 1 Summary of significant accounting policies (continued)

## (ad) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

**(i) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective for annual reporting periods beginning on or after 1 July 2013)**

The amendments remove the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2011*. The amendments cannot be adopted early.

**(ii) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective for annual reporting periods beginning on or after 1 July 2012)**

This amendment requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. The amendment is expected to result in changes to disclosures included in the financial statements but have no impact on any amounts recognised in the financial statements.

**(iii) AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual reporting periods beginning on or after 1 January 2013)**

This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard. The Group has not determined the potential impact of the disclosure amendments.

**(iv) AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (effective for annual reporting periods beginning on or after 1 January 2014)**

This Standard makes amendments to Australian Accounting Standard AASB 132 *Financial Instruments: Presentation*. These amendments arise from the issuance of *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) by the International Accounting Standards Board in December 2011. This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group has not determined the potential impact of the amendments to the standard.

**(v) AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* (effective for annual reporting periods beginning on or after 1 January 2013)**

As a consequence of the issuance of International Financial Reporting Standard *Annual Improvements to IFRSs 2009–2011 Cycle* by the International Accounting Standards Board in May 2012. The objective of this Standard is to make amendments to: AASB 1 *First time Adoption of Australian Accounting Standards*; AASB 101 *Presentation of Financial Statements*; AASB 116 *Property, Plant and Equipment*; AASB 132 *Financial Instruments: Presentation* and AASB 134 *Interim Financial Reporting*. The Group has not determined the potential impact of the amendments.

**(vi) AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013)**

AASB 9 Financial Instruments addresses the classification, measurement and de recognition of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets and financial liabilities compared with the requirements of AASB 139 *Financial Instruments - Recognition and Measurement*. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not determined the potential impact of the new standard.

It should be noted that the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted. AASB ED 215 *Mandatory Effective Date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 to annual periods beginning on or after 1 January 2015, with early application permitted, however, the finalisation of ED 215 is still pending by the AASB.

**(vii) AASB 10 *Consolidated Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective for annual reporting periods beginning on or after 1 January 2013)**

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 27 *Consolidated and Separate Financial Statements* dealing with accounting for consolidated financial statements and Interpretation 12 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations. The application date of the standard is 1 January 2013. The Group has not determined the potential impact of the standard.

# Notes to the consolidated financial statements

30 JUNE 2012

## 1 Summary of significant accounting policies (continued)

### (ad) New accounting standards and interpretations (continued)

**(viii) AASB 11 *Joint Arrangements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective for annual reporting periods beginning on or after 1 January 2013)**

AASB 11 replaces AASB 31 *Interests in Joint Ventures* and Interpretation 113 *Jointly Controlled Entities – Non-monetary contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. Additionally, AASB 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

The Group is currently reviewing the potential impact of the standard, however, it will potentially result in the classification of Clough's unincorporated joint ventures as joint operations. Under AASB 11, joint operations are required to be proportionally consolidated. Currently Clough equity accounts for all its unincorporated joint ventures.

**(ix) AASB 12 *Disclosures of Interests in Other Entities* (effective for annual reporting periods beginning on or after 1 January 2013)**

AASB 12 includes all disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and structure entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, and structured entities and subsidiaries with non-controlling interests. The new standard is expected to result in changes to disclosures included in the financial statements but have no impact on any amounts recognised in the financial statements.

**(x) AASB 13 *Fair Value Measurement* (effective for annual reporting periods beginning on or after 1 January 2013)**

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. The Group has not determined the potential impact of the standard.

**(xi) AASB 119 *Employee benefits* (effective for annual reporting periods beginning on or after 1 January 2013)**

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. This main change will have no impact on the Group.

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. It should also be noted that consequential amendments were made to other standards via AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119*. The Group has not determined the potential impact of the changes to the standards, except as noted above.

**(xii) AASB 128 *Investments in Associates and Joint Ventures* (effective for annual reporting periods beginning on or after 1 January 2013)**

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate and vice versa. The amendments introduce a partial disposal concept and this could result in changes to accounting policy. The Group has not determined the potential impact of the amendments to the standard.

## 2 Financial risk management

The Group's principal financial instruments comprise receivables, payables, bank loans, cash and short-term deposits and derivatives.

The Group manages its exposure to key financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk, in accordance with the Group's financial risk management policies, the objective of which is to support the delivery of the Group's financial plan.

# 2 Financial risk management (continued)

The Group enters into derivative transactions, principally forward currency contracts, the purpose of which is to manage the currency risks arising from the Group's operations. Trading in derivatives is not undertaken by the Group. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The Group uses a number of methods to measure and manage these different types of risks. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Ageing analyses and monitoring is undertaken to manage credit risk. Liquidity risk is monitored through regularly updated cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Audit & Risk Committee under the authority of the Board.

## (a) Market risk

### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group seeks to mitigate the effect of its foreign currency exposure primarily through natural hedging where the currencies in which project revenues are received are matched against the currencies in which costs are incurred. Where this is not achievable, the Group uses forward currency contracts to mitigate exposures on significant committed transactions. It is the Group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the transaction to establish an effective hedge. The net result of operations with a functional currency other than Australian dollars is not hedged.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

At 30 June 2012, had the Australian dollar weakened/strengthened by 25% (2011: 25%) against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have been $4,393,000 higher / $2,636,000 lower (2011: $3,814,000 higher / $2,288,000 lower) and equity would have been $1,270,000 lower / $1,614,000 higher (2011: $12,490,000 lower / $7,493,000 higher).

At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. The following amounts which are included in the above relate specifically to the Marine Construction business. Had the Australian dollar weakened/strengthened by 25% against the US dollar with all other variables held constant, the Marine Construction business post-tax profit for the year ended 30 June 2011 would have been $2,234,000 higher / $1,340,000 lower and equity would have been $12,971,000 lower / $7,783,000 higher.

### (ii) Price risk

The Group is not exposed to equity securities price risk at 30 June 2012.

As at 30 June 2011, Clough held investments classified at fair value through profit or loss as detailed in note 13. If the fair value of the investments increased/decreased by 10% from the 30 June 2011 year-end carrying amount with all other variables held constant, post-tax profit for the year would have been $455,000 higher / $1,775,000 lower.

### (iii) Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its finance costs with the objective of minimising cost and to provide certainty. This approach is however dependant on the lending entity and current market conditions. The Group's policy is to maintain the majority of its borrowings at fixed rates, except when the trend in observable market rates suggests that a variable rate strategy is more appropriate. Borrowings at fixed rates are carried at amortised cost. It is acknowledged that this creates fair value exposure. At 30 June 2012, the Group had no borrowings. At 30 June 2011, all of the Group's borrowings were at a fixed rate of interest.

At 30 June 2012, if interest rates had changed by +/-100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $492,000 higher / lower (2011: $504,000 higher / lower). As at 30 June 2012 and 30 June 2011, the Group only had interest bearing financial assets that were at a variable rate of interest.

At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. The following amounts which are included in the above relate specifically to the Marine Construction business. If interest rates had changed by +/-100 basis points from the year end rates with all other variables held constant, the Marine Construction business post-tax profit for the year would have been $275,000 higher / lower. As at 30 June 2011, the Marine Construction business only had interest bearing financial assets that were at a variable rate of interest.

# Notes to the consolidated financial statements

30 JUNE 2012

## 2 Financial risk management (continued)

### (a) Market risk (continued)

#### (iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and price risk.

| Group | | Interest rate risk | | | | Foreign exchange risk | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -100bps | | +100bps | | -25% | | +25% | |
| 30 June 2012 | Carrying amount $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 146,511 | (471) | - | 471 | - | 2,345 | 265 | (1,407) | (159) |
| Trade and other receivables | 107,154 | (21) | - | 21 | - | 2,201 | 28 | (1,321) | (17) |
| Derivatives - cash flow hedges | 2 | - | - | - | - | - | (287) | - | 269 |
| **Financial liabilities** | | | | | | | | | |
| Trade and other payables | 86,351 | - | - | - | - | (153) | (913) | 92 | 547 |
| Derivatives - cash flow hedges | 1,758 | - | - | - | - | - | (363) | - | 974 |
| **Total increase/(decrease)** | | (492) | - | 492 | - | 4,393 | (1,270) | (2,636) | 1,614 |

| Group | | Interest rate risk | | | | Foreign exchange risk | | | | Other price risk | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | -100bps | | +100bps | | -25% | | +25% | | -10% | | +10% | |
| 30 June 2011 | Carrying amount $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **Financial assets** | | | | | | | | | | | | | |
| Cash and cash equivalents | 90,450 | (393) | - | 393 | - | 2,410 | 2,177 | (1,446) | (1,307) | - | - | - | - |
| Trade and other receivables | 67,512 | (111) | - | 111 | - | 2,502 | 1,796 | (1,501) | (1,077) | - | - | - | - |
| Derivatives - cash flow hedges | 1,439 | - | - | - | - | - | (3,478) | - | 2,087 | - | - | - | - |
| **Financial liabilities** | | | | | | | | | | | | | |
| Trade and other payables | 46,277 | - | - | - | - | (1,098) | (2,820) | 659 | 1,692 | - | - | - | - |
| Borrowings | 40,502 | - | - | - | - | - | (13,089) | - | 7,853 | - | - | - | - |
| Derivatives - at fair value through profit or loss | 455 | - | - | - | - | - | - | - | - | (1,775) | - | 455 | - |
| Derivatives - cash flow hedges | 5,107 | - | - | - | - | - | 2,924 | - | (1,755) | - | - | - | - |
| **Total increase/(decrease)** | | (504) | - | 504 | - | 3,814 | (12,490) | (2,288) | 7,493 | (1,775) | - | 455 | - |

### (b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance sheet date is addressed in each applicable note.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

# 2 Financial risk management (continued)

## (c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans, finance leases and committed available credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The tables below analyse the Group's financial liabilities and net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| Contractual maturities of financial liabilities | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| **Group - at 30 June 2012** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Non-derivatives** | | | | | | |
| Trade and other payables | 86,351 | - | - | - | 86,351 | 86,351 |
| **Total non-derivatives** | 86,351 | - | - | - | 86,351 | 86,351 |
| **Derivatives** | | | | | | |
| Gross settled (forward exchange contracts - cash flow hedges) | | | | | | |
| - (inflow) | (25,872) | (3,518) | - | - | (29,390) | - |
| - outflow | 27,293 | 3,515 | - | - | 30,808 | 1,756 |
| **Total derivatives** | 1,421 | (3) | - | - | 1,418 | 1,756 |
| **Group - at 30 June 2011** | | | | | | |
| **Non-derivatives** | | | | | | |
| Trade and other payables * | 40,506 | 6,053 | - | - | 46,559 | 46,277 |
| Bank loans * | 8,217 | 7,788 | 33,221 | - | 49,226 | 39,266 |
| Other loans | 1,250 | - | - | - | 1,250 | 1,236 |
| **Total non-derivatives** | 49,973 | 13,841 | 33,221 | - | 97,035 | 86,779 |
| **Derivatives** | | | | | | |
| Derivatives - at fair value through profit or loss | 455 | - | - | - | 455 | 455 |
| Gross settled (forward exchange contracts - cash flow hedges) | | | | | | |
| - (inflow) | (35,445) | (6,929) | - | - | (42,374) | - |
| - outflow | 39,323 | 7,397 | - | - | 46,720 | 3,668 |
| **Total derivatives** | 4,333 | 468 | - | - | 4,801 | 4,123 |

* At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. The following non-derivative financial liabilities which are included in the above relate specifically to the Marine Construction business: trade and other payables $8,076,000 (expected maturity less than 12 months) and bank loans $39,266,000 (expected maturity per the above disclosure). On completion of the sale of the Marine Construction business on 22 December 2011, these financial liabilities were settled or removed from the Clough Group.

## (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

# Notes to the consolidated financial statements

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## 2 Financial risk management (continued)

### (d) Fair value measurements (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

| Group as at 30 June 2012 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivatives used for hedging | - | - | **2** | 2 |
| **Total assets** | - | - | **2** | 2 |
| **Liabilities** | | | | |
| Derivatives used for hedging | - | - | **1,758** | 1,758 |
| **Total liabilities** | - | - | **1,758** | 1,758 |

| Group as at 30 June 2011 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivatives used for hedging | - | - | **1,439** | 1,439 |
| **Total assets** | - | - | **1,439** | 1,439 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Put option securities | - | - | **455** | 455 |
| Derivatives used for hedging | - | - | **5,107** | 5,107 |
| Payables - deferred consideration | - | - | **5,770** | 5,770 |
| **Total liabilities** | - | - | **11,332** | 11,332 |

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on-market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 except in the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, in which case such instruments are included in level 3.

The following table present the changes in level 3 instruments for the years ended 30 June 2012 and 30 June 2011:

| Group | Derivatives $'000 | Deferred consideration $'000 | Total $'000 |
|---|---|---|---|
| Opening balance 1 July 2010 | (30) | (7,946) | (7,976) |
| Recognised in other comprehensive income | (5,733) | 1,176 | (4,557) |
| Recognised in profit or loss | 1,640 | 1,000 | 2,640 |
| Closing balance 30 June 2011 | (4,123) | (5,770) | (9,893) |
| | | | |
| Opening balance 1 July 2011 | (4,123) | (5,770) | (9,893) |
| Recognised in other comprehensive income | 3,320 | - | 3,320 |
| Recognised in profit or loss | (2,578) | - | (2,578) |
| Recognised in investment in associate | 1,625 | - | 1,625 |
| Removed on disposal of a controlled entity | - | 6,230 | 6,230 |
| Other changes | - | (460) | (460) |
| Closing balance 30 June 2012 | (1,756) | - | (1,756) |

# 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

## (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Accounting for construction contracts

The Group accounts for construction contracts in accordance with AASB 111 *Construction Contracts*. The detailed accounting policy can be found in Note 1(e)(ii).

Accounting for construction contracts involves the continuous use of assessed estimates based on a number of detailed assumptions consistent with the project scope and schedule, contract and risk management processes. These contracts may span several accounting periods requiring estimates and assumptions to be updated on a regular basis.

Details of the estimation procedures followed in accounting for the Group's construction contracts are detailed below.

- *Forecast costs at completion*

  The estimates of the forecast costs at completion of all construction contracts are regularly updated in accordance with the agreed work scope and schedule under the respective contracts. Forecast costs are based on rates expected to apply when the related activity is expected to be undertaken. Appropriate contingencies are included in the forecast costs to completion in order to cover risks inherent in those forecasts. Any additional contractual obligations, including liquidated damages, are also assessed to the extent that these are due and payable under the contract recognising the contractual status from both the Group's and the client's viewpoints.

- *Revenues*

  Revenues reflect the contract price agreed in the contract and variations where it is probable that the client will approve those variations or are due under the contract (schedule of rates type contracts would fall under this latter category for example). Claims are included in contract revenue only where negotiations have reached an advanced stage such that it is probable that the client will accept the claim and recovery of the amount involved is probable.

- *Contracts materially impacted by a client's actions*

  In limited circumstances, contracts may be materially impacted by a client's actions such that the Group is unable to complete the contracted works at all or in the manner originally forecast. This may involve dispute resolution procedures under the relevant contract and/or litigation. In these circumstances the assessment of the project outcome, whilst following the basic principles noted above, becomes more judgemental.

  Forecast costs at completion are based on a similar approach to that noted above. Revenues include an assessment of the likely outcome of reaching agreement with the client which is generally arrived at by assessing the probabilities of a number of different commercial outcomes including an estimate of the costs, (which would include legal costs for example) to reach that agreement and the impact of customers calling bank guarantees where viewed to be probable. Profits would not be recognised on a contract in these circumstances. Similarly, where the project outcome cannot be reliably measured because of the particular features of the dispute, revenues are recognised to the extent of costs incurred that are probable of recovery from the client. Costs that are not probable of recovery are expensed.

### (ii) Contract claims and disputes

Certain claims arising out of engineering and construction contracts have been made against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration.

Estimates and assumptions regarding the likely outcome of these claims have been made and these have been recognised in the carrying value of assets and liabilities recorded in the financial report. In making these estimates and assumptions, legal opinion has been obtained as appropriate.

Although the Directors do not consider the outcome of these claims will have a material adverse affect on the financial position of the Group, there remains uncertainty until the final outcome of the litigation or arbitration is determined.

### (iii) Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

# Notes to the consolidated financial statements

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## 3 Critical accounting estimates and judgements (continued)

### (b) Critical judgements in applying the entity's accounting policies

#### (i) Profit recognition on construction contracts

Accounting for construction contracts involves making regular judgements due to the nature of construction contracts themselves. These judgements include the determination of the point at which a contract has progressed beyond its establishment and initial stages, and that it is appropriate to start recognising profits earned on the contract and the recognition of profits under risk and reward schemes.

Refer to the Group's accounting policy note on construction contracts in Note 1(e)(ii) for further details.

#### (ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### (iii) Recoverability of deferred tax assets

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

To estimate the ability for the Group to recover the deferred tax assets, the following items are taken into account:

- Forecast taxable results with appropriate risk weighting;
- Analysis of the past taxable results; and
- Existence of significant and non-recurrent income and expenses, included in the past tax results, which should not repeat in the future.

## 4 Segment information

### (a) Description of segments

Management has determined the operating segments for the year ended 30 June 2012 based on reports reviewed by its chief operating decision maker that are used to make strategic decisions. The chief operating decision maker has been identified as comprising of the Chief Executive Officer, the Chief Financial Officer and the Board of Directors (the CODM).

The CODM considers the business from a Business Line perspective and has identified four reportable segments as follows:

**Capital Projects**

This comprises the delivery of engineering, procurement and construction (EPC) services and engineering, procurement and construction management (EPCM) services primarily for LNG and domestic gas projects in Australia and South East Asia. A secondary market is infrastructure projects including water and mineral infrastructure in Australia.

Capital Projects comprises a number of separate projects that are combined to form the Capital Projects Business Line. The Capital Projects business has been determined as both an operating segment and a reportable segment.

**Asset Support**

This comprises engineering led service to enable the commissioning, maintenance and upgrade of existing upstream oil and gas infrastructure both offshore and onshore in Australia and South East Asia.

Asset Support comprises a number of separate projects that are combined to form the Asset Support Business Line. The Asset Support business has been determined as both an operating segment and a reportable segment.

**Other**

This includes fabrication and assembly services and certain central costs and legacy items which have not been allocated to business segments such as central foreign exchange gains/losses and the cost of share-based payments.

**Forge**

This comprises Clough's interest in Forge Group Limited. For further details on Clough's interest in the Forge Group Limited refer to note 39.

# 4 Segment information (continued)

## (a) Description of segments (continued)

**Discontinued Segments**

**Marine Construction**

This comprises engineering, procurement, installation and commissioning (EPIC) service for small and medium oil and gas projects across Australia with marine construction as a key element.

This business includes pipelay and facilities installation with the Java Constructor and subsea construction, umbilicals, risers and flowlines (SURF) globally with the Normand Clough.

The Marine Construction business was sold on 22 December 2011 and is classified as a discontinued operation. For further details, refer to note 9.

**Other Discontinued Segments**

The property business is classified as a discontinued operation. Further information about this discontinued segment is disclosed in note 9.

PT Petrosea Tbk and related entities (Petrosea) was sold on 6 July 2009. Information about this discontinued segment is disclosed in note 9.

## (b) Segment information provided to the CODM

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2012 is as follows:

| 2012 | Capital Projects | Asset Support | Other | Total Clough Operations | Forge | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Total segment revenue * | 902,643 | 79,960 | 22,824 | 1,005,427 | 259,547 | 1,264,974 |
| **Revenue from external customers** | **902,643** | **79,960** | **22,824** | **1,005,427** | **259,547** | **1,264,974** |
| **Underlying earnings (loss) from operations** | **37,212** | **3,660** | **(3,654)** | **37,218** | **24,012** | **61,230** |
| **Depreciation and amortisation** | **2,626** | **167** | **470** | **3,263** | **-** | **3,263** |

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2011 is as follows:

| 2011 | Capital Projects | Asset Support | Other | Total Clough Operations | Forge | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Total segment revenue * | 720,865 | 53,176 | 8,443 | 782,484 | 141,586 | 924,070 |
| **Revenue from external customers** | **720,865** | **53,176** | **8,443** | **782,484** | **141,586** | **924,070** |
| **Underlying earnings (loss) from operations** | **38,667** | **2,504** | **(5,388)** | **35,783** | **18,920** | **54,703** |
| **Depreciation and amortisation** | **2,781** | **5** | **953** | **3,739** | **-** | **3,739** |

* Includes share of revenue from jointly controlled entities and associates.

# Notes to the consolidated financial statements

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## 4 Segment information (continued)

### (c) Notes to, and forming part of, the segment information

#### (i) Segment revenue

Segment revenue reconciles to revenue from construction projects as disclosed in note 5 as follows:

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Total segment revenue** | **1,264,974** | 924,070 |
| Segment revenue from jointly controlled entities and associates | **(969,741)** | (744,354) |
| **Revenue from construction projects** (note 5) | **295,233** | 179,716 |

The entity is domiciled in Australia. The amount of its segment revenue from external customers in Australia is $821,855,000 (2011: $480,728,000), and the total of segment revenue from external customers in other countries is $443,119,000 (2011: $443,342,000) and includes $407,975,000 (2011: $434,899,000) from Papua New Guinea. Segment revenues are allocated based on the country in which the work is performed.

Significant revenues have been derived from a number of external customers. Revenues of $186,494,000 (2011: $139,123,000) and $362,161,000 (2011: $413,659,000) have been derived from single customers in the Capital Projects segment.

#### (ii) Underlying earnings from operations

The CODM assesses the performance of the operating segments based on a measure of underlying earnings. Overheads are allocated to each business segment on a proportionate basis linked to segment revenue, to determine a segment result. The measurement basis of underlying earnings excludes the effects of non-recurring or distorting expenditure from the operating segments relating to one-off impacts arising from the acquisition or disposal of businesses. Interest income and expenditure are not allocated to segments as the financing function of the Group is centralised through the Group's treasury function.

A reconciliation of underlying earnings from operations to profit before income tax from continuing operations is provided as follows:

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Underlying earnings from operations** | **61,230** | 54,703 |
| Interest income | **3,585** | 2,796 |
| Finance costs | **(392)** | (169) |
| Share of finance costs of equity accounted entities | **110** | (438) |
| Tax expense included in share of net profit of equity accounted entities | **(7,695)** | (4,684) |
| Fair value gain on Forge Group Limited options | **-** | 4,987 |
| Fair value loss on Forge Option Securities | **(1,170)** | (455) |
| Amortisation arising from business acquisitions | **-** | (4,300) |
| Other adjustments including legacy project costs | **-** | (606) |
| **Profit before income tax from continuing operations** | **55,668** | 51,834 |

#### (iii) Segment assets and liabilities

The amounts provided to the CODM with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. The total assets and liabilities are provided for the Group as a whole and are not allocated to each operating segment.

# 5 Revenue

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **From continuing operations** | | |
| *Revenue* | | |
| Construction projects | **295,233** | 179,716 |
| *Other revenue* | | |
| Rental income | **7,666** | 4,018 |
| Interest income | **3,585** | 2,796 |
| Other revenue (note (i)) | **124,958** | 62,036 |
| | **136,209** | 68,850 |
| | **431,442** | 248,566 |
| **From discontinued operations** (note 9) | | |
| *Revenue* | | |
| Construction projects | **31,772** | 52,581 |
| *Other revenue* | | |
| Interest income | **578** | 1,079 |
| Other revenue (note (i)) | **16,851** | 26,705 |
| | **17,429** | 27,784 |
| | **49,201** | 80,365 |

(i) Includes labour and other recharges to jointly controlled entities.

## Revenue - Group and jointly controlled entities

The consolidated entity's share of construction project revenue from jointly controlled entities is excluded from revenue noted above and from the statement of comprehensive income in accordance with Accounting Standards. The delivery of a number of projects by the consolidated entity is through various joint venture arrangements. Details of the consolidated entity's share of jointly controlled entities construction project revenue (after any necessary proportional consolidation adjustments) is provided as additional information below as Revenue - Group and jointly controlled entities.

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **From continuing operations** | | |
| **Revenue - Group and jointly controlled entities** | | |
| Construction project revenue - Group | **295,233** | 179,716 |
| Construction project revenue - Jointly controlled entities | **710,194** | 602,768 |
| | **1,005,427** | 782,484 |

# Notes to the consolidated financial statements

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## 6 Other income

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Net gain on disposal of property, plant and equipment | **1,029** | 160 |
| Fair value gains on derivative financial instruments held for trading at fair value through profit or loss (note 13) | **-** | 4,532 |
| Other income | **10** | - |
| | **1,039** | 4,692 |

## 7 Expenses

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Profit before income tax includes the following specific expenses:** | | |
| **Depreciation** | | |
| Plant and equipment | **1,711** | 1,684 |
| Freehold land and buildings | **-** | 41 |
| Total depreciation | **1,711** | 1,725 |
| **Amortisation** | | |
| Leasehold improvements | **1,344** | 1,181 |
| Computer software | **208** | 833 |
| Total amortisation | **1,552** | 2,014 |
| Total depreciation and amortisation | **3,263** | 3,739 |
| **Finance costs** | | |
| Interest and finance charges paid/payable | **392** | 169 |
| **Rental expense relating to operating leases** | | |
| Minimum lease payments | **26,916** | 23,330 |
| **Foreign exchange gains and losses** | | |
| Net foreign exchange losses | **1,236** | 1,160 |
| **Defined contribution superannuation expense** | **13,538** | 10,503 |

# 8 Income tax expense

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax | **11,812** | 5,100 |
| Deferred tax | **(5,717)** | (4,602) |
| Adjustments for current tax of prior years | **(394)** | 1,359 |
| | **5,701** | 1,857 |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | **4,936** | 2,219 |
| Loss from discontinued operations | **765** | (362) |
| Aggregate income tax expense | **5,701** | 1,857 |
| Deferred income tax benefit included in income tax expense comprises: | | |
| Increase in deferred tax assets (note 17) | **(3,195)** | (5,789) |
| Increase (decrease) in deferred tax liabilities (note 27) | **(2,522)** | 1,187 |
| | **(5,717)** | (4,602) |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from continuing operations before income tax expense | **55,668** | 51,834 |
| Loss from discontinued operations before income tax expense | **(6,745)** | (17,081) |
| | **48,923** | 34,753 |
| Tax at the Australian tax rate of 30% (2011 - 30%) | **14,677** | 10,426 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Profits from equity accounted entities | **(6,387)** | (164) |
| Share-based payments | **487** | 281 |
| Entertainment | **83** | 103 |
| Foreign branch profits | **(140)** | - |
| Sale of Marine Construction business | **(1,645)** | - |
| Withholding taxes | **399** | 267 |
| Other sundry items | **5,338** | (2,869) |
| | **12,812** | 8,044 |
| Difference in overseas tax rates | **482** | (22) |
| Under (over) provision in prior years - current tax | **(394)** | 1,359 |
| Under (over) provision in prior years - deferred tax | **2,266** | (2,314) |
| Deferred tax assets (liabilities) now derecognised | **1,213** | - |
| Deferred tax assets (liabilities) previously not recognised now brought into account * | **-** | (2,296) |
| Deferred tax assets not recognised arising from temporary differences | **-** | 444 |
| Losses utilised in current period not previously brought into account | **(10,275)** | (6,524) |
| Tax losses (not previously recognised now brought into account) previously brought into account now derecognised | **(8,055)** | 710 |
| Tax losses not brought into account | **1,237** | 2,456 |
| Provision for overseas tax liability | **4,891** | - |
| Derecognition of overseas withholding tax receivable | **1,258** | - |
| Impact of deferred tax expense of changes in overseas tax rates | **266** | - |
| Total income tax expense | **5,701** | 1,857 |

* The deferred tax liability relates to Clough's equity accounted investment in Forge Group Limited.

# Notes to the consolidated financial statements

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## 8 Income tax expense (continued)

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **(c) Amounts recognised directly in other comprehensive income** | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income | | |
| Net deferred tax - debited (credited) directly to other comprehensive income (note 17) | **996** | (1,720) |
| | **996** | (1,720) |
| **(d) Tax losses** | | |
| Unused tax losses for which no deferred tax asset has been recognised | **30,139** | 100,661 |
| Potential tax benefit at appropriate tax rates | **7,702** | 28,986 |

## 9 Discontinued operations

Discontinued operations comprise the Marine Construction business, the Property business and Petrosea as detailed below. The loss from discontinued operations for the year of $7,510,000 (2011: $16,719,000) is made up as follows:

- Loss of the Marine Construction business for period to date of sale (22 December 2011) of $2,878,000 (2011: $10,421,000).
- Gain on sale of the Marine Construction business of $5,849,000.
- Loss of the Property business for the year of $9,981,000 (2011: $5,246,000).
- Loss relating to Petrosea for the year of $500,000 (2011: $1,052,000).

### Discontinued Operation - Marine Construction business

### (a) Description

The Company having undertaken a strategic review of its operations during the year ended 30 June 2011, resolved to exit the asset owning Marine Construction business and focus on core activities being that of an Engineering led EPC company in the oil and gas and minerals sectors.

On 8 August 2011, Clough announced that it had signed a conditional Master Sale and Purchase Agreement (Sale and Purchase Agreement) to sell its Marine Construction business to SapuraCrest Petroleum Berhad ("SapuraCrest"), a listed Malaysian entity. The gross consideration agreed for the sale of the Marine Construction business was $127 million (of which $50 million was to be paid in US dollars) subject to an adjustment amount to be calculated by an "adjustment statement mechanism" based on the final net asset position of the Marine Construction business at completion.

The sale of the Marine Construction business was completed on 22 December 2011.

The Marine Construction business included the Java Constructor vessel and associated marine construction equipment. It also included Clough's interest in the Clough Helix Joint Venture Pty Ltd, which operates the chartered Normand Clough vessel, and its investments in specialist engineering businesses, Ocean Flow International LLC and the Peritus entities. Relevant contracts including the Chevron Gorgon Domestic Gas pipeline projects have been novated.

The results of the Marine Construction business to the date that it was sold have been recorded in these financial statements as being a discontinued operation.

# 9 Discontinued operations (continued)

## (b) Financial performance and cash flow information of the Marine Construction business

The financial performance and cash flow information of the Marine Construction business for the period ended 22 December 2011 and year ended 30 June 2011 are detailed below.

| | CONSOLIDATED | |
|---|---|---|
| | **Period ended 22 Dec 2011 $'000** | Year ended 30 June 2011 $'000 |
| **Profit (loss) of the Marine Construction business** | | |
| Revenue | **29,117** | 37,631 |
| Other revenue | **16,766** | 27,727 |
| Other income | **1,037** | 3,702 |
| Share of net profit of associates and jointly controlled entities accounted for using the equity method | **-** | 1,191 |
| Expenses | **(48,468)** | (80,264) |
| Loss before income tax | **(1,548)** | (10,013) |
| Income tax expense | **(1,330)** | (408) |
| Loss after income tax of the Marine Construction business | **(2,878)** | (10,421) |
| Gain on sale of the Marine Construction business (see (d) below) | **5,849** | - |
| **Profit (loss) of the Marine Construction business** | **2,971** | (10,421) |
| **Cash flows of the Marine Construction business (including sale)** | | |
| Net cash inflow (outflow) from operating activities | **(320)** | 14,582 |
| Net cash inflow (outflow) from investing activities | **86,083** | (5,520) |
| Net cash inflow (outflow) from financing activities | **(42,989)** | (5,935) |
| **Net increase in cash generated by the Marine Construction business** | **42,774** | 3,127 |

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## 9 Discontinued operations (continued)

### (c) Carrying amounts of assets and liabilities of the Marine Construction business

The carrying amounts of assets and liabilities of the Marine Construction business as at 22 December 2011 and 30 June 2011 were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **22 Dec 2011 $'000** | 30 June 2011 $'000 |
| **Assets** | | |
| Cash and cash equivalents | **26,857** | 25,895 |
| Receivables | **26,700** | 14,113 |
| Work in progress | **4,233** | 3,390 |
| Property, plant and equipment | **91,636** | 88,306 |
| Intangible assets | **7,369** | 6,930 |
| Deferred tax assets | **405** | 841 |
| **Total assets** | **157,200** | 139,475 |
| **Liabilities** | | |
| Payables | **(18,043)** | (13,846) |
| Amounts due to customers for contract work | **(31,213)** | (18,499) |
| Borrowings * | **-** | (39,266) |
| Tax liabilities | **(344)** | (1,924) |
| Provisions | **(5,430)** | (5,773) |
| **Total liabilities** | **(55,030)** | (79,308) |
| **Net assets** | **102,170** | 60,167 |
| **Amounts recognised directly in equity as at 22 December 2011 and 30 June 2011** | | |
| Foreign currency translation reserve | **(6,133)** | (7,618) |
| Non-controlling interests | **671** | 318 |
| **Net equity** | **(5,462)** | (7,300) |

* The borrowings related to the Marine Construction business were not sold as part of the disposal but were repaid out of the proceeds received from the sale. The borrowings related to the Marine Construction business at 22 December 2011 totalled $41,643,000 and were repaid on this date.

### (d) Details of the sale of the Marine Construction business

The sale of the Marine Construction business was completed on 22 December 2011 and cash consideration of $129,533,000 was received, comprising of US$50,000,000 and $79,107,000.

In accordance with the terms of the Sale and Purchase Agreement, the purchase consideration was required to be adjusted for any reduction in the final net asset position of the Marine Construction business at the date of sale compared to the position as at 30 June 2011. The purchase consideration was reduced by an adjustment amount of $3,483,000 which was based on the final net assets of the Marine Construction business at 22 December 2011. The adjustment amount was repaid to SapuraCrest once it had been finalised and agreed.

# 9 Discontinued operations (continued)

## (d) Details of the sale of the Marine Construction business (continued)

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Consideration received:** | | |
| Cash | **129,533** | - |
| Less: Adjustment amount repaid | **(3,483)** | - |
| Total disposal consideration | **126,050** | - |
| Carrying amount of net assets sold | **(102,170)** | - |
| Less: Non-controlling interests | **671** | - |
| Less: Foreign currency translation reserve reclassified to profit or loss on sale | **(6,133)** | - |
| Less: Costs associated with the disposal | **(12,569)** | - |
| **Gain on sale before income tax** | **5,849** | - |
| Income tax expense | **-** | - |
| **Gain on sale after income tax** | **5,849** | - |

**Cash flows arising from sale of the Marine Construction business**

The net cash inflow on disposal of the Marine Construction business was $87,830,000 before the repayment of borrowings related to the Marine Construction business. This was made up of cash consideration received (net of adjustment amount repaid of $3,483,000) of $126,050,000 less cash costs incurred associated with the disposal of $11,363,000, net of cash held by the Marine Construction business at the date of disposal of $26,857,000. Clough repaid the borrowings associated with the Marine Construction business of $41,643,000 and accrued interest of $777,000 out of the proceeds received above, and thus the overall net cash inflow arising from the sale of the Marine Construction business for the year ended 30 June 2012 was $45,410,000.

## Discontinued Operation - Property business

## (a) Description

During the year ended 30 June 2009, the Company determined that it was going to exit from the property business and an active sales process was commenced. During the current period, a number of sales have taken place and it is expected that these disposals will be completed within the next 12 months. As a result, the property business has been reported in this financial report as a discontinued operation. The assets of the property business have been presented in the balance sheet as assets classified as held for sale and the associated liabilities have been presented as liabilities directly associated with assets classified as held for sale.

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## 9 Discontinued operations (continued)

### (b) Financial performance and cash flow information of the property business

The financial performance and cash flows of the property business for the years ended 30 June 2012 and 2011 are detailed below.

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Loss for year of the property business** | | |
| Revenue | **2,655** | 14,950 |
| Other revenue | **663** | 57 |
| Other income | **-** | 45 |
| Share of net (loss) profit of jointly controlled entities accounted for using the equity method (note c(i)) | **(99)** | 873 |
| Impairment of property development inventory (note c(ii)) | **(6,828)** | (4,646) |
| Expenses | **(6,937)** | (17,295) |
| Loss before income tax | **(10,546)** | (6,016) |
| Income tax benefit | **565** | 770 |
| **Loss after income tax of the property business** | **(9,981)** | (5,246) |
| **Cash flows of the property business** | | |
| Net cash inflow (outflow) from operating activities | **(1,226)** | (4,114) |
| Net cash inflow (outflow) from investing activities | **986** | 5,464 |
| Net cash inflow (outflow) from financing activities | **-** | - |
| **Net (decrease) increase in cash generated by the property business** | **(240)** | 1,350 |

### (c) Carrying amounts of assets and liabilities of the property business

The carrying amounts of assets and liabilities of the property business are as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2012 $'000** | 30 June 2011 $'000 |
| **Assets classified as held for sale** | | |
| Interests in jointly controlled entities (note (i)) | **4,708** | 6,128 |
| Property development inventories (note (ii)) | **17,290** | 27,644 |
| **Total assets** | **21,998** | 33,772 |
| **Liabilities directly associated with assets classified as held for sale** | | |
| Loans from jointly controlled entity | **(4,557)** | (5,416) |
| **Total liabilities** | **(4,557)** | (5,416) |
| **Net assets** | **17,441** | 28,356 |

**(i) Interests in jointly controlled entities**

The movement in the year is made up of the share of net losses of jointly controlled entities of $99,000 (2011: profits $873,000) and distributions received from jointly controlled entities of $1,321,000 (2011: $5,700,000).

**(ii) Impairment of property development inventories**

During the year ended 30 June 2012, a property development was valued by Knight Frank Valuations resulting in a reduction in the carrying value of the property development of $6,828,000 (2011: $3,662,000).

During the year ended 30 June 2012, the Group recognised total impairment losses of $6,828,000 (2011: $4,646,000) to reduce the carrying amount of property development inventories to their fair values less costs to sell.

## 9 Discontinued operations (continued)

### Discontinued Operation - PT Petrosea Tbk and related entities

### (a) Description

The Company, having undertaken a strategic review of its operations during the year ended 30 June 2009, confirmed its intent to concentrate activities within the Oil and Gas market, resulting in the decision to dispose of its 82% holding in PT Petrosea Tbk and related entities (Petrosea), which was almost entirely focused on the Indonesian coal sector.

On 26 February 2009, the Company announced that it had entered into a binding Heads of Agreement to sell its shareholding in Petrosea to PT Indika Energy Tbk (PT Indika) for cash consideration of US$83.8 million. The sale of Petrosea was completed on 6 July 2009.

During the year ended 30 June 2011, Clough received a claim from PT Indika in relation to a warranty included in the Petrosea sales agreement. As a result of this claim, Clough has recorded a loss of $500,000 (2011: $1,052,000) which has been included as an expense in discontinued operations.

## 10 Current assets - Cash and cash equivalents

| | CONSOLIDATED | |
|---|---|---|
| | **2012** **$'000** | 2011 $'000 |
| Cash at bank and on hand | **66,212** | 34,555 |
| Deposits at call | **80,299** | 30,000 |
| | **146,511** | 64,555 |

The cash and cash equivalents balance at 30 June 2011 above excluded the cash and cash equivalents balance of the Marine Construction business. The Marine Construction business had cash at bank and on hand of $25,895,000 at 30 June 2011 which was included in the assets of a disposal group held for sale. For further details, refer to note 9.

### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

### (b) Cash at bank and on hand

Cash at bank (including cash held in the Marine Construction business at 30 June 2011) includes an amount of $48,760,000 (2011: $39,239,000) bearing floating interest rates with a weighted average rate of 2.91% (2011: 4.23%).

### (c) Deposits at call

The deposits are bearing fixed interest rates with a weighted average rate of 5.01% (2011: 5.67%).

### (d) Fair value

The carrying amount of cash and cash equivalents equals their fair value.

## 11 Current assets - Receivables

| | CONSOLIDATED | |
|---|---|---|
| | **2012** **$'000** | 2011 $'000 |
| Trade receivables | **63,496** | 34,174 |
| Provision for impairment of receivables (note (a)) | **(1,567)** | (1,556) |
| | **61,929** | 32,618 |
| Loans to associates and jointly controlled entities | **1,312** | - |
| Other debtors | **25,515** | 867 |
| Loans to other persons | **1,700** | - |
| Prepayments and deposits | **7,012** | 12,224 |
| | **97,468** | 45,709 |

# Notes to the consolidated financial statements

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## 11 Current assets - Receivables (continued)

### (a) Impaired trade receivables

As at 30 June 2012, current trade receivables of the Group with a nominal value of $1,567,000 (2011: $1,556,000) were impaired. The amount of the provision was $1,567,000 (2011: $1,556,000).

The ageing of these receivables is as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Over 12 months | **1,567** | 1,556 |
| | **1,567** | 1,556 |

Movements in the provision for impairment of receivables are as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| At 1 July | **1,556** | 3,332 |
| Receivables written off during the year as uncollectible | **-** | (1,260) |
| Exchange differences | **11** | (516) |
| At 30 June | **1,567** | 1,556 |

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### (b) Past due but not impaired

As of 30 June 2012, trade receivables of $2,069,000 (2011: $271,000) were past due but not impaired. These relate to a number of trade receivable balances where for various reasons the payment terms have not been met. These receivables have been assessed to be fully recoverable. The ageing analysis of these trade receivables is as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Up to 12 months * | **2,069** | 205 |
| Over 12 months * | **-** | 66 |
| | **2,069** | 271 |

* At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. Included in the above amounts at 30 June 2011 were the following trade receivables which related to the Marine Construction business which were past due but not impaired: up to 12 months $91,000 and over 12 months $54,000.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables apart from the loans to other persons of $1,700,000 at 30 June 2012 which are secured by mortgages over property developments.

### (c) Foreign exchange risk

Refer to note 14(c) for an analysis of Group's exposure to foreign currency risk in relation to trade and other receivables.

Information about the Group's exposure to foreign currency risk in relation to trade and other receivables is provided in note 2.

### (d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

# 12 Current assets - Work in progress

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| *Construction work in progress* | | |
| Amounts due from customers for contract work | **6,523** | 8,699 |

Property development inventories are included in assets classified as held for sale - refer to note 9 for further details.

As at 30 June 2011, spare parts and construction work in progress relating to the Marine Construction business were included in assets of a disposal group held for sale - refer to note 9 for further details.

## (a) Construction contracts

Retentions on construction contracts in progress included in current receivables total $750,000 (2011: $nil). Total advances received in relation to construction contracts in progress amount to $nil (2011: $nil).

Amounts due to customers for contract work is detailed in note 24.

# 13 Derivative financial instruments

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Current assets** | | |
| Forward foreign exchange contracts - cash flow hedges (note (a)(i)) | **2** | 1,439 |
| Total current derivative financial instrument assets | **2** | 1,439 |
| **Current liabilities** | | |
| Forward foreign exchange contracts - cash flow hedges (note (a)(i)) | **1,758** | 5,107 |
| Put option arrangement - at fair value ((a)(ii)) | **-** | 455 |
| Total current derivative financial instrument liabilities | **1,758** | 5,562 |
| | **(1,756)** | (4,123) |

## (a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

### (i) Forward exchange contracts - cash flow hedges

The forward exchange contracts in place at 30 June 2012 comprise:

- hedging of highly probable forecast receipts for the ensuing financial year entered into on behalf of a jointly controlled entity. The contracts are timed to mature when receipts are due under several construction contracts. The contracts relate to the hedging of Australian dollar receipts to various other currencies in order to protect the Group from adverse exchange rate fluctuations in respect of highly probable forecast transactions that will be incurred in foreign currencies, principally US dollars, European euros and Indonesian rupiah.
- hedging of highly probably receipts to be received in the next financial year in relation to the provision of engineering services. The receipts are to be received in US dollars and have been hedged back to Australian dollars in order to protect the Group from adverse movements in exchange rates.

The forward exchange contracts in place at 30 June 2011 were for hedging highly probable forecast receipts for the ensuing financial year entered into on behalf of a jointly controlled entity. The contracts are timed to mature when receipts are due under a construction contract. The contracts relate to the hedging of Australian dollar receipts to various other currencies in order to protect the Group from adverse exchange rate fluctuations in respect of highly probable forecast transactions that will be incurred in foreign currencies, principally US dollars and Euros.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by removing the related amount from other comprehensive income.

During the year ended 30 June 2012, losses of $4,479,000 (2011: losses of $30,000) were reclassified from other comprehensive income into profit or loss when the underlying hedged transactions were recognised.

# Notes to the consolidated financial statements

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## 13 Derivative financial instruments (continued)

### (a) Instruments used by the Group (continued)

#### (ii) Derivative financial instruments - held for trading

On 15 March 2011, Clough entered into a Put Option agreement (Agreement) with certain Forge management (Takers of the Put Option). Under the terms of the Agreement, the Takers of the Put Option were able to require Clough to purchase Option Securities (in total 750,000 Forge shares and 2,500,000 Forge options) at an agreed price ($5.60 per Forge share and $5.25 per Forge option) during specific time periods in 2012.

Under the terms of the Agreement, Forge management agreed to certain conditions in relation to a Board and Management Transition Plan. These conditions included PG Hutchinson agreeing to act as Executive Chairman of Forge and to step down from the role within three months after the appointment of a new Chief Executive Officer of Forge, and AB Ellison and GL McRostie agreeing to extend their employment contracts with Forge through to 31 December 2011 and to resign as directors of Forge, if requested, following the appointment of a new non-executive director. It was also agreed that Clough appoint a second director to the Forge Board.

The original Put Option Agreement was terminated on 31 December 2011 and was replaced with an amended Put Option Agreement (amended Agreement). Under the terms of the amended Agreement, there was no change to the number of shares and options subject to the Put Option or the agreed purchase price, however, the exercise period for the Put Option was extended to 30 June 2012. In addition, PG Hutchinson, AB Ellison and GL McRostie agreed to provide all reasonable assistance to facilitate the orderly transition of the Forge business to new management and acknowledged their present intention to remain employed by the Forge Group until at least 30 June 2012. AB Ellison and GL McRostie also agreed to accept new employment offers with the Forge Group on terms and conditions as approved by the Forge board of directors and PG Hutchinson agreed to act in the role of Executive Chairman of Forge on terms approved by the Forge board of directors and act in accordance with the Forge Management Transition Plan approved by the Forge board of directors from time to time.

The Put Options were exercised by Forge management on 17 May 2012 resulting in Clough acquiring all the Option Securities for total consideration of $17,325,000. The Forge options acquired were immediately exercised by Clough at a cost of $875,000.

The Put Option arrangement was accounted for by Clough as being a derivative financial instrument at fair value through profit or loss. During the year ended 30 June 2012, Clough recorded a fair value loss on the Put Option arrangement of $1,170,000 (2011: $455,000).

### (b) Risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

Information about the Group's exposure to credit risk and foreign exchange risk is provided in note 2.

## 14 Non-current assets - Receivables

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Other loans and receivables ^ | **9,686** | 7,690 |

^ Includes discounted overseas withholding taxes of $4,781,000 (2011: $5,711,000) in relation to completed projects.

### (a) Fair values

The fair values and carrying values of non-current receivables are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Group | **Carrying amount $'000** | **Fair value $'000** | Carrying amount $'000 | Fair value $'000 |
| Other loans and receivables | **9,686** | **9,686** | 7,690 | 7,690 |

## 14 Non-current assets - Receivables (continued)

### (b) Interest rate risk

The Group's current and non-current receivables are non-interest bearing apart from:

(i) a non-current loan of $2,122,000 (2011: $1,979,000) which carries interest at the rate of the AUD 90 day bank bill swap reference rate plus a 3.3% margin - the interest rate at 30 June 2012 was 6.26% (2011: 7.63%).

The Marine Construction business was classified as being a disposal group held for sale at 30 June 2011 and was sold during the current year. Included in the assets of the disposal group held for sale at 30 June 2011 were the following interest-bearing receivables:

(i) a loan to a jointly controlled entity of $9,137,000 that carried interest at the rate of its bank's overdraft rate plus a 2% margin - the interest rate at 30 June 2011 was 12.8%.

(ii) a loan to an associated entity of $1,244,000 that carried interest at the rate of the 1 month British pound sterling LIBOR interest rate plus a 1% margin - the interest rate at 30 June 2011 was 1.63%.

For an analysis of the sensitivity of trade and other receivables to interest rate risk refer to note 2.

### (c) Foreign currency risk

The carrying amounts of the Group's current and non-current receivables are denominated in the following currencies:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Australian dollars | **85,893** | 42,372 |
| Indian rupees | **4,781** | 6,467 |
| US dollars | **6,689** | 1,390 |
| Thai baht | **6,692** | 2,076 |
| Other | **3,099** | 1,094 |
| | **107,154** | 53,399 |
| Current receivables | **97,468** | 45,709 |
| Non-current receivables | **9,686** | 7,690 |
| | **107,154** | 53,399 |

For an analysis of the sensitivity of trade and other receivables to foreign exchange risk refer to note 2.

### (d) Credit risk

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security apart from the loans to other persons included in current receivables of $1,700,000 at 30 June 2012 which are secured by mortgages over property developments.

## 15 Non-current assets - Investments accounted for using the equity method

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Investments in associates (refer note 39) | **101,822** | 72,529 |
| Interests in jointly controlled entities (refer note 40) | **55,985** | 31,621 |
| | **157,807** | 104,150 |

### (a) Investments in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

### (b) Interests in jointly controlled entities

Interests in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting.

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## 16 Non-current assets - Property, plant and equipment

| | Freehold land and buildings $'000 | Plant and equipment $'000 | Leasehold improve-ments $'000 | Leased plant & equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2010** | | | | | |
| Cost | 632 | 148,094 | 19,593 | 826 | 169,145 |
| Accumulated depreciation | (225) | (40,485) | (143) | (51) | (40,904) |
| Net book amount | 407 | 107,609 | 19,450 | 775 | 128,241 |
| **Year ended 30 June 2011** | | | | | |
| Opening net book amount | 407 | 107,609 | 19,450 | 775 | 128,241 |
| Additions | 134 | 4,734 | 94 | - | 4,962 |
| Transfer from leased assets to owned assets | - | 594 | - | (594) | - |
| Reclassification of plant and equipment | - | 5,518 | (5,518) | - | - |
| Removed on deconsolidation of controlled entities | (67) | (354) | - | - | (421) |
| Transferred to assets of a disposal group held for sale | - | (88,306) | - | - | (88,306) |
| Disposals | (54) | (178) | - | - | (232) |
| Depreciation charge | (41) | (7,475) | (1,181) | (43) | (8,740) |
| Exchange differences | (43) | (13,171) | - | (138) | (13,352) |
| Closing net book amount | 336 | 8,971 | 12,845 | - | 22,152 |
| **At 30 June 2011** | | | | | |
| Cost | 391 | 9,704 | 14,128 | - | 24,223 |
| Accumulated depreciation | (55) | (733) | (1,283) | - | (2,071) |
| Net book amount | 336 | 8,971 | 12,845 | - | 22,152 |
| **Year ended 30 June 2012** | | | | | |
| Opening net book amount | 336 | 8,971 | 12,845 | - | 22,152 |
| Additions | - | 4,145 | 2,389 | - | 6,534 |
| Reclassification of leasehold improvements | (227) | - | 227 | - | - |
| Disposals | (98) | (603) | (1,630) | - | (2,331) |
| Depreciation charge | - | (1,711) | (1,344) | - | (3,055) |
| Exchange differences | - | 5 | - | - | 5 |
| Closing net book amount | 11 | 10,807 | 12,487 | - | 23,305 |
| **At 30 June 2012** | | | | | |
| Cost | 11 | 13,678 | 15,009 | - | 28,698 |
| Accumulated depreciation | - | (2,871) | (2,522) | - | (5,393) |
| Net book amount | 11 | 10,807 | 12,487 | - | 23,305 |

### (a) Non-current assets pledged as security

Refer to note 26 for information on non-current assets pledged as security by the Group.

### (b) Construction in progress

Included in plant and equipment are assets under construction totalling $76,000 (2011: $83,000).

## 17 Non-current assets - Deferred tax assets

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| **Amounts recognised in profit or loss** | | |
| Doubtful debts | **313** | 467 |
| Employee benefits | **6,087** | 4,486 |
| Unrealised foreign exchange gains/losses | **255** | 5,612 |
| Accrued revenue | **2,094** | 1,350 |
| Project accruals/provisions | **2,941** | 2,837 |
| Other accrued expenses | **970** | 1,032 |
| Assessable (deductible) amounts in work in progress | **7,287** | 4,188 |
| Payments received in advance | **1,837** | 3,124 |
| Other | **-** | 1,273 |
| Tax losses | **20,345** | 14,129 |
| | **42,129** | 38,498 |
| **Amounts recognised directly in equity** | | |
| Cash flow hedges (note 30(a)) | **733** | 1,729 |
| | **733** | 1,729 |
| Total deferred tax assets | **42,862** | 40,227 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 27) | **(1,521)** | (4,043) |
| Net deferred tax assets | **41,341** | 36,184 |
| **Movements:** | | |
| Opening balance at 1 July | **40,227** | 33,559 |
| Credited to profit or loss (note 8) | **3,195** | 5,789 |
| (Charged) credited to other comprehensive income (note 30) | **(996)** | 1,720 |
| Transferred to assets of a disposal group held for sale | **-** | (841) |
| Disposal of business | **436** | - |
| Closing balance at 30 June | **42,862** | 40,227 |
| Deferred tax assets to be recovered within 12 months | **11,317** | 5,685 |
| Deferred tax assets to be recovered after more than 12 months | **31,545** | 34,542 |
| | **42,862** | 40,227 |

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## 18 Non-current assets - Intangible assets

| | Goodwill $'000 | Computer software $'000 | Other intangible assets * $'000 | Total $'000 |
|---|---|---|---|---|
| **At 1 July 2010** | | | | |
| Cost | 7,791 | 9,491 | 1,442 | 18,724 |
| Accumulated amortisation | - | (8,330) | (359) | (8,689) |
| Net book amount | 7,791 | 1,161 | 1,083 | 10,035 |
| **Year ended 30 June 2011** | | | | |
| Opening net book amount | 7,791 | 1,161 | 1,083 | 10,035 |
| Additions | - | 381 | - | 381 |
| Transferred to assets of a disposal group held for sale ^ | (6,379) | - | (551) | (6,930) |
| Amortisation charge ** | - | (833) | (357) | (1,190) |
| Exchange differences | (1,412) | (19) | (175) | (1,606) |
| Closing net book amount | - | 690 | - | 690 |
| **At 30 June 2011** | | | | |
| Cost | - | 8,789 | - | 8,789 |
| Accumulated amortisation | - | (8,099) | - | (8,099) |
| Net book amount | - | 690 | - | 690 |
| **Year ended 30 June 2012** | | | | |
| Opening net book amount | - | 690 | - | 690 |
| Additions | - | 1,279 | - | 1,279 |
| Amortisation charge ** | - | (208) | - | (208) |
| Exchange differences | - | 2 | - | 2 |
| Closing net book amount | - | 1,763 | - | 1,763 |
| **At 30 June 2012** | | | | |
| Cost | - | 10,070 | - | 10,070 |
| Accumulated amortisation | - | (8,307) | - | (8,307) |
| Net book amount | - | 1,763 | - | 1,763 |

* Other intangible assets comprised customer relationships arising from the acquisition of Clough's interest in Ocean Flow International LLC.

** Amortisation of $208,000 (2011: $1,190,000) is included in depreciation and amortisation expense (and discontinued operations in the comparative year) in profit or loss.

^ At 30 June 2011, the Marine Construction business which included Ocean Flow International LLC and related assets (including goodwill and other intangible assets) was classified as being a disposal group held for sale. For further details, refer to note 9.

### (a) Impairment test for goodwill

The goodwill arose from the acquisition of Clough's interest in Ocean Flow International LLC during the year ended 30 June 2010.

Goodwill is allocated to the Company's cash-generating units (CGUs) identified according to business segment and country of operation. As at 30 June 2011, the goodwill related solely to Ocean Flow International LLC which was a separate CGU.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a maximum period of 5 years. Cash flows beyond this period are extrapolated using the estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

## 18 Non-current assets - Intangible assets (continued)

### (a) Impairment test for goodwill (continued)

The key assumptions used in the value-in-use calculation as at 30 June 2011 were as follows:

- Period of budget forecast - 4 years
- Growth rate used to extrapolate cash flows beyond the forecast period - 3%
- Pre-tax discount rate - 16.7%

Based on the value-in-use calculations performed, there was no impairment of the goodwill as at 30 June 2011.

As at 30 June 2011, the goodwill was reclassified to assets of a disposal group held for sale as part of the Marine Construction business as detailed in note 9. The Marine Construction business was sold on 22 December 2011.

## 19 Non-current assets - Other non-current assets

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Other assets | **622** | 736 |

## 20 Current liabilities - Payables

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Trade creditors, advances and accruals | **33,778** | 23,479 |
| Amounts due to jointly controlled entities (note 36) | **48,016** | 3,536 |
| Deferred revenue | **583** | 583 |
| | **82,377** | 27,598 |

Deferred revenue comprises the current portion of deferred lease incentive fees.

### (a) Foreign currency risk

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Australian dollars | **67,841** | 21,548 |
| US dollars | **3,197** | 2,041 |
| European euros | **4,987** | - |
| Thai baht | **5,827** | 2,728 |
| Other | **525** | 1,281 |
| | **82,377** | 27,598 |

For an analysis of the sensitivity of trade and other payables to foreign currency risk refer to note 2.

# Notes to the consolidated financial statements

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## 21 Current liabilities - Borrowings

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Secured** | | |
| Bank loans * | **-** | - |
| Total secured current borrowings | **-** | - |
| **Unsecured** | | |
| Other interest bearing loans | **-** | 1,236 |
| Total unsecured current borrowings | **-** | 1,236 |
| Total current borrowings | **-** | 1,236 |

* At 30 June 2011, the bank loans related to the Marine Construction business were classified as liabilities directly associated with a disposal group held for sale. For further details, refer to note 9.

### (a) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in notes 2 and 26.

### (b) Fair value disclosures

Details of the fair value of each of the borrowings is provided in note 26.

### (c) Security

Details of the security relating to each of the secured liabilities and further information on the bank loans are set out in note 26.

## 22 Current liabilities - Provisions

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Employee benefits | **19,638** | 12,220 |
| Other provisions | **488** | 1,685 |
| | **20,126** | 13,905 |

### (a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| **2012** | Other provisions $'000 |
|---|---|
| **Current** | |
| Carrying amount at start of year | 1,685 |
| Additional provisions recognised | 157 |
| Transferred from non-current to current | 247 |
| Amounts used during the year | (1,601) |
| Carrying amount at end of year | 488 |

Other provisions includes make good and onerous lease provisions related to leased premises.

## 23 Current liabilities - Current tax liabilities

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| Income tax | **13,646** | 4,531 |

## 24 Current liabilities - Amounts due to customers for contract work

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| Amounts due to customers for contract work | **22,482** | 6,603 |

Included in amounts due to customers for contract work at 30 June 2012 is an amount of $16,897,000 that relates to amounts billed for engineering services to be supplied in July 2012 and which was received in July 2012.

## 25 Non-current liabilities - Payables

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| Deferred revenue | **5,205** | 5,789 |

Non-current deferred revenue comprises deferred lease incentive fees.

Non-current payables are non-interest bearing.

The fair value of non-current payables is equal to their carrying value.

## 26 Non-current liabilities - Borrowings

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Secured** | | |
| Bank loans * | **-** | - |
| Total secured non-current borrowings | **-** | - |
| Total non-current borrowings | **-** | - |

* At 30 June 2011, the bank loans related to the Marine Construction business were classified as liabilities directly associated with a disposal group held for sale. For further details, refer to note 9.

### (a) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| Bank loans * | **-** | 39,266 |
| Total secured liabilities | **-** | 39,266 |

* At 30 June 2011, the bank loans relate to the Marine Construction business and were classified as liabilities directly associated with a disposal group held for sale. The Marine Construction business was sold on 22 December 2011 and the bank loans were repaid out of the proceeds received from the sale. For further details, refer to note 9.

# Notes to the consolidated financial statements

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## 26 Non-current liabilities - Borrowings (continued)

### (a) Secured liabilities and assets pledged as security (continued)

Bank facilities are provided by a syndicate of banks. Bank loans are secured by fixed, floating and mortgage charges over some of the consolidated entity's assets. Secured borrowings are repayable immediately if the consolidated entity defaults on payments of interest or principal, or is in breach of a financial undertaking for which no rectification period is granted. Financial undertakings differ between financial institutions and facilities.

The carrying amounts of assets pledged as security for current and non-current borrowings and bonds and guarantees are:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Current** | | |
| *Floating charge* | | |
| Cash and cash equivalents | **145,095** | 51,118 |
| Receivables | **96,273** | 41,360 |
| Work in progress | **6,523** | 8,699 |
| Derivative financial instruments | **2** | 1,439 |
| Assets classified as held for sale | **21,998** | 33,772 |
| Assets of a disposal group held for sale | **-** | 133,279 |
| Total current assets pledged as security | **269,891** | 269,667 |
| **Non-current** | | |
| *Floating charge* | | |
| Receivables - non-current | **9,686** | 7,690 |
| Investments accounted for using the equity method | **157,651** | 82,587 |
| Other non-current assets | **622** | 736 |
| Property, plant and equipment | **23,305** | 22,153 |
| Intangible assets - computer software | **1,763** | 690 |
| Total non-current assets pledged as security | **193,027** | 113,856 |
| Total assets pledged as security | **462,918** | 383,523 |

### (b) Fair value

The carrying amounts and fair values of borrowings at the end of the reporting period are:

| | At 30 June 2012 | | At 30 June 2011 | |
|---|---|---|---|---|
| **Group** | **Carrying amount $'000** | **Fair value $'000** | Carrying amount $'000 | Fair value $'000 |
| **On balance sheet** | | | | |
| *Non-traded financial liabilities* | | | | |
| Bank loans * | **-** | **-** | 39,266 | 39,266 |
| Other loans | **-** | **-** | 1,236 | 1,236 |
| | **-** | **-** | 40,502 | 40,502 |

* At 30 June 2011, the bank loans related to the Marine Construction business and were classified as liabilities directly associated with a disposal group held for sale. For further details, refer to note 9.

# 26 Non-current liabilities - Borrowings (continued)

## (c) Foreign currency risk exposures

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Australian dollars | **-** | 1,236 |
| US dollars * | **-** | 39,266 |
| | **-** | 40,502 |

* At 30 June 2011, the US dollar borrowings related to the Marine Construction business and were classified as liabilities directly associated with a disposal group held for sale. For further details, refer to note 9.

For an analysis of the sensitivity of borrowings to foreign exchange risk refer to note 2.

## (d) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Credit standby arrangements** | | |
| Total facilities * | | |
| Borrowings | **22,000** | 63,661 |
| Bonds and guarantees | **335,000** | 280,000 |
| | **357,000** | 343,661 |
| Used at balance date * | | |
| Borrowings | **-** | 41,661 |
| Bonds and guarantees | **223,065** | 95,919 |
| | **223,065** | 137,580 |
| Unused at balance date * | | |
| Borrowings | **22,000** | 22,000 |
| Bonds and guarantees | **111,935** | 184,081 |
| | **133,935** | 206,081 |
| **Bank loan facilities** | | |
| Total facilities | **22,000** | 62,425 |
| Used at balance date | **-** | 40,425 |
| Unused at balance date | **22,000** | 22,000 |

* Included in the borrowing facilities of $22,000,000 (2011: $22,000,000) is a borrowing facility of $20,000,000 (2011: $20,000,000) that forms part of a syndicated facility with a number of banks and may also be utilised when required as a bonds and guarantees facility.

Each party to the Banking Syndicate reviews the facilities provided to Clough Limited at least annually in accordance with their own internal policies and procedures.

At 30 June 2011, the facilities disclosed above included those related to the Marine Construction business which was classified as a disposal group held for sale.

At 30 June 2011, the Marine Construction business had the following facilities in place: Borrowings - total facilities $40,425,000 of which $40,425,000 was used; Bonds and guarantees - total facilities $nil; Bank loan facilities - total facilities $40,425,000 of which $40,425,000 was used.

# Notes to the consolidated financial statements

30 JUNE 2012

## 26 Non-current liabilities - Borrowings (continued)

### (e) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

| 2012 | Floating interest rate | Fixed interest rate 1 year or less | Fixed interest rate Over 1 to 5 years | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Bank loans (notes 21 and 26) | - | - | - | - |
| Other loans (note 21) | - | - | - | - |
| | - | - | - | - |
| Weighted average interest rate | -% | -% | -% | |

| 2011 | Floating interest rate | Fixed interest rate 1 year or less | Fixed interest rate Over 1 to 5 years | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Bank loans * (notes 21 and 26) | - | 5,046 | 34,220 | 39,266 |
| Other loans (note 21) | - | 1,236 | - | 1,236 |
| | - | 6,282 | 34,220 | 40,502 |
| Weighted average interest rate | - % | 7.9% | 8.1% | |

* At 30 June 2011, the bank loans related to the Marine Construction business and were classified as liabilities directly associated with a disposal group held for sale. For further details, refer to note 9.

The weighted average interest rate on the bank loans at 30 June 2011 was 8.1%.

For an analysis of the sensitivity of borrowings to interest rate risk, refer to note 2.

## 27 Non-current liabilities - Deferred tax liabilities

| | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in profit or loss* | | |
| Depreciable assets | **844** | 922 |
| Other | **677** | 3,121 |
| | **1,521** | 4,043 |
| Total deferred tax liabilities | **1,521** | 4,043 |
| Set-off of deferred tax assets pursuant to set-off provisions (note 17) | **(1,521)** | (4,043) |
| Net deferred tax liabilities | **-** | - |

## 27 Non-current liabilities - Deferred tax liabilities (continued)

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Movements:** | | |
| Opening balance at 1 July | **4,043** | 2,856 |
| (Credited) charged to profit or loss (note 8) | **(2,522)** | 1,187 |
| Closing balance at 30 June | **1,521** | 4,043 |
| Deferred tax liabilities to be settled within 12 months | **-** | - |
| Deferred tax liabilities to be settled after more than 12 months | **1,521** | 4,043 |
| | **1,521** | 4,043 |

## 28 Non-current liabilities - Provisions

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Employee benefits | **5,202** | 3,058 |
| Other provisions | **2,128** | 1,644 |
| | **7,330** | 4,702 |

### (a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| **Consolidated - 2012** | Other provisions $'000 |
|---|---|
| **Non-current** | |
| Carrying amount at start of year | 1,644 |
| Additional provision recognised | 731 |
| Transferred from non-current to current | (247) |
| Carrying amount at end of year | 2,128 |

Other provisions comprises make good and onerous lease provisions for leased premises.

## 29 Contributed equity

| | Parent Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2012 Shares** | 2011 Shares | **2012 $'000** | 2011 $'000 |
| **(a) Share capital** | | | | |
| Ordinary shares | | | | |
| Fully paid | **774,865,657** | 769,801,269 | **232,614** | 229,792 |

# Notes to the consolidated financial statements

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## 29 Contributed equity (continued)

### (b) Movements in ordinary share capital:

| Date | Details | Number of shares | Issue price | $'000 |
|---|---|---|---|---|
| 1 July 2010 | **Opening balance** | 768,776,269 | | 229,728 |
| 12 August 2010 | Exercise of 30,000 options with an exercise price of 57 cents per share | 30,000 | $0.57 | 17 |
| 9 September 2010 | Exercise of 3,000,000 options with an exercise price of 58 cents per share | 3,000,000 | $0.58 | 1,740 |
| 30 September 2010 | Exercise of 50,000 options with an exercise price of 31 cents per share | 50,000 | $0.31 | 16 |
| 30 September 2010 | Exercise of 50,000 options with an exercise price of 57 cents per share | 50,000 | $0.57 | 28 |
| 7 - 27 October 2010 | Share buy-back - refer note (f) | (1,000,000) | $0.71 | (710) |
| 18 January 2011 | Exercise of 10,000 options with an exercise price of 57 cents per share | 10,000 | $0.57 | 6 |
| 3 - 10 March 2011 | Share buy-back - refer note (f) | (1,300,000) | $0.862 | (1,120) |
| 9 March 2011 | Exercise of 20,000 options with an exercise price of 57 cents per share | 20,000 | $0.57 | 11 |
| 18 March 2011 | Exercise of 10,000 options with an exercise price of 31 cents per share | 10,000 | $0.31 | 3 |
| 18 March 2011 | Exercise of 50,000 options with an exercise price of 57 cents per share | 50,000 | $0.57 | 28 |
| 29 March 2011 | Exercise of 30,000 options with an exercise price of 57 cents per share | 30,000 | $0.57 | 17 |
| 31 March 2011 | Exercise of 60,000 options with an exercise price of 31 cents per share | 60,000 | $0.31 | 19 |
| 31 March 2011 | Exercise of 10,000 options with an exercise price of 57 cents per share | 10,000 | $0.57 | 6 |
| 13 April 2011 | Exercise of 5,000 options with an exercise price of 57 cents per share | 5,000 | $0.57 | 3 |
| 30 June 2011 | **Balance** | 769,801,269 | | 229,792 |
| 1 July 2011 | **Opening balance** | 769,801,269 | | 229,792 |
| 21 September 2011 | Exercise of 20,000 options with an exercise price of 31 cents per share | 20,000 | $0.31 | 6 |
| 27 September 2011 | Exercise of 20,000 options with an exercise price of 31 cents per share | 20,000 | $0.31 | 6 |
| 27 September 2011 | Exercise of 50,000 options with an exercise price of 57 cents per share | 50,000 | $0.57 | 29 |
| 28 September - 20 October 2011 | Share buy-back - refer note (f) | (1,000,000) | $0.738 | (738) |
| 10 October 2011 | Exercise of 10,000 options with an exercise price of 31 cents per share | 10,000 | $0.31 | 3 |
| 25 October 2011 | Exercise of 5,000 options with an exercise price of 57 cents per share | 5,000 | $0.57 | 3 |
| 4 November 2011 | Exercise of 50,000 options with an exercise price of 31 cents per share | 50,000 | $0.31 | 16 |
| 7 November 2011 | Issue of 1,136,394 new shares at a price of 79.1979 cents per share (note (i)) | 1,136,394 | $0.792 | 900 |
| 10 November 2011 | Exercise of 15,000 options with an exercise price of 57 cents per share | 15,000 | $0.57 | 9 |
| 18 November 2011 | Exercise of 445,000 options with an exercise price of 31 cents per share | 445,000 | $0.31 | 138 |
| 20 January 2012 | Exercise of 50,000 options with an exercise price of 57 cents per share | 50,000 | $0.57 | 29 |
| 20 January 2012 | Exercise of 250,000 options with an exercise price of 58 cents per share | 250,000 | $0.58 | 145 |
| 29 March 2012 | Exercise of 718,676 options with an exercise price of 34 cents per share | 718,676 | $0.34 | 245 |
| 29 March 2012 | Exercise of 2,000,000 options with an exercise price of 69 cents per share | 2,000,000 | $0.69 | 1,380 |
| 29 March 2012 | Exercise of 10,000 options with an exercise price of 57 cents per share | 10,000 | $0.57 | 6 |
| 5 April 2012 | Exercise of 53,134 options with an exercise price of 34 cents per share | 53,134 | $0.34 | 18 |
| 11 April 2012 | Exercise of 500,000 options with an exercise price of 75 cents per share | 500,000 | $0.75 | 375 |
| 11 April 2012 | Exercise of 315,493 options with an exercise price of 34 cents per share | 315,493 | $0.34 | 107 |
| 7 May 2012 | Exercise of 15,000 options with an exercise price of 57 cents per share | 15,000 | $0.57 | 9 |
| 7 May 2012 | Exercise of 44,785 options with an exercise price of 34 cents per share | 44,785 | $0.34 | 15 |
| 28 May 2012 | Exercise of 117,097 options with an exercise price of 34 cents per share | 117,097 | $0.34 | 40 |
| 22 June 2012 | Exercise of 238,809 options with an exercise price of 34 cents per share | 238,809 | $0.34 | 81 |
| 30 June 2012 | **Balance** | 774,865,657 | | 232,614 |

(i) These shares are unlisted fully paid ordinary shares and were issued to KT Gallagher as part of his sign-on arrangement. The issue of the shares was approved by shareholders at the Company's Annual General Meeting held on 18 October 2011.

# 29 Contributed equity (continued)

## (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## (d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 5% discount to the market price. The dividend reinvestment plan is currently suspended.

## (e) Options and performance rights

Information relating to Clough Limited's options and performance rights, including details of options and performance rights issued, exercised and lapsed during the financial year and options and performance rights outstanding at the end of the financial year, is set out in note 46.

## (f) Share buy-backs

During October 2010, the Company purchased on-market and cancelled 1,000,000 ordinary shares in order to offset shares expected to be issued as a result of the exercise of options under the Clough Limited Employee Option Plan. The shares were acquired at an average price of 71 cents per share, with prices ranging from 61 cents to 80.5 cents. The total cost of the share buy-back of $710,000, including $3,000 of after tax transaction costs, was deducted from contributed equity.

During March 2011, the Company purchased on-market and cancelled 1,300,000 ordinary shares in order to offset shares expected to be issued as a result of the exercise of options under the Clough Limited Employee Option Plan. The shares were acquired at an average price of 86 cents per share, with prices ranging from 82.5 cents to 87.5 cents. The total cost of the share buy-back of $1,120,000, including $5,000 of after tax transaction costs, was deducted from contributed equity.

During September and October 2011, the Company purchased on-market and cancelled 1,000,000 ordinary shares in order to offset shares expected to be issued as a result of the exercise of options under the Clough Limited Employee Option Plan. The shares were acquired at an average price of 73.47 cents per share, with prices ranging from 70.5 cents to 75.5 cents. The total cost of the share buy-back of $738,000, including $3,000 of after tax transaction costs, was deducted from contributed equity.

There is no current on-market share buy-back.

## (g) Domicile

The Company, incorporated in Australia, is a publicly listed company limited by shares. The Company is domiciled in Perth, Western Australia. The registered office of the Company is Level 15, 58 Mounts Bay Road, Perth WA 6000.

# Notes to the consolidated financial statements

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## 30 Reserves and retained earnings

| | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 |
|---|---|---|
| **(a) Reserves** | | |
| Convertible note premium reserve | **394** | 394 |
| Hedging reserve - cash flow hedges | **(1,710)** | (4,034) |
| Share-based payments reserve | **5,868** | 5,146 |
| Minority buy-back reserve | **(7,952)** | (7,952) |
| Foreign currency translation reserve | **(5,412)** | (12,844) |
| Capital reserve | **720** | 720 |
| | **(8,092)** | (18,570) |
| **Movements:** | | |
| *Hedging reserve - cash flow hedges* | | |
| Balance 1 July | **(4,034)** | (21) |
| Revaluation - gross | **(1,159)** | (5,763) |
| Deferred tax | **348** | 1,729 |
| Transfer to profit or loss - gross | **4,479** | 30 |
| Deferred tax | **(1,344)** | (9) |
| Balance 30 June | **(1,710)** | (4,034) |
| *Share-based payments reserve* | | |
| Balance 1 July | **5,146** | 4,209 |
| Option and performance right expense | **722** | 937 |
| Balance 30 June | **5,868** | 5,146 |
| *Foreign currency translation reserve* | | |
| Balance 1 July | **(12,844)** | (6,275) |
| Currency translation differences arising during the year | **1,299** | (6,544) |
| Transferred to profit or loss on disposal of controlled and jointly controlled entities during the year | **6,133** | (25) |
| Balance 30 June | **(5,412)** | (12,844) |

### (b) Retained earnings

Movements in retained earnings were as follows:

| | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 |
|---|---|---|
| Balance 1 July | **99,061** | 82,696 |
| Net profit for the year | **42,898** | 33,345 |
| Dividends (note 31) | **(16,936)** | (16,980) |
| Balance 30 June | **125,023** | 99,061 |

# 30 Reserves and retained earnings (continued)

## (c) Nature and purpose of reserves

### (i) Convertible note premium reserve

The convertible note premium reserve is used to record the equity conversion component of the convertible notes issued on 15 December 2006 and the associated deferred tax liability.

### (ii) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(n). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

### (iii) Share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of options and performance rights issued to employees but not exercised.

### (iv) Minority buy-back reserve

The minority buy-back reserve comprises the fair value of the estimated consideration for acquiring the non-controlling interest (30%) in Ocean Flow International LLC from the minority shareholder at the date of acquisition.

### (v) Foreign currency translation reserve

Exchange differences arising on translation of foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity, as described in note 1(d). The cumulative amount is reclassified to profit or loss when the net investment in a foreign entity is disposed of.

# 31 Dividends

| | PARENT ENTITY | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **(a) Ordinary shares** | | |
| Final dividend for the year ended 30 June 2011 of 2.2 cents (2010: 2.2 cents) per fully paid share paid on 6 October 2011 | | |
| Franked to 45% based on tax paid @ 30% (2010: franked to 9%) | **16,936** | 16,980 |
| | **16,936** | 16,980 |

| | PARENT ENTITY | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **(b) Dividends not recognised at the end of the reporting period** | | |
| In addition to the above dividend, since the year end the directors have recommended the payment of a final dividend of 2.6 cents per fully paid ordinary share franked to 25%, (2011: 2.2 cents franked to 45%) based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 October 2012, but not recognised as a liability at year end, is | **20,148** | 16,936 |

# Notes to the consolidated financial statements

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## 31 Dividends (continued)

### (c) Franked dividends

The franked portion of the final dividend recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax and receipt of dividends in the year ending 30 June 2013.

| | PARENT ENTITY | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2011 - 30%) | **2,325** | 3,458 |

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $2,159,000 (2011: $3,299,000).

## 32 Key management personnel disclosures

### (a) Key management personnel compensation

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $** | 2011 $ |
| Short-term employee benefits | **6,493,569** | 4,401,160 |
| Post-employment benefits | **407,808** | 349,408 |
| Termination benefits | **947,311** | - |
| Share-based payments | **664,932** | 658,351 |
| | **8,513,620** | 5,408,919 |

Detailed remuneration disclosures are provided in Sections 11.1 - 11.5 of the Remuneration Report included in the Directors' Report.

### (b) Equity instrument disclosures relating to key management personnel

#### (i) Options, performance rights and shares provided as remuneration

Details of options over ordinary shares, performance rights and shares in the Company provided as remuneration to each director of Clough Limited and other key management personnel of the Group are set out in Section 11.5 of the Remuneration Report included in the Directors' Report. Further information on the options and performance rights is set out in note 46.

# 32 Key management personnel disclosures (continued)

## (b) Equity instrument disclosures relating to key management personnel (continued)

### (ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Clough Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| 2012 Name | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested at the end of the year | Unvested at the end of the year |
|---|---|---|---|---|---|---|---|
| **Options over ordinary shares Directors of Clough Limited** | | | | | | | |
| KT Gallagher | - | 687,185 | - | - | 687,185 | - | 687,185 |
| NE Siford * | 305,549 | 367,166 | - | - | 672,715 | 164,185 | 508,530 |
| J Smith # | 3,000,000 | - | - | (3,000,000) | - | - | - |
| **Other key management personnel of the Group** | | | | | | | |
| MCG Bergomi | 1,160,717 | 209,444 | - | - | 1,370,161 | 660,000 | 710,161 |
| GN Bowtell | 175,671 | 207,137 | - | - | 382,808 | - | 382,808 |
| WJ Boyle # | 3,653,818 | - | - | (3,653,818) | - | - | - |
| B Howard | 123,754 | 100,042 | - | - | 223,796 | - | 223,796 |
| RV Ratneser | 581,072 | 168,944 | (20,000) | - | 730,016 | 269,286 | 460,730 |

* The options issued to NE Siford in the current year include 164,692 options issued on the same terms as the options granted on 24 February 2011. These options were issued once they had been approved by shareholders at the Company's Annual General Meeting held on 18 October 2011.

# The option holdings for key management personnel who ceased employment with the Clough Group or ceased being a key management person during the year have been removed in the other changes during the year at the date that they ceased employment or being a key management person.

| 2011 Name | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested at the end of the year | Unvested at the end of the year |
|---|---|---|---|---|---|---|---|
| **Options over ordinary shares Directors of Clough Limited** | | | | | | | |
| NE Siford | 305,549 | - | - | - | 305,549 | 70,000 | 235,549 |
| J Smith | 6,000,000 | - | (3,000,000) | - | 3,000,000 | - | 3,000,000 |
| **Other key management personnel of the Group** | | | | | | | |
| MCG Bergomi | 1,000,000 | 160,717 | - | - | 1,160,717 | 330,000 | 830,717 |
| GN Bowtell | - | 175,671 | - | - | 175,671 | - | 175,671 |
| WJ Boyle | 3,155,052 | 498,766 | - | - | 3,653,818 | - | 3,653,818 |
| JC Hartman # | 199,239 | 197,630 | - | (396,869) | - | - | - |

# The option holdings for key management personnel who ceased employment with the Clough Group or ceased being a key management person during the year have been removed in the other changes during the year at the date that they ceased employment or being a key management person.

# Notes to the consolidated financial statements

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## 32 Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel (continued)

#### (iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Clough Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation, apart from the shares issued to KT Gallagher as part of his sign-on arrangements.

| 2012<br>Name | Balance at the start of the year | Granted during the year as compensation | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Ordinary shares**<br>**Directors of Clough Limited** | | | | | |
| AJ Bester and HJ Laas through Murray & Roberts Limited ^ | 478,957,478 | - | - | - | 478,957,478 |
| KT Gallagher * | - | 1,136,394 | - | - | 1,136,394 |
| J Smith # | 3,000,000 | - | - | (3,000,000) | - |
| ER Stein | 74,900 | - | - | - | 74,900 |

| 2011<br>Name | Balance at the start of the year | Granted during the year as compensation | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Ordinary shares**<br>**Directors of Clough Limited** | | | | | |
| BC Bruce and RW Rees through Zero Nominees Pty Ltd ^ | 478,957,478 | - | - | - | 478,957,478 |
| J Smith | 3,000,000 | - | 3,000,000 | (3,000,000) | 3,000,000 |
| ER Stein | 74,900 | - | - | - | 74,900 |

^ AJ Bester and HJ Laas are directors of Murray & Roberts Holdings Limited whose related entities hold shares in Clough Limited through Murray & Roberts Limited (2011: Zero Nominees Pty Ltd). BC Bruce and RW Rees were directors of Murray & Roberts Holdings Limited and resigned as directors of Clough Limited on 30 June 2011.

* These shares are unlisted fully paid ordinary shares and were issued to KT Gallagher as part of his sign-on arrangements. The issue of the shares was approved by shareholders at the Company's Annual General Meeting held on 18 October 2011.

# The share holdings for key management personnel who ceased employment with the Clough Group or ceased being a key management person during the year have been removed in the other changes during the year at the date that they ceased employment or being regarded as a key management person.

#### (iv) Performance rights

The performance rights were granted on 1 March 2012 to executives of the Group under the Clough Limited Executive Incentive Scheme for executive retention purposes. The vesting period of the performance rights issued is three years and the performance rights will vest automatically providing that the executive is still employed by the Company at the vesting date. In addition, if a Change of Control Event occurs, then all the performance rights granted under the Scheme vest automatically.

Further information relating to the performance rights is set out in note 46.

The number of performance rights held during the financial year by each director of Clough Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| 2012<br>Name | Balance at the start of the year | Granted during the year as compensation | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Performance rights**<br>**Directors of Clough Limited** | | | | |
| NE Siford ^ | - | - | - | - |
| **Other key management personnel of the Group** | | | | |
| MCG Bergomi | - | 305,885 | - | 305,885 |
| GN Bowtell | - | 305,885 | - | 305,885 |
| B Howard | - | 244,708 | - | 244,708 |

^ 305,885 performance rights will be issued to NE Siford on the same terms as the performance rights granted on 1 March 2012 above, subject to shareholder approval at the Company's Annual General Meeting to be held on 23 October 2012.

# 32 Key management personnel disclosures (continued)

## (c) Other transactions with key management personnel

For details of transactions with director related entities refer to note 36.

# 33 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **(a) Audit services** | | |
| *Deloitte Touche Tohmatsu Australian firm* | | |
| Audit and review of financial reports | **609,935** | 563,450 |
| Related practices of Deloitte Touche Tohmatsu Australian firm | **57,290** | 77,168 |
| Non-Deloitte Touche Tohmatsu audit firms for the audit or review of financial reports of any entity in the Group | **5,130** | 29,224 |
| **Total remuneration for audit services** | **672,355** | 669,842 |
| **(b) Other services** | | |
| *Deloitte Touche Tohmatsu Australian firm* | | |
| Other services | **350** | - |
| Related practices of Deloitte Touche Tohmatsu Australian firm | | |
| Other services | **5,273** | 1,790 |
| Other auditors of subsidiaries (non-Deloitte Touche Tohmatsu audit firms) | | |
| Taxation | **1,945** | 207,994 |
| **Total remuneration for non-audit services** | **7,568** | 209,784 |
| **Total auditors' remuneration** | **679,923** | 879,626 |

# 34 Contingencies

## (a) Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

**Claims**

Certain claims arising out of engineering and construction contracts have been made by or against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration. The Directors do not consider the outcome of any of these claims will have a material adverse impact on the financial position of the consolidated entity.

**Warranties**

Clough sold its Marine Construction business to SapuraCrest Petroleum Berhad on 22 December 2011. Various warranties were provided by Clough as part of the sale transaction. The Directors do not consider that these warranties will have a material adverse impact on the financial position of the consolidated entity.

**Guarantees**

For information about guarantees given by the Group, please refer to note 36(h).

**Associates and Jointly Controlled Entities**

For contingent liabilities relating to associates and jointly controlled entities refer to notes 39 and 40 respectively.

# Notes to the consolidated financial statements

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## 35 Commitments

### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Property, plant and equipment** | | |
| Payable: | | |
| Within one year * | **349** | 2,296 |

* At 30 June 2011, the commitments disclosed above includes the Marine Construction business which was classified as a disposal group held for sale. At 30 June 2011, the Marine Construction business had total plant and equipment capital commitments of $2,296,000 due within one year. The Marine Construction business was sold on 22 December 2011.

### (b) Lease commitments: Group as lessee

#### (i) Non-cancellable operating leases

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year * | **28,453** | 43,317 |
| Later than one year but not later than five years * | **90,080** | 97,815 |
| Later than five years | **93,940** | 110,667 |
| | **212,473** | 251,799 |

* At 30 June 2011, the commitments disclosed above includes the Marine Construction business which was classified as a disposal group held for sale. At 30 June 2011, the Marine Construction business had operating lease commitments totalling $45,030,000, being $19,132,000 due within one year and $25,898,000 due between two and five years. The Marine Construction business was sold on 22 December 2011.

The above relates to operating lease commitments in respect of land and buildings and plant and equipment used for trading purposes.

In the opinion of the Directors, the above commitments could all be relieved by suitable sub-lease arrangements if required.

### (c) Remuneration commitments

Remuneration commitments relate to commitments arising from the service contracts of key management personnel that are not recognised as liabilities and are not included in the key management personnel compensation. The details of the service contracts of key management personnel are disclosed in section 11.3 of the Remuneration Report contained in the Directors' Report.

## 36 Related party transactions

### (a) Parent entities

The ultimate Australian parent entity within the Group is Clough Limited. The ultimate parent entity and ultimate controlling party is Murray & Roberts Holdings Limited, a company incorporated in South Africa, which at 30 June 2012 has an interest in 61.81% (2011: 62.22%) of the issued ordinary shares of Clough Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 38.

### (c) Key management personnel compensation

Disclosures relating to key management personnel compensation are set out in note 32.

# 36 Related party transactions (continued)

## (d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

*Other transactions and balances with ultimate parent entity and related entities*

**Dividend Paid**

On 6 October 2011, Clough Limited paid a dividend of $0.022 per fully paid ordinary share franked to 45%, based on tax paid of 30%. A dividend of $10,537,065 was paid to Murray & Roberts Limited.

**Rent paid**

During the year ended 30 June 2012, Murray & Roberts Australia Pty Ltd paid $432,915 to Clough Projects Pty Ltd for sub-leasing certain rental properties.

**Travel Expenses**

During the year ended 30 June 2012, Clough Limited paid $168,180 to Murray & Roberts Pty Ltd for travel expenses incurred in respect of BC Bruce, RW Rees, AJ Bester, HJ Laas and NWR Harvey attending to their duties as directors of Clough Limited.

**Onshore services - labour and travel costs**

During the year ended 30 June 2012, Murray & Roberts - Marine and Civil JV paid $1,393,074 to Clough Projects Australia Pty Ltd for labour and travel costs relating to agreed onshore services.

**Other**

During the year ended 30 June 2012, Murray & Roberts Limited reimbursed Clough Limited $109,424 for various project related legal expenses paid on their behalf.

## (e) Transactions with other related parties

The following transactions occurred with other related parties:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $** | 2011 $ |
| **Provision of goods and services to equity accounted entities** | | |
| Associates * | **2,383,853** | 2,239,137 |
| Jointly controlled entities * | **377,764,659** | 254,140,179 |
| | **380,148,512** | 256,379,316 |

* At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. Included in the above amounts are provision of goods and services to associates of $312,994 (2011: $1,678,303) and jointly controlled entities of $5,450,021 (2011: $34,570,403) which relate to the Marine Construction business. The Marine Construction business was sold on 22 December 2011.

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $** | 2011 $ |
| **Provision of goods and services by equity accounted entities** | | |
| Associates * | **-** | 130,725 |
| Jointly controlled entities * | **2,723,534** | 13,263,214 |
| | **2,723,534** | 13,393,939 |

* Included in the above amounts are purchases of goods and services from associates of $nil (2011: $130,725) and jointly controlled entities of $336,956 (2011: $235,047) which relate to the Marine Construction business.

# Notes to the consolidated financial statements

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## 36 Related party transactions (continued)

### (e) Transactions with other related parties (continued)

| | CONSOLIDATED 2012 $ | 2011 $ |
|---|---|---|
| **Superannuation contributions** | | |
| Contributions to superannuation funds on behalf of employees | **13,537,519** | 11,461,941 |

**Other transactions with Forge Group Limited**

For details of other transactions with Forge Group Limited, refer to note 39.

### (f) Outstanding balances arising from loans, advances and provision of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties other than key management personnel:

| | CONSOLIDATED 2012 $ | 2011 $ |
|---|---|---|
| **Current receivables (provision of goods and services) ^** | | |
| Associates | **635,844** | 1,151,401 |
| Jointly controlled entities | **75,592,662** | 33,752,805 |
| | **76,228,506** | 34,904,206 |
| **Current receivables (loans) ^** | | |
| Jointly controlled entities | **1,312,429** | 2,789,763 |
| **Non-current receivables (loans) ^** | | |
| Associates | **-** | 3,709,364 |
| Jointly controlled entities | **-** | 9,136,992 |
| | **-** | 12,846,356 |
| **Current payables (provision of goods and services) ^** | | |
| Associates | **-** | 56,184 |
| Jointly controlled entities | **2,323,338** | 5,622,499 |
| | **2,323,338** | 5,678,683 |
| **Current payables (loans) ^** | | |
| Jointly controlled entities * # | **32,085,924** | 8,952,322 |
| **Current payables (advances)** | | |
| Jointly controlled entities | **20,487,406** | - |

No provisions for impairment of receivables have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

* Includes loans from a jointly controlled entity of $4,557,000 (2011: $5,416,000) which are included in liabilities directly associated with assets classified as held for sale as detailed in note 9.

\# These loans relate to amounts received in advance on construction projects and are non-interest bearing and repayable within the next 12 months.

^ At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. Included in the above are the following amounts relating to the Marine Construction business at 30 June 2011:

- Current receivables (provision of goods and services): Associates $1,140,914 and jointly controlled entities $2,368,345.
- Current receivables (loans): Jointly controlled entities $2,789,763.
- Non-current receivables (loans): Associates $3,709,364 and jointly controlled entities $9,136,992.
- Current payables (provision of goods and services): Associates $56,184.

# 36 Related party transactions (continued)

## (g) Loans to/from related parties

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $** | 2011 $ |
| **Loans to associates *** | | |
| Beginning of the year | **3,709,364** | - |
| Reclassification of loans from subsidiaries to associates on deconsolidation | **-** | 5,315,651 |
| Loans advanced | **3,000,000** | 21,918 |
| Loan repayments received | **-** | (1,405,457) |
| Removed on disposal of associates | **(6,792,827)** | - |
| Exchange differences | **83,463** | (222,748) |
| End of year | **-** | 3,709,364 |
| **Loans to jointly controlled entities *** | | |
| Beginning of the year | **11,926,755** | 7,403,358 |
| Loans advanced | **3,512,429** | 5,576,660 |
| Loan repayments made | **(2,200,000)** | (11,967) |
| Removed on disposal of jointly controlled entities | **(12,162,716)** | - |
| Exchange differences | **235,961** | (1,041,296) |
| End of year | **1,312,429** | 11,926,755 |
| **Loans from jointly controlled entities** | | |
| Beginning of the year | **8,952,322** | 13,025,357 |
| Loans advanced | **35,426,847** | 5,386,988 |
| Loan repayments made | **(12,295,539)** | (9,090,342) |
| Exchange differences | **2,294** | (369,681) |
| End of year | **32,085,924** | 8,952,322 |

* At 30 June 2011, the Marine Construction business was classified as a disposal group held for sale as detailed in note 9. Included in the above are the following amounts relating to the Marine Construction business at 30 June 2011: loans to associates of $3,709,364 and loans to jointly controlled entities of $11,926,755.

## (h) Guarantees

The following guarantees have been given:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $** | 2011 $ |
| Guarantee of banking facilities provided to associates # | **-** | 9,677,882 |

\# The utilisation of the banking facilities provided to Peritus International Pty Ltd, Peritus International Limited and Peritus International Inc. at 30 June 2011 was $4,835,000. These entities were part of the Marine Construction business that was classified as a disposal group held for sale at 30 June 2011 and was sold on 22 December 2011 as detailed in note 9.

**Other guarantees**

Clough Operations Pty Ltd provided a guarantee to the owner of the Normand Clough vessel chartered by another controlled entity of Clough Limited to pay in full amounts due and payable in connection with the Charter Agreement and to comply with all of the obligations, terms and conditions of the Charter Agreement. The Normand Clough vessel was part of the Marine Construction business that was classified as a disposal group held for sale at 30 June 2011 and was subsequently sold on 22 December 2011.

# Notes to the consolidated financial statements

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## 37 Acquisition and disposal of subsidiaries

### Acquisition of subsidiaries

There were no acquisitions of subsidiaries in the current or prior year.

### Disposal of subsidiaries

#### Current year

**(a) Sale of the Marine Construction business**

On 22 December 2011, Clough sold its Marine Construction business to SapuraCrest Petroleum Berhad.

The following subsidiaries were disposed of as a result of this sale:

- Clough Java Offshore Pte Ltd
- Clough Sea Trucks Joint Venture - DomGas
- Clough Singapore Constructor Pte Ltd
- Clough USA Holdings Inc.
- Ocean Flow International LLC
- Rem Clough Pty Ltd
- SC Projects Australia Pty Ltd

For further details on the sale of the Marine Construction business, refer to note 9.

#### Prior year

**(a) Loss of control of the Peritus entities**

During the year ended 30 June 2011, Clough reduced its interest in Peritus International Pty Ltd, Peritus International Limited and Peritus International Inc. (the Peritus entities) from 100% to 54.45% as detailed in note 39.

As a result of sell down, Clough no longer had control over these entities and they were classified as being associated entities of Clough and were equity accounted.

Clough recorded a gain on the deconsolidation of the Peritus entities of $2,424,000 in the year ended 30 June 2011 which was included as part of other income of the Marine Construction business in discontinued operations in note 9.

Clough recorded a net cash outflow of $349,000 in the year ended 30 June 2011 on the partial sale and deconsolidation of the Peritus entities.

# 38 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| | | | Equity holding * | |
|---|---|---|---|---|
| **Name of entity** | **Country of incorporation** | **Note** | **2012 %** | **2011 %** |
| Challenge Investment Pte Ltd (previously Challenge Insurance Pte Ltd) | Singapore | (vii) | **-** | 100 |
| Clough Challenge Pty Ltd | Australia | (vii) | **-** | 100 |
| Clough Construction Queensland Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Engineering Limited | Australia | (v) | **100** | 100 |
| Clough Engineering & Integrated Solutions (CEIS) Pty Ltd | Australia | | **100** | 100 |
| Clough International Singapore Pte Ltd | Singapore | | **100** | 100 |
| Clough Investment Holdings Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Java Offshore Pte Ltd | Singapore | (ii),(viii) | **-** | 100 |
| Clough Malaysia Sdn Bhd | Malaysia | (i) | **100** | 100 |
| Clough Niugini Limited | Papua New Guinea | (ii) | **100** | 100 |
| Clough Operations Pty Ltd | Australia | | **100** | 100 |
| Clough Overseas Pty Ltd | Australia | | **100** | 100 |
| Clough Project Holdings Pty Ltd | Australia | | **100** | 100 |
| Clough Projects Australia Pty Ltd | Australia | | **100** | 100 |
| Clough Projects International Pty Ltd | Australia | | **100** | 100 |
| Clough Projects Pty Ltd | Australia | | **100** | 100 |
| Clough Projects Singapore Pte Ltd | Singapore | (ii),(vi) | **100** | - |
| Clough Property Brookwater Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Property Claremont Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Property Developments Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Property East Coast Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Property Holdings Pty Ltd | Australia | | **100** | 100 |
| Clough Property Hook Close Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Property Investments Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Property Mernda Pty Ltd | Australia | (iv) | **100** | 100 |
| Clough Regional Pty Ltd | Australia | (iv),(vii) | **-** | 100 |
| Clough Sea Trucks Joint Venture - DomGas | Australia | Note (a),(viii) | **-** | 95 |
| Clough Seam Gas Pty Ltd | Australia | | **100** | 100 |
| Clough Singapore Constructor Pte Ltd | Singapore | (ii),(viii) | **-** | 100 |
| Clough (Thailand) Co., Ltd | Thailand | (ii),(iii) | **49** | 49 |
| Clough UK Limited | Scotland | (ii) | **100** | 100 |
| Clough USA Holdings Inc. | USA | (viii) | **-** | 100 |
| Clough USA Inc. | USA | | **100** | 100 |
| Clough Vessels Pty Ltd | Australia | (iv) | **100** | 100 |
| Eclo Pty Ltd | Australia | (iv) | **100** | 100 |
| Global Nippo Pte Ltd | Singapore | | **100** | 100 |
| Ocean Flow International LLC | USA | (i),(viii) | **-** | 70 |
| PT Clough | Indonesia | | **100** | 100 |
| Rem Clough Pty Ltd | Australia | (iv),(viii) | **-** | 100 |
| SC Projects Australia Pty Ltd | Australia | (vi),(viii) | **-** | - |
| Soustreet Pty Ltd | Australia | (iv) | **100** | 100 |

* The proportion of ownership interest is equal to the proportion of voting power held.

# Notes to the consolidated financial statements

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## 38 Subsidiaries (continued)

(i) Company is audited by another firm other than Deloitte.
(ii) Company is audited by an overseas Deloitte firm.
(iii) Controlled entity due to a substantial shareholding and control of the Board of Directors.
(iv) Controlled entity does not lodge its financial statements with ASIC as it is a small proprietary company.
(v) Clough Limited has given an undertaking to provide sufficient assistance to the company to continue operations and fulfil all of its financial obligations for the period ending 31 October 2013.
(vi) Controlled entity incorporated during the year.
(vii) Controlled entity deregistered during the year.
(viii) Controlled entity disposed of during the year as part of the sale of the Marine Construction business.

### (a) Clough Sea Trucks Joint Venture - DomGas

This entity was established during the year ended 30 June 2011. The Clough Group had a 95% interest in Clough Sea Trucks Joint Venture - DomGas and in accordance with the provisions of the joint venture agreement, Clough had the power to govern the financial and operating policies of the entity and thus had control over it. As a result, the consolidated financial statements incorporated the assets and liabilities of Clough Sea Trucks Joint Venture - DomGas as at 30 June 2011 and its results for the period then ended.

Clough Sea Trucks Joint Venture - DomGas was part of the Marine Construction business and thus at 30 June 2011, its assets and liabilities were included in assets of a disposal group held for sale and liabilities directly associated with a disposal group held for sale respectively and its results for the period ended 30 June 2011 were included in discontinued operations as detailed in note 9.

Clough Sea Trucks Joint Venture - DomGas was sold as part of the Marine Construction business on 22 December 2011 - for further details on the sale of the Marine Construction business refer to note 9.

## 39 Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below.

| Name of company | Principal activity | Ownership interest 2012 % | Ownership interest 2011 % | 2012 $'000 | 2011 $'000 |
|---|---|---|---|---|---|
| **Listed** | | | | | |
| Forge Group Limited | Engineering and construction | **35.85** | 33.34 | **101,822** | 72,529 |
| **Unlisted** | | | | | |
| Peritus International Inc. ^ * | Advanced subsea engineering services | **-** | 54.25 | **-** | - |
| Peritus International Limited ^ * | Advanced subsea engineering services | **-** | 54.25 | **-** | - |
| Peritus International Pty Ltd ^ * | Advanced subsea engineering services | **-** | 54.25 | **-** | - |
| | | | | **101,822** | 72,529 |

For further details on Clough's investment in Forge Group Limited refer to note (f) below.

^ This entity was an associated entity due to the provisions of a shareholder agreement - refer to note (f) below for further details.

* Peritus International Inc., Peritus International Limited and Peritus International Pty Ltd were part of the Marine Construction business and were included in assets of a disposal group held for sale at 30 June 2011. The Marine Construction business was sold on 22 December 2011.

# 39 Investments in associates (continued)

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **(b) Movements in carrying amounts** | | |
| Carrying amount at the beginning of the financial year | **72,529** | 51,579 |
| Share of profits after income tax | **16,809** | 8,499 |
| Interests in associates acquired | **18,200** | 13,053 |
| Fair value loss on Put Option securities exercised in year | **(1,625)** | - |
| Transferred from controlled entities | **-** | 777 |
| Dividends received | **(3,732)** | (2,338) |
| Reclassification to assets of a disposal group held for sale | **-** | 920 |
| Unrealised gain arising from sale of land to associate | **(359)** | - |
| Exchange differences | **-** | 39 |
| Carrying amount at the end of the financial year | **101,822** | 72,529 |
| **(c) Share of associates' profits or losses** | | |
| Profit before income tax * | **24,012** | 12,885 |
| Income tax expense * | **(7,203)** | (4,386) |
| Profit after income tax | **16,809** | 8,499 |

* Included in the above is Clough's share of Forge Group Limited's profit before income tax and amortisation of $24,012,000 (2011: $18,920,000), income tax expense of $7,203,000 (2011: $5,676,000) and amortisation of $nil (2011: $3,010,000).

## (d) Summarised financial information of associates

The Company's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

| | Ownership Interest % | Group's share of: Assets $'000 | Liabilities $'000 | Revenues $'000 | Profit (loss) $'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Forge Group Limited # | 35.85 | 214,777 | 112,955 | 259,547 | 16,809 |
| Peritus International Inc. | - | - | - | - | - |
| Peritus International Limited | - | - | - | - | - |
| Peritus International Pty Ltd | - | - | - | - | - |
| | | 214,777 | 112,955 | 259,547 | 16,809 |
| **2011** | | | | | |
| Forge Group Limited # | 33.34 | 102,141 | 29,612 | 141,586 | 10,234 |
| Peritus International Inc. | 54.25 | 245 | 580 | 582 | (648) |
| Peritus International Limited | 54.25 | 510 | 1,006 | 843 | (714) |
| Peritus International Pty Ltd | 54.25 | 944 | 1,033 | 2,520 | (373) |
| | | 103,840 | 32,231 | 145,531 | 8,499 |

\# listed entity.

All of the above associates are incorporated in Australia apart from Peritus International Inc. which is incorporated in USA and Peritus International Limited which is incorporated in England.

# Notes to the consolidated financial statements

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## 39 Investments in associates (continued)

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **(e) Fair value of listed investments in associates** | | |
| Forge Group Limited | **135,002** | 150,930 |

### (f) Additional information on associates

**Peritus entities**

During the year ended 30 June 2011, Clough reduced its interest in Peritus International Pty Ltd, Peritus International Limited and Peritus International Inc. (the Peritus entities) from 100% to 54.45% and at the same time entered into a Shareholders Agreement with the other shareholders of the Peritus entities. Under the provisions of the Shareholders Agreement, all key decisions relating of the operations of the Peritus entities were required to be passed by a special resolution. As a result of these provisions, Clough did not have control or joint control over these entities and instead had significant influence. The Peritus entities were classified as being associated entities of Clough and were equity accounted.

In accordance with the Shareholders Agreement, an exit mechanism was agreed with the other Peritus shareholders, whereby Clough would buy-back their shares in three tranches over a three year period commencing on 1 July 2015 (50% of their shares), 30 June 2016 (50% of their remaining shares) and 30 June 2017 (the balance of their shares) (Exit Dates).

The purchase price for these tranches of shares was to be based on 7 times the average EBIT for the financial year just ended and the previous financial year less debt plus excess (deficit) working capital plus free cash.

The purchase of the first tranche of shares was payable in three equal annual instalments commencing on 1 July 2015, the second tranche was payable in two equal annual instalments commencing on 30 June 2016 and the third tranche was payable on 30 June 2017 subject to a deferral payment mechanism should the EV/EBIT not be greater than 7 on an Exit Date. The deferral of payment could not continue past 30 June 2020.

Clough had provided subordinated loans to each of the Peritus entities at 30 June 2011 as follows:

- Peritus International Pty Ltd $1,527,433
- Peritus International Limited £798,166
- Peritus International Inc. US$988,632

The loan to Peritus International Limited attracted interest at the rate of the 1 month British pound sterling LIBOR interest rate plus a 1% margin which was to be capitalised annually and repaid only on repayment of the loan. The other loans were interest free, unsecured and subordinated to the repayment of all other debts and liabilities and were repayable after 30 June 2017.

In addition, Clough facilitated the provision of a working capital banking facility for each of the Peritus entities during the year ended 30 June 2011. The overall facility was for a total of $9.678 million in aggregate based on exchange rates at 30 June 2011. Clough had guaranteed the performance of each of the Peritus entities of their obligations under the banking facilities providing parent entity guarantees and a bank guarantee.

On the date that Clough reduced its interests in the Peritus entities, being 30 September 2010, Clough deconsolidated the Peritus entities from the Clough Group. Clough recorded a gain of $2,424,000 as a result of this disposal which was included in the results of the Marine Construction business for the year ended 30 June 2011 in discontinued operations in note 9.

During the period to 22 December 2011, Clough provided additional loans to Peritus International Pty Ltd of $2,235,205 and Peritus International Limited of £500,000.

Peritus International Inc., Peritus International Limited and Peritus International Pty Ltd were part of the Marine Construction business and were included in assets of a disposal group held for sale at 30 June 2011. The Marine Construction business was sold on 22 December 2011.

**Forge Group Limited**

On 23 February 2010, Clough announced that it had agreed to create a Strategic Alliance with Forge Group Limited (Forge) which provides the foundation for a long-term strategic co-operation between the companies.

The key transaction components included:

- Clough to invest approximately $19.5 million via a 15% share placement (Placement) subject to Forge shareholder approval.
- On Placement approval and completion, Clough to make a proportional cash takeover offer at $2.10 per share to all existing Forge shareholders for 50% of their shares in Forge (Offer).
- Clough to become a cornerstone investor in Forge.
- Strategic Alliance Agreement between the two companies to be triggered in various circumstances, including when Clough's interest in Forge reaches 31% or the Offer is declared unconditional by Clough.

# 39 Investments in associates (continued)

## (f) Additional information on associates (continued)

**Forge Group Limited (continued)**

Forge shareholders approved the Placement on 6 April 2010 and Clough subscribed for a total of 10,257,262 shares in Forge at a price of $1.90 per share.

Clough made the proportional takeover offer for 50% of the shares in Forge on 9 April 2010. The Offer was declared unconditional by Clough on 20 April 2010 on reaching a 31.24% interest in Forge, triggering the Strategic Alliance between the two companies. The Offer closed on 11 May 2010 and resulted in Clough acquiring a total of 14,385,671 shares in Forge at a price of $2.10 per share.

In addition to the Forge shares, Clough also held a total of 3 million unlisted options in Forge that were acquired from certain Forge directors at a price of $1.75 per option on 16 April 2010. These options had an exercise price of $0.35 per option, were currently exercisable and an expiry date of 30 May 2012. These options were accounted for by Clough as being derivative financial assets at fair value through profit or loss - for further details refer to note 13.

During the year ended 30 June 2011, Clough exercised the 3 million unlisted options in Forge, acquiring a total of 3 million shares in Forge for an exercise amount of $1,050,000. Clough recorded a fair value gain on these options in the year ended 30 June 2011 of $4,987,000 which was included in other income in note 6.

As part of the Strategic Alliance, Clough's Chief Executive Officer, J Smith, was appointed to the Forge Board as a non-executive director on 13 May 2010 and a senior Clough executive was appointed to Forge's executive management team. The Strategic Alliance will target joint project opportunities in the LNG and oil and gas sectors and provide a platform to support the continuation of Forge's anticipated growth trajectory.

During the year ended 30 June 2011, Clough and Forge established an incorporated jointly controlled entity, Clough Forge Pty Ltd, in order to pursue opportunities arising in the engineering and construction sector.

On 15 March 2011, Clough entered into a Put Option agreement (Agreement) with certain Forge management (Takers of the Put Option). Under the terms of the Agreement, the Takers of the Put Option were able to require Clough to purchase Option Securities (in total 750,000 Forge shares and 2,500,000 Forge options) at an agreed price ($5.60 per Forge share and $5.25 per Forge option) during specific time periods in 2012.

Under the terms of the Agreement, Forge management agreed to certain conditions in relation to a Board and Management Transition Plan. These conditions included PG Hutchinson agreeing to act as Executive Chairman of Forge and to step down from the role within three months after the appointment of a new Chief Executive Officer of Forge, and AB Ellison and GL McRostie agreeing to extend their employment contracts with Forge through to 31 December 2011 and to resign as directors of Forge, if requested, following the appointment of a new non-executive director. It was also agreed that Clough appoint a second director to the Forge Board.

The original Put Option Agreement was terminated on 31 December 2011 and was replaced with an amended Put Option Agreement (amended Agreement). Under the terms of the amended Agreement, there was no change to the number of shares and options subject to the Put Option or the agreed purchase price, however, the exercise period for the Put Option was extended to 30 June 2012. In addition, PG Hutchinson, AB Ellison and GL McRostie agreed to provide all reasonable assistance to facilitate the orderly transition of the Forge business to new management and acknowledged their present intention to remain employed by the Forge Group until at least 30 June 2012. AB Ellison and GL McRostie also agreed to accept new employment offers with the Forge Group on terms and conditions as approved by the Forge board of directors and PG Hutchinson agreed to act in the role of Executive Chairman of Forge on terms approved by the Forge board of directors and act in accordance with the Forge Management Transition Plan approved by the Forge board of directors from time to time.

The Put Options were exercised by Forge management on 17 May 2012 resulting in Clough acquiring all the Option Securities for total consideration of $17,325,000. The Forge options acquired were immediately exercised by Clough at a cost of $875,000.

The Put Option arrangement was accounted for by Clough as being a derivative financial instrument at fair value through profit or loss. During the year ended 30 June 2012, Clough recorded a fair value loss on the Put Option arrangement of $1,170,000 (2011: $455,000). Refer to note 13 for further details.

As at 30 June 2012, Clough held a total of 30,892,933 (2011: 27,642,933) shares in Forge, representing an interest in Forge of 35.85% (2011: 33.34%).

NE Siford was appointed as a non-executive director of Forge on 8 August 2011. J Smith resigned as a non-executive director of Forge on 2 November 2011 and KT Gallagher was appointed as a non-executive director of Forge on 3 November 2011.

# Notes to the consolidated financial statements

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## 39 Investments in associates (continued)

### (f) Additional information on associates (continued)

**Other transactions with Forge Group Limited**

During the year ended 30 June 2012, Clough has charged Forge Group Limited for directors' fees for KT Gallagher, NE Siford and J Smith. Clough has charged Abesque Engineering Ltd (a wholly owned subsidiary of Forge Group Limited) for labour recovery costs and has charged Clough Forge Pty Ltd for labour recovery costs and other recoverable expenses. All costs have been charged on a commercial basis.

In September 2011, Clough Project Holdings Pty Ltd sold a parcel of land in Karratha to Cimeco Pty Ltd (a wholly owned subsidiary of Forge Group Limited) for $1.3 million (inclusive of GST). The land was carried by Clough at its original cost of $98,000 and as a result, Clough made a gain on the sale of the land of $1,084,000. At the date of sale, Clough held a 33.13% interest in Forge Group Limited and as a result, 33.13% of the gain on sale was effectively unrealised and has been deferred and offset against Clough's equity accounted investment in Forge Group Limited. Clough has recorded a realised gain on the sale of the land of $725,000 which is included in other income in note 6.

## 40 Interests in jointly controlled entities

The interests in the following jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting (refer to note 15). Information relating to the jointly controlled entities is set out below.

| | | Ownership interest | | Carrying value of investment Consolidated | |
|---|---|---|---|---|---|
| Name and principal activity | Notes | **2012** | 2011 | **2012 $'000** | 2011 $'000 |
| **Incorporated joint ventures** | | | | | |
| Al Bilad S&B Clough, Ltd<br>Engineering and construction | (vii) | **50%** | 50% | **1,644** | 1,792 |
| BAM Clough Contracting Pty Ltd<br>Engineering and construction | (ii) | **51%** | 51% | **-** | - |
| CBI Clough JV Pte Ltd<br>LNG infrastructure contract in Papua New Guinea | (vi),(xii) | **35%** | 35% | **-** | - |
| CDJV Construction Pty Ltd<br>Employer for the Clough Downer Joint Venture | (iii) | **50%** | - % | **-** | - |
| Clough AMEC Pty Ltd<br>Operations and maintenance asset management services to the oil and gas sector | | **50%** | 50% | **-** | 406 |
| Clough AMEC Beca Ltd<br>Onshore and offshore asset support services to the oil and gas sector | (iii),(ix),(xii) | **33.3%** | - % | **-** | - |
| Clough AMEC Sea Pte Ltd<br>Operations and maintenance asset management services to the oil and gas sector | (vi) | **50%** | 50% | **-** | - |
| Clough Forge Pty Ltd<br>Engineering and construction | | **50%** | 50% | **101** | - |
| Clough Helix Joint Venture Pty Ltd<br>Subsea services and ancillary activities | (iv),(xiv) | **- %** | 50% | **-** | - |
| Mashhor Clough Sdn Bhd<br>Offshore pipeline installation | (i),(viii) | **50%** | 50% | **-** | 89 |
| St Quentin's Claremont Pty Ltd<br>Trustee | (xiii) | **50%** | 50% | **-** | - |
| St Quentin's Claremont Unit Trust<br>Property development | (xiii) | **50%** | 50% | **-** | - |

# 40 Interests in jointly controlled entities (continued)

| | | Ownership interest | | Carrying value of investment Consolidated | |
|---|---|---|---|---|---|
| **Name and principal activity** | Notes | **2012** | 2011 | **2012 $'000** | 2011 $'000 |
| **Unincorporated joint ventures** | | | | | |
| Aker Kvaerner Clough Murray & Roberts Joint Venture<br>Engineering, procurement and construction management of processing facilities for the Boddington Gold Mine | (v),(xii) | **- %** | 19.5% | **-** | - |
| BAM Clough Joint Venture<br>EPC's of near shore marine projects | | **50%** | 50% | **3,040** | - |
| BAM Clough (PNG) Joint Venture<br>Construction of a LNG loading berth | (x) | **50%** | 50% | **3,715** | 579 |
| Baulderstone Clough Joint Venture<br>Operations and maintenance of inner-city freeway system | | **50%** | 50% | **-** | - |
| CBI Clough Joint Venture<br>LNG infrastructure contract in Papua New Guinea | (xii) | **35%** | 35% | **433** | 201 |
| Clough Aker Joint Venture<br>Transport and installation of offshore oil and gas production platforms | (v) | **- %** | 50% | **-** | - |
| Clough AMEC Joint Venture - CoP<br>Operations and maintenance asset management services to the oil and gas sector | | **50%** | 50% | **10,461** | 8,264 |
| Clough Curtain Joint Venture<br>LNG upstream infrastructure contract in Papua New Guinea | (x),(xii) | **65%** | 65% | **33,445** | 19,603 |
| Clough Diversified Joint Venture<br>Design and construction of a water pipeline in Queensland | | **50%** | 50% | **-** | 492 |
| Clough Diversified Northern Pipeline Joint Venture<br>Tender for pipeline project in Queensland | (v) | **- %** | 50% | **-** | - |
| Clough Diversified United Joint Venture<br>Design and construction of a pipeline in Queensland | (xii) | **33.3%** | 33.3% | **-** | - |
| Clough DORIS Joint Venture<br>Project management for Inpex's Ichthys development | (iii) | **50%** | - % | **880** | - |
| Clough Downer Joint Venture<br>Construction of pipelines, compression facilities and associated infrastructure relating to Santos GLNG project | (iii) | **50%** | - % | **2,035** | - |
| Clough Murray & Roberts Joint Venture<br>EPCM services to the resources industry | | **50%** | 50% | **-** | - |
| Clough Sandwell Joint Venture<br>Engineering consulting | (v) | **- %** | 50% | **-** | - |
| Clough Seymour Whyte Joint Venture - Lake Cowal<br>Construction of Lake Cowal gold plant - civils | | **50%** | 50% | **-** | - |
| Downer Clough Joint Venture<br>Design and construction of Nitric Acid and Ammonium Nitrate Plant 3 (NAAN 3) for CSBP | (iii) | **50%** | - % | **28** | - |
| Henry Walker Eltin - Clough Joint Venture<br>Design and construction of bus transport freeway system | | **50%** | 50% | **-** | 34 |
| JTC Joint Venture - Arrow<br>Tender for construction project in Queensland | (v),(xii) | **- %** | 10% | **-** | - |

# Notes to the consolidated financial statements

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## 40 Interests in jointly controlled entities (continued)

| Name and principal activity | Notes | Ownership interest 2012 | Ownership interest 2011 | Carrying value of investment Consolidated 2012 $'000 | Carrying value of investment Consolidated 2011 $'000 |
|---|---|---|---|---|---|
| **Unincorporated joint ventures (continued)** | | | | | |
| Kellogg Joint Venture - Gorgon<br>Pre-front end engineering design (FEED) for Greater Gorgon Downstream LNG Project | (xii) | **20%** | 20% | **-** | - |
| Kvaerner Clough Joint Venture<br>Design and construction of process plant facilities | (v),(xii) | **- %** | 33.3% | **-** | - |
| Maretlink Joint Venture<br>Engineering and EPCM of LNG plant | (v),(xii) | **- %** | 33.3% | **-** | - |
| Petrosea Clough Joint Operation<br>Engineering services for the oil and gas industry | (xi) | **50%** | 50% | **155** | 161 |
| Streicher Clough Joint Venture<br>Construction of a gas pipeline | | **50%** | 50% | **48** | - |
| | | | | **55,985** | 31,621 |

(i) This entity has a 31 December year end.
(ii) This entity is not a controlled entity due to the provisions of a shareholder agreement.
(iii) This entity was incorporated/established during the year.
(iv) This entity was sold during the year.
(v) This entity was deregistered/wound up during the year.
(vi) This entity is incorporated in Singapore.
(vii) This entity is incorporated in Saudi Arabia.
(viii) This entity is incorporated in Brunei.
(ix) This entity is incorporated in New Zealand.
(x) This entity is resident in Papua New Guinea.
(xi) This entity is resident in Indonesia.
(xii) This entity is a jointly controlled entity due to the provisions of a joint venture agreement.
(xiii) This entity is part of the property business and is included in assets classified as held for sale.
(xiv) This entity was part of the Marine Construction business and was included in the disposal group held for sale at 30 June 2011. The Marine Construction business was sold on 22 December 2011.

All the entities above were incorporated or are resident in Australia, unless otherwise noted.

| | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 |
|---|---|---|
| **Movements in carrying amounts of investments in jointly controlled entities** | | |
| Carrying amount at the beginning of the financial year | **31,621** | 21,846 |
| Interests acquired | **-** | 205 |
| Contributions made | **5,912** | - |
| Share of profits after income tax | **52,798** | 61,015 |
| Dividends and distributions received | **(25,167)** | (53,015) |
| Other movements | **(2,426)** | - |
| Reclassification to assets of a disposal group held for sale | **-** | (1,987) |
| Share of movements in reserves | **3,370** | (5,763) |
| Reclassification of negative equity accounted investment balances against other components of interests in jointly controlled entities | **(10,134)** | 9,446 |
| Exchange differences | **11** | (126) |
| Carrying amount at the end of the financial year | **55,985** | 31,621 |

## 40 Interests in jointly controlled entities (continued)

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Share of jointly controlled entities' assets and liabilities** | | |
| Current assets | **322,784** | 167,339 |
| Non-current assets | **3,002** | 6,186 |
| Total assets | **325,786** | 173,525 |
| Current liabilities | **269,801** | 136,190 |
| Non-current liabilities | **-** | 5,714 |
| Total liabilities | **269,801** | 141,904 |
| Net assets | **55,985** | 31,621 |
| **Share of jointly controlled entities' revenue, expenses and results** | | |
| Revenue | **761,208** | 649,438 |
| Expenses | **(707,919)** | (587,522) |
| Income tax | **(491)** | (901) |
| Profit after income tax | **52,798** | 61,015 |
| **Share of jointly controlled entities' commitments** | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | **11,969** | - |
| Later than one year but not later than five years | **3,244** | - |
| Total expenditure commitments | **15,213** | - |
| Capital commitments | **-** | - |
| | **15,213** | - |

### Sale of Jointly Controlled Entities

**Current year**

Clough Helix Joint Venture Pty Ltd was part of the Marine Construction business which was sold on 22 December 2011 - for further details on the sale of the Marine Construction business refer to note 9.

## 41 Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in periods subsequent to the year ended 30 June 2012, apart from the matter noted below.

Subsequent to the year end, the Directors have recommended the payment of a final dividend of 2.6 cents per fully paid ordinary share franked to 25%. For further details, refer to note 31.

# Notes to the consolidated financial statements

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## 42 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | PARENT ENTITY | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Balance sheet** | | |
| Current assets | **693** | 1,644 |
| Non-current assets | **191,880** | 179,083 |
| Total assets | **192,573** | 180,727 |
| Current liabilities | **1** | 1,644 |
| Non-current liabilities | **1,650** | 1,650 |
| Total liabilities | **1,651** | 3,294 |
| Net assets | **190,922** | 177,433 |
| **Shareholders' equity** | | |
| Contributed equity | **232,614** | 229,792 |
| Reserves | **6,739** | 6,017 |
| Retained earnings (accumulated losses) | **(48,431)** | (58,376) |
| Capital and reserves attributable to owners of Clough Limited | **190,922** | 177,433 |
| **Profit (loss) for the year** | **26,881** | (742) |
| **Total comprehensive income (expense)** | **26,881** | (742) |

### (b) Guarantees entered into by the parent entity

The parent entity has provided a letter of financial support to a subsidiary entity. No liability has been recognised by the parent entity in relation to this guarantee, as the fair value of the guarantee is immaterial.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

# 43 Reconciliation of profit after income tax to net cash inflow from operating activities

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Profit for the year | **43,222** | 32,896 |
| Depreciation and amortisation | **3,263** | 9,930 |
| Non-cash employee benefits expense - share-based payments | **1,622** | 937 |
| Net gain on disposal of property, plant and equipment | **(1,027)** | (422) |
| Net loss on sale of assets classified as held for sale | **1,202** | - |
| Fair value gain on derivative financial assets | **-** | (4,987) |
| Fair value loss on Put Option securities | **1,170** | 455 |
| Net gain on disposal of controlled entities | **-** | (2,424) |
| Net gain on sale of the Marine Construction business | **(5,849)** | - |
| Impairment of property development inventories classified as held for sale | **6,828** | 4,646 |
| Difference between equity accounted profits of associates and jointly controlled entities and dividends or distributions received | **(39,288)** | (9,335) |
| Net exchange differences and other non-cash items | **(4,012)** | (4,741) |
| Change in operating assets and liabilities, net of effects from sale of controlled entities | | |
| Decrease (increase) in receivables | **(53,030)** | (22,345) |
| Decrease (increase) in work in progress | **4,859** | 2,129 |
| Decrease (increase) in deferred tax assets | **(4,721)** | (5,455) |
| Increase (decrease) in payables | **12,582** | (8,588) |
| Increase (decrease) in amounts due to customers for contract work | **28,593** | 23,255 |
| Increase (decrease) in provision for income taxes payable | **7,536** | 5,345 |
| Increase (decrease) in deferred tax liabilities | **-** | (866) |
| Increase (decrease) in other provisions | **9,219** | (4,095) |
| Net cash inflow from operating activities | **12,169** | 16,335 |

# 44 Non-cash investing and financing activities

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| Acquisition of property, plant and equipment on surrender of lease | **1,853** | - |
| Issue of shares in Clough Limited to KT Gallagher as part of sign-on payment | **900** | - |

Further details on the sign-on payment made to KT Gallagher are disclosed in section 11.3 of the Remuneration Report in the Directors' Report.

# Notes to the consolidated financial statements

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## 45 Earnings per share

| | CONSOLIDATED 2012 Cents | 2011 Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| From continuing operations attributable to the ordinary equity holders of the Company | **6.58** | 6.44 |
| From discontinued operations | **(1.02)** | (2.11) |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | **5.56** | 4.33 |
| **(b) Diluted earnings per share** | | |
| From continuing operations attributable to the ordinary equity holders of the Company | **6.55** | 6.40 |
| From discontinued operations | **(1.01)** | (2.10) |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | **5.54** | 4.30 |

### (c) Reconciliations of earnings used in calculating basic and diluted earnings per share

| | CONSOLIDATED 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Basic earnings per share** | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | | |
| Profit from continuing operations | **50,732** | 49,615 |
| Loss from discontinued operations | **(7,510)** | (16,719) |
| (Profit) loss from discontinued operations attributable to non-controlling interests | **(324)** | 449 |
| | **42,898** | 33,345 |
| **Diluted earnings per share** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | **50,732** | 49,615 |
| Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share | **50,732** | 49,615 |
| Loss from discontinued operations | **(7,510)** | (16,719) |
| (Profit) loss from discontinued operations attributable to non-controlling interests | **(324)** | 449 |
| Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share | **42,898** | 33,345 |

### (d) Weighted average number of shares used as the denominator

| | CONSOLIDATED 2012 Number | 2011 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **771,240,439** | 770,247,128 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options and performance rights | **2,832,204** | 4,422,559 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | **774,072,643** | 774,669,687 |

# 45 Earnings per share (continued)

## (d) Weighted average number of shares used as the denominator (continued)

### (i) Options and performance rights

Options granted to employees under the Clough Limited Employee Option Plan and performance rights granted to executives under the Clough Limited Executive Incentive Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options and performance rights have not been included in the determination of basic earnings per share. Details relating to the options and performance rights are set out in note 46.

For the year ended 30 June 2012, the options granted on 23 April 2007, 26 November 2007, 1 February 2009, 11 February 2009 and the performance rights granted on 1 March 2012 are included in the calculation of diluted earnings per share. The other options granted under the Clough Limited Employee Option Plan are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2012. These options could potentially dilute basic earnings per share in the future.

For the year ended 30 June 2011, the options granted on 17 November 2005, 23 April 2007, 23 November 2007, 26 November 2007, 8 September 2008, 1 February 2009 and 11 February 2009 are included in the calculation of diluted earnings per share. The other options granted under the Clough Limited Employee Option Plan are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2011. These options could potentially dilute basic earnings per share in the future.

# 46 Share-based payments

## (a) Employee Option Plan

Options are granted under the Clough Limited Employee Option Plan (Plan) which was approved by shareholders at the Annual General Meeting of the Company held on 16 November 1998 and amended at the Company's Annual General Meetings held on 23 November 2007, 28 October 2009 and 18 October 2011.

The following are the key aspects of the long-term incentive scheme:

The Board determines the eligibility of executives and their entitlement having regard to, amongst other things, the performance and future potential contribution of each executive. Participation by executive directors is subject to shareholder approval.

The maximum number of options that can be issued is subject to the following test. The Company must not grant any options or procure the issue of any shares under this Plan if immediately following the grant of options or an issue of shares from an exercise of options, the aggregate of: the total number of unissued shares over which options or performance rights have been granted; and the total number of shares issued during the preceding five years under the Clough Limited Employee Option Plan and the Clough Limited Executive Incentive Scheme, would exceed 5% of the number of shares on issue at the time of the proposed grant or issue, except for an issue of options or performance rights to Executive Directors for which separate shareholder approval is obtained.

The number of options granted to an employee is determined by the employee's base salary, the employment band and the notional value of each option at the date of grant.

Options are granted at the volume weighted average price (VWAP) during the week prior to the grant date.

The vesting period is four years and options will only vest if the total shareholder return (TSR) of Clough shares increases by an average of 12% per annum or more over the vesting period.

If an executive ceases to be an employee by reason of retirement, total and permanent disability or in circumstances approved by the Board, the employee has six months in which to exercise vested options. Unvested options at the end of the six months period will lapse except in circumstances approved by the Board as detailed below. In the case of death, the employee's legal representative has the same period of time in which to exercise vested options. If an executive ceases to be an employee in other circumstances (e.g. resignation or termination), the participant has 30 days in which to exercise vested options. Any unvested options at the end of that period will lapse except in circumstances approved by the Board as detailed below.

In circumstances where a participant ceases to be an employee for reasons of retirement, total and permanent disablement, death or other circumstances approved by the Board, the Board at its discretion may declare that some or all of the participants unvested options:

- vest immediately, but only if the relevant performance criteria have been satisfied on a pro rata basis, in which case the options are exercisable on or before the six month period following the time that the participant ceases to be an employee; or
- do not lapse in the ordinary course of business, but instead will remain on foot and be capable of exercise (subject to vesting in accordance with their terms) on or before six months after the day that any such options vest in accordance with their terms.

# Notes to the consolidated financial statements

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## 46 Share-based payments (continued)

### (a) Employee Option Plan (continued)

In circumstances where a participant ceases to be an employee for reasons other than retirement, total and permanent disablement or death, the Board at its discretion may declare that (in extenuating circumstances):

- some or all of the participant's unvested options vest immediately, but only if the relevant performance criteria have been satisfied on a pro rata basis, in which case the options are exercisable on or before the thirty day period following the time that the participant ceases to be an employee;
- some or all of the participant's unvested options do not lapse in the ordinary course of business, but instead will remain on foot and be capable of exercise (subject to vesting in accordance with their terms) on or before thirty days after the day that any such options vest in accordance with their terms; or
- some or all of the participant's options (both vested and unvested), do not lapse in the ordinary course of business, but instead will remain on foot and be capable of exercise (subject to vesting in the case of unvested options), in accordance with their terms.

In circumstances were a Change of Control Event occurs the Board may declare that some or all of the outstanding options will vest immediately.

During the year ended 30 June 2012, one tranche of options were granted to executives of the Group under the Clough Limited Employee Option Plan. The vesting period of the options issued is four years. These options may be exercised at any time between the vesting date and the expiry date. Details of these options are as follows:

5,578,685 options with an exercise price of $0.68 were granted on 24 February 2012. These options have a vesting date of 24 February 2016 and an expiry date of 24 February 2019. In relation to these options, the performance criteria that must be met before the options vest are as follows:

- the options will vest if Clough's share price at the vesting date (adjusted for any dividends paid between the grant date and vesting date) is equal to or above $1.07.

In addition, 164,692 options were issued to NE Siford on the same terms as the options granted on 24 February 2011 detailed below, once they had been approved by shareholders at the Company's Annual General Meeting held on 18 October 2011.

During the year ended 30 June 2011, one tranche of options were granted to executives of the Group under the Clough Limited Employee Option Plan. The vesting period of the options issued is four years. These options may be exercised at any time between the vesting date and the expiry date. Details of these options are as follows:

5,801,166 options with an exercise price of $0.89 were granted on 24 February 2011. These options have a vesting date of 23 February 2015 and an expiry date of 23 February 2018. In relation to these options, the performance criteria that must be met before the options vest are as follows:

- the options will vest if Clough's share price at the vesting date (adjusted for any dividends paid between the grant date and vesting date) is equal to or above $1.39.

During the year ended 30 June 2010, two tranches of options were granted to executives of the Group under the Clough Limited Employee Option Plan. The vesting period of the options issued is three and four years respectively. These options may be exercised at any time between the vesting date and the expiry date. Details of these options are as follows:

4,244,848 options with an exercise price of $0.82 were granted on 16 March 2010. These options have a vesting date of 16 March 2014 and an expiry date of 16 March 2017. In relation to these options, the performance criteria that must be met before the options vest are as follows:

- the options will vest if Clough's share price at the vesting date (adjusted for any dividends paid between the grant date and vesting date) is equal to or above $1.29.

880,000 options with an exercise price of $0.90 were granted on 16 March 2010. These options have a vesting date of 16 March 2013 and an expiry date of 16 March 2016. In relation to these options, the performance criteria that must be met before the options vest are as follows:

- 25% of the options will vest irrespective of the performance of the Company.
- 50% of the options will vest if Clough's Total Shareholder Return (TSR) is equal to or greater than the average return of the S&P/ ASX 200 accumulation series index during the period between the issue of the options and the vesting date.
- 25% of the options will vest if Clough's TSR is 25% or more above the average return of the S&P/ ASX 200 accumulation series index during the period between the issue of the options and the vesting date.

## 46 Share-based payments (continued)

### (a) Employee Option Plan (continued)

During the year ended 30 June 2009, a number of tranches of options were granted to executives of the Group under the Clough Limited Employee Option Plan. The vesting period of the options issued is three years. These options may be exercised at any time between the vesting date and the expiry date. Details of these options are as follows:

2,000,000 options with an exercise price of $0.69 were granted on 8 September 2008. These options have a vesting date of 8 September 2011 and an expiry date of 8 September 2014.

810,000 options with an exercise price of $0.34 were granted on 1 February 2009. These options have a vesting date of 1 February 2012 and an expiry date of 1 February 2015.

7,543,606 options with an exercise price of $0.34 were granted on 11 February 2009. These options have a vesting date of 11 February 2012 and an expiry date of 11 February 2015.

In relation to options granted during the year ended 30 June 2009, the performance criteria that must be met before the options vest are as follows:

2,000,000 options granted on 8 September 2008 and 810,000 options granted on 1 February 2009:

- 25% of the options will vest irrespective of the performance of the Company.
- 50% of the options will vest if Clough's Total Shareholder Return (TSR) is equal to or greater than the average return of the S&P/ ASX 200 accumulation series index during the period between the issue of the options and the vesting date.
- 25% of the options will vest if Clough's TSR is 25% or more above the average return of the S&P/ ASX 200 accumulation series index during the period between the issue of the options and the vesting date.

7,543,606 options granted on 11 February 2009:

- the options will vest if Clough's share price at the vesting date (adjusted for any dividends paid between the grant date and vesting date) exceeds 64 cents.

During the year ended 30 June 2008, a number of tranches of options were granted to executives of the Group under the Clough Limited Employee Option Plan. These options have various vesting periods. These options may be exercised at any time between the vesting date and the expiry date. Details of these options are as follows:

6,000,000 options with an exercise price of $0.58 were granted on 23 November 2007. These options were split into 1 lot of 3,000,000 options and 3 lots of 1,000,000 options and have vesting dates of 1 August 2010, 2011, 2012 and 2013 respectively. These options have expiry dates of 31 July 2013, 2014, 2015 and 2016 respectively.

2,400,000 options with an exercise price of $0.75 were granted on 26 November 2007. These options have a vesting date of 26 November 2010 and an expiry date of 26 November 2013.

1,410,000 options with an exercise price of $0.86 were granted on 1 February 2008. These options have a vesting date of 1 February 2011 and an expiry date of 1 February 2014.

2,210,000 options with an exercise price of $0.86 were granted on 5 March 2008. These options have a vesting date of 5 March 2011 and an expiry date of 5 March 2014.

In relation to options granted during the year ended 30 June 2008, the performance criteria that must be met before the options vest are as follows:

- 25% of the options will vest irrespective of the performance of the Company.
- 50% of the options will vest if Clough's Total Shareholder Return (TSR) is equal to or greater than the average return of the S&P/ ASX 200 accumulation series index during the period between the issue of the options and the vesting date.
- 25% of the options will vest if Clough's TSR is 25% or more above the average return of the S&P/ ASX 200 accumulation series index during the period between the issue of the options and the vesting date.

The options were granted under the Plan for no consideration.

Options granted under the Plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in Clough Limited.

# Notes to the consolidated financial statements

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## 46 Share-based payments (continued)

### (a) Employee Option Plan (continued)

Set out below are summaries of the options granted under the Plan:

| Grant Date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Forfeited / expired during the year @ Number | Balance at end of the year Number | Vested and exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| **Consolidated entity - 2012** | | | | | | | | |
| 17 November 2005 * | 17 November 2011 | $0.31 | 605,000 | - | (545,000) | (60,000) | - | - |
| 23 April 2007 * | 23 April 2013 | $0.57 | 585,000 | - | (145,000) | (35,000) | 405,000 | 405,000 |
| 23 November 2007 - Options B * | 31 July 2014 | $0.58 | 1,000,000 | - | (250,000) | (750,000) | - | - |
| 23 November 2007 - Options C * | 31 July 2015 | $0.58 | 1,000,000 | - | - | (1,000,000) | - | - |
| 23 November 2007 - Options D * | 31 July 2016 | $0.58 | 1,000,000 | - | - | (1,000,000) | - | - |
| 26 November 2007 - Options E * | 26 November 2013 | $0.75 | 2,200,000 | - | (500,000) | - | 1,700,000 | 1,700,000 |
| 1 February 2008 - Options F | 1 February 2014 | $0.86 | 660,000 | - | - | - | 660,000 | 660,000 |
| 5 March 2008 - Options G | 5 March 2014 | $0.86 | 1,420,000 | - | - | (250,000) | 1,170,000 | 1,170,000 |
| 8 September 2008 - Options H | 8 September 2014 | $0.69 | 2,000,000 | - | (2,000,000) | - | - | - |
| 1 February 2009 - Options I | 1 February 2015 | $0.34 | 660,000 | - | - | - | 660,000 | 660,000 |
| 11 February 2009 - Options J | 11 February 2015 | $0.34 | 5,016,931 | - | (1,487,994) | (1,235,450) | 2,293,487 | 2,293,487 |
| 16 March 2010 - Options K | 16 March 2016 | $0.90 | 680,000 | - | - | - | 680,000 | - |
| 16 March 2010 - Options L | 16 March 2017 | $0.82 | 3,662,572 | - | - | (1,380,309) | 2,282,263 | - |
| 24 February 2011 - Options M # | 23 February 2018 | $0.89 | 5,473,707 | 164,692 | - | (1,715,571) | 3,922,828 | - |
| 24 February 2012 - Options N | 24 February 2019 | $0.68 | - | 5,578,685 | - | (124,768) | 5,453,917 | - |
| Total | | | 25,963,210 | 5,743,377 | (4,927,994) | (7,551,098) | 19,227,495 | 6,888,487 |
| Weighted average exercise price | | | $0.67 | $0.69 | $0.44 | $0.66 | $0.72 | $0.59 |

# 46 Share-based payments (continued)

## (a) Employee Option Plan (continued)

| Grant Date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Forfeited during the year @ Number | Balance at end of the year Number | Vested and exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| **Consolidated entity - 2011** | | | | | | | | |
| 17 November 2005 * | 17 November 2011 | $0.31 | 725,000 | - | (120,000) | - | 605,000 | 605,000 |
| 23 April 2007 * | 23 April 2013 | $0.57 | 790,000 | - | (205,000) | - | 585,000 | 585,000 |
| 23 November 2007 - Options A * | 31 July 2013 | $0.58 | 3,000,000 | - | (3,000,000) | - | - | - |
| 23 November 2007 - Options B * | 31 July 2014 | $0.58 | 1,000,000 | - | - | - | 1,000,000 | - |
| 23 November 2007 - Options C * | 31 July 2015 | $0.58 | 1,000,000 | - | - | - | 1,000,000 | - |
| 23 November 2007 - Options D * | 31 July 2016 | $0.58 | 1,000,000 | - | - | - | 1,000,000 | - |
| 26 November 2007 - Options E * | 26 November 2013 | $0.75 | 2,400,000 | - | - | (200,000) | 2,200,000 | 2,200,000 |
| 1 February 2008 - Options F | 1 February 2014 | $0.86 | 660,000 | - | - | - | 660,000 | 660,000 |
| 5 March 2008 - Options G | 5 March 2014 | $0.86 | 1,520,000 | - | - | (100,000) | 1,420,000 | 1,420,000 |
| 8 September 2008 - Options H | 8 September 2014 | $0.69 | 2,000,000 | - | - | - | 2,000,000 | - |
| 1 February 2009 - Options I | 1 February 2015 | $0.34 | 660,000 | - | - | - | 660,000 | - |
| 11 February 2009 - Options J | 11 February 2015 | $0.34 | 5,246,653 | - | - | (229,722) | 5,016,931 | - |
| 16 March 2010 - Options K | 16 March 2016 | $0.90 | 680,000 | - | - | - | 680,000 | - |
| 16 March 2010 - Options L | 16 March 2017 | $0.82 | 3,990,505 | - | - | (327,933) | 3,662,572 | - |
| 24 February 2011 - Options M | 23 February 2018 | $0.89 | - | 5,801,166 | - | (327,459) | 5,473,707 | - |
| Total | | | 24,672,158 | 5,801,166 | (3,325,000) | (1,185,114) | 25,963,210 | 5,470,000 |
| Weighted average exercise price | | | $0.61 | $0.89 | $0.57 | $0.74 | $0.67 | $0.72 |

* The exercise price of options outstanding at 28 November 2007 has been adjusted as a result of the impact of the renounceable rights issue in December 2007.

@ During the year ended 30 June 2012, 7,491,098 (2011: 1,185,114) options were forfeited and 60,000 (2011: nil) options expired.

# 164,692 options were issued to NE Siford in the current year once they had been approved by shareholders at the Company's Annual General Meeting held on 18 October 2011. These options were issued on the same terms as the options granted on 24 February 2011.

The weighted average remaining contractual life of share options outstanding at 30 June 2012 was 4.43 years (30 June 2011: 4.31 years).

# Notes to the consolidated financial statements

30 JUNE 2012

## 46 Share-based payments (continued)

### (a) Employee Option Plan (continued)

**Details of vested or forfeited option tranches:**

The options granted on 17 November 2005 can only be exercised between 17 November 2008 and 17 November 2011. The options have an exercise price of 31 cents and a vesting date of 17 November 2008. These options will vest if the executives remain employed by the Company at the vesting date. A total of 1,815,000 options vested on 17 November 2008; 870,000 options were exercised in the period to 30 June 2009; 220,000 options were exercised in the year ended 30 June 2010; 120,000 options were exercised in the year ended 30 June 2011; 545,000 options were exercised and 60,000 options expired in the year ended 30 June 2012.

The options granted on 23 April 2007 can only be exercised between 23 April 2010 and 23 April 2013. The options have an exercise price of 57 cents and a vesting date of 23 April 2010. These options will vest if the executives remain employed by the Company at the vesting date. A total of 1,325,000 options vested on 23 April 2010; 535,000 options were exercised in the period to 30 June 2010; 205,000 options were exercised in the year ended 30 June 2011; 145,000 options were exercised and 35,000 options were forfeited in the year ended 30 June 2012.

Options A granted on 23 November 2007 can only be exercised between 1 August 2010 and 31 July 2013. The options have an exercise price of 58 cents and a vesting date of 1 August 2010. These options will vest if the executives remain employed by the Company at the vesting date. A total of 3,000,000 options vested on 1 August 2010 and 3,000,000 options were exercised in the period to 30 June 2011.

Options B granted on 23 November 2007 can only be exercised between 1 August 2011 and 31 July 2014. The options have an exercise price of 58 cents and a vesting date of 1 August 2011. These options will vest if the executives remain employed by the Company at the vesting date. A total of 250,000 options vested on 1 August 2011 and 750,000 options were forfeited as a result of the performance conditions not being met. A total of 250,000 options were exercised in the period to 30 June 2012.

Options C granted on 23 November 2007 can only be exercised between 1 August 2012 and 31 July 2015. The options have an exercise price of 58 cents and a vesting date of 1 August 2012. These options will vest if the executives remain employed by the Company at the vesting date. A total of 1,000,000 options were forfeited in the year ended 30 June 2012.

Options D granted on 23 November 2007 can only be exercised between 1 August 2013 and 31 July 2016. The options have an exercise price of 58 cents and a vesting date of 1 August 2013. These options will vest if the executives remain employed by the Company at the vesting date. A total of 1,000,000 options were forfeited in the year ended 30 June 2012.

Options E granted on 26 November 2007 can only be exercised between 26 November 2010 and 26 November 2013. The options have an exercise price of 75 cents and a vesting date of 26 November 2010. These options will vest if the executives remain employed by the Company at the vesting date. A total of 2,400,000 options vested on 26 November 2010; 200,000 options were forfeited in the period to 30 June 2011 and 500,000 options were exercised in the year ended 30 June 2012.

Options F granted on 1 February 2008 can only be exercised between 1 February 2011 and 1 February 2014. The options have an exercise price of 86 cents and a vesting date of 1 February 2011. These options will vest if the executives remain employed by the Company at the vesting date. A total of 660,000 options vested on 1 February 2011 and no options were exercised or forfeited in the period to 30 June 2012.

Options G granted on 5 March 2008 can only be exercised between 5 March 2011 and 5 March 2014. The options have an exercise price of 86 cents and a vesting date of 5 March 2011. These options will vest if the executives remain employed by the Company at the vesting date. A total of 1,520,000 options vested on 5 March 2011; 100,000 options were forfeited in the period to 30 June 2011 and 250,000 options were forfeited in the year ended to 30 June 2012.

Options H granted on 8 September 2008 can only be exercised between 8 September 2009 and 8 September 2014. The options have an exercise price of 69 cents and a vesting date of 8 September 2011. These options will vest if the executives remain employed by the Company at the vesting date. A total of 2,000,000 options vested on 8 September 2011 and 2,000,000 options were exercised in the period to 30 June 2012.

Options I granted on 1 February 2009 can only be exercised between 1 February 2012 and 1 February 2015. The options have an exercise price of 34 cents and a vesting date of 1 February 2012. These options will vest if the executives remain employed by the Company at the vesting date. A total of 660,000 options vested on 1 February 2012 and no options were exercised or forfeited in the period to 30 June 2012.

Options J granted on 11 February 2009 can only be exercised between 11 February 2012 and 11 February 2015. The options have an exercise price of 34 cents and a vesting date of 11 February 2012. These options will vest if the executives remain employed by the Company at the vesting date. A total of 3,781,481 options vested on 11 February 2012 and 1,487,994 options were exercised in the period to 30 June 2012.

# 46 Share-based payments (continued)

## (a) Employee Option Plan (continued)

**Fair value of options granted:**

The assessed fair value per option at grant date of options granted during the year ended 30 June 2012 was: Options N: 36.29 cents and was determined by the directors based on an independent valuation prepared by RSM Bird Cameron Corporate Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting date and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2012 included:

(a) options are granted for no consideration and are exercisable at any time between the vesting date and the expiry date. Options N have a seven year life
(b) grant date: Options N: 24 February 2012
(c) vesting date: Options N: 24 February 2016
(d) expiry date: Options N: 24 February 2019
(e) share price at grant date: Options N: 81 cents
(f) exercise price: Options N: 68 cents
(g) expected price volatility of the Company's shares: Options N: 62%
(h) expected dividend yield: Options N: 2.7%
(i) risk-free interest rate: Options N: 3.72%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the options.

The assessed fair value per option at grant date of options granted during the year ended 30 June 2011 was: Options M: 34.37 cents and was determined by the directors based on an independent valuation prepared by RSM Bird Cameron Corporate Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting date and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2011 included:

(a) options are granted for no consideration and are exercisable at any time between the vesting date and the expiry date. Options M have a seven year life
(b) grant date: Options M: 24 February 2011
(c) vesting date: Options M: 23 February 2015
(d) expiry date: Options M: 23 February 2018
(e) share price at grant date: Options M: 89 cents
(f) exercise price: Options M: 89 cents
(g) expected price volatility of the Company's shares: Options M: 54%
(h) expected dividend yield: Options M: 2.2%
(i) risk-free interest rate: Options M: 5.54%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the options.

The assessed fair value per option at grant date of options granted during the year ended 30 June 2010 was: Options K: 35.7 cents and L: 32.1 cents and was determined by the directors based on an independent valuation prepared by RSM Bird Cameron Corporate Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting date and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

# Notes to the consolidated financial statements

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## 46 Share-based payments (continued)

### (a) Employee Option Plan (continued)

The model inputs for options granted during the year ended 30 June 2010 included:

(a) options are granted for no consideration and are exercisable at any time between the vesting date and the expiry date. Options K have a six year life and Options L have a seven year life
(b) grant date: Options K and L: 16 March 2010
(c) vesting date: Options K: 16 March 2013 and L: 16 March 2014
(d) expiry date: Options K: 16 March 2016 and L: 16 March 2017
(e) share price at grant date: Options K: 81.5 cents and L: 81.5 cents
(f) exercise price: Options K: 90 cents and L: 82 cents
(g) expected price volatility of the Company's shares: Options K: 62% and L: 56%
(h) expected dividend yield: Options K: 2.2% and L: 2.2%
(i) risk-free interest rate: Options K: 5.4% and L: 5.4%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the options.

The assessed fair value per option at grant date of options granted during the year ended 30 June 2009 was: Options H: 31.3 cents; I: 11.82 cents and J: 8.73 cents and was determined by the directors based on an independent valuation prepared by RSM Bird Cameron Corporate Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting date and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

(a) options are granted for no consideration, have a six year life and are exercisable at any time between the vesting date and the expiry date
(b) grant date: Options H: 8 September 2008, I: 1 February 2009 and J: 11 February 2009
(c) vesting date: Options H: 8 September 2011, I: 1 February 2012 and J: 11 February 2012
(d) expiry date: Options H: 8 September 2014, I: 1 February 2015 and J: 11 February 2015
(e) share price at grant date: Options H: 75 cents; I: 29 cents and J: 30 cents
(f) exercise price: Options H: 69 cents; I: 34 cents and J: 34 cents
(g) expected price volatility of the Company's shares: Options H: 44%; I: 65% and J: 65%
(h) expected dividend yield: Options H: 0%; I: 3% and J: 3%
(i) risk-free interest rate: Options H: 5.73%; I: 3.26% and J: 3.59%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the options.

The assessed fair value per option at grant date of options granted during the year ended 30 June 2008 was: Options A: 34.5 cents, B: 32.29 cents, C: 34.6 cents, D: 35.77 cents, E: 34.14 cents, F: 34.67 cents and G: 33.09 cents and was determined by the directors based on an independent valuation prepared by RSM Bird Cameron Corporate Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting date and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

(a) options are granted for no consideration, have a six year life (except for Options A: 5.7 years, B: 6.7 years, C: 7.7 years, D: 8.7 years) and are exercisable at any time between the vesting date and the expiry date
(b) grant date: Options A,B,C and D: 23 November 2007, E: 26 November 2007, F: 1 February 2008 and G: 5 March 2008
(c) vesting date: Options A: 1 August 2010, B: 1 August 2011, C: 1 August 2012, D: 1 August 2013, E: 26 November 2010, F: 1 February 2011 and G: 5 March 2011
(d) expiry date: Options A: 31 July 2013, B: 31 July 2014, C: 31 July 2015, D: 31 July 2016, E: 26 November 2013, F: 1 February 2014 and G: 5 March 2014
(e) share price at grant date: Options A,B,C and D: 72 cents, E: 77 cents, F: 80 cents and G: 64 cents
(f) exercise price: Options A,B,C and D: 58 cents, E: 75 cents; F and G: 86 cents
(g) expected price volatility of the Company's shares: 44%
(h) expected dividend yield: 0%
(i) risk-free interest rate: Options A and B: 6.15%, C and D: 5.84%, E: 6.23%, F: 6.40% and G: 6.10%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the options.

# 46 Share-based payments (continued)

## (b) Executive Incentive Scheme

Performance rights are granted to key management personnel and senior executives under the Clough Limited Executive Incentive Scheme (Incentive Scheme) to align their interests with those of the shareholders of the Company and for executive retention purposes.

The following are the key aspects of the Incentive Scheme:

The Board determines the eligibility of executives and their entitlement having regard to, amongst other things, the performance and future potential contribution of each executive. Participation by executive directors is subject to shareholder approval.

The maximum number of performance rights that can be issued is subject to the following test. The Company must not grant any performance rights or procure the issue of any shares under this Scheme if immediately following the grant of performance rights or an issue of shares from the vesting of performance rights, the aggregate of: the total number of unissued shares over which options or performance rights have been granted; and the total number of shares issued during the preceding five years under the Clough Limited Employee Option Plan and the Clough Limited Executive Incentive Scheme, would exceed 5% of the number of shares on issue at the time of the proposed grant or issue, except for an issue of options or performance rights to Executive Directors for which separate shareholder approval is obtained.

If an executive ceases to be an employee by reason of death, total and permanent disablement, retirement or redundancy or in other circumstances approved by the Board, the Board may determine, in its absolute discretion, the number of unvested performance rights that will vest and the balance will automatically lapse. If an executive leaves the employment of the Company, for reasons other than death, total and permanent disablement, retirement or redundancy, before the vesting date, the performance rights will lapse.

In addition, if a Change of Control Event occurs, then all performance rights granted under this Scheme vest automatically. A Change of Control Event is defined as:

(i) members of the Company approving a scheme which would, if it becomes effective, result in any person (either alone or together with its related bodies corporate) owning all the ordinary shares in the Company or a scheme for the reconstruction of the Company or its amalgamation with any other body corporate or bodies corporate;

(ii) a takeover bid or other offer being made to acquire more than 50% of the voting shares of the Company that the bidder (together with its related bodies corporate) does not already own and that takeover bid or offer becoming unconditional; or

(iii) a person or group of associated persons, who do not as at the date of adoption of the Clough Limited Executive Incentive Scheme by the Board have such a relevant interest, obtaining a relevant interest in sufficient ordinary shares to give it or them the ability, in a general meeting, to replace all or a majority of the Board.

During the year ended 30 June 2012, one tranche of performance rights were granted to executives of the Group under the Clough Limited Executive Incentive Scheme for executive retention purposes. The vesting period of the performance rights issued is three years and the performance rights will vest automatically providing that the executive is still employed by the Company at the vesting date. Details of these performance rights are as follows:

1,284,717 performance rights were granted on 1 March 2012. The performance rights have a nil exercise price, a vesting date of 1 March 2015 and an expiry date of 1 March 2018. The performance rights have no performance criteria other than time served that must be met before they vest.

In addition, a further 305,885 performance rights will be issued to NE Siford on the same terms as the performance rights granted on 1 March 2012 above, subject to shareholder approval at the Company's Annual General Meeting to be held on 23 October 2012.

The performance rights were granted under the Incentive Scheme for no consideration.

Performance rights granted under the Incentive Scheme carry no dividend or voting rights.

On vesting, each performance right entitles the holder to either, at the Company's election: (i) receive one ordinary share in Clough Limited; or (ii) receive in cash the market price of one ordinary share in Clough Limited as at the vesting date.

# Notes to the consolidated financial statements

30 JUNE 2012

## 46 Share-based payments (continued)

### (b) Executive Incentive Scheme (continued)

**Fair value of performance rights granted:**

The assessed fair value per performance right at grant date of performance rights granted during the year ended 30 June 2012 was 74.64 cents and was determined by the directors based on an independent valuation prepared by RSM Bird Cameron Corporate Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the performance right, the vesting date and expected life, the non-tradeable nature of the performance right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

(a) performance rights are granted for no consideration, have a six year life and vest automatically on the vesting date
(b) grant date: 1 March 2012
(c) vesting date: 1 March 2015
(d) expiry date: 1 March 2018
(e) share price at grant date: 81 cents
(f) exercise price: nil
(g) expected price volatility of the Company's shares: 62.00%
(h) expected dividend yield: 2.7%
(i) risk-free interest rate: 3.68%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the performance rights.

### (c) Sign-on shares issued to KT Gallagher

1,136,394 fully paid ordinary Clough Limited shares with a fair value of $900,000 were issued to KT Gallagher on 7 November 2011 as part of his sign-on payment. The issue of these shares was approved at the Company's Annual General Meeting held on 18 October 2011. These shares are currently unlisted and are not freely transferable until the first anniversary of KT Gallagher's employment with the Company.

The number of contractual shares issued to KT Gallagher was calculated as follows: $900,000 / the five day volume weighted average price of Clough Limited shares traded on the ASX up to and including the trading day before his commencement date (being 3 November 2011).

### (d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of labour costs were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2012 $'000** | 2011 $'000 |
| **Share-based payment expense** | | |
| Shares issued to KT Gallagher as part of sign-on payment | **900** | - |
| Options / performance rights issued under the Option Plan / Incentive Scheme | **722** | 937 |
| | **1,622** | 937 |

## 47 Ultimate parent entity

The ultimate parent entity is Murray & Roberts Holdings Limited, a company incorporated in South Africa.

# Directors' declaration

30 JUNE 2012

In the directors' opinion:

(a) the financial statements and notes set out on pages 56 to 140 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

PERTH

21 August 2012

**Kevin Thomas Gallagher**
Director

**Keith Spence**
Director

# Independent Auditor's Report

Deloitte.

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## Independent Auditor's Report to the Members of Clough Limited

### Report on the Financial Report

We have audited the accompanying financial report of Clough Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 56 to 141.

***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

***Auditor's Responsibility***

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

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

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

***Auditor's Independence Declaration***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Clough Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

***Opinion***

In our opinion:

(a) the financial report of Clough Limited is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 51 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

***Opinion***

In our opinion the Remuneration Report of Clough Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

**Deloitte Touche Tohmatsu**

**A T Richards**
Partner
Chartered Accountants
Perth, 21 August 2012

# Shareholder and Investor Information

The shareholder information set out below was applicable as at 23 August 2012.

## Distribution of Members and their Holdings

| Size of holding | | | Number of Holders | | |
|---|---|---|---|---|---|
| | | | Ordinary Shares | Options over ordinary shares | Performance Rights over ordinary shares |
| 1 | - | 1,000 | 460 | - | - |
| 1,001 | - | 5,000 | 1,172 | 1 | - |
| 5,001 | - | 10,000 | 612 | 1 | - |
| 10,001 | - | 100,000 | 911 | 49 | - |
| 100,001 | | and over | 131 | 44 | 5 |
| | | | 3,286 | 95 | 5 |

There were 249 holders of less than a marketable parcel of ordinary shares.

## Twenty Largest Shareholders

| Name | Percentage of Issued Capital % | Number of Ordinary shares held |
|---|---|---|
| Murray & Roberts Limited | 61.81 | 478,957,478 |
| National Nominees Limited | 6.91 | 53,539,432 |
| JP Morgan Nominees Australia Limited | 6.72 | 52,111,414 |
| HSBC Custody Nominees (Australia) Limited | 4.83 | 37,433,493 |
| BNP Paribas Nominees Pty Ltd – Master Cust DRP | 2.64 | 20,422,097 |
| RBC Investor Services Australia Nominees Pty Limited – PI Pooled A/C | 2.25 | 17,440,102 |
| Zero Nominees Pty Limited | 1.94 | 15,000,000 |
| Citicorp Nominees Pty Limited | 1.09 | 8,473,865 |
| Chemco Superannuation Fund Pty Ltd – No 2 A/C | 0.76 | 5,869,488 |
| Equity Trustees Limited – SGH 20 | 0.72 | 5,600,000 |
| RBC Investor Services Australia Nominees Pty Limited – BKCust A/C | 0.61 | 4,698,393 |
| Andrea Antoci | 0.30 | 2,331,587 |
| Citicorp Nominees Pty Limited – Colonial First State Inv A/C | 0.27 | 2,053,941 |
| G Harvey Nominees Pty Limited – Harvey 1995 Discretion A/C | 0.26 | 2,013,855 |
| Pershing Australia Nominees Pty Ltd – Accum A/C | 0.25 | 1,912,534 |
| HSBC Custody Nominees (Australia) Limited – NT-Commonwealth Super Corp A/C | 0.16 | 1,242,599 |
| John Smith | 0.15 | 1,147,246 |
| Kevin Thomas Gallagher | 0.15 | 1,136,394 |
| John Joseph Wallace – Wallace Family A/C | 0.14 | 1,094,541 |
| Mrs Miriel Joan Reid | 0.14 | 1,085,990 |
| | 92.10 | 713,564,449 |
| **Total number of issued shares** | | 774,924,050 |

# Shareholder and Investor Information

## Substantial Shareholders

The number of shares held by substantial shareholders, as disclosed in the substantial shareholding notice given to the Company.

| Shareholder | Number held |
|---|---|
| Murray & Roberts Limited | 478,957,478 |
| BT Investment Management Limited | 39,429,227 |

## Unquoted Equity Securities

### Options

There are 18,886,187 options issued to 95 executives under the Clough Limited Executive Option Plan to take up ordinary shares.

### Performance Rights

There are 1,284,717 performance rights issued to 5 executives under the Clough Limited Executive Incentive Scheme to take up ordinary shares.

## Voting Rights

Ordinary shares carry voting rights of one vote per share.

Options and Performance Rights have no voting rights.

## Shareholder Inquiries

Shareholders can obtain information about their shares or dividend payments by contacting the Company's share registry:

Link Market Services Limited
Ground Floor
178 St George's Terrace
Perth, Western Australia 6000

**Telephone** +613 0055 4474
**Facsimile** +612 9287 0303

## Stock Exchange Listing

Securities in Clough Limited are quoted on the Australian Securities Exchange.

## Change of Address

Shareholders should notify the share registry in writing immediately there is a change of their registered address or change in banking details for dividends electronically credited to a bank account in Australia.

## Publications

The annual report is the main source of information for shareholders.

## Removal from Annual Report Mailing List

Shareholders who do not wish to receive the annual report, or who are receiving more than one copy, should advise the share registry in writing.

## Clough Limited Website

Clough Limited has an internet address at **www.clough.com.au**

This contains the Company's latest annual report, interim reports and media statements released through the Australian Securities Exchange.

Designed by Platform Communications

www.clough.com.au

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