

## ASX/MEDIA RELEASE

11 October 2013

### **Scheme Booklet Registered with ASIC and Independent Expert concludes Scheme is in the best interests of Clough shareholders**

Clough announced today that the Australian Securities and Investments Commission has registered the Scheme Booklet in relation to the previously announced proposal by Murray & Roberts Pty Ltd (a wholly owned subsidiary of Murray & Roberts Holdings Limited) to acquire all the outstanding shares that it does not already own in Clough by scheme of arrangement between Clough and its shareholders ("**Scheme**"). Further, the Independent Expert, Grant Samuel & Associates Pty Limited has concluded that the Scheme is in the best interests of Clough shareholders, in the absence of a superior proposal.

Printed copies of the Scheme Booklet, including the Independent Expert's Report, will be sent to Clough Shareholders over the next week. A copy of the Scheme Booklet, including the Independent Expert's Report, is attached to this announcement.

If the Scheme is approved and all conditions precedent are satisfied, Clough shareholders will receive a total cash payment of \$1.46 per Clough Share, which is expected to comprise:

- **Scheme consideration:** a cash payment of \$1.32 per share paid by Murray & Roberts Pty Ltd; and
- **Special dividend:** a cash dividend of \$0.14 per share paid by Clough, which is expected to be fully franked. Clough shareholders who are able to capture the full benefit of the franking credit associated with the special dividend may realise an additional \$0.06 per share.

Clough's Independent Directors<sup>1</sup> unanimously recommend that shareholders vote in favour of the resolutions required to implement the Scheme, in the absence of a superior proposal. The Independent Directors also intend to vote in favour of the Scheme in respect of the Clough shares over which they have voting control, in the absence of a superior proposal.

If you have any questions in relation to the Scheme, please contact the Clough Shareholder Information Line on 1800 992 673 (within Australia) or +61 1800 992 673 (from outside Australia).

Ends

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<sup>1</sup> "Clough's Independent Directors" in this announcement means all Clough Directors other than Murray & Roberts nominees.

For further information, please contact:

**Investor Enquiries:** Jon North, Managing Director, JB North & Co + 61 410 630 526  
**Media Enquiries:** Kristy McGrath, Corporate Affairs Manager +61 8 9281 9344

## **About Clough**

Clough is an engineering and project services contractor servicing the Energy & Chemical and Mining & Mineral markets in Australia and Papua New Guinea. Our services range from early concept evaluation and feasibility studies through design, construction, commissioning and long term asset support and optimisation.

Backed by an experienced management team, a workforce of over 6000 people and sophisticated project management systems, Clough is recognised for a commitment to safety, sustainable development and the wellbeing of the people, communities and environments in which it operates.

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

## **About Murray & Roberts**

Murray & Roberts is a leading South African engineering, contracting and construction services company. It has created employment, developed skills, applied technology and delivered infrastructure since 1902.

The company offers civil, mechanical, electrical, mining and process engineering; general building, construction and infrastructure development services in the global underground mining market and selected emerging markets in the natural resources and infrastructure sectors.

Murray & Roberts operates in Southern Africa, Middle East, Southeast Asia, Australasia and North and South America. The company is based in Johannesburg South Africa, where it has a public listing on the JSE Limited. Murray & Roberts is a group of world-class companies and brands aligned to the same purpose and vision, and guided by the same set of values.

**[www.murrob.com](http://www.murrob.com)**

A photograph of a modern office interior with a yellow-green tint. In the foreground, a large sign displays the Clough logo and tagline. In the background, two men in business attire are seated at a table, engaged in a conversation.

# SCHEME BOOKLET

## A RECOMMENDED SCHEME OF ARRANGEMENT IN RELATION TO THE PROPOSED ACQUISITION OF ALL OF YOUR CLOUGH SHARES BY THE MURRAY & ROBERTS GROUP

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Your Independent Directors unanimously recommend that you **VOTE IN FAVOUR** of the Resolutions required to implement the Scheme, in the absence of a Superior Proposal.

Your Independent Directors intend to **VOTE IN FAVOUR** of the Scheme Resolution in respect of the Clough Shares over which they have voting control, in the absence of a Superior Proposal.

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This is an important document and requires your immediate attention. You should read it in its entirety before deciding whether or not to vote in favour of the Resolutions required to implement the Scheme. If you are in any doubt as to how to deal with this Scheme Booklet, you should consult your broker, financial adviser or other professional adviser immediately. If you have recently sold your Clough Shares, please ignore this booklet.

If you have any questions in relation to this Scheme Booklet or the Scheme, you should call the Clough Shareholder Information Line on 1800 992 673 (within Australia) or +61 1800 992 673 (from outside Australia) Monday to Friday between 8.30 am and 7.30 pm (Sydney time).

If you are in any doubt about how to deal with this document, you should consult your financial, legal or other professional adviser immediately.

Financial advisers to Clough:



Gresham Advisory Partners Limited

**NORTH**

JB North & Co Pty Ltd

Legal adviser to Clough:

**ashurst**



## CONTENTS

Important dates and expected timetable for the Scheme	1
Letter from the Chairman of Clough	2

Important notices	4
1 Considerations relevant to your vote	6
2 Frequently Asked Questions	12
3 Summary of the Scheme and other aspects of the Transaction	20
4 How to vote at the Clough Shareholders' Meetings	26
5 Information relating to Clough	30
6 Information relating to Murray & Roberts (Aus) and the Murray & Roberts Group	42
7 Taxation implications	50
8 Implementation of the Scheme and other aspects of the transaction	61
9 Further information in relation to the Clough Loan resolution	63
10 Additional information	67
11 Glossary	74

Annexure A	83
Summary of Terms of Scheme Implementation Agreement	
Annexure B	89
Deed poll	
Annexure C	100
Scheme of Arrangement	
Annexure D	118
Notice of General Meeting	
Annexure E	122
Notice of Scheme Meeting	
Annexure F	127
Independent Expert's Report	
Corporate directory	219





# IMPORTANT DATES & EXPECTED TIMETABLE FOR THE SCHEME

KEY DATES	
Date of this <b>Scheme Booklet</b>	Friday, 11 October 2013
<b>Murray &amp; Roberts Shareholders Meeting</b> to approve the Transaction	Wednesday, 6 November 2013
Latest time and date for receipt of proxy forms or powers of attorney by Share Registry for:	
• the General Meeting	10.00 am on Wednesday, 13 November 2013
• the Scheme Meeting	11.00 am on Wednesday, 13 November 2013
Time and date for determining eligibility to vote at the Clough Shareholders' Meetings	4.00 pm on Wednesday, 13 November 2013
<b>General Meeting</b> to vote on the Clough Loan Resolution	10.00 am on Friday, 15 November 2013
<b>Scheme Meeting</b> to vote on the Scheme Resolution	11.00 am on Friday, 15 November 2013 <sup>2</sup>
IF THE RESOLUTIONS ARE PASSED AT THE CLOUGH SHAREHOLDERS' MEETINGS	
<b>Special Dividend</b> determined <sup>1</sup>	Friday, 15 November 2013
<b>Second Court Hearing</b> for approval of the Scheme	Wednesday, 20 November 2013
<b>Effective Date</b>	
Court order lodged with ASIC and announcement to ASX	Thursday, 21 November 2013
Last day of trading in Clough Shares on ASX (with Clough Shares suspended from close of trading)	
<b>Special Dividend Record Date</b> for determining entitlements to the Special Dividend <sup>1</sup>	5.00 pm on Thursday, 28 November 2013
<b>Special Dividend Payment Date</b> <sup>1</sup>	Tuesday, 3 December 2013
<b>Scheme Record Date</b> for determining entitlements to Scheme Consideration	5.00 pm on Wednesday, 4 December 2013
<b>Implementation Date</b>	Wednesday, 11 December 2013
Payment of Scheme Consideration	

<sup>1</sup> Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied.

<sup>2</sup> If the General Meeting concludes or is adjourned after 11.00 am, the Scheme Meeting will begin as soon as practicable after the conclusion or adjournment (as the case may be).

All dates following the date of the Clough Shareholders' Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other Government Agencies. The actual timetable will depend on many factors outside the control of Clough and Murray & Roberts (Aus), including the Court approval process and satisfaction of other conditions precedent. In particular, if there is a delay in obtaining the required South African or Australian regulatory approvals, the Second Court Date (and possibly the date of the Clough Shareholders' Meeting) may be postponed which, in turn, will postpone subsequent dates (including the Implementation Date). Clough reserves the right to vary the times and dates set out above. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced on ASX and set out on Clough's website at [www.clough.com.au](http://www.clough.com.au)

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# LETTER FROM THE CHAIRMAN OF CLOUGH

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11 October 2013

Dear Clough Shareholder

## Recommended Scheme of Arrangement

On 29 August 2013, Clough announced that it had entered into a Scheme Implementation Agreement with its majority shareholder, the Murray & Roberts Group, under which the Murray & Roberts Group will acquire all of the Clough Shares that it does not already own. The transaction is to be effected by way of a scheme of arrangement between Clough and its shareholders.

If the Scheme is approved and all conditions precedent are satisfied, Clough Shareholders will receive a total cash payment of \$1.46 per Clough Share, which is expected to comprise:

- **Scheme consideration:** a cash payment of \$1.32 per share paid by Murray & Roberts (Aus); and
- **Special dividend:** a cash dividend of \$0.14 per share paid by Clough.<sup>1</sup>

The Independent Directors believe that the Scheme provides an opportunity for Clough Shareholders to realise certain cash proceeds at an attractive premium of 30.9% to the closing price of \$1.115 per Clough Share on 30 July 2013 (being the last trading day prior to the announcement of the Murray & Roberts Proposal). It is also a premium to Clough's historical trading prices, including the all-time high price at which Clough Shares traded on ASX prior to the announcement of the proposal. This opportunity may not be available if the Scheme does not proceed.

## Independent Directors' recommendation

**The Independent Directors believe that the Scheme is in the best interests of Clough Shareholders and therefore unanimously recommend that you vote in favour of the Resolutions required to implement the Scheme.**

The Independent Expert, Grant Samuel & Associates Pty Limited, has also concluded that the Scheme is in the best interests of Clough Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the full underlying value of Clough to be in the range \$1.37 - \$1.49 per Clough Share. The cash payment of \$1.46 per Clough Share is within this range. A full version of the Independent Expert's Report is included in Annexure F of this Scheme Booklet.

The reasons to vote in favour of the Resolutions required to implement the Scheme are set out in detail in Section 1.2. There are also reasons why you may choose to vote against the Resolutions required to implement the Scheme, which are set out in Section 1.3.

## If the Scheme is not implemented

If the Scheme is not implemented, Clough will continue as an independent entity listed on ASX and Clough Shareholders will not receive the cash payment of \$1.46 per Clough Share. If the Scheme does not proceed and no alternative proposal emerges, the Independent Directors consider that the market price of Clough Shares is likely to trade at levels below \$1.46 per Clough Share.

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<sup>1</sup> The Special Dividend is expected to be fully-franked. Clough Shareholders who are able to capture the full benefit of the franking credit associated with the Special Dividend may realise an additional \$0.06 per share. Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied.

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### **Clough Shareholders' Meetings**

The Scheme requires the approval of Clough Shareholders and is subject to a number of other conditions. The conditions include approval by Clough Shareholders of the Clough Loan, approval of the Transaction by Murray & Roberts' shareholders and approval by the Court. These conditions are summarised in Annexure A.

The approval of the Clough Loan and the approval of the Scheme will be voted on at separate meetings of Clough Shareholders to be held at the Parmelia Hilton Perth, 14 Mill Street, Perth on Friday, 15 November 2013. The first of these meetings is the General Meeting to approve the Clough Loan and will commence at 10.00 am on that day. The second meeting is the Scheme Meeting to approve the Scheme and will commence at 11.00 am on that day<sup>2</sup>.

### **Your vote is important for the Scheme to proceed**

**Your vote is important and I strongly encourage you to exercise your right to vote on this important transaction. Each Independent Director intends to vote their Clough Shares in favour of the Scheme.**

For details of how you may vote at the General Meeting and the Scheme Meeting refer to the Notice of General Meeting and Notice of Scheme Meeting contained in Annexure D and Annexure E of this Scheme Booklet (respectively).

### **Further information**

I encourage you to read this Scheme Booklet carefully and in its entirety as it contains important information that will need to be considered before you vote on the Scheme and the Resolutions required to implement the Scheme. I also encourage you to seek independent legal, financial or other professional advice before making an investment decision in relation to your Clough Shares.

If you have any questions about the Scheme, please contact the Clough Shareholder Information Line on 1800 992 673 (within Australia) or +61 1800 992 673 (from outside Australia).

Yours sincerely



**KEITH SPENCE**  
INDEPENDENT NON-EXECUTIVE CHAIRMAN

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<sup>2</sup> If the General Meeting concludes or is adjourned after 11.00 am, the Scheme Meeting will begin as soon as practicable after the conclusion or adjournment (as the case may be).

# IMPORTANT NOTICES

## Nature of this document

This Scheme Booklet is important. Clough Shareholders should carefully read this Scheme Booklet in its entirety before deciding whether or not to vote in favour of the Resolutions required to implement the Scheme.

This Scheme Booklet explains the terms of the Transaction, which comprises:

- the proposed acquisition of all of the Scheme Shares by Murray & Roberts (Aus) (a wholly owned Australian subsidiary of Murray & Roberts), by way of a scheme of arrangement between Clough and Clough Shareholders under Part 5.1 of the Corporations Act; and
- Clough incurring obligations under the Clough Loan Agreement after the Scheme becomes Effective, which constitutes:
  - Clough and its Subsidiaries giving financial assistance to Murray & Roberts (Aus) to acquire Clough Shares for the purposes of Part 2J.3 of the Corporations Act; and
  - Clough and its Subsidiaries giving a financial benefit to the Murray & Roberts Group, in particular Murray & Roberts (Aus), a related party, for the purposes of Chapter 2E of the Corporations Act.

This Scheme Booklet also sets out the manner in which the Scheme will be considered and implemented (if all of the conditions to the Scheme are satisfied or (if permitted) waived) and provides such information as is prescribed by law or is otherwise material to the decision of Clough Shareholders to vote in favour of the Resolutions required to implement the Scheme at the Clough Shareholders' Meetings.

This Scheme Booklet constitutes an explanatory statement pursuant to section 412(1) of the Corporations Act (in relation to the Scheme), section 260B(4) of the Corporations Act (in relation to the Financial Assistance) and section 219(1) of the Corporations Act (in relation to the Financial Benefit).

If you have sold all your Clough Shares, please disregard this Scheme Booklet.

## Responsibility for information

Except as provided in paragraphs (a) and (b) below, the information in this Scheme Booklet has been prepared by Clough and is the responsibility of Clough. Murray & Roberts and Murray & Roberts (Aus) and their respective directors, officers and advisers do not assume any responsibility for the accuracy or completeness of any such information, subject to the following:

- (a) Murray & Roberts (Aus) and Murray & Roberts have prepared and are responsible for the Murray & Roberts Information, including information as to the funding arrangements Murray & Roberts (Aus) and Murray & Roberts have made to provide the Scheme Consideration, and information as to Murray & Roberts (Aus)'s and Murray & Roberts' opinions, views, intentions and decisions in relation to Clough. Clough and its directors, officers and advisers:
  - have not verified the Murray & Roberts Information;
  - have relied on Murray & Roberts (Aus) and Murray & Roberts to verify the Murray & Roberts Information;
  - do not assume any responsibility for the accuracy or completeness of the Murray & Roberts Information; and
  - accordingly, disclaim responsibility and liability for the Murray & Roberts Information.
- (b) The Independent Expert, Grant Samuel & Associates Pty Limited, has provided and is responsible for the Independent Expert's Report in relation to the Scheme. None of Clough, Murray & Roberts (Aus) or Murray & Roberts assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report set out in Annexure F to this Scheme Booklet except in relation to information given by them to the Independent Expert. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in the Independent Expert's Report set out in Annexure F to this Scheme Booklet.

## Regulatory information and role of ASIC and ASX

A copy of this Scheme Booklet has been provided to ASIC in accordance with section 411(2) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Clough Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that it has no objection to the Scheme. ASIC's policy in relation to statements under section 411(17)(b) of the Corporations Act is that it will not provide such a statement until the Second Court Date. This is because ASIC will not be in a position to advise the Court until it has had an opportunity to observe the entire Scheme process. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has also been lodged with ASIC before being sent to Clough Shareholders, as required by sections 218 and 260B(5) of the Corporations Act.

## Court order

The fact that, under subsection 411(1) of the Corporations Act, the Court has ordered that the Scheme Meeting be convened and has approved the Scheme Booklet required to accompany the Notice of Scheme Meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how Clough Shareholders should vote (on this matter members must reach their own decision); or
- has prepared, or is responsible for the content of, the Scheme Booklet.



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## **Forward looking statements and intentions**

Certain statements in this Scheme Booklet relate to future matters.

Clough Shareholders should be aware that there are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Clough to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct, results, performance or achievements to be materially different from historical conduct, results, performance or achievements.

These risks, uncertainties, assumptions and other important factors include, among other things, the risks set out in Section 5.5 of this Scheme Booklet.

Neither the Murray & Roberts Group or the Clough Group, nor any of their directors, officers or advisers, or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur.

Clough Shareholders are cautioned about relying on any such forward looking statements. The forward looking statements in this Scheme Booklet reflect views held only as at the date of this Scheme Booklet.

Additionally, statements of the intentions of the Murray & Roberts Group reflect present intentions as at the date of this Scheme Booklet and may be subject to change.

Subject to the Corporations Act and any other applicable laws, the Clough Group and the Murray & Roberts Group disclaim any duty to update any forward looking statements other than with respect to information that they become aware of prior to the Clough Shareholders' Meetings which is material to the making of a decision regarding whether or not to vote in favour of the Resolutions required to implement the Scheme.

## **Investment decisions**

This Scheme Booklet does not take into account the investment objectives, financial situation and particular needs of each individual Clough Shareholder or any other person. Before making any investment decision in relation to the Scheme, you should consider, with or without the assistance of an independent securities adviser, whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances.

## **Privacy**

The Clough Group and the Murray & Roberts Group may need to collect personal information to implement the Scheme.

The personal information may include the names, contact details and details of holdings of Clough Shareholders, together with contact details of individuals appointed as proxies, attorneys or corporate representatives for the Clough Shareholders' Meetings. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of the collection of personal information is to assist the Clough Group and the Murray & Roberts Group conduct the Clough Shareholders' Meetings and implement the Scheme.

The information may be disclosed to Clough, Murray & Roberts (Aus) and their respective related bodies corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Scheme.

Clough Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. Clough Shareholders may contact the Share Registry if they wish to exercise these rights.

If the information outlined above is not collected, Clough may be hindered in, or prevented from, conducting the Clough Shareholders' Meetings or implementing the Scheme. Clough Shareholders who appoint an individual as their proxy, attorney or corporate representative to vote at the Clough Shareholders' Meetings should inform that individual of the matters outlined above.

## **External websites**

Unless expressly stated otherwise, the content of Murray & Roberts' and Clough's websites do not form part of this Scheme Booklet and Clough Shareholders should not rely on any such content.

## **Glossary and defined terms**

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 11 of this Scheme Booklet. This section also sets out rules of interpretation which apply to this Scheme Booklet. Unless expressly stated otherwise, the Glossary does not apply to the Annexures.

The calculation of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effects of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

## **Date of this Scheme Booklet**

This Scheme Booklet is dated 11 October 2013.









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# CONSIDERATIONS RELEVANT TO YOUR VOTE







## 1.1 SUMMARY

### Reasons to vote in favour of the Resolutions required to implement the Scheme

	Your Independent Directors unanimously recommend that you vote in favour of the Resolutions required to implement the Scheme, in the absence of a Superior Proposal.
	The Independent Expert has concluded that the Scheme is in the best interests of Clough Shareholders, in the absence of a Superior Proposal.
	The cash payment of \$1.46 per Clough Share represents an attractive premium for your Clough Shares.
	The cash payment of \$1.46 per Clough Share provides you with certainty as to the value of your Clough Shares.
	The Special Dividend is expected to be fully franked. Clough Shareholders who are able to capture the full benefit of the franking credit associated with the Special Dividend may realise an additional \$0.06 per share.
	A Competing Proposal is considered unlikely and no Superior Proposal has emerged as at the date of this Scheme Booklet.
	The Clough Share price is likely to fall if the Scheme is not implemented.
	No brokerage or stamp duty will be payable on the transfer of your Clough Shares under the Scheme.

These reasons are discussed in more detail in Section 1.2.

### Reasons why you may choose to vote against the Resolutions required to implement the Scheme

	You may disagree with the Independent Directors' recommendation and the Independent Expert's conclusion.
	If the Scheme is implemented, you will no longer participate in any potential upside that may result from being a Clough Shareholder.
	You may consider that a Superior Proposal may emerge.
	The tax consequences of the Scheme may not be suitable for you.

These reasons are discussed in more detail in Section 1.3.

## 1.2 REASONS TO VOTE IN FAVOUR OF THE RESOLUTIONS REQUIRED TO IMPLEMENT THE SCHEME

### (a) **Your Independent Directors unanimously recommend you vote in favour of the Resolutions required to implement the Scheme, in the absence of a Superior Proposal**

Your Independent Directors consider that the Scheme is in the best interests of Clough Shareholders and unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Resolutions required to implement the Scheme at the Clough Shareholders' Meetings.

Each Independent Director intends to vote in favour of the Scheme Resolution at the Scheme Meeting in relation to the Clough Shares they hold or control, in the absence of a Superior Proposal. The Corporations Act prohibits Clough Directors (including the Independent Directors) from voting on the Clough Loan Resolution. The interests of Clough Directors are set out in Section 10.3 of this Scheme Booklet.

In reaching their recommendation and determining how to vote on the Scheme, the Independent Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Resolutions required to implement the Scheme, as set out in this Scheme Booklet. The Independent Directors believe the pricing under the Scheme is attractive, and recognises the value of both Clough’s existing business and its growth opportunities. The Scheme also provides certain cash proceeds in the near term which may not be achieved if the Scheme does not proceed.

Each Excluded Director is a director of one or more entities within the Murray & Roberts Group and is employed by the Murray & Roberts Group and, on that basis, does not make any recommendation in relation to the Scheme or the Clough Loan Approvals. Further details relating to the Excluded Directors are set out in Section 6.4(d) of this Scheme Booklet.

For details in relation to the measures implemented to manage any potential conflict of interest or duty in relation to the Excluded Directors’ role or roles in the Murray & Roberts Group refer to Section 10.1 of this Scheme Booklet.

**(b) The Independent Expert has concluded that the Scheme is in the best interests of Clough Shareholders, in the absence of a Superior Proposal**

The Independent Expert, Grant Samuel & Associates Pty Limited, has concluded that the Scheme is in the best interests of Clough Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the full underlying value of Clough to be in the range \$1.37 - \$1.49 per Clough Share. The cash payment of \$1.46 per Clough Share is within this range.

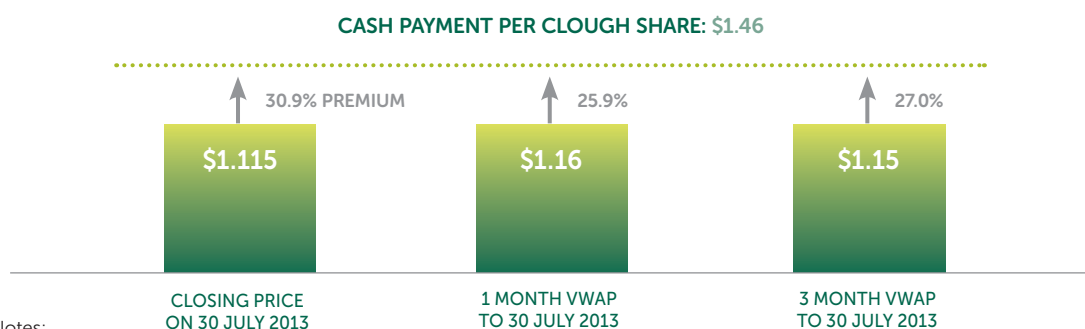
Your Independent Directors encourage you to read the Independent Expert’s Report, which is set out in Annexure F.

**(c) The cash payment of \$1.46 per Clough Share represents an attractive premium for your Clough Shares**

The cash payment of \$1.46 per Clough Share represents an attractive premium to Clough’s historical trading prices prior to the announcement of the Murray & Roberts Proposal on 31 July 2013, as summarised in Figure 1 below.

The cash payment of \$1.46 per Clough Share is also above the all-time high share price of Clough Shares on ASX prior to announcement of the Murray & Roberts Proposal of \$1.395 on 19 March 2013.

**FIGURE 1: COMPARISON OF CASH PAYMENT OF \$1.46 PER CLOUGH SHARE TO HISTORICAL TRADING PRICES OF CLOUGH SHARES**



Notes:

- 30 July 2013 is the last ASX trading day prior to announcement of the Murray & Roberts Proposal.
- For the purposes of calculating the implied premiums, VWAPs have been rounded to the nearest cent.

Source: IRESS. IRESS has not consented to the use of any trading data in this Scheme Booklet.

**(d) The cash payment of \$1.46 per Clough Share provides you with certainty as to the value of your Clough Shares**

The cash payment of \$1.46 per Clough Share provides Clough Shareholders with certainty of value. If the Scheme is implemented, it is expected that the cash payment will comprise:

- the Special Dividend of \$0.14 per Clough Share to be paid on Tuesday, 3 December 2013 (being the Special Dividend Payment Date); and



- (ii) the Scheme Consideration of \$1.32 per Clough Share to be paid on Wednesday, 11 December 2013 (being the Implementation Date).

Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied. If the Special Dividend is not determined or is reduced the Scheme Consideration will be adjusted so that Clough Shareholders receive a cash payment of \$1.46 per Clough Share.

In contrast, if the Scheme is not implemented, the amount Clough Shareholders will be able to realise for their Clough Shares will necessarily be uncertain and subject (among other things) to:

- (i) the performance of Clough's business from time to time;
- (ii) activity in the engineering and construction sector;
- (iii) general economic conditions; and
- (iv) movements in the share market.

Details of the risks associated with an investment in Clough are set out in Section 5.5 of this Scheme Booklet.

**(e) The Special Dividend is expected to be fully franked**

Clough expects to determine and pay a fully franked Special Dividend of \$0.14, subject to the Scheme becoming Effective. Clough Shareholders who are able to capture the full benefit of the franking credit associated with the Special Dividend may realise an additional \$0.06 per share. Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied.

Further details in relation to the Special Dividend are set out in Section 3.8 of this Scheme Booklet. You should also consult your own taxation adviser to determine the tax consequences relevant to your circumstances.

**(f) A Competing Proposal is considered unlikely and no Superior Proposal has emerged**

As at the date of this Scheme Booklet, Clough has not received any Competing Proposal from a third party. Nor are there any discussions underway that could lead to any Competing Proposal being made.

Given the time that has elapsed since the announcement of the Scheme, and the fact that Murray & Roberts, through its Subsidiaries, holds 61.6% of Clough, your Independent Directors believe that a Competing Proposal is unlikely to emerge.

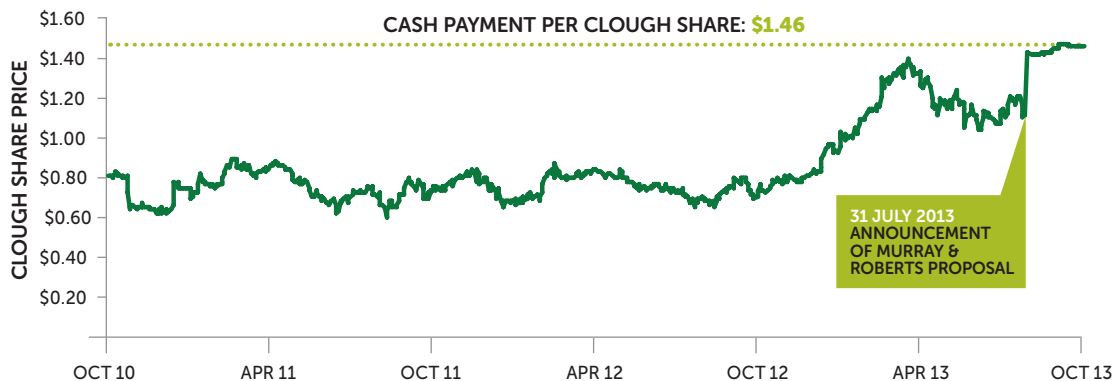
If a Competing Proposal for Clough emerges prior to the Second Court Hearing your Independent Directors will carefully consider the proposal to determine whether it is a Superior Proposal, and will inform Clough Shareholders of any material developments.

**(g) The Clough Share price is likely to fall if the Scheme is not implemented**

The closing Clough Share price on ASX on 30 July 2013, being the last trading day prior to the announcement of the Murray & Roberts Proposal, was \$1.115.

As demonstrated in Figure 2 below, the Clough Share price rose substantially following the announcement of the Murray & Roberts Proposal on 31 July 2013.

**FIGURE 2: CLOUGH SHARE PRICE PERFORMANCE**



Source: IRESS (4 October 2010 to 4 October 2013). IRESS has not consented to the use of any trading data in this Scheme Booklet.

If the Scheme is not implemented and no Superior Proposal emerges, your Independent Directors believe that it is likely that the Clough Share price will trade below the price at which it has traded since 31 July 2013.

**(h) No brokerage or stamp duty will be payable on the transfer of your Clough Shares under the Scheme**

You will not incur any brokerage or duty on the transfer of your Clough Shares pursuant to the Scheme.

**1.3 REASONS YOU MAY CHOOSE TO VOTE AGAINST THE RESOLUTIONS REQUIRED TO IMPLEMENT THE SCHEME**

Although your Independent Directors unanimously recommend that you vote in favour of the Resolutions required to implement Scheme and the Independent Expert has concluded that the Scheme is in the best interests of Clough Shareholders, in both instances in the absence of a Superior Proposal, there may be factors which lead you to vote against those Resolutions, including those set out below.

**(a) You may disagree with the Independent Directors' recommendation and the Independent Expert's conclusion**

In concluding that the Scheme is in the best interests of Clough Shareholders, absent a Superior Proposal, your Independent Directors and the Independent Expert are making judgements based on future trading conditions and events which cannot be predicted with certainty and which may prove to be inaccurate (either positively or negatively).

You may hold a different view from, and are not obliged to follow the recommendation of, your Independent Directors, and may not agree with the Independent Expert's conclusions.

**(b) If the Scheme is implemented, you will no longer participate in any potential upside from being a Clough Shareholder**

If the Scheme is implemented, you will cease to be a Clough Shareholder. As a consequence, you will no longer be entitled to participate in the future financial performance of Clough or exercise the rights of a Clough Shareholder. There are, however, risks associated with retaining an investment in Clough. For further information in relation to these risks refer to Section 5.5 of this Scheme Booklet.

**(c) You may consider that there is potential for a Competing Proposal to emerge**

You may consider that a third party may emerge with a Competing Proposal in the foreseeable future. However, as at the date of this Scheme Booklet, no Competing Proposal has been received. In addition, for the reasons set out below, your Independent Directors have reason to believe that a Competing Proposal is unlikely to emerge in the foreseeable future:

- (i) the Scheme Implementation Agreement imposes customary “No-shop”, “No-talk” and “No due diligence” restrictions on Clough until the End Date (being, 31 December 2013); and
- (ii) Murray & Roberts, through its Subsidiaries, already holds 61.6% of Clough.

For further information on the exclusivity arrangements under the Scheme Implementation Agreement, refer to Annexure A.

**(d) The tax consequences of the Scheme may not be suitable to your financial position**

Implementation of the Scheme may have tax implications for Scheme Participants, some of which may be adverse. You should carefully read and consider Section 7 of this Scheme Booklet, which sets out the Australian tax consequences of the Scheme. Clough Shareholders should not rely on the disclosure of taxation considerations in this Section as being advice on their own affairs. Clough Shareholders should consult with their own independent taxation advisers regarding the taxation implications of the Scheme.

**1.4 OTHER RELEVANT CONSIDERATIONS**

**(a) The Scheme may proceed even if you vote against it**

The Scheme will be implemented if all of the Resolutions are duly passed by the required majorities of Clough Shareholders and by the Court, irrespective of whether you do not vote or you vote against those Resolutions at the Clough Shareholders’ Meetings.

If this occurs, your Clough Shares will be transferred to Murray & Roberts (Aus) and you will receive the cash payment of \$1.46 per Clough Share.

**(b) Conditions precedent**

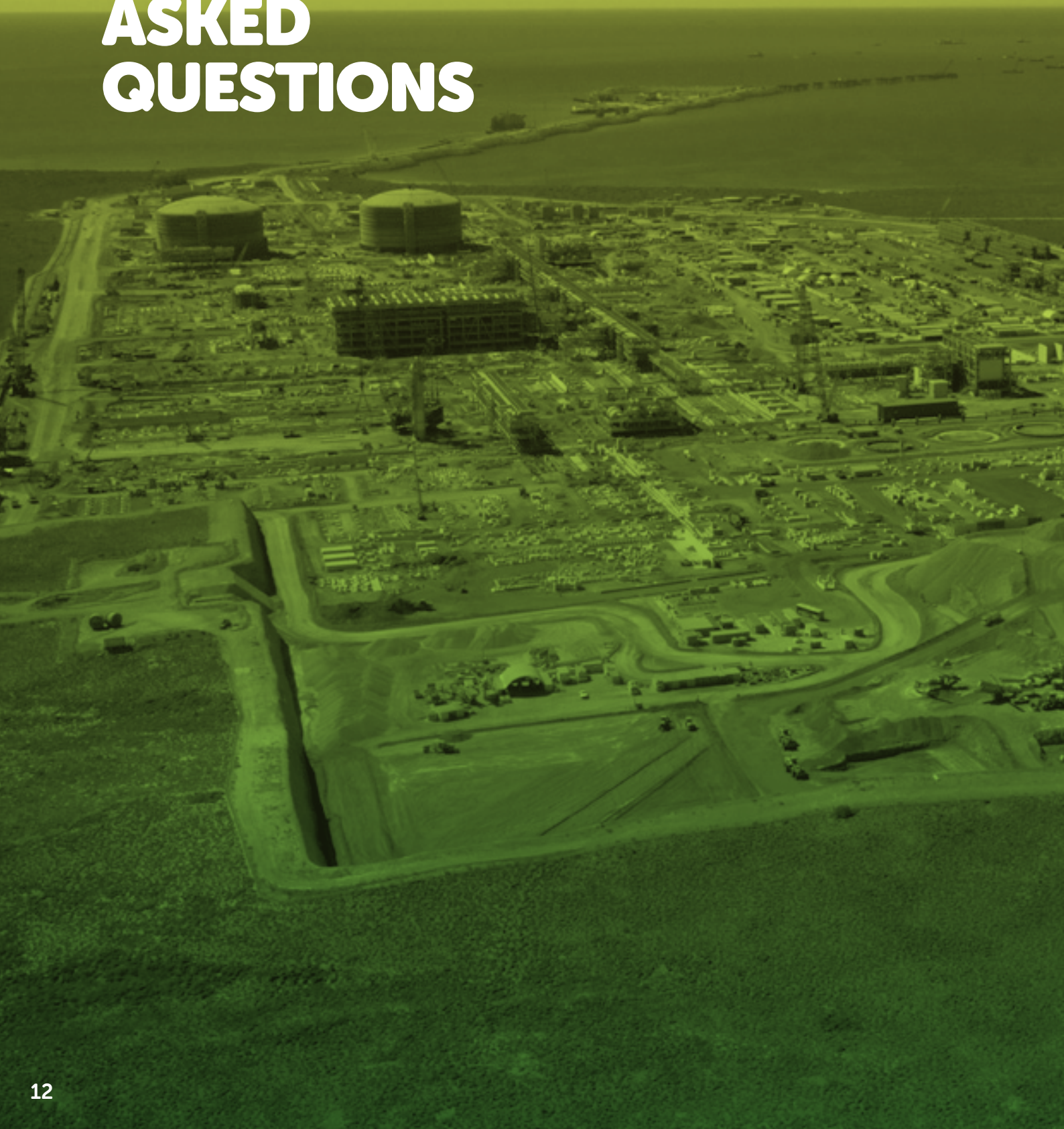
The Scheme is subject to a number of conditions, which are summarised in Annexure A of this Scheme Booklet.

If these conditions are not satisfied or (if permitted) waived (as applicable) the Scheme will not proceed (even if it has been approved by Clough Shareholders) and Clough Shareholders will not receive the Scheme Consideration or the Special Dividend, as contemplated under the Scheme.

As at the date of this Scheme Booklet, the Clough Board is not aware of any matter that would result in the non-fulfilment of the conditions.

# 2

## FREQUENTLY ASKED QUESTIONS





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This section answers some questions you may have about the Transaction. It is not intended to address all relevant issues for Clough Shareholders. This section should be read together with the other parts of this Scheme Booklet.

QUESTION	ANSWER
<b>AN OVERVIEW OF THE SCHEME</b>	
<b>What is the Scheme?</b>	<p>The Scheme is a scheme of arrangement between Clough and Clough Shareholders (other than Excluded M&amp;R Shareholders) under Part 5.1 of the Corporations Act.</p> <p>If the Scheme becomes Effective:</p> <ul style="list-style-type: none"><li>• Scheme Participants will receive the cash payment of \$1.46 per Clough Share; and</li><li>• Murray &amp; Roberts (Aus) will acquire all of the Clough Shares that are not already owned by the Murray &amp; Roberts Group and Clough will become a wholly-owned Murray &amp; Roberts Group Entity.</li></ul> <p>To become Effective, a number of conditions must be satisfied or (if permitted) waived (as applicable). A summary of the conditions to the Scheme is set out in Annexure A of this Scheme Booklet.</p>
<b>Why have I received this Scheme Booklet?</b>	<p>You have been sent this Scheme Booklet because you are a Clough Shareholder.</p> <p>The purpose of this Scheme Booklet is to explain the terms of the proposed Scheme, and provide you with information to assist you in making a decision as to whether or not to vote in favour of the Resolutions required to implement Scheme.</p>
<b>Who is Murray &amp; Roberts (Aus)?</b>	<p>Murray &amp; Roberts (Aus) is the company that is offering the Scheme Consideration for your Clough Shares. Murray &amp; Roberts (Aus) is a wholly owned Subsidiary of Murray &amp; Roberts.</p> <p>Murray &amp; Roberts, through its Subsidiaries, is an engineering, contracting and construction services company based in Johannesburg, South Africa and is listed on the JSE.</p> <p>Murray &amp; Roberts, through its Subsidiaries, holds approximately 61.6% of Clough Shares.</p> <p>Murray &amp; Roberts has guaranteed the performance by Murray &amp; Roberts (Aus) of its obligations in relation to the proposed Scheme.</p> <p>For further information regarding Murray &amp; Roberts (Aus) and the Murray &amp; Roberts Group, refer to Section 6 of this Scheme Booklet.</p>
<b>What approvals are required at the Clough Shareholders' Meetings?</b>	<p>The Scheme can only proceed if:</p> <ul style="list-style-type: none"><li>• at the <b>General Meeting</b>, the Clough Loan Resolution is duly passed by the required majority of Clough Shareholders; and</li><li>• at the <b>Scheme Meeting</b>, the Scheme Resolution is passed by the Requisite Majorities of Clough Shareholders (other than Excluded M&amp;R Shareholders).</li></ul> <p>Sections 4, 8.3 and 9 provide further details in relation to these Resolutions, including the required voting majorities and voting restrictions for each of the Resolutions.</p>

QUESTION	ANSWER
<b>THE SCHEME CONSIDERATION AND THE SPECIAL DIVIDEND</b>	
<b>What consideration will I receive if the Scheme is implemented?</b>	<p>If the Scheme becomes Effective, you will receive the cash payment of \$1.46 per Clough Share, which is expected to comprise:</p> <ul style="list-style-type: none"> <li>• a payment of \$1.32 for each Clough Share you own as at the Scheme Record Date; and</li> <li>• a fully franked Special Dividend of \$0.14 for each Clough Share you own as at the Special Dividend Record Date.</li> </ul> <p>For details in relation to the potential benefit associated with the franking credit, see Section 1.2(e).</p> <p>Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied. If there is any difference between the amount of the Special Dividend determined to be paid by Clough and \$0.14, the amount of the difference will form part of the Scheme Consideration so that Scheme Participants will still receive a total cash payment of \$1.46 per Clough Share.</p>
<b>What is the Class Ruling in relation to the Special Dividend?</b>	<p>Clough has applied to the ATO for the Class Ruling to confirm the key Australian income tax implications of the Scheme and the Special Dividend for certain Clough Shareholders.</p>
<b>How will Murray &amp; Roberts (Aus) fund the Scheme Consideration?</b>	<p>The Scheme Consideration will be financed through a combination of proceeds from the Special Dividend received by the Murray &amp; Roberts Group, new bank debt from existing lenders and funds borrowed from Clough pursuant to the Clough Loan Agreement.</p> <p>For further details in relation to the proposed funding of the Scheme Consideration refer to Sections 3.8 and 9.3 of this Scheme Booklet.</p>
<b>Is Murray &amp; Roberts (Aus) bound to pay the Scheme Consideration?</b>	<p>Yes. If the Scheme becomes Effective, Murray &amp; Roberts (Aus) is bound to provide the Scheme Consideration (less the amount of the Clough Loan) into Clough's Scheme Trust Account by no later than 5.00 pm on the day that is two Business Days before the Implementation Date pursuant to the terms of the Deed Poll. Murray &amp; Roberts is also a party to the Deed Poll and must procure that Murray &amp; Roberts (Aus) pays the Scheme Consideration.</p> <p>Clough will then provide the Scheme Consideration to Scheme Participants in accordance with the Scheme on the Implementation Date. Under the Scheme, Scheme Participants appoint Clough as their agent and attorney to enforce the Deed Poll on their behalf.</p>
<b>What is the premium of the total cash payment of \$1.46 per Clough Share compared to the market price of Clough Shares?</b>	<p>The cash payment of \$1.46 per Clough Share represents a premium of:</p> <ul style="list-style-type: none"> <li>• 30.9% to the closing price of \$1.115 per Clough Share on 30 July 2013, being the last trading day prior to announcement of the Murray &amp; Roberts Proposal;</li> <li>• 25.9% to the one month VWAP up to and including 30 July 2013 of \$1.16 per Clough Share; and</li> <li>• 27.0% to the three month VWAP up to and including 30 July 2013 of \$1.15 per Clough Share.</li> </ul>

QUESTION	ANSWER
<b>When will I receive the Scheme Consideration and the Special Dividend?</b>	<p>If the Scheme becomes Effective, it is expected that you will be paid the cash payment of \$1.46 per Clough Share as follows:</p> <ul style="list-style-type: none"> <li>the Special Dividend will be paid on 3 December 2013 (being the Special Dividend Payment Date); and</li> <li>the Scheme Consideration will be paid on 11 December 2013 (being the Implementation Date).</li> </ul> <p>You should be aware that if either of the Clough Shareholders' Meeting are adjourned or the Effective Date is otherwise delayed, the cash payment of \$1.46 per Clough Share will also be delayed.</p>
<b>How will I receive the payment of the Scheme Consideration and Special Dividend?</b>	<p>All payments will be made by direct deposit into your nominated bank account, as advised to Clough's Share Registry before the applicable record date. If you have not nominated a bank account, payment will be by cheque sent to you by post to your registered address as shown on the Register.</p>
<b>What are the tax implications of the Scheme?</b>	<p>A general outline of the Australian tax implications of the Scheme is set out in Section 7 of this Scheme Booklet.</p> <p>As the outline is general in nature, you should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to vote in favour of the Scheme.</p>
<b>GENERAL MEETING, VOTING AND APPROVALS</b>	
<b>When and where will the General Meeting be held?</b>	<p>The General Meeting will be held at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000 on Friday, 15 November 2013 (the same location and on the same day as the Scheme Meeting). The meeting will commence before the Scheme Meeting at 10.00 am.</p>
<b>What am I being asked to vote on at the General Meeting?</b>	<p>You are being asked to vote on the Clough Loan Resolution at the General Meeting.</p> <p>The text of the Clough Loan Resolution is set out Notice of General Meeting in Annexure D of this Scheme Booklet.</p>
<b>Why are the Clough Loan Approvals required?</b>	<p>Clough has agreed to provide the Clough Loan to assist Murray &amp; Roberts (Aus) to fund part of the Scheme Consideration. By incurring obligations under the Clough Loan Agreement (including to provide the Clough Loan) Clough and its Subsidiaries will be:</p> <ul style="list-style-type: none"> <li>giving financial assistance to Murray &amp; Roberts (Aus) to acquire Clough Shares for the purposes of Part 2J.3 of the Corporations Act; and</li> <li>giving a financial benefit to the Murray &amp; Roberts Group, in particular Murray &amp; Roberts (Aus), (a related party) for the purposes of Chapter 2E of the Corporations Act.</li> </ul> <p>This must be authorised by Clough Shareholders for the purposes of sections 260A and 208 of the Corporations Act.</p>
<b>What vote is required to obtain the Clough Loan Approvals?</b>	<p>For the Clough Loan Approvals to be obtained, the Clough Loan Resolution must be approved by a special resolution (ie 75% or more) of Clough Shareholders present and voting (either in person or by proxy or representative) with no votes cast in favour of the resolution by any Murray &amp; Roberts Group Entity or their Associates.</p>
<b>What are the voting restrictions?</b>	<p>Clough Shareholders who are registered on the Register at 4.00 pm on Wednesday, 13 November 2013 are entitled to vote at the General Meeting.</p> <p>However, the Corporations Act prohibits any Murray &amp; Roberts Group Entity or their Associates from voting any of their Clough Shares on the Clough Loan Resolution. All of the Clough Directors (including the Independent Directors) are classified as Associates of Murray &amp; Roberts (Aus) and, therefore, must not vote their Clough Shares in favour of this Resolution.</p>

QUESTION	ANSWER
<b>Do the Clough Loan Approvals need to be obtained to implement the Scheme?</b>	Yes. It is a condition of the Scheme that the Clough Loan Approvals be obtained.
<b>How do I vote?</b>	<p>You may vote on the Scheme Resolution:</p> <ul style="list-style-type: none"> <li>• in person, by attending the Scheme Meeting;</li> <li>• by proxy, by completing and lodging the green proxy form accompanying this Scheme Booklets so that it is received by 11.00 am on Wednesday, 13 November 2013; or</li> <li>• by a corporate representative (in the case of a corporate Clough Shareholder).</li> </ul> <p>Voting is not compulsory. However, your vote is important and the Scheme may be implemented even if you have not voted for or against the Resolutions required to implement the Scheme.</p> <p>For further information in relation to voting at the Scheme Meeting, see Section 4, and the Notice of Scheme Meeting in Annexure E.</p>
<b>When will the results of the General Meeting be available?</b>	The results of the General Meeting will be announced to ASX shortly after its conclusion.
<b>SCHEME MEETING, VOTING AND APPROVALS</b>	
<b>When and where will the Scheme Meeting be held?</b>	The Scheme Meeting will be held at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000 on Friday, 15 November 2013. The meeting will commence at 11.00 am or, if later, as soon as possible after the General Meeting is concluded or adjourned.
<b>What am I being asked to vote on?</b>	<p>You are being asked to vote on whether to approve the Scheme by voting in favour of the Scheme Resolution.</p> <p>The text of the Scheme Resolution is set out in the Notice of Scheme Meeting in Annexure E of this Scheme Booklet.</p>
<b>What vote is required to approve the Scheme?</b>	<p>For the Scheme to be approved, the Scheme Resolution must be passed by the Requisite Majorities, being:</p> <ul style="list-style-type: none"> <li>• a majority in number (ie more than 50%) of Clough Shareholders (other than Excluded M&amp;R Shareholders) who vote at the Scheme Meeting (either in person or by proxy or representative), unless the Court orders otherwise; and</li> <li>• at least 75% of the total number of Clough Shares voted by Clough Shareholders (other than Excluded M&amp;R Shareholders) at the Scheme Meeting (either in person or by proxy or representative).</li> </ul> <p>Even if the Scheme is approved at the Scheme Meeting, the Scheme is still subject to other outstanding conditions and the approval of the Court.</p>
<b>What are the voting restrictions?</b>	<p>Clough Shareholders who are registered on the Register at 4.00 pm on Wednesday, 13 November 2013 are entitled to vote at the Scheme Meeting.</p> <p>Murray &amp; Roberts and each Related Entity of Murray &amp; Roberts will not vote any of their Clough Shares on the Scheme Resolution (nor will they participate in the Scheme).</p>



QUESTION	ANSWER
<b>How do I vote?</b>	<p>You may vote on the Scheme Resolution:</p> <ul style="list-style-type: none"> <li>• in person, by attending the Scheme Meeting;</li> <li>• by proxy, by completing and lodging the green proxy form accompanying this Scheme Booklet so that it is received by 11.00 am on Wednesday, 13 November 2013; or</li> <li>• by a corporate representative (in the case of a corporate Clough Shareholder).</li> </ul> <p>Voting is not compulsory. However, your vote is important and the Scheme may be implemented even if you have not voted for or against the Resolutions required to implement the Scheme.</p> <p>For further information in relation to voting at the Scheme Meeting, see Section 4, and the Notice of Scheme Meeting in Annexure E.</p>
<b>What happens if I do not vote, or vote against the Scheme?</b>	<p>If you do not vote or you vote against the Scheme, the Scheme may still be implemented if the Scheme Resolution is passed by the Requisite Majorities and the other conditions to Scheme are satisfied or (if permitted) waived.</p> <p>Accordingly, you may still be bound by the Scheme even though you have not voted or voted against the Scheme.</p>
<b>When will the results of the Scheme Meeting be available?</b>	<p>The results of the Scheme Meeting will be announced to ASX shortly after its conclusion.</p>
<b>VOTING CONSIDERATIONS FOR THE RESOLUTIONS</b>	
<b>What do the Independent Directors recommend?</b>	<p>The Independent Directors unanimously recommend that Clough Shareholders vote in favour of the Resolutions required to implement the Scheme, in the absence of a Superior Proposal.</p> <p>Each Independent Director intends to vote in favour of the Scheme Resolution in respect of the Clough Shares over which they have voting control, in the absence of a Superior Proposal.</p> <p>Each Excluded Director is a director of one or more entities within the Murray &amp; Roberts Group and is employed by the Murray &amp; Roberts Group and, on that basis, does not make any recommendation in relation to the Scheme or the Clough Loan Approvals.</p> <p>For details in relation to the measures implemented to manage any potential conflict of interest or duty in relation to the Excluded Directors' role or roles in the Murray &amp; Roberts Group refer to Section 10.1 of this Scheme Booklet.</p>
<b>What is the opinion of the Independent Expert?</b>	<p>The Independent Expert has concluded that the Scheme is in the best interests of Clough Shareholders, in the absence of a Superior Proposal.</p> <p>The Independent Expert's Report is set out in Annexure F.</p>
<b>Why should I vote in favour of the Scheme?</b>	<p>Reasons why you should consider voting in favour of the Resolutions required to implement the Scheme are set out in Section 1.2 of this Scheme Booklet.</p>
<b>Why might I consider not voting in favour of the Scheme?</b>	<p>Reasons why you might consider not voting in favour of the Resolutions required to implement the Scheme are set out in Section 1.3 of this Scheme Booklet.</p>

QUESTION	ANSWER
<b>Is the Clough Board aware of a Competing Proposal?</b>	<p>Since the announcement of the Murray &amp; Roberts Proposal on 31 July 2013 and as at the date of this Scheme Booklet, no Competing Proposal has emerged and the Clough Board is not aware of any Competing Proposal that may emerge.</p> <p>For the reasons set out in Section 1.2(f) of this Scheme Booklet, the Independent Directors consider that a Competing Proposal is unlikely.</p>
<b>What happens if a Competing Proposal emerges?</b>	<p>Until the Scheme is approved by the Court, there is nothing preventing other parties from making unsolicited acquisition proposals for Clough.</p> <p>If a Competing Proposal for Clough emerges prior to the Second Court Hearing, the Independent Directors will carefully consider the proposal and determine whether it is a Superior Proposal. Your Independent Directors will keep you informed of any material developments.</p> <p>For the reasons set out in Section 1.2(f) of this Scheme Booklet, the Independent Directors consider that a Competing Proposal is unlikely.</p>
<b>CONDITIONS AND IMPLEMENTATION OF THE SCHEME</b>	
<b>What are the conditions to the Scheme?</b>	<p>The Scheme is subject to a number of conditions, including:</p> <ul style="list-style-type: none"> <li>• approval by shareholders of Murray &amp; Roberts;</li> <li>• the Financial Assistance and the Financial Benefit being approved by the required majority of Clough Shareholders at the General Meeting;</li> <li>• the Scheme being approved by the Requisite Majorities at the Scheme Meeting;</li> <li>• the Scheme being approved by the Court at the Second Court Hearing;</li> <li>and</li> <li>• FIRB approval.</li> </ul> <p>A summary of the conditions to the Scheme is set out in Section 3.4 and Annexure A of this Scheme Booklet.</p>
<b>When will the Scheme become Effective?</b>	<p>The Scheme will become Effective on the date on which the Court order approving the Scheme is lodged with ASIC. If the conditions to the Scheme are satisfied or (if permitted) waived, Clough will apply to the Court to approve the Scheme. This is expected to occur on Thursday, 21 November 2013.</p>
<b>What happens on the Implementation Date?</b>	<p>On the Implementation Date:</p> <ul style="list-style-type: none"> <li>• Murray &amp; Roberts (Aus) will become the holder of all the Scheme Shares; and</li> <li>• Scheme Participants will be paid the Scheme Consideration.</li> </ul> <p>The Implementation Date is expected to be on Wednesday, 11 December 2013.</p>
<b>What happens if the Scheme is not implemented?</b>	<p>If the Scheme is not implemented:</p> <ul style="list-style-type: none"> <li>• you will not receive the cash payment of \$1.46 per Clough Share (including any Special Dividend);</li> <li>• Clough will continue to operate as a stand-alone entity and remain listed on ASX;</li> <li>• you will retain your Clough Shares and continue to have exposure to the benefits and risks associated with an investment in Clough; and</li> <li>• the price of Clough Shares traded on ASX is likely to fall.</li> </ul>

QUESTION	ANSWER
<b>ADDITIONAL INFORMATION</b>	
<b>Does the Transaction require approval from shareholders of Murray &amp; Roberts?</b>	Yes. The Transaction requires approval by a simple majority (ie more than 50%) of Murray & Roberts shareholders voting in person or by proxy at the Murray & Roberts Shareholders Meeting for the purposes of the South African Companies Act and the Listing Requirements of the JSE. This approval will be sought at the Murray & Roberts Shareholders Meeting, expected to be held on Wednesday, 6 November 2013.
<b>What will happen to the Clough Options?</b>	Clough has made an offer to each holder of Clough Options to cancel their Clough Options for the Option Offer Consideration. The Options Offers are subject to a number of conditions, including the Scheme becoming Effective.  For further information in relation to the treatment of the Clough Options, see Section 3.9 of this Scheme Booklet.
<b>What will happen to the Clough Performance Rights?</b>	Clough has made an offer to each holder of Clough Performance Rights to cancel their Clough Performance Rights for the PR Offer Consideration. The PR Offers are only conditional on the Scheme becoming Effective.  For further information in relation to the treatment of the Clough Performance Rights, see Section 3.10 of this Scheme Booklet.
<b>What warranties and consents do I give when participating in the Scheme?</b>	Scheme Participants will be deemed to have: <ul style="list-style-type: none"> <li>• warranted that their Scheme Shares are free from all encumbrances;</li> <li>• warranted that they have the power and capacity to transfer their Scheme Shares; and</li> <li>• authorised Clough to transfer their Scheme Shares to Murray &amp; Roberts (Aus).</li> </ul>
<b>Can I sell my Clough Shares on ASX?</b>	You can sell your Clough Shares on ASX up to and including the Effective Date. Trading in Clough Shares will be suspended following close of trading on the Effective Date, so you will not be able to sell your shares after this time.  If you sell your Clough Shares on ASX: <ul style="list-style-type: none"> <li>• you may pay brokerage on the sale;</li> <li>• you will not receive the cash payment of \$1.46 per Clough Share; and</li> <li>• there may be different tax consequences compared with those that would arise if the Scheme is implemented.</li> </ul>
<b>Will I need to pay brokerage or stamp duty?</b>	Scheme Participants will not incur any brokerage or stamp duty on the transfer of their Clough Shares under the Scheme.
<b>Is there a number that I can call if I have further queries about the Scheme?</b>	If, after reading this Scheme Booklet, you have any questions regarding the Scheme, please contact the Clough Shareholder Information Line on 1800 992 673 (within Australia) or +61 1800 992 673 (from outside Australia).

# 3

## SUMMARY OF THE SCHEME AND OTHER ASPECTS OF THE TRANSACTION





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### 3.1 INTRODUCTION

On 31 July 2013, Clough announced that it had received a conditional proposal from Murray & Roberts for Murray & Roberts (Aus) (a wholly-owned Australian Subsidiary of Murray & Roberts) to acquire all of the Clough Shares that are not already owned by the Murray & Roberts Group for a cash payment of \$1.46 per Clough Share. The parties then entered into the Scheme Implementation Agreement on 28 August 2013, pursuant to which it is proposed to implement the Transaction by way of a scheme of arrangement between Clough and its shareholders (other than the Excluded M&R Shareholders).

If the Scheme becomes Effective then:

- (a) Clough will become a wholly-owned Murray & Roberts Group Entity and will be delisted from ASX; and
- (b) Scheme Participants will receive a cash payment of \$1.46 per Clough Share comprising the Special Dividend and the Scheme Consideration.

In order to become Effective, a number of conditions must either be satisfied or (if permitted) waived. These conditions are summarised in Section 3.4 and Annexure A of this Scheme Booklet.

This Scheme Booklet has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the Scheme between Clough and its shareholders. This Scheme Booklet has also been prepared pursuant to sections 219 and 260B(4) of Corporations Act and contains material information in relation to the Financial Assistance and the Financial Benefit.

### 3.2 IF THE SCHEME PROCEEDS

If the Scheme becomes Effective, Scheme Participants will receive a cash payment of \$1.46 per Clough Share, which is expected to comprise:

- (a) a payment of \$1.32 for each Clough Share held by Scheme Participants on the Scheme Record Date; and
- (b) a fully franked Special Dividend of \$0.14 for each Clough Share held by Clough Shareholders on the Special Dividend Record Date.

As Clough Shareholders on the Special Dividend Record Date, the Excluded M&R Shareholders will also be entitled to any Special Dividend.

For details in relation to the potential benefit associated with the franking credit, see Section 1.2(e).

Clough has applied to the ATO for the Class Ruling to confirm the key Australian income tax implications of the Scheme and the Special Dividend for certain Clough Shareholders. Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied. If there is any difference between the amount of the Special Dividend determined to be paid by Clough and \$0.14, the amount of the difference will form part of the Scheme Consideration so that Scheme Participants will still receive a cash payment of \$1.46 per Clough Share.

Any franking credits remaining in Clough after payment of any Special Dividend would be available to Clough for future distribution to the Murray & Roberts Group after implementation of the Scheme. In these circumstances, if Clough pays a franked distribution to a Murray & Roberts Group Entity, then the benefit of Clough's franking credits would be available to the Murray & Roberts Group to offset any dividend withholding tax which might otherwise have been applicable to the extent the dividend is paid directly or indirectly to a non-resident Murray & Roberts Group Entity.

No later than 5.00 pm on the day that is two Business Days before the Implementation Date:

- (a) Murray & Roberts (Aus) will pay an amount equal to the aggregate Scheme Consideration payable to each Scheme Participant for their Scheme Shares less the amount of the Clough Loan into the Scheme Trust Account; and
- (b) Clough will pay an amount equal to the Clough Loan into the Scheme Trust Account.

On the Implementation Date, Clough will pay to each Scheme Participant the Scheme Consideration for each Scheme Share transferred to Murray & Roberts (Aus) on the Implementation Date, currently expected to be on Wednesday, 11 December 2013.

Clough will make all payments:

- (a) by direct deposit into your nominated bank account, as advised to the Share Registry before the applicable record date; or
- (b) if you have not nominated a bank account, by cheque mailed to your Registered Address.

For Clough Shares held in joint names, Clough will make the payment to the joint holders and will send the relevant amount to the holder whose name appears first in the Register.

### 3.3 IF THE SCHEME DOES NOT PROCEED

If the Scheme does not proceed, Clough Shareholders will continue to hold their Clough Shares and will not receive the Scheme Consideration or the Special Dividend. In those circumstances, Clough will reconsider the payment of a dividend.

In the absence of any Competing Proposal, Clough will continue to operate as a stand-alone listed entity. Clough Shareholders will continue to participate in the benefits of, and be exposed to the risks associated with, an investment in Clough. Some of the risks relating to an investment in Clough are set out in Section 5.5 of this Scheme Booklet.

### 3.4 CONDITIONS OF THE SCHEME

A number of conditions need to be satisfied or (if permitted) waived before the Scheme can be implemented. Some of these conditions include:

- (a) **FIRB approval:** Before the Second Court Date, either:
  - (i) the Treasurer (or the Treasurer's delegate) has provided a notice in writing to the effect that there are no objections to the acquisition of all the remaining Clough Shares by Murray & Roberts (Aus) under the Transaction in terms of the Commonwealth Government's foreign investment policy; or
  - (ii) the Treasurer has become precluded by lapse of time from making an order in respect of the Transaction under the *Foreign Acquisitions and Takeovers Act 1975* (Cth).
- (b) **SARB approvals:** Before the Second Court Date, Murray & Roberts receives all approvals, consents and authorisations as required in connection with the Transaction from the Financial Surveillance Department of the SARB.
- (c) **Independent Expert:** The Independent Expert does not change or withdraw its conclusion before the Second Court Date that, in the absence of a Superior Proposal, the Scheme is in the best interests of Clough Shareholders.
- (d) **Approval of Scheme:** The Scheme Resolution is duly passed by the Requisite Majorities of Clough Shareholders at the Scheme Meeting.
- (e) **Clough Loan Approvals:** The Clough Loan Resolution is duly passed by the required majority of Clough Shareholders at the General Meeting.
- (f) **M&R shareholder approval:** Shareholders of Murray & Roberts approve the Transaction by the required majority, being an ordinary majority of 50% plus one vote of the total number of voting rights exercised by shareholders of Murray & Roberts present and voting (either in person or by proxy), at the Murray & Roberts Shareholders Meeting.
- (g) **Court approval:** Approval of the Scheme by the Court at the Second Court Hearing.
- (h) **Options:** Before 5.00 pm on the day before the Second Court Date, 75% or more of the Clough Options on issue as at 28 August 2013 (by number) have vested and been exercised or are the subject of binding agreements following acceptance of the Option Offer.

All of the conditions precedent to the Scheme are summarised in Annexure A of this Scheme Booklet. The Scheme will not proceed unless all of the conditions precedent are satisfied or (if permitted) waived in accordance with the Scheme Implementation Agreement.

As at the date of this Scheme Booklet, the condition precedent referred to in paragraph (h) above has been satisfied and Murray & Roberts has obtained the requisite approvals from SARB in connection with the Transaction (for the purposes of the condition precedent referred to in paragraph (b)). The SARB approval is, however, subject to some conditions which Murray & Roberts expects to satisfy prior to the Clough Shareholders' Meetings. Clough and Murray & Roberts (Aus) are not aware of any circumstances that would cause any of the other conditions precedent not to be satisfied. Clough will make a statement regarding the status of the conditions precedent at the Clough Shareholders' Meetings.

### 3.5 IMPLEMENTATION OF THE SCHEME

Following approval of the Scheme by the Court, there are five important dates in respect of implementation of the Scheme, being:

- (a) the **Effective Date**, which is the date on which the Court order approving the Scheme is lodged with ASIC and the Scheme becomes Effective (expected to be Thursday, 21 November 2013);
- (b) the **Special Dividend Record Date**, which is 5.00 pm on the fifth Business Day after the Effective Date and is the date when the Register is examined to determine who is entitled to receive the Special Dividend (expected to be Thursday, 28 November 2013);
- (c) the **Special Dividend Payment Date**, which is the eighth Business Day after the Effective Date and is the date on which the Special Dividend is paid to Clough Shareholders (expected to be Tuesday, 3 December 2013);
- (d) the **Scheme Record Date**, which is 5.00 pm on the ninth Business Day after the Effective Date and is the date when the Register is examined to determine who is entitled to participate in the Scheme (ie a Scheme Participant) and receive the Scheme Consideration (expected to be Wednesday, 4 December 2013); and
- (e) the **Implementation Date**, which is the fifth Business Day after the Scheme Record Date (expected to be Wednesday, 11 December 2013) and is the date on which:
  - (i) all of the Clough Shares held by Scheme Participants will be transferred to Murray & Roberts (Aus) without any need for action by Scheme Participants;
  - (ii) Scheme Participants will receive the Scheme Consideration; and
  - (iii) Clough will become a wholly-owned Murray & Roberts Group Entity.

Further details regarding implementation of the Scheme are set out in Section 8 of this Scheme Booklet.

### 3.6 INDEPENDENT DIRECTORS' RECOMMENDATION AND VOTING INTENTIONS

Your Independent Directors unanimously recommend that you vote in favour of the Resolutions required to implement the Scheme, in the absence of a Superior Proposal.

Each Independent Director intends to vote all the Clough Shares held or controlled by them in favour of the Scheme Resolution, in the absence of a Superior Proposal. The Corporations Act prohibits the Clough Directors (including the Independent Directors) from voting on the Clough Loan Resolution. The interests of the Clough Directors are set out in Section 10.3 of this Scheme Booklet.

Your Independent Directors believe that the reasons for you to vote in favour of the Resolutions required to implement the Scheme outweigh the reasons to vote against those Resolutions. These reasons and other relevant considerations for Clough Shareholders are set out in Section 1 of this Scheme Booklet.

Each Excluded Director (being, Henry Laas, Cobus Bester and Ian Henstock) is a director of one or more entities within the Murray & Roberts Group. For this reason, each Excluded Director does not consider it appropriate for him to make a recommendation to Clough Shareholders in relation to the Clough Loan Approvals and the Scheme. Further details regarding the Excluded Directors are set out in Section 6.4(d) of this Scheme Booklet.

Each Clough Director's interests are set out in Section 10.3 of this Scheme Booklet.

If a Competing Proposal emerges, this will be announced to ASX and your Independent Directors will carefully consider whether it is a Superior Proposal and advise you of their recommendation.

### 3.7 INDEPENDENT EXPERT'S CONCLUSIONS

Your Independent Directors commissioned Grant Samuel & Associates Pty Limited to prepare the Independent Expert's Report on whether the Scheme is in the best interests of Clough Shareholders.

The Independent Expert has assessed the full underlying value of Clough to be in the range \$1.37 - \$1.49 per Clough Share. The cash payment of \$1.46 per Clough Share is within this range.

The Independent Expert has concluded that the Scheme is in the best interests of Clough Shareholders, in the absence of a Superior Proposal.

The Independent Expert's Report is set out in full in Annexure F. Your Independent Directors encourage you to read this report in full before deciding how to vote on the Scheme.

### 3.8 FUNDING OF THE CASH PAYMENT OF \$1.46 PER CLOUGH SHARE

As noted above, if the Scheme becomes Effective, Scheme Participants will receive a cash payment of \$1.46 per Clough Share, which comprises the Special Dividend and the Scheme Consideration.

#### (a) Special Dividend

The Special Dividend<sup>3</sup> will be paid out of Clough's internal cash reserves on the Special Dividend Payment Date, with such reserves principally coming from Clough's operations and from Clough's sale of its stake in Forge Group Limited in March 2013. Based on Clough's issued capital as at the Last Practical Trading Day, the amount of cash required for the Special Dividend is expected to be approximately \$108.8 million, but could be as high as approximately \$111.6 million if no Clough Options or Clough Performance Rights are cancelled in accordance with the terms of the Option Offer or PR Offer (as the case may be).

#### (b) Scheme Consideration

Murray & Roberts (Aus) will finance the Scheme Consideration through a combination of proceeds from the Special Dividend received by the Murray & Roberts Group, new bank debt from existing lenders and the Clough Loan. Based on Clough's issued capital as at the Last Practical Trading Day, the amount of cash required for the Scheme Consideration is expected to be \$393.7 million, but could be as high as approximately \$464.2 million if no Special Dividend is paid and no Clough Options or Clough Performance Rights are cancelled in accordance with the terms of the Option Offer or PR Offer (as the case may be). Murray & Roberts (Aus) intends to utilise the full amount of the Clough Loan and any Special Dividend with the balance of the Scheme Consideration being funded by drawing down on the new bank debt from existing lenders. Details regarding Murray & Roberts (Aus)'s funding arrangements for the Scheme Consideration are set out in Section 6.6 of this Scheme Booklet.

Under the Scheme Implementation Agreement, Clough and Murray & Roberts (Aus) will enter into the Clough Loan Agreement on or before 5:00 pm on the Business Day before the Second Court Date (or such earlier date agreed by the parties). Under the Clough Loan Agreement, subject to (among other things) the Scheme becoming Effective and the Clough Loan Approvals being obtained, Clough will provide the Clough Loan by paying an amount equal to the Clough Loan into the Scheme Trust Account at least two Business Day before the Implementation Date.

A summary of the key terms of the Clough Loan Agreement is set out in Section 10.2 of this Scheme Booklet.

### 3.9 TREATMENT OF CLOUGH OPTIONS

As at 4 October 2013 (being the Last Practical Trading Day), Clough had 16,385,978 unlisted Clough Options on issue. The Clough Options were issued pursuant to the Clough Employee Option Plan. For further details regarding the Clough Options, see Section 5.4(b) of this Scheme Booklet.

In accordance with the terms of the Scheme Implementation Agreement, Clough has made an offer (**Option Offer**) to each holder of Clough Options to cancel each of their Clough Options for \$1.46 (which is equivalent to the total cash payment payable to Clough Shareholders (other than Excluded M&R Shareholders)) less the exercise price of the relevant Clough Options (**Option Offer Consideration**).

The Options Offers are conditional on:

- (a) the Scheme becoming Effective;
- (b) to the extent required, Clough obtaining a waiver from ASX Listing Rule 6.23.2 to enable the Clough Options to be cancelled for consideration without obtaining approval from Clough Shareholders; and
- (c) optionholders holding in aggregate at least 75% of the Clough Options on issue (by number) at 28 August 2013 (the date the Scheme Implementation Agreement was signed) accepting the Option Offers or otherwise exercising their Clough Options (which is also a condition to the Scheme).

<sup>3</sup> Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied. The Clough Board only intends to determine to pay the Special Dividend after all the Resolutions are passed.



Some of the other key terms of the Options Offers are as follows:

- (a) The Options Offers will expire at 5.00 pm on the Business Day before the Clough Shareholders' Meetings.
- (b) The Option Offer Consideration will be payable on or about the Implementation Date.
- (c) Clough Options that have vested in accordance with their terms of issue may be exercised so long as any Clough Shares to be issued on their valid exercise can be issued before the Special Dividend Record Date and the Scheme Record Date (with Clough no longer being required to pay the Option Offer Consideration in respect of any Clough Option validly exercised).
- (d) If any Clough Options expire after the time that an Option Offer is accepted and before the Option Offer Consideration is paid, Clough agrees to pay the Option Offer Consideration for those Clough Options as if they had remained on foot.

As at 4 October 2013 (being the Last Practical Trading Day), Clough had obtained a waiver from ASX Listing rule 6.23.2 and holders of approximately 94.66% of the Clough Options on issue (by number) as at 28 August 2013 had either accepted the Option Offers or exercised their Clough Options.

Details regarding the Clough Options held by or on behalf of the Clough Directors are set out in Section 10.3(b) of this Scheme Booklet.

### **3.10 TREATMENT OF CLOUGH PERFORMANCE RIGHTS**

As at the date of this Scheme Booklet, Clough had 3,347,289 unlisted Clough Performance Rights on issue. The Clough Performance Rights were issued pursuant to the Clough Executive Incentive Scheme. For further details regarding the Clough Performance Rights, see Section 5.4(c) of this Scheme Booklet.

In accordance with the terms of the Scheme Implementation Agreement, Clough has made an offer (**PR Offer**) to each holder of Clough Performance Rights to cancel each of their Clough Performance Rights for \$1.46 (which is equivalent to the total cash payment payable to Clough Shareholders (other than Excluded M&R Shareholders)) (**PR Offer Consideration**). The PR Offers are conditional on the Scheme becoming Effective. The PR Offers expire at 5.00 pm on the Business Day before the Clough Shareholders' Meetings and the PR Offer Consideration will be payable on or about the Implementation Date.

If, for whatever reason, a holder of Clough Performance Rights does not accept their PR Offer, pursuant to the terms of the Clough Executive Incentive Scheme their Clough Performance Rights will automatically vest if the Scheme is approved by Clough Shareholders. In this circumstance, the Independent Directors have determined to issue Clough Shares to the relevant holders in accordance with the terms of the Clough Executive Incentive Scheme. Clough will ensure that the resulting Clough Shares are issued before the earlier of the Special Dividend Record Date and the Scheme Record Date, so that the holders of those securities can receive the Special Dividend (if paid) and the Scheme Consideration payable in respect of those shares.

Details regarding the Clough Performance Rights held by or on behalf of the Clough Directors are set out in Section 10.3(b) of this Scheme Booklet.

### **3.11 AUSTRALIAN TAX IMPLICATIONS**

The transfer of your Clough Shares to Murray & Roberts (Aus) under the Scheme will have tax consequences for Scheme Participants.

You should seek your own professional advice regarding the individual tax consequences applicable to you. A general summary of the tax implications for Australian residents is set out in Section 7 of this Scheme Booklet.

### **3.12 NO BROKERAGE OR STAMP DUTY**

No brokerage or stamp duty will be payable by Scheme Participants on the transfer of their Clough Shares under the Scheme.

### **3.13 QUESTIONS**

If, after reading this Scheme Booklet, you have any questions regarding the Scheme, please contact the Clough Shareholder Information Line at any time between 8.30 am and 7.30 pm (Sydney time) Monday to Friday on 1800 992 673 (within Australia) or +61 1800 992 673 (from outside Australia).



# 4

## **HOW TO VOTE AT THE CLOUGH SHAREHOLDERS' MEETINGS**

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#### **4.1 THE CLOUGH SHAREHOLDERS' MEETINGS**

The Scheme can only be implemented if:

- (a) the Clough Loan Resolution is duly passed by the required majority of Clough Shareholders at the General Meeting; and
- (b) the Scheme Resolution is passed by the Requisite Majorities of Clough Shareholders at the Scheme Meeting.

The Clough Loan Resolution is conditional on the Scheme Resolution being passed. It is also a condition to the Scheme that the Clough Loan Resolution is passed. However, this condition is capable of being waived by Murray & Roberts (Aus) and Clough (in which case, Clough would not be required to provide the Clough Loan).

The Scheme Meeting and the General Meeting will be held on Friday, 15 November 2013 at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000. The General Meeting will be held at 10.00 am and the Scheme Meeting will commence at 11.00 am or, if later, as soon as practical after the time that the General Meeting is concluded or adjourned.

Details regarding the General Meeting and the Scheme Meeting are set out in the Notice of General Meeting and the Notice of Scheme Meeting contained in Annexure D and Annexure E to this Scheme Booklet (respectively).

#### **4.2 VOTING ENTITLEMENT**

Subject to the exceptions set out below, each Clough Shareholder who is registered on the Register at 4.00 pm on 13 November 2013 is entitled to attend and vote at the Clough Shareholders' Meetings:

- (a) Excluded M&R Shareholders will not vote on the Scheme Resolution at the Scheme Meeting; and
- (b) each Murray & Roberts Group Entity and their Associates are not permitted to vote on the Clough Loan Resolution at the General Meeting.

Voting is not compulsory.

In the case of jointly held Clough Shares, only one of the joint shareholders is entitled to vote. If more than one Clough Shareholder votes in respect of jointly held Clough Shares, only the vote of the Clough Shareholder whose name appears first in the Register will be counted.

For further details in relation to the voting exclusions applying to the Clough Loan Approvals refer to Sections 8.3 and 9.4(b) of this Scheme Booklet.

#### **4.3 HOW TO VOTE**

You may vote on the Clough Loan Approvals and the Scheme by:

- (a) attending the Clough Shareholders' Meetings in person; or
- (b) proxy, attorney, or in the case of a corporation which is a Clough Shareholder, by corporate representative appointed in accordance with the Corporations Act.

Relevant details in respect of each of these methods are set out below.

##### **Voting in person**

To vote in person, you must attend the Clough Shareholders' Meetings. If you attend, you will be admitted to the relevant meeting and given a voting card at the point of entry to the meeting upon disclosing your name and address. Please bring a form of personal identification with you, such as your driver's licence.

##### **Voting by proxy**

To vote by proxy, you must complete and return the personalised proxy forms enclosed with this Scheme Booklet by the specified deadline, in accordance with the instructions on each of the forms. You may appoint an individual or body corporate as your proxy.

The blue proxy form applies to the General Meeting and must be received by the Share Registry by no later than 10.00 am on Wednesday, 13 November 2013.

The green proxy form applies to the Scheme Meeting and must be received by the Share Registry by no later than 11.00 am on Wednesday, 13 November 2013.

For the reasons set out in Section 9.4(b) of this Scheme Booklet, the Chairman of the General Meeting will not vote any undirected proxy appointments nominating him on Clough Loan Resolution. **If you appoint the Chairman of the General Meeting as your proxy, you are therefore urged to indicate on your proxy how he should cast your vote on the Clough Loan Resolution.**

#### Voting by attorney

To vote by attorney, the attorney must have a duly executed power of attorney, specifying the Clough Shareholder's name, the attorney, the meetings at which the appointment may be used and that the power of attorney applies in relation to Clough. The appointment may be a standing one and the attorney need not be a Clough Shareholder.

#### Voting by corporate representative

For a body corporate to vote by corporate representative, the representative must have a duly executed appointment which complies with the requirements of the Corporations Act. The representative should bring this appointment to each of the meetings.

#### Lodgement of proxy forms and powers of attorney

To be effective, completed proxy forms, powers of attorney and authorities must be received by Clough's Share Registry in any of the following ways at least 48 hours before the time for holding the relevant Clough Shareholders' Meeting (that is, by no later than 10.00 am on 13 November 2013 for the General Meeting and 11.00 am on 13 November 2013 for the Scheme Meeting), or if a Clough Shareholders' Meeting is adjourned, at least 48 hours before the resumption of that Meeting:

- (c) **By post** to:  
Clough Limited  
C/- Link Market Services Limited  
Locked Bag A14  
SYDNEY SOUTH NSW 1235
- (d) **By the internet** at Share Registry's website, [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).
- (e) **By facsimile** to +61 2 9287 0309.

## 4.4 YOUR CHOICES

As a Clough Shareholder, you have three choices available to you. These choices are set out below:

### (a) **Option 1 – Vote at the Clough Shareholders' Meetings**

You can vote at the Clough Shareholders' Meetings in person, or by proxy, attorney or corporate representative (in the case of corporations who are Clough Shareholders), in respect of some or all or your Clough Shares. Details of how to vote at the Clough Shareholders' Meetings are set out in Section 4.3 above. You may vote in favour of or against the Resolutions required to implement the Scheme.

If you vote against the Resolutions required to implement the Scheme and those Resolutions are passed and the Scheme becomes Effective, then any Clough Shares held by you on the Scheme Record Date will be transferred to Murray & Roberts (Aus), and you will receive the cash payment of \$1.46 per Clough Share (notwithstanding that you voted against those Resolutions).

### (b) **Option 2 – Sell your Clough Shares on market**

You can sell your Clough Shares on ASX at any time before the close of trading on the Effective Date. If you sell your Clough Shares on ASX, you may be liable for CGT upon the disposal of your Clough Shares (see Section 7), and may incur brokerage costs. If the Scheme becomes Effective, Clough Shares will cease trading on ASX at close of trading on the Effective Date.

Clough Shareholders who wish to sell some or all of their Clough Shares on ASX should contact their broker for information on how to effect the sale.

### (c) **Option 3 – Do nothing**

If you do not wish to vote for or against the Resolutions required to implement the Scheme, or sell your Clough Shares on ASX, you may choose to do nothing.



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If you do nothing and the Resolutions required to implement the Scheme are duly passed by the required majorities and the Scheme becomes Effective, then your Scheme Shares will be transferred to Murray & Roberts (Aus), and you will be paid the cash payment of \$1.46 per Clough Share (notwithstanding that you did not vote in favour of those Resolutions).

#### **4.5 WHAT TO DO NEXT**

**(a) Read the remainder of this Scheme Booklet**

You should read and consider the remainder of this Scheme Booklet in full before making any decision on the Resolutions required to implement the Scheme. If you require further advice in relation to the Scheme, contact your legal, financial, taxation or other professional adviser.

**(b) Consider your options**

Clough Shareholders should refer to Sections 1.2 and 1.3 of this Scheme Booklet for further guidance on the expected advantages and possible disadvantages of the Scheme. However, this Scheme Booklet does not take into account the investments objectives, financial situation and particular needs of any Clough Shareholder.

# 5

## INFORMATION RELATING TO CLOUGH



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## 5.1 BACKGROUND

Clough is an engineering and project services contractor, working with some of the world's largest energy and resources companies to engineer, construct, commission, maintain and optimise a comprehensive range of infrastructure for energy, chemical, mining and mineral projects.

Clough was founded in 1919 in Perth, Western Australia and has a successful project delivery track record spanning 94 years. Clough listed on ASX in 1998.

## 5.2 OVERVIEW OF OPERATIONS

Clough focusses on project execution excellence across the entire project lifecycle by engineering to construct and then constructing to operate to optimise safety, productivity and cost performance.

Clough has a work force of over 6,000 people across operations in Australia, Papua New Guinea and Indonesia. Clough is well positioned in the coal seam gas (CSG) and liquefied natural gas (LNG) sectors, working on major LNG projects underway in Australia and Papua New Guinea.

Clough delivers its services through the following four core businesses:

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

Clough is working on over 20 major projects across Australia, Papua New Guinea and Indonesia, with a spread of work across all core businesses.

Details of the risks associated with Clough's operations (and an investment in Clough) are contained in Section 5.5 of this Scheme Booklet.

### (a) Engineering

Clough has a work force of nearly 500 engineers and technical staff across Australia, Papua New Guinea, Asia and the United Kingdom. Engineering services are supplied to blue chip energy and resources clients. The Group offers full lifecycle engineering services including:

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

### (b) Capital Projects

Clough's Capital Projects business delivers a fully integrated Engineering, Procurement and Construction service, or any part thereof, including Design and Construct and Construct-only solutions for major energy and resources projects.

Capital Projects has a work force of over 3,000 engineering, construction and project management professionals from bases across Australia and Papua New Guinea. Infrastructure design and construct capabilities include:

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

### (c) Jetties & Near Shore Marine

Clough's Jetties & Near Shore Marine service is delivered through a 50 year joint venture between Clough and Royal BAM International of Netherlands (**BAM Clough**).

BAM Clough designs and constructs a range of marine infrastructure for blue chip clients, including:

- 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

**(d) Commissioning & Asset Support**

Clough's Commissioning and Asset Support services help major energy and resource clients transition from construction to operations.

During 2013, commissioning services were strengthened, with the acquisition of e2o Pty Ltd in January 2013 and the establishment of Clough Coens in May 2013. Clough Coens is a joint venture between Clough and Korean manpower firm, Coens, and was established to provide independent and integrated commissioning services to the world's largest fabrication yards operating out of Korea and China.

Asset support services are delivered through a 10-year joint venture with AMEC Engineering Pty Ltd, a Subsidiary of AMEC plc.

Clough's commissioning and asset support services include:

- Onshore and Offshore Pre-commissioning and Commissioning
- Reliability Modelling
- Operational Readiness
- Maintenance Management and Execution
- Shutdowns and Turnarounds
- Supply Chain Management
- Operators Maintenance Staff, Competency Assurance and Training (Classroom and e-training)
- Full suite of parent Oil and Gas, LNG, and Mining & Minerals Engineering and EPC Services
- Decommissioning

### 5.3 CLOUGH BOARD AND SENIOR MANAGEMENT

**(a) Clough Board**

As at the date of this Scheme Booklet, the Clough Board comprises of:

NAME	POSITION
Mr Keith Spence	Independent Non-Executive Director and Chairman
Mr Kevin Gallagher	Chief Executive Officer and Managing Director
Mr Neil Siford	Chief Financial Officer and Executive Director
Ms Emma Stein	Independent Non-Executive Director
Mr David Crawford	Independent Non-Executive Director
Mr Henry Laas <sup>1</sup>	Non-Executive Director
Mr Cobus Bester <sup>1</sup>	Non-Executive Director
Mr Ian Henstock <sup>1</sup>	Non-Executive Director

1. Each of these directors is an Excluded Director.



**(b) Senior Management**

As at the date of this Scheme Booklet, the key members of Clough's senior management team include:

NAME	POSITION
Mr Geoff Bird	Vice President, Strategy and Commercial
Mr Gary Bowtell	Executive Vice President, Engineering
Mr Max Bergomi	Executive Vice President, Commissioning and Asset Support
Mr Rick Robinson	Executive Vice President, Projects
Mr Rajiv Ratnesar	Group General Counsel and Company Secretary
Mr Barry Howard	Executive Vice President, Group Functions and Systems
Mr Kevin Hollingsworth	Acting Executive Vice President, People and Organisation Development

**5.4 CLOUGH'S SECURITIES AND CAPITAL STRUCTURE**

**(a) Clough Shares on issue**

As at 4 October 2013 (being the Last Practical Trading Day), Clough had 777,203,039 Clough Shares on issue.

**(b) Clough Options on issue**

As at 4 October 2013 (being the Last Practical Trading Day), Clough had 16,385,978 unlisted Clough Options on issue, comprising:

NUMBER	EXERCISE PRICE	EXPIRY DATE
200,000	\$0.75	26/11/2013
330,000	\$0.86	01/02/2014
745,000	\$0.86	05/03/2014
330,000	\$0.34	01/02/2015
1,095,585	\$0.34	11/02/2015
340,000	\$0.90	16/03/2016
2,039,748	\$0.82	16/03/2017
2,791,263	\$0.89	23/02/2018
4,217,662	\$0.68	24/02/2019
4,296,720	\$1.055	08/03/2019

All Clough Options were issued under the Clough Employee Option Plan, last approved by Clough Shareholders at the 2011 Annual General Meeting on 18 October 2011.

Details regarding the treatment of Clough Options if the Scheme proceeds are set out in Section 3.9 of this Scheme Booklet.

**(c) Clough Performance Rights on issue**

As at the date of this Scheme Booklet, Clough had 3,347,289 unlisted Clough Performance Rights on issue, comprising:

NUMBER	VESTING DATE
1,590,602	01/03/2015
189,394	15/08/2014
189,394	15/08/2015
189,394	15/08/2016
738,875	01/10/2016
449,630	09/10/2016

All Clough Performance Rights were issued under the Clough Executive Incentive Scheme, approved by Clough Shareholders at the 2012 Annual General Meeting on 23 October 2012.

Details regarding the treatment of Clough Performance Rights if the Scheme proceeds are set out in Section 3.10 of this Scheme Booklet.

Refer to Section 10.3 of this Scheme Booklet for details of the Clough Shares, Clough Options and Clough Performance Rights held by or on behalf of Clough Directors.

**(d) Substantial shareholders**

Based on publicly available information, as at 4 October 2013 (being the Last Practical Trading Day), Clough had received notifications from the following substantial shareholders in accordance with section 671B of the Corporations Act:

NAME	NUMBER OF CLOUGH SHARES	% SHAREHOLDING
Murray & Roberts Limited	478,957,478	61.63%
<b>Total</b>	<b>478,957,478</b>	<b>61.63%</b>

**(e) Top 20 Clough Shareholders**

Based on Clough's share register as at 1 October 2013, the top 20 Clough Shareholders held approximately 90.50% of the Clough Shares, as indicated in the following table.

NAME	NUMBER OF CLOUGH SHARES	% SHAREHOLDING
Murray & Roberts Limited	478,957,478	61.63%
National Nominees Limited	41,861,383	5.39%
Citicorp Nominees Pty Limited	38,521,554	4.96%
HSBC Custody Nominees (Australia) Limited	37,506,595	4.83%
J P Morgan Nominees Australia Limited	30,759,305	3.96%
RBC Investor Services Australia Nominees Pty Limited (BKCUST A/C)	23,714,973	3.05%
Zero Nominees Pty Ltd	9,000,000	1.16%

NAME	NUMBER OF CLOUGH SHARES	% SHAREHOLDING
JP Morgan Nominees Australia Limited (CASH INCOME A/C)	7,560,767	0.97%
BNP Paribas Noms Pty Ltd	6,634,855	0.85%
Jalinsons Pty Ltd (JPW SUPER FUND NO 2 A/C)	4,676,957	0.60%
RBC Investor Services Australia Nominees Pty Limited (PI POOLED A/C)	4,250,737	0.55%
Equity Trustees Limited (SGH20)	4,200,000	0.54%
HSBC Custody Nominees (Australia) Limited (NT-COMNWLTH SUPER CORP A/C)	2,975,109	0.38%
Invia Custodian Pty Limited (JPW SUPER FUND 2)	2,630,000	0.34%
Mr Andrea Antoci	2,504,167	0.32%
G Harvey Nominees Pty Limited	2,013,855	0.26%
Chemco Superannuation Fund Pty Ltd	2,000,000	0.26%
Citicorp Nominees Pty Ltd (COLONIAL FIRST STATE INV A/C)	1,403,303	0.18%
Kevin Thomas Gallagher	1,136,394	0.15%
UBS Nominees Pty Ltd	1,100,000	0.14%
<b>Total</b>	<b>703,407,432</b>	<b>90.50%</b>

## 5.5 RISKS RELATING TO AN INVESTMENT IN CLOUGH

The risk factors in this Section 5.5 are existing factors relating to Clough's business and the industry in which it operates. These risks will continue to be relevant to all Clough Shareholders if the Scheme does not proceed and Clough Shareholders retain their current investment in Clough.

If the Scheme proceeds, Clough Shareholders (other than Excluded M&R Shareholders) will receive the Scheme Consideration, they will cease to be Clough Shareholders and will no longer be exposed to the risks set out in this Section 5.5.

### (a) General risk factors

As with any entity with listed securities on ASX, the future prospects, operating and financial performance of Clough and the value of Clough Shares are affected by a variety of factors, including:

- (i) general business cycles;
- (ii) economic and political factors in Australia and overseas including economic growth;
- (iii) interest rates;
- (iv) inflation;
- (v) employment levels;
- (vi) changes in government fiscal or regulatory regimes and foreign trade policies;
- (vii) changes in accounting or financial reporting standards; and
- (viii) changes in taxation laws (or their interpretation).

Deterioration of the general economic conditions, adverse foreign exchange rate movements, the Australian and overseas stock markets, natural disasters and catastrophic events may also affect Clough's operating and financial position.

**(b) Specific risk factors****(i) Cyclical fluctuations**

A number of the industries in which Clough operates are subject to the cyclical fluctuations of mining construction, the economic activity of its customers and general economic conditions. These cycles are determined by domestic and global factors outside the control of Clough and have the potential to impact its financial performance, including the shape and size of its future order book and the potential profit margins at which any future work is won.

Furthermore, the oil and gas, and mining and minerals, sectors in Australia have seen a period of significant capital investment. There is a risk that the current high level of investment may not be maintained going forward.

**(ii) Ability to secure new work**

A significant proportion of Clough's revenue and earnings are sourced from large construction and installation contracts. These contracts are typically one off in nature and do not provide recurring long term revenue. In order to maintain current revenue levels, Clough must continue to secure additional work.

**(iii) Fixed price contracts**

Fixed price contracts are common in Clough's industry. Clough has reduced the percentage of work that it undertakes under such contracts, however delays or unforeseen events in fixed price contracts remains a risk for Clough.

**(iv) Payment from customers**

While many of Clough's current projects are with large global energy companies, there remains a risk that clients may be unable to meet payment obligations for work performed by Clough. Unrecoverable work in progress has the potential to impact Clough's financial performance negatively.

**(v) Contractual performance**

Clough's contracts are typically large and complex. Failure by Clough or its partners to perform as required under its contract may lead to additional cost and liabilities, which has the potential to negatively impact Clough's financial performance.

**(vi) Finance**

No assurance can be given that debt and/or bonding facilities will always be available or available on commercially acceptable terms. If adequate funds are not available on acceptable terms in the future then Clough may not be able to take advantage of opportunities, develop new ideas or otherwise respond to competitive pressures.

**(vii) Competition**

The actions of competitors into the market may adversely impact Clough's performance or operating margins in the event that Clough does not respond effectively to the increased competition. During periods of lower construction activity there is increased competition. Such increased competition may lead clients to demand more favourable terms which may cause Clough to assume increased levels of risk or reduced margins.

**(viii) Foreign exchange risk**

Clough operates in the global oil and gas market and as such has revenues and costs denominated in US dollars. Foreign exchange risk arises where future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Clough has a policy of naturally hedging currencies, meaning that where possible, US dollar costs are matched by US dollar revenue. Where this is not possible, Clough hedges its exposure through its available banking facilities.

- 
- (ix) Sovereign and international risk
- There are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, political instability, expropriation, nationalisation and war. There may also be fluctuations in technology export and import restrictions or prohibitions and delays from customers, brokers or government agencies, any of which could impact the success of Clough's international operations and subsequently have a material adverse effect on Clough's competitiveness and financial performance. In addition, there is an increased risk of recovering monies owed to Clough in foreign jurisdictions.
- (x) Reputation and relationships
- Clough has an established brand in each of the industries in which it operates and has formed strong customer relationships over many years that have been strengthened by each division's directly employed workforce. The failure, or perceived failure, of any of the services and products offered by Clough may damage its reputation and customer relationships.
- (xi) Labour shortages and inability to recruit and retain labour
- It is possible that there may be shortages of skilled workers in some of the industries or geographical areas in which Clough operates. Additionally, in a labour-constrained market, it is possible that Clough may be unable to recruit and retain sufficient labour and may lose labour to competitors. This may negatively affect Clough by limiting its ability to retain sufficient staff to undertake potential business, or by causing it to spend above forecast levels to retain staff.
- (xii) Retention of key management personnel
- Clough's future success depends, in part, on its capacity to retain and motivate existing management personnel as well as attract new management personnel. In particular, Clough's performance is dependent on the talents and efforts of key management personnel. The loss of key management personnel could cause material disruption to Clough's business and operations in the short to medium term and may have an adverse impact on the financial performance or prospects of Clough.
- (xiii) Industrial relations
- Industrial action, disputes with employees and future changes to labour have the potential to impact the operational and financial performance of Clough adversely. Clough has implemented policies and procedures, including retaining external industrial relations consultants, to manage relations with employees and labour unions.
- (xiv) Sustainability and growth of margins
- The sustainability of growth in Clough's revenue and profit and the level of profit margins from operations are dependent on a number of factors, some of which are outside Clough's control. Industry margins in each industry in which Clough operates may be subject to continuing but varying margin pressures. There is no assurance that the historical financial performance of Clough is indicative of its future financial performance.
- (xv) Interest
- Clough borrows money to assist in financing its operations. Changes in interest rates have the potential to impact the financial performance of Clough.
- (xvi) Disruption to business operations
- Clough is exposed to a range of operational risks including health, safety, environment, equipment failures, information technology system failures, external services failures, subcontractor performance failures, disputes and natural disasters. While Clough endeavours to take appropriate action to mitigate these operational risks and insure against them, Clough cannot completely remove all disruption risk to its business and one or more of these risks may negatively impact its future operational and financial performance.



(xvii) Litigation

Given the nature and scope of the activities of Clough and the wide range of parties it deals with, Clough may be exposed to potential claims of, or litigation from, third parties such as customers, suppliers, joint venture partners, employees and regulators. To the extent that these risks are not covered by Clough's insurance policies, litigation and the costs of responding to any threats of legal action or investigation may have an adverse impact on the financial performance of Clough.

(xviii) Capital raising

Clough's ability to raise capital is dependent on the prevailing market conditions at the time, and upon the availability of significant amounts of equity financing to Clough. If additional capital is raised by an issue of securities, this will likely have the effect of diluting the interests of Clough Shareholders. Clough's failure to raise capital if and when needed could delay or suspend Clough's business strategy and could have a material adverse effect on Clough's activities.

(xix) Taxation

Both local and foreign tax rules or their interpretation may change, impacting your returns from Clough.

## 5.6 FINANCIAL INFORMATION

The summary financial information below has been extracted from the full year financial report of the Clough Group for the financial year ended 30 June 2013, which was published on ASX.

The full year financial report of the Clough Group for the financial year ended 30 June 2013 was audited by Deloitte Touche Tohmatsu who issued an unmodified audit report for that financial report.

The financial information set out in this Section 5.6 is intended to provide a high level overview of the Clough Group's historical financial position and does not provide the level of detail set out in Clough's published financial reports which are available on ASX or Clough's website.

### (a) Consolidated statement of financial performance

The following table presents a summary of the consolidated statement of financial performance of the Clough Group for the financial years ended 30 June 2013 and 30 June 2012, as extracted from Clough's audited financial report for the financial year ended 30 June 2013.

In AUD	For the year ended (\$'000s)	
	30 June 2013 (audited)	30 June 2012 (audited) (restated) <sup>1</sup>
<b>Revenue - continuing operations</b>	<b>624,729</b>	<b>431,442</b>
Other income	1,443	1,039
Labour costs	(409,783)	(288,145)
Materials, plant & subcontractor costs	(145,425)	(94,688)
Other expenses	(55,963)	(62,025)
Finance costs	(107)	(392)
Share of net profit of jointly controlled entities accounted for using the equity method	83,056	52,798
Profit before income tax	97,950	40,029
Income tax expense	(24,040)	(4,936)
Profit from continuing operations	73,910	35,093
Profit (Loss) from discontinued operations	53,504	8,129
<b>Profit for the year</b>	<b>127,414</b>	<b>43,222</b>
Attributable to:		
Owners of Clough Limited	127,414	42,898
Non-controlling interests	-	324
	<b>127,414</b>	<b>43,222</b>
<b>Earnings Per Share - Continuing Operations</b>	<b>Cents</b>	<b>Cents</b>
Basic	9.52	4.55
Diluted	9.48	4.53

1. In the annual report for the year ended 30 June 2013, Forge Group Limited was treated as a discontinued operation, following Clough's disposal of its interest on 25 March 2013. For comparison purposes, the results for the year ended 30 June 2012 as shown in the annual report for the year ended 30 June 2013 were restated to include Forge Group Limited as a discontinued operation. The amounts relating to Forge Group Limited that were reclassified to discontinued operations in the restated comparative accounts for 30 June 2012 were: (i) Clough's share of Forge Group Limited's net profit after tax of \$16,809,000 which was included in share of net profit of associates and jointly controlled entities accounted for using the equity method in the 30 June 2012 annual report; (ii) the fair value loss on the Forge Group Limited put option arrangement of \$1,170,000 which was included in other expenses in the 30 June 2012 annual report.

### (b) Consolidated statement of financial position

The following table presents a summary of the consolidated statement of financial position for the Clough Group as at 30 June 2013 and 30 June 2012, as extracted from Clough's audited financial reports for those years.

In AUD	As at (\$'000s)	
	30 June 2013 (audited)	30 June 2012 (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	441,228	146,511
Trade and other receivables	92,215	97,468
Work in progress	13,245	6,523
Derivative financial instruments	208	2
	546,896	250,504
Assets classified as held for sale	16,046	21,998
Assets of a disposal group held for sale	-	-
<b>Total current assets</b>	<b>562,942</b>	<b>272,502</b>
<b>Non-current assets</b>		
Trade and other receivables	2,029	9,686
Investments accounted for using the equity method	65,233	157,807
Property, plant and equipment	18,137	23,305
Intangible assets	9,065	1,763
Deferred tax assets	27,152	41,341
Other non-current assets	452	622
<b>Total non-current assets</b>	<b>122,068</b>	<b>234,524</b>
<b>Total assets</b>	<b>685,010</b>	<b>507,026</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	91,237	82,377
Amounts due to customers for contract work	40,608	22,482
Borrowings	-	-
Current tax liabilities	45,607	13,646
Provisions	28,073	20,126
Derivative financial instruments	111	1,758
	205,636	140,389
Liabilities directly associated with assets classified as held for sale	4,557	4,557
Liabilities directly associated with a disposal group held for sale	-	-
<b>Total current liabilities</b>	<b>210,193</b>	<b>144,946</b>
<b>Non-current liabilities</b>		
Trade and other payables	4,621	5,205
Provisions	8,363	7,330
<b>Total non-current liabilities</b>	<b>12,984</b>	<b>12,535</b>
<b>Total liabilities</b>	<b>223,177</b>	<b>157,481</b>
<b>NET ASSETS</b>	<b>461,833</b>	<b>349,545</b>
<b>EQUITY</b>		
Contributed equity	233,189	232,614
Reserves	(3,640)	(8,092)
Retained earnings	232,284	125,023
Capital and reserves attributable to owners of Clough Limited	461,833	349,545
Non-controlling interests	-	-
<b>Total equity</b>	<b>461,833</b>	<b>349,545</b>

## 5.7 MATERIAL CHANGES IN CLOUGH'S FINANCIAL POSITION

To the knowledge of Clough Board, and except as disclosed in this Scheme Booklet, the financial position of Clough has not materially changed since the date of its annual report (dated 20 August 2013).

Copies of Clough's annual reports for the financial years ended 30 June 2013 and 30 June 2012 and the financial report for the half-year ended 31 December 2012 may be obtained from Clough's website ([www.clough.com.au](http://www.clough.com.au)), ASX's website ([www.asx.com.au](http://www.asx.com.au)) or Clough free of charge following a request in writing received before the Scheme is approved by the Court.

## 5.8 INTENTIONS REGARDING THE CONTINUATION OF CLOUGH'S BUSINESS

If the Scheme is implemented, the existing Clough Board will be reconstituted in accordance with the instructions of the Murray & Roberts Group (as it will be a wholly-owned Murray & Roberts Group Entity) on the Implementation Date.

Accordingly, it is not possible for your existing Clough Board to provide a statement of their intentions regarding:

- (a) the continuation of the business of Clough or how the existing business will be conducted;
- (b) any major changes to be made to the business of Clough; or
- (c) the future employment of the present employees of Clough,

in each case, after the Scheme is implemented.

The intentions of Murray & Roberts (Aus) if the Scheme is implemented are as set out in Section 6.7.

## 5.9 RECENT CLOUGH SHARE PRICE PERFORMANCE

The table below summarises the trading prices of Clough Shares on ASX for various periods up to and following announcement of the Murray & Roberts Proposal.

PERIOD	LOW	HIGH
1 month prior to announcement of Murray & Roberts Proposal	\$1.055	\$1.235
3 months prior to announcement of Murray & Roberts Proposal	\$1.030	\$1.245
6 months prior to announcement of Murray & Roberts Proposal	\$1.030	\$1.395
12 months prior to announcement of Murray & Roberts Proposal	\$0.650	\$1.395
From announcement of Murray & Roberts Proposal to 4 October 2013 (being Last Practical Trading Day)	\$1.415	\$1.47

Note: Includes intraday lows and highs.

Source: IRESS. IRESS has not consented to the use of any trading data in this Scheme Booklet.

The last recorded trading price of Clough Shares on ASX on 4 October 2013 (being the Last Practical Trading Day) was \$1.455.

## 5.10 PUBLIC INFORMATION AVAILABLE FOR INSPECTION

Clough is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Broadly, these require Clough to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Clough is also required to prepare and lodge with ASIC and ASX both annual and half year financial statements.

Further announcements concerning Clough will continue to be made available on the ASX website after the date of this Scheme Booklet.

Copies of the documents filed with ASX may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au) and Clough's website at [www.clough.com.au](http://www.clough.com.au). Copies of the documents lodged with ASIC in relation to Clough may be obtained from, or inspected at, an ASIC office. Copies of these documents will also be made available free of charge following a request in writing to Clough at any time before the Scheme Meeting.

# 6

## **INFORMATION RELATING TO MURRAY & ROBERTS (AUS) AND THE MURRAY & ROBERTS GROUP**



## 6.1 INTRODUCTION

The information contained in this Section 6 has been prepared by Murray & Roberts (Aus). The information concerning the Murray & Roberts Group and the intentions, views and opinions contained in this Section are the responsibility of Murray & Roberts (Aus). Clough and its directors, officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

The intentions of Murray & Roberts (Aus) have been formed on the basis of facts and information concerning Clough which are known to it, the general business environment and the circumstances affecting the business of Clough as at the date of this Scheme Booklet.

## 6.2 BACKGROUND

Murray & Roberts, through its Subsidiaries, is an engineering, contracting and construction services company based in Johannesburg, South Africa and is listed on the JSE. The Murray & Roberts Group offers civil, mechanical, electrical, mining and process engineering, and general building, construction and infrastructure development services in the global underground mining market and in the natural resources and infrastructure sectors of selected emerging markets.

The Murray & Roberts Group operates in Southern Africa, the Middle East, Asia, Australasia and North and South America. The head office is based in Johannesburg South Africa, and it has principal offices in Australia, Botswana, Canada, Chile, Ghana, Namibia, United States of America, United Arab Emirates and Zambia.

Murray & Roberts is subject to the timely disclosure requirements of the JSE on which its shares are listed (as noted above). A substantial amount of further information concerning the Murray & Roberts Group is available from its website at [www.murrob.com](http://www.murrob.com).

The Murray & Roberts Group currently owns 61.6% of Clough after first acquiring a shareholding in 2003. Clough became a subsidiary of the Murray & Roberts Group and was consolidated with effect from 1 July 2007, and the Murray & Roberts Group currently has three representatives on the Clough Board.

## 6.3 OVERVIEW OF OPERATIONS

The Murray & Roberts Group operates through a holding company structure. Murray & Roberts conducts all of its business through its subsidiaries, joint ventures and associates.

The Murray & Roberts Group operates through four operating platforms: Two platforms represent the Murray & Roberts Group's regional businesses (with primarily an African focus) and the remaining two, its international businesses (with a global focus).

The table below presents the primary operating companies organised by operating platform, as well as the geographic markets and market sectors in which each platform operates.

GROUP OPERATING PLATFORMS	COMPANIES / DIVISIONS	MAIN GEOGRAPHY MARKETS	MARKET SECTORS
<b>Construction Africa and Middle East</b>	Murray & Roberts Construction	<b>Regional:</b> Africa	Metals & Minerals Energy, Industrial
	Murray & Roberts Marine	Southeast Asia	Infrastructure
	Murray & Roberts Middle East	Middle East	Building
	Murray & Roberts Concessions		
	Tolcon		
<b>Engineering Africa</b>	Murray & Roberts Projects	<b>Regional:</b> Africa	Metals & Minerals Energy (Oil & Gas, Power)
	Genrec		Industrial
	Wade Walker		
	Concor Engineering		
	Murray & Roberts Water		

GROUP OPERATING PLATFORMS	COMPANIES / DIVISIONS	MAIN GEOGRAPHY MARKETS	MARKET SECTORS
<b>Construction Global Underground Mining</b>	Murray & Roberts Cementation	<b>International:</b> Africa	Metals & Minerals
	Cementation Canada	Southeast Asia	
	RUC Cementation	Australasia	
	Cementation Sudamérica	Americas	
<b>Construction Australasia Oil &amp; Gas and Minerals</b>	Clough	<b>International:</b> Australasia	Industrial
		Southeast Asia	Metals & Minerals (Surface)
		Africa	Energy (Oil & Gas, Power)

## 6.4 MURRAY & ROBERTS DIRECTORS AND SENIOR MANAGEMENT

### (a) Murray & Roberts directors

As at the date of this Scheme Booklet, the Murray & Roberts board of directors comprises of:

NAME	POSITION
Ms Mahlape Sello	Independent Non-Executive Chairman
Mr Henry Laas <sup>1</sup>	Group Chief Executive
Mr Cobus Bester <sup>1</sup>	Group Financial Director
Mr Dave Barber	Independent Non-Executive Director
Mrs Ntombi Langa-Royds	Independent Non-Executive Director
Mr Michael McMahon	Independent Non-Executive Director
Mr Bill Nairn	Independent Non-Executive Director
Mr Royden Vice	Independent Non-Executive Director

1. Each of these directors is also a Clough Director and therefore classed as an Excluded Director.

### (b) Murray & Roberts Senior Management

As at the date of this Scheme Booklet, the key members of Murray & Roberts senior management team, who are also directors of Murray & Roberts Limited, include:

NAME	POSITION
Mr Henry Laas <sup>1</sup>	Chief Executive Director
Mr Cobus Bester <sup>1</sup>	Group Financial Director
Dr Orrie Fenn	Executive Director: Construction Global Underground Mining Platform
Mr Jerome Govender	Executive Director: Construction Africa & Middle East Platform
Mr Ian Henstock <sup>1</sup>	Commercial Director

NAME	POSITION
Mr Thokozani Mdluli	HSE Director
Mr Frank Saieva	Executive Director: Engineering Africa Platform
Mr Andrew Skudder	Sustainability Director

1. Each of these executives is also a Clough Director and therefore classed as an Excluded Director.

**(c) Murray & Roberts (Aus) directors**

As at the date of this Scheme Booklet, the Murray & Roberts (Aus) directors comprises of:

NAME	POSITION
Mr Henry Laas <sup>1</sup>	Director
Mr Cobus Bester <sup>1</sup>	Director
Mr Timothy Howard	Director

1. Each of these directors is also a Clough Director and therefore classed as an Excluded Director.

**(d) Excluded Directors on Clough Board**

As at the date of this Scheme Booklet, the Excluded Directors on the Clough Board comprises of:

NAME	POSITION AT THE MURRAY & ROBERTS GROUP
Mr Henry Laas	Group Chief Executive, Murray & Roberts
Mr Cobus Bester	Group Financial Director, Murray & Roberts
Mr Ian Henstock	Commercial Director, Murray & Roberts Limited

## 6.5 RATIONALE FOR MURRAY & ROBERTS' PROPOSED ACQUISITION OF CLOUGH

The proposed acquisition of 100% of Clough is consistent with the Murray & Roberts Group's long term growth strategy. The Murray & Roberts Group has had an interest in Clough since 2003 and the potential benefits of full ownership of Clough have been recognised by the Murray & Roberts Group for some time. Murray & Roberts considers the Transaction to have a number of key benefits for the Murray & Roberts Group, including:

- (a) In recent years, Clough has become an increasingly more relevant part of the Murray & Roberts Group business. However, due to the Murray & Roberts Group's ownership being limited to 61.6%, it has had limited access to the cashflows Clough has been generating. The Transaction will allow the Murray & Roberts Group to have 100% access to Clough's cashflows in the future.
- (b) Murray & Roberts views the global energy sector, in particular oil & gas and power, to have a strong medium to long-term growth outlook.  
  
In addition to ongoing growth opportunities in Clough's existing geographic markets, Murray & Roberts sees significant potential to leverage Clough's expertise to pursue opportunities in and around Africa's rapidly emerging oil & gas markets, for both existing and new clients.
- (c) Following the implementation of the Scheme, the Murray & Roberts Group will have the same four operating platforms referred to in Section 6.3.

## 6.6 FUNDING ARRANGEMENTS FOR THE CASH PAYMENT OF \$1.46 PER CLOUGH SHARE

**(a) Maximum cash consideration**

The cash payment of \$1.46 per Clough Share will be satisfied wholly in cash. The maximum cash consideration payable in connection with the Scheme, if the Scheme becomes Effective, will be approximately \$474.9 million (including transaction costs). This amount includes:

- the Scheme Consideration to be provided by Murray & Roberts (Aus) which is payable for each Clough Share held by Scheme Participants as at the Scheme Record Date (including those Clough Shares which may be issued as a result of vesting of Clough Performance Rights and exercise of Clough Options prior to the Scheme Record Date);
- the Special Dividend to be paid by Clough for each Clough Share held by Clough Shareholders as at the Special Dividend Record Date (including those Clough Shares issued as a result of vesting of Clough Performance Rights and exercise of Clough Options prior to the Special Dividend Record Date); and
- any Option Offer Consideration and PR Offer Consideration to be paid by Clough to Clough Option holders and Clough Performance Rights holders. Details regarding the treatment of Clough Options and Clough Performance Rights are set out in Sections 3.9 and 3.10.

The Scheme Consideration is to be provided by:

- Murray & Roberts (Aus) depositing an amount equal to the aggregate Scheme Consideration payable to all Scheme Participants (less the amount of the Clough Loan) into the Scheme Trust Account in accordance with the Deed Poll as set out in Section 10.2(a)(iv).
- Clough advancing the Clough Loan to Murray & Roberts (Aus) by paying it into the Scheme Trust Account pursuant to the Scheme Implementation Agreement and the Clough Loan Agreement as set out in Section 10.2(b).

On the basis of arrangements described in this Section 6.6(a), Murray & Roberts (Aus) is of the opinion that it has a reasonable basis for forming the view, and it holds the view, that it will have sufficient funds available to fund the payment of the Scheme Consideration and related transaction costs.

#### (b) Overview of funding arrangements

The cash necessary to fund the payment of the Scheme Consideration and related transaction costs will be provided to Murray & Roberts (Aus) as follows:

- \$175 million facility, to be available for draw down by Murray & Roberts (Aus) in Australian currency and structured as a new bridging loan facility under the Murray & Roberts Group's existing senior debt arrangements with existing lenders (**Bridging Facilities**);
- the Special Dividend to be received by Murray & Roberts Limited (from its 61.6% shareholding in Clough) of up to \$67.1 million which will be directed to Murray & Roberts (Aus) via intercompany funding arrangements; and
- the Clough Loan is expected to be at least \$184.6 million (based on Clough's issued capital as at the Last Practical Trading Day). As set out in Section 9.1, the Clough Loan may increase up to \$311.6 million if the Special Dividend is reduced or not paid or if any of the Clough Performance Rights and Clough Options are not cancelled under the PR Offer and the Option Offer.

In aggregate, these funds are more than sufficient to fund the Scheme Consideration and related transaction costs. The Scheme is not subject to any Murray & Roberts Group financing conditions. Murray & Roberts (Aus) intends to utilise the full amount of the Clough Loan and any Special Dividend received by Murray & Roberts Limited to fund the Scheme Consideration with the balance of the Scheme Consideration being funded by drawing down under the Bridging Facilities.

#### (c) Particulars of Murray & Roberts Bridging Facilities

The Murray & Roberts Group has in place existing bilateral facility letters with a syndicate of South African and international banks (**Existing Facility**).

The terms of the Existing Facility were adjusted under an Amended and Restated Facility Agreement on 16 September 2013 to incorporate the Bridging Facilities and Murray & Roberts (Aus) as borrower.

The Bridging Facilities are to be utilised by Murray & Roberts (Aus) to partly fund the Scheme Consideration. The Murray & Roberts Group's intention is to replace the Bridging Facilities with long term debt following completion of the Transaction.

The key terms of the Bridging Facilities are:

ITEM	DISCUSSION
Lenders <sup>4</sup>	Absa Bank Limited, The Standard Bank of South Africa Limited, Nedbank Limited
Size	\$175 million (Absa Bank Limited: \$78 million; The Standard Bank of South Africa Limited: \$58 million; Nedbank Limited: \$39 million)
Purpose	To provide funding for the Scheme Consideration (other than the Clough Loan) and associated transaction costs
Maturity Date	12 months after draw down (expected to be December 2014)
Documentation	Amended and Restated Facility Agreement modified in accordance with credit approved term sheets from Absa Bank Limited, The Standard Bank of South Africa Limited and Nedbank Limited
Conditions precedent to availability	<ul style="list-style-type: none"> <li>• the Scheme becoming Effective and the total cash payment of \$1.46 per Clough Share not exceeding \$475 million (including transaction costs);</li> <li>• legal opinions in respect of the availability of the Clough Loan and the Special Dividend and with regards to capacity, authority, enforceability, validity, legality and binding nature of facility documentation;</li> <li>• no breach of warranties, material claims having been made or threatened or events of default under the facility documentation;</li> <li>• completion of final documentation in relation to the Bridging Facilities on terms acceptable to the lenders; and</li> <li>• other conditions customary for a funding facility of this nature.</li> </ul> <p>Murray &amp; Roberts (Aus) expects these conditions will be satisfied by the Second Court Date (other than those conditions by which their nature are typically only satisfied on the date of initial drawdown of the Bridging Facilities).</p>
Events of default	<p>The Bridging Facilities contain events of default, subject to applicable grace periods, that are customary for facilities of this nature and also includes:</p> <ul style="list-style-type: none"> <li>• any person directly or indirectly acquires control of Murray &amp; Roberts; or</li> <li>• if Murray &amp; Roberts is delisted from the JSE and trading of its shares on the JSE is suspended for a period of five or more business days (where an act or omission by Murray &amp; Roberts caused such suspension) or for a period of 10 or more business days (where any other act or omission caused such suspension).</li> </ul>

<sup>4</sup> Additional lenders to the Existing Facility include JP Morgan Chase Bank N.A. (Johannesburg Branch), Rand Merchant Bank (A division of FIRSTRAND Bank Limited), and Standard Chartered Bank (Johannesburg Branch).



## 6.7 THE MURRAY & ROBERTS GROUP'S INTENTIONS IF THE SCHEME IS IMPLEMENTED

### (a) Clough Directors

Following the implementation of the Scheme, Clough will be delisted from ASX (refer to Section 3.1 of this Scheme Booklet) and the Murray & Roberts Group intends to consider the composition of the Clough Board and whether there is an ongoing requirement to retain any Non-Executive Directors, having regard to their specific areas of expertise.

### (b) Operations

As at the date of this Scheme Booklet, the Murray & Roberts Group does not intend to alter the operational structure of Clough post the implementation of the Scheme. It is intended that Clough will remain structured as a separate reporting segment of the Murray & Roberts Group, within its newly formed "International Platforms" operating structure.

The Murray & Roberts Group recognises the importance and value of the Clough brand and operating structure and will therefore endeavour to minimise changes to the business at this stage.

### (c) Employees

The Murray & Roberts Group recognises the skills and values that Clough employees display and which have helped Clough achieve its leading market position as an engineering and project services contractor for energy, chemical, mining and mineral projects.

The Murray & Roberts Group views Clough's employees as an integral part of the business and it is therefore the Murray & Roberts Group's intention to retain Clough's employees post implementation of the Scheme. Clough employees may benefit from opportunities which arise by being part of a larger international company, including international career development opportunities.

In addition, after implementation of the Scheme, Murray & Roberts intends to implement a retention plan for certain of Clough's key management personnel and senior management as determined in consultation with Clough's senior executives.

### (d) Clough delisting

Following the implementation of the Scheme, the Murray & Roberts Group intends to arrange for Clough to be removed from the official list of ASX.

### (e) Intentions generally

Except for the intentions set out in this Section 6.7, the Murray & Roberts Group has no current intention to make major changes to, or dispose of any parts of, Clough's business or redeploy any of Clough's assets. It is intended to keep Clough within the context of the Murray & Roberts Group's operations as described in Section 6.3 above if the Scheme is implemented.

## 6.8 MURRAY & ROBERTS GROUP INTERESTS IN CLOUGH SHARES

### (a) Interest in Clough Shares

As at the date of this Scheme Booklet, the Murray & Roberts Group has:

- voting power in Clough of approximately 61.6%; and
- a Relevant Interest in 478,957,478 Clough Shares.

### (b) Dealings in Clough Shares in previous four months

Except in respect of the Scheme Consideration, during the period four months before the date of this Scheme Booklet, neither Murray & Roberts (Aus), Murray & Roberts nor any of its Associates have provided or agreed to provide consideration for any Clough Shares under a purchase or an agreement.

### (c) Benefits to holders of Clough Shares

During the four months before the date of this Scheme Booklet, neither Murray & Roberts (Aus), Murray & Roberts nor any of their respective Associates have given or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- vote in favour of the Scheme; or
- dispose of Clough Shares,

which benefit was not offered to all Clough Shareholders (other than an Excluded M&R Shareholder).

---

**(d) Benefits to Clough Directors**

Neither Murray & Roberts (Aus), Murray & Roberts nor any of their respective Associates, will be making any payment or giving any benefit to any current member of the Clough Board as compensation or consideration for, or otherwise in connection with, their resignation from the Clough Board, if the Scheme becomes Effective and the Clough Board is accordingly reconstituted.

**6.9 OTHER MATERIAL INFORMATION**

Except as disclosed elsewhere in this Scheme Booklet, there is no other information that is material to the making of a decision in relation to the Scheme, being knowledge that is within the knowledge of any director of Murray & Roberts or Murray & Roberts (Aus), as at the date of this Scheme Booklet, which has not been previously disclosed to Clough Shareholders.

# 7

## TAXATION IMPLICATIONS





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2 October 2013

The Directors  
Clough Limited  
Level 15, Alluvion Building  
58 Mounts Bay Road  
PERTH WA 6000

Dear Sirs and Madam

**Australian tax treatment  
Acquisition of Clough Limited by Murray & Roberts Pty Ltd**

We have been requested by Clough to prepare a letter to be included in the Scheme Booklet outlining the Australian income tax, GST and stamp duty consequences to Scheme Participants of participating in the Scheme. This letter should be read in conjunction with the remainder of the Booklet. Unless otherwise defined in this letter capitalised terms used in this letter have the same meaning as defined terms in the Booklet.

**1. Disclaimer**

The purpose of this letter is to provide a guide as to the potential Australian income tax, GST and stamp duty implications applicable to Scheme Participants under the Scheme. This letter is not intended to provide an exhaustive or definitive statement as to all the possible tax outcomes for Scheme Participants.

The information contained in this letter has taken into account the facts as set out in the Booklet and is based on the tax law, applicable case law and published Australian Tax Office (ATO) rulings, determinations and administrative practice at the date of this letter. Any changes in tax law or interpretation of the tax law subsequent to the date of this letter may alter the information contained in this letter.

Tax is a complex area of law and the tax implications for a Scheme Participant may differ from those detailed in this letter, depending on that shareholder's particular circumstances. The information contained in this letter is general in nature and should not be relied upon by Scheme Participants as tax advice. This letter is not intended to be an authoritative or complete statement of the tax law applicable to the specific circumstances of every Scheme Participant. Scheme Participants should obtain their own independent professional advice on the tax consequences of participating in the Scheme.

This summary does not constitute financial product advice as defined in the Corporations Act 2001. This summary is confined to taxation issues and is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments. The partnership of Ernst & Young is not required to hold an Australian Financial Services Licence under the Corporations Act 2001 to provide you with this taxation advice. We have not caused and take no responsibility for the publication of any part of the Booklet other than this letter itself.

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under Professional Standards Legislation



## Section 1: Overview of Australian tax consequences for Clough shareholders

### 1. Scope and introduction

Unless otherwise expressly indicated, the information contained in this letter is directed towards Australian resident Scheme Participants who hold their Scheme Shares on capital account for income tax purposes. We have provided a general outline of the Australian tax consequences for Scheme Participants who:

- ▶ Receive the Special Dividend; and
- ▶ Participate in the Scheme and dispose of their Scheme Shares to Murray & Roberts Pty Ltd (Bidco).

This letter does not consider the consequences for Scheme Participants who:

- ▶ Hold their Scheme Shares on revenue account or as trading stock.
- ▶ Are financial institutions, insurance companies, partnerships, tax exempt organizations, trusts (except where expressly stated), superannuation funds (except where expressly stated) or temporary residents.
- ▶ Are subject to the taxation of financial arrangement rules contained in Division 230 of the Income Tax Assessment Act 1997 (Cth) in relation to gains and losses on their Scheme Shares.
- ▶ Acquired their Scheme Shares through an employee share scheme.
- ▶ Are Australian tax residents that hold their Scheme Shares as part of an enterprise carried on, at, or through a permanent establishment in a foreign country.

### 2. ATO class ruling

Clough has lodged a class ruling request with the Australian Tax Office (ATO).

The class ruling request seeks the ATO's views on specific income tax consequences in relation to the Scheme Consideration and the Special Dividend.

The class ruling has not been issued by the ATO as at the date of the Booklet. When issued, the final class ruling will be available on the ATO website at [www.ato.gov.au](http://www.ato.gov.au).

If any statements in this letter are subject to the class ruling request, this is noted where relevant. We are not aware of any facts or circumstances related to the Scheme that would cause the comments contained in this letter to be inaccurate. However, it is possible the ATO may conclude differently and it is therefore important that this letter be read in conjunction with the final class ruling when and if it is issued by the ATO.



### 3. Australian income tax implications - special dividend

This letter provides a summary of the Australian income tax, GST and stamp duty consequences for Scheme Participants who receive the Special Dividend and Participate in the Scheme.

#### 3.1 Receipt of special dividend - Australian tax residents

Scheme Participants who are Australian tax residents and are entitled to receive the Special Dividend should include the amount of the Special Dividend as assessable income. The amount should be included in their tax return for the income year in which the dividend payment is received (being the 2014 income tax year). This should be confirmed in the class ruling.

Scheme Participants who receive the Special Dividend may also receive the attached franking credits. The associated franking credits should also generally be included in the assessable income of each Scheme Participant who receives the Special Dividend.

A Scheme Participant may claim a tax offset for the amount of the franking credit where the "holding period" rule is satisfied by the Scheme Participant. The holding period rule requires that the Scheme Participant holds their Scheme Shares "at risk" for a continuous period of at least 45 days during a prescribed period.

Scheme Participants who are individuals should be exempt from applying the holding period rule where their total franking credit tax offset entitlement in respect of all dividends for the 2014 income tax year does not exceed \$5,000. However, this exemption should not apply to a dividend which is subject to the "related payments" rule.

The holding period rule is subject to the related payments rule. The related payments rule operates where the Scheme Participant is under an obligation to pass the benefit of the Special Dividend to other persons. We consider that the related payments rule is likely to apply in respect of the Special Dividend as the Special Dividend is inter-related with the entitlements arising to Scheme Participants under the Scheme.

Assuming a Scheme Record date of 4 December 2013, and subject to confirmation in the class ruling, it is expected that Scheme Participants who acquire their Scheme Shares after 19 October 2013 should not be entitled to a tax offset for the franking credits.

The class ruling will confirm whether:

- ▶ The Scheme Participants will satisfy the relevant holding period rule with respect to the Special Dividend if the Scheme Participants held the Scheme Shares "at risk" for a continuous period of at least 45 days during the period ending the day prior to the Scheme Record Date, and whether the related payments rule applies; and
- ▶ The ATO will or will not seek to apply any integrity provisions so as to prevent the Scheme Participants from receiving the benefit of the franking credits. Scheme Participants should refer to the final published class ruling to confirm the required tax treatment.

The franking credits attached to the Special Dividend may be used to offset the income tax otherwise payable by a Scheme Participant. The integrity and anti-avoidance provisions should not apply to deny or limit the availability of those credits to Scheme Participants receiving the Special Dividend. This issue should be confirmed by the class ruling.



The extent to which the Scheme Participants will be able to access the franking credit tax offset will depend on their status and specific circumstances, as outlined below. The discussion below assumes that the Scheme Participants will satisfy the holding period and related payment rules as outlined above in respect of the Special Dividend.

### **3.1.1 Individuals and complying superannuation funds**

Scheme Participants that are individuals and complying superannuation funds should be entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend.

Individuals and complying superannuation funds that have franking credits in excess of their tax liability in respect of the income may be entitled to a refund for any franking credits in excess of their total tax liability.

### **3.1.2 Companies**

Scheme Participants that are companies should be entitled to a tax offset equal to the amount of the franking credits. As a result, companies should not pay any additional income tax on the Special Dividend.

Scheme Participants that are companies should also receive a credit to their franking account equal to the amount of the franking credits.

### **3.1.3 Trusts**

In circumstances where there are no beneficiaries that are presently entitled to the income of a trust, the trustee will bear the tax liability in respect of the Special Dividend and should be entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend.

Where beneficiaries are presently entitled to the income of a trust, the Special Dividend and attached franking credits should flow through to those presently entitled beneficiaries. The tax treatment of the Special Dividend and any franking credits in the hands of those beneficiaries will depend on the tax status of the beneficiaries.

### **3.1.4 Receipt of special dividend - non-Australian tax residents**

Scheme Participants that are not Australian residents for tax purposes should not be subject to tax in Australia in respect of the Special Dividend (provided that they do not hold the Scheme Shares through an Australian permanent establishment).

On the basis and to the extent that the Special Dividend will be fully franked, Scheme Participants who are foreign residents for tax purposes should not be subject to any Australian dividend withholding tax.

## **4. Australian income tax implications of disposal**

### **4.1 Australian income tax implications of disposal - Australian tax residents**

In the event that the Scheme is approved, the Bidder will acquire 100% of the issued capital in Clough. The income tax implications for Australian Tax resident Scheme Participants are outlined below.

#### **4.1.1 Capital gains tax event**

Capital gains tax (CGT) event A1 should occur for all Scheme Participants when they dispose of their Scheme Shares to Bidco under the Scheme. The class ruling is expected to confirm that the applicable event is CGT event A1 and that the time of the event is the Implementation Date.

Scheme Participants will:

- ▶ Make a capital gain if the capital proceeds received from the disposal of their Scheme Shares exceeds their cost base; or
- ▶ Make a capital loss if the capital proceeds received from the disposal of their Scheme Shares is less than their reduced cost base.

The cost base (or reduced cost base) of Scheme Shares should generally be the amount paid to acquire the Scheme Shares plus incidental costs of ownership (provided the costs have not previously been claimed as a tax deduction).

Capital proceeds

The SIA provides that the Scheme Consideration is the amount of \$1.46 per Scheme Share less the amount of any dividend(s) declared or determined to be payable, or paid, by Clough in respect of Scheme Shares up to and including the Scheme Implementation Date.

Whether the payment of the Special Dividend forms part of the capital proceeds for the disposal of the Scheme Shares is addressed as part of the class ruling application.

Where the Special Dividend is not considered to form part of the capital proceeds from the disposal of the Scheme Shares the capital proceeds will be equal to \$1.46 per Scheme Share less the amount of the Special Dividend.

Where the Special Dividend is considered to form part of the capital proceeds from the disposal of the Scheme Shares, there is an 'anti-overlap' rule which ensures any capital gain made by the Scheme Participant should be reduced by the Special Dividend included in the Scheme Participants assessable income. No reduction is made for the amount of franking credits attached to the dividend.

However, where a capital loss arises for a Scheme Participant from a disposal of their Scheme Shares, the 'anti-overlap' rule does not apply. Consequently the capital loss should be reduced by the Special Dividend.

Scheme Participants should refer to the final published class ruling to confirm the required tax treatment.

#### **4.1.2 Indexation**

Where the Scheme Shares were acquired before 11:45am AEST on 21 September 1999, the cost base of the Scheme Shares may be increased for indexation based on the CPI movement from the date of acquisition to 30 September 1999. The indexation can be applied by Scheme Participants that are companies.

Scheme Participants who are individuals, trusts or complying superannuation funds that held their interests prior to 11:45am on 21 September 1999 can choose to apply either the cost base indexation or the CGT discount in calculating their net capital gain from the disposal of their Scheme Shares.

Where Scheme Shares were acquired after 11.45am AEST on 21 September 1999, Scheme Participants may not index the cost base of their Scheme Shares.



#### **4.1.3 CGT discount**

The CGT discount is available to Scheme Participants who are individuals, trusts or complying superannuation entities.

The discount is available to Scheme Participants who have held their Scheme Shares for at least 12 months prior to the date of disposal.

The CGT discount rules enable Scheme Participants to reduce their capital gain (after the application of current and prior year capital losses) by 50% for individuals and trusts, and 33⅓% for complying superannuation funds.

The CGT discount is not available to Scheme Participants that are companies or have elected the indexation method above. The availability of the discount to Scheme Participants should be confirmed in the class ruling.

#### **4.1.4 Capital Losses**

Capital losses should arise where the capital proceeds received are less than the reduced cost base of the Scheme Shares. A capital loss can offset other capital gains made by Scheme Participants in the year ended 30 June 2014. Where the capital losses are not utilised in that year, they may be carried forward to future income years (subject to any specific loss recoupment rules). Scheme Participants should seek tax advice in relation to the operation of these rules.

#### **4.2 Australian income tax implications of disposal – foreign tax residents**

Scheme Participants who are not Australian residents for income tax purposes, who do not carry on a business in Australia at or through a permanent establishment and do not own 10% or more of the shares in Clough should be exempt from CGT on the disposal of their Scheme Shares.

Foreign resident Scheme Participants should obtain their own independent tax advice regarding the tax implications of the Scheme in Australia and in their country of residence.

#### **5. Stamp Duty**

Scheme Participants should not be liable to stamp duty in respect of the disposal of their Scheme Shares under the Scheme.

#### **6. GST**

No GST should be payable by a Scheme Participant in respect of the disposal of Scheme Shares, regardless as to whether the Scheme Participant is registered for GST. In the event the Scheme Participant is registered for GST, the disposal of the Scheme Shares would be considered an input taxed financial supply.

In addition, no GST should be payable by Scheme Participants in respect of the Special Dividend as such transactions are considered outside the scope of GST.

Scheme Participants may incur GST on costs (such as third party brokerage and advisor fees) that relate to their participation in the Scheme. Scheme Participants that are registered, or required to be registered for GST may not be entitled to full input tax credits for any GST payable on such costs, but may be entitled to Reduced Input Tax Credits for some acquisitions. This will depend on each Scheme Participant's individual circumstances.

Scheme Participants should seek their own independent tax advice in relation to the GST implications of their participation in the Scheme.

Yours sincerely



Ernst & Young



# 8

## IMPLEMENTATION OF THE SCHEME AND OTHER ASPECTS OF THE TRANSACTION



## 8.1 SCHEME IMPLEMENTATION AGREEMENT

On 28 August 2013, Clough, Murray & Roberts (Aus) and Murray & Roberts entered into the Scheme Implementation Agreement under which (among other things) Clough agreed to propose the Scheme.

The Scheme Implementation Agreement sets out the obligations of Clough, Murray & Roberts (Aus) and Murray & Roberts in connection with the implementation of the Scheme. Under the Scheme Implementation Agreement, Murray & Roberts guarantees due and punctual performance of Murray & Roberts (Aus)'s obligations.

A summary of the key terms of the Scheme Implementation Agreement is set out in Annexure A, providing details in relation to (among other things):

- (a) the conditions precedent to the Scheme;
- (b) the exclusivity requirements during the Implementation Period; and
- (c) each party's termination rights.

A full copy of the Scheme Implementation Agreement is available on Clough's website at [www.clough.com.au](http://www.clough.com.au) and from ASX at [www.asx.com.au](http://www.asx.com.au).

## 8.2 DEED POLL

Murray & Roberts (Aus) and Murray & Roberts have each executed the Deed Poll in favour of the Scheme Participants under which:

- (a) Murray & Roberts (Aus) covenant to provide the Scheme Consideration in accordance with the Scheme; and
- (b) Murray & Roberts covenant to procure that Murray & Roberts (Aus) pays the Scheme Consideration in accordance with the Scheme.

Should the Scheme become Effective, Murray & Roberts (Aus) has agreed to deposit an amount equal to the aggregate Scheme Consideration payable to all Scheme Participants (less the amount of the Clough Loan) into the Scheme Trust Account by no later than 5.00 pm on the day that is two Business Days before the Implementation Date. Clough will then pay each Scheme Participant the Scheme Consideration for each Scheme Share transferred to Murray & Roberts (Aus) by that Scheme Participant on the Implementation Date.

Under the Scheme, each Scheme Participant irrevocably appoints Clough as its attorney and agent to enforce the Deed Poll against Murray & Roberts (Aus) and Murray & Roberts.

A copy of the Deed Poll is set out in Annexure B to this Scheme Booklet.

## 8.3 KEY STEPS TO IMPLEMENT THE SCHEME

Each key step to implement the Scheme and relevant information concerning these steps is set out below. All dates following the Clough Shareholders' Meetings are indicative only and are subject to change. Clough will announce any change to the dates set out in the Important Dates section to ASX.

### **Step 1: General Meeting – Clough Shareholders to vote on the Clough Loan Approvals at the General Meeting**

Clough has convened the General Meeting to be held at 10.00 am on Friday, 15 November 2013 at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000. The Notice of General Meeting is set out in Annexure D.

At the General Meeting, the required majority of Clough Shareholders must approve the Clough Loan. For this to occur, the Clough Loan Resolution must be approved by a special resolution (ie 75% or more) of Clough Shareholders present and voting (either in person, or by proxy or representative) with no votes cast in favour of the resolution by any Murray & Roberts Group Entity or their Associates.

Instructions on how to vote at the General Meeting are set out in Section 4.3 of this Scheme Booklet and the Notice of General Meeting in Annexure D.

### **Step 2: Scheme Meeting – Clough Shareholders (other than Excluded M&R Shareholders) to vote on the Scheme at the Scheme Meeting**

In accordance with an order of the Court dated 11 October 2013, Clough has convened the Scheme Meeting to be held at 11.00 am on Friday, 15 November 2013 at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000. The Notice of Scheme Meeting is set out in Annexure E.

At the Scheme Meeting, the Requisite Majorities of Clough Shareholders must approve the Scheme Resolution. For this to occur, the resolution must be approved by:

- (a) (**headcount test**) a majority in number (ie more than 50%) of Clough Shareholders (other than Excluded M&R Shareholders) present and voting at the Scheme Meeting (either in person, or by proxy or representative); and
- (b) (**voting test**) holders of at least 75% of the total number of votes cast on the Scheme Resolution by Clough Shareholders (other than Excluded M&R Shareholders) present and voting at the Scheme Meeting (either in person, or by proxy or representative).

Instructions on how to vote at the Scheme Meeting are set out in Section 4.3 of this Scheme Booklet and the Notice of Scheme Meeting in Annexure E.

Steps 3 to 9 described below will only occur if all Resolutions are passed by the required majorities of Clough Shareholders.

### Step 3: Special Dividend – Clough to determine the Special Dividend

If the Scheme is approved by Clough Shareholders, Clough intends to determine to pay a fully franked Special Dividend of \$0.14 for each Clough Share held as at the Special Dividend Record Date shortly after the Clough Shareholders' Meetings. The determination will be conditional on the Scheme becoming Effective.

Clough reserves the right to reduce the amount of the Special Dividend or not to determine the Special Dividend in circumstances where it believes that the Commissioner of Taxation may make a determination which would have the effect of the Special Dividend not being fully franked or imputation credits otherwise being denied. If there is any difference between the amount of the Special Dividend determined to be paid by Clough and \$0.14, the amount of the difference will form part of the Scheme Consideration to be paid by Murray & Roberts (Aus) (which will be funded by an increase in the amount of the Clough Loan) so that Scheme Participants will still receive a cash payment of \$1.46 per Clough Share.

Clough will make an announcement to ASX when the ATO issues its final Class Ruling, which is expected to occur within three weeks after the Clough Shareholders' Meetings.

### Step 4: Second Court Hearing – Clough to apply to the Court for approval of the Scheme

In the event that:

- (a) the Clough Loan Approvals are obtained at the General Meeting;
- (a) the Scheme is approved by the Requisite Majorities of Clough Shareholders (other than Excluded M&R Shareholders); and
- (c) all of the conditions precedent to the Scheme (other than Court approval) have been satisfied or (if permitted) waived,

Clough will apply to the Court for an order approving the Scheme.

Any Clough Shareholder and, with the Court's permission, any other interested person has a right to appear at the Second Court Hearing.

### Step 5: Effective Date – Clough to make the Scheme Effective

If the Court makes an order approving the Scheme (referred to in this Scheme Booklet as the **Scheme Order**), Clough will lodge an office copy of the Scheme Order with ASIC. Once lodged, the Scheme will become Effective and binding on Murray & Roberts (Aus), Clough and each Scheme Participant (referred to in this Scheme Booklet as the **Effective Date**).

On the Effective Date, Clough will notify ASX that the Scheme has become Effective and lodge a copy of the Scheme Order with ASX. Trading in Clough Shares will be suspended from close of trading on the Effective Date.

Once the Scheme becomes Effective, each Scheme Participant, without the need for any further act, irrevocably appoints Clough and each of its directors and officers (jointly and severally) as its attorney and agent for the purposes of executing any document or doing any other act necessary or desirable to give effect to the Scheme. This includes executing a proper instrument of transfer in respect of a Scheme Participant's Scheme Shares.

### Step 6: Special Dividend Record Date – Clough to determine entitlements to Special Dividend

To the extent the Clough Board determines to pay any Special Dividend, it is expected that only those Clough Shareholders on the Register on the Special Dividend Record Date, being 5.00 pm on Thursday,

28 November 2013 (the fifth Business Day after the Effective Date), will be entitled to receive the Special Dividend in respect of the Clough Shares they hold on this date.

**Step 7: Special Dividend Payment Date – Clough to pay the Special Dividend**

To the extent the Clough Board determines to pay any Special Dividend, it is expected that Clough will pay the Special Dividend on Tuesday, 3 December 2013 (the eighth Business Day after the Effective Date).

As Clough Shareholders on the Special Dividend Record Date, the Excluded M&R Shareholders will also be entitled to any Special Dividend.

**Step 8: Scheme Record Date – Clough to determine entitlements to Scheme Consideration**

Those Clough Shareholders (other than Excluded M&R Shareholders) on the Register on the Scheme Record Date, being 5.00 pm on Wednesday, 4 December 2013 (the ninth Business Day after the Effective Date), will be entitled to receive the Scheme Consideration in respect of the Clough Shares they hold on this date.

**(a) Dealings on or prior to the Scheme Record Date**

For the purposes of determining who is a Scheme Participant (ie a Clough Shareholder (other than an Excluded M&R Shareholder) on the Scheme Record Date), dealings in Clough Shares will only be recognised if:

- (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Clough Shares on or before 5.00 pm on the Scheme Record Date; and
- (ii) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00 pm on the Scheme Record Date at the place where the Register is kept.

Clough will not accept for registration or recognise for any purpose, any transfer or transmission application in respect of Clough Shares received after the Scheme Record Date.

**(b) Dealings after the Scheme Record Date**

For the purposes of determining entitlements to the Scheme Consideration, Clough will maintain the Register in its form as at the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Participants. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- (a) all statements of holding for Clough Shares will cease to have any effect as documents relating to title in respect of those shares; and
- (b) each entry on the Register will cease to have effect, other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

**Step 9: Implementation Date – Scheme Participants receive the Scheme Consideration and Clough Shares transferred to Murray & Roberts (Aus)**

The Implementation Date is expected to be Wednesday, 11 December 2013 (being, the fifth Business Day after the Scheme Record Date).

Under the Scheme Implementation Agreement, Murray & Roberts (Aus) must pay into the Scheme Trust Account, an amount equal to the aggregate Scheme Consideration payable to the Scheme Participants (less the amount of the Clough Loan) before 5.00 pm on the day that is two Business Days before the Implementation Date. Clough must also pay an amount equal to the Clough Loan into the Scheme Trust Account no later than two Business Days before the Implementation Date.

On the Scheme Implementation Date:

- (a) each Scheme Participant will be paid the Scheme Consideration (being \$1.46 per Clough Share less the amount of any Special Dividend); and
- (b) once paid, the Scheme Shares will be transferred to Murray & Roberts (Aus), without the Scheme Participants needing to take any further action, and the Register will be updated so that Murray & Roberts (Aus) is listed as the holder of all the Scheme Shares.

Details regarding the funding of the Scheme Consideration are set out in Section 3.8 of this Scheme Booklet.

#### **8.4 DEEMED WARRANTIES BY SCHEME PARTICIPANTS**

The Scheme provides that each Scheme Participant is taken to have warranted to Murray & Roberts (Aus) that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those shares) that are transferred under the Scheme will, at the date of transfer, be free from all mortgages, pledges, charges, liens, encumbrances, security interests and other interests of third parties of any kind, whether legal or otherwise; and
- (b) they have full power and capacity to sell and transfer their Scheme Shares to Murray & Roberts (Aus) together with any rights and entitlements attaching to those shares.

#### **8.5 DELISTING FROM ASX**

On or after the Implementation Date, Clough will apply for termination of the official quotation of Clough Shares on ASX, and for Clough to be removed from the official list of ASX.



# 9

## **FURTHER INFORMATION IN RELATION TO THE CLOUGH LOAN RESOLUTION**



## 9.1 INTRODUCTION

This Section provides additional information specific to the approval of the Clough Loan. The General Meeting has been convened for Clough Shareholders to consider, and if thought fit, pass the Clough Loan Resolution for the reasons set out in Sections 9.2(a) and 9.3(a) (respectively).

The text of the Clough Loan Resolution is set out in the Notice of General Meeting in Annexure D.

Clough has agreed to provide the Clough Loan to assist Murray & Roberts (Aus) to fund part of the Scheme Consideration. The Clough Loan cannot be made by Clough without the approval of Clough Shareholders (not including any Murray & Roberts Group Entity or their Associates). The Scheme cannot proceed unless the Clough Loan Resolution is passed. The amount of the Clough Loan is expected to be \$184.6 million, but could be as high as \$311.6 million if the Special Dividend is not paid for any reason or if any of the Clough Performance Rights and Clough Options are not cancelled under the PR Offer and the Option Offer (based on Clough's issued capital as at the Last Practical Trading Day).

## 9.2 APPROVAL FOR FINANCIAL ASSISTANCE

This Scheme Booklet constitutes an explanatory statement in respect of the Financial Assistance for the purposes of section 260B(4) of the Corporations Act and contains all material information known to the Clough Board that could reasonably be required by Clough Shareholders in deciding how to vote on the Clough Loan Resolution (other than information that would be unreasonable to require the Independent Directors to disclose because such information has previously been disclosed to Clough Shareholders).

### (a) Reason for approval of Financial Assistance

As Murray & Roberts (Aus) will use the proceeds from the Clough Loan to fund a portion of the Scheme Consideration, Clough and its Subsidiaries will financially assist Murray & Roberts (Aus)'s acquisition of Clough Shares under the Scheme.

Section 260A of the Corporations Act prohibits Clough and its Subsidiaries from financially assisting Murray & Roberts (Aus) to acquire Clough Shares unless:

- (i) giving the financial assistance does not materially prejudice the interests of Clough or Clough Shareholders, or Clough's ability to pay its creditors;
- (ii) the assistance is approved by a special resolution passed at a general meeting of Clough under section 260B of the Corporations Act; or
- (iii) the assistance is exempted under section 260C of the Corporations Act.

None of the exemptions in section 260C of the Corporations Act apply to these circumstances.

Your Independent Directors do not consider that the provision of the Clough Loan following the payment of any Special Dividend will materially prejudice the interests of Clough or its shareholders, or its ability to pay its creditors. The Independent Directors believe that the interests of Clough Shareholders will not be prejudiced because the Clough Loan will only be provided after the Scheme becomes Effective. As to Clough's creditors, in forming this view, the Independent Directors have had regard to Clough's anticipated net cash balance following provision of the Clough Loan and the payment of any Special Dividend. Clough's cash balance as at 30 June 2013 was substantially above historical levels due to proceeds received from the sale of its marine construction business in December 2011 and its interest in Forge Group Limited in March 2013. Following payment of the Clough Loan and any Special Dividend, the Independent Directors believe, as at the date of this Scheme Booklet, that Clough will continue to maintain a net cash balance sufficient to meet its liabilities as and when they are due and payable, taking into account:

- (i) the levels of operating cash inflows expected to be generated by Clough's current contracts;
- (ii) the expected working capital requirements associated with Clough's current order book, and potential new contracts;
- (iii) the potential timing of Clough's current receivables and payables; and
- (iv) Clough's ability to access funds from external financiers (if required).

Notwithstanding the foregoing, the Independent Directors nevertheless consider it appropriate to seek the approval of Clough Shareholders under section 260B(1) and section 260B(2) of the Corporations Act to authorise the Financial Assistance to be given by Clough and its Subsidiaries.

A summary of the Clough Group's consolidated statement of financial position as at 30 June 2013 is set out in Section 5.6.

Each Clough Subsidiary providing this Financial Assistance will also need to pass a special resolution for the purposes of section 260B(2) of the Corporations Act. These resolutions will be sought in sufficient time to permit the giving of the Clough Loan.



**(b) Approval for any Special Dividend**

As Clough Shareholders on the Special Dividend Record Date, the Excluded M&R Shareholders will also be entitled to any Special Dividend. In this regard, the Corporations Act provides that financial assistance may take the form of paying a dividend before the acquisition of shares.

Although the proceeds from any Special Dividend will be applied by Murray & Roberts (Aus) to fund the Scheme Consideration, Clough does not consider that the payment of any Special Dividend will materially prejudice the interests of Clough or its shareholders, or its ability to pay its creditors. The Independent Directors have formed this view after carefully considering the financial position of Clough. For this reason, separate Clough shareholder approval is not being sought for Clough to pay any Special Dividend in the manner prescribed.

**(c) Additional information regarding Financial Assistance**

- (i) **Lodgement of Notice of General Meeting with ASIC:** A copy of the Notice of General Meeting set out in Annexure D proposing the Clough Loan Resolution (together with this Scheme Booklet) was lodged with ASIC before being sent to Clough Shareholders, as required by section 260B(5) of the Corporations Act.
- (ii) **Details about Clough Loan:** For further information in relation to the Clough Loan refer to Section 10.2.
- (iii) **Lodgement of special resolutions:** If the Clough Loan Resolution is passed:
  - (A) Clough will lodge with ASIC a notice in the prescribed form stating that the Financial Assistance has been approved at least 14 days before providing the Clough Loan, as required by section 260B(6) of the Corporations Act; and
  - (B) a copy of the Resolution and the special resolutions passed by any Clough Subsidiary will be lodged with ASIC within 14 days after being passed, as required by section 260B(7) of the Corporations Act.

### 9.3 APPROVAL FOR FINANCIAL BENEFIT

This Scheme Booklet constitutes an explanatory statement in respect of the Financial Benefit for the purposes of section 219 of the Corporations Act and, either in this Section 9.3 or elsewhere in the Scheme Booklet, contains all of the information required by this section.

**(a) Reason for approval of Financial Benefit**

The Clough Loan is expected to be \$184.6 million, but could be as high as \$311.6 million (based on Clough's issued capital as at the Last Practical Trading Day). As set out in Section 10.2 of the Scheme Booklet, pursuant to the Clough Loan Agreement, the Clough Loan will incur interest, is unsecured and must be repaid on or before 30 June 2018. There are no establishment costs to Murray & Roberts (Aus) associated with the Clough Loan and, as such, it is estimated that Murray & Roberts (Aus) will save approximately \$0.6 million to \$1.0 million in establishment costs by utilising the Clough Loan rather than external finance. This estimate is based on the establishment costs for the Bridging Facilities to be utilised by Murray & Roberts (Aus) to partially fund the Scheme Consideration (refer to Section 6.6 of this Scheme Booklet for further details about the Bridging Facilities). A range for these fees is provided to recognise that the amount of the Clough Loan may vary as mentioned above.

By providing the Clough Loan, Clough and its Subsidiaries will be giving a financial benefit to the Murray & Roberts Group, in particular Murray & Roberts (Aus). The Financial Benefit for these purposes is the giving of the Clough Loan on the terms described above (in accordance with the Clough Loan Agreement), which includes the benefit to Murray & Roberts (Aus) of there being no establishment costs associated with the Clough Loan (the value of which is estimated above).

Murray & Roberts is a related party of Clough for the purposes of section 228(1) of the Corporations Act because, by reason of its shareholding in Clough through its Subsidiaries, it is an entity that controls Clough.

Murray & Roberts (Aus) (and each other Murray & Roberts Group Entity) is a related party of Clough for the purposes of section 228(4) because it is an entity controlled by an entity (ie Murray & Roberts) that controls Clough.

Chapter 2E of the Corporations Act prohibits Clough and its Subsidiaries from providing a financial benefit to the Murray & Roberts Group, unless:

- (i) Clough Shareholders approve the giving of the financial benefit in advance; or
- (ii) the financial benefit falls within one of the exemptions in Division 2 of Chapter 2E of the Corporations Act.

None of the exemptions set out in Division 2 of Chapter 2E of the Corporations Act apply in these circumstances.

**(b) Additional information regarding Financial Benefit**

- (i) **No adverse effect on minority shareholders:** The Independent Directors believe that the risks for minority shareholders are minimal because the Clough Loan will only be provided two Business Days before the Implementation Date after the Scheme becomes Effective. At this point in time, Murray & Roberts (Aus) will be beneficially entitled to the remaining Clough Shares and minority shareholders will be beneficially entitled to the Scheme Consideration for their Clough Shares. Accordingly, the provision of the Clough Loan will not affect minority shareholders' interests from a commercial and economic point of view.
- (ii) **Directors' interests:** As discussed above, the Clough Loan Resolution is required to implement the Scheme. The Clough Directors do not have any interest in the outcome of the Clough Loan Resolution other than their interest in the Scheme, Clough Securities and the Murray & Roberts Group, which are set out in Sections 10.3 and 10.5 of this Scheme Booklet.
- (iii) **Evaluation by Independent Directors:** Due to potential conflict issues, the Transaction was evaluated by the Independent Directors without the participation of Excluded Directors. Only the Independent Directors voted on the resolution approving the Transaction at the relevant Clough Board meeting.
- (iv) **Alternatives:** The Independent Directors did not consider alternatives to giving the Clough Loan because it will have no adverse impact on minority shareholders and it is necessary to implement the Scheme (which they consider to be in the best interests of Clough Shareholders, in the absence of a Superior Proposal).
- (v) **Other impacts:** As the financial benefit will only be provided two Business Days before the Implementation Date after the Scheme has become Effective, the provision of the Clough Loan does not give rise to any opportunity costs, taxation consequences or benefits foregone that affect the minority shareholders' investment in Clough. In addition, for the reasons set out in Section 9.2, the Independent Directors do not consider that the provision of the Clough Loan following the payment of any Special Dividend will materially prejudice Clough's ability to pay its creditors.
- (vi) **Lodgement of Notice of General Meeting with ASIC:** A copy of the Notice of General Meeting set out in Annexure E proposing the Clough Loan Resolution (together with a draft of this Scheme Booklet) was lodged with ASIC before being sent to Clough Shareholders, as required by section 218(1) of the Corporations Act.
- (vii) **Further information:** This Section 9.3 should be read in conjunction with the other parts of this Section. For further information in relation to the Clough Loan refer to Section 10.2.

**9.4 ADDITIONAL INFORMATION REGARDING CLOUGH LOAN RESOLUTION****(a) Directors' recommendation**

As the Independent Directors consider that the Scheme is in the best interests of Clough Shareholders, they unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Clough Loan Resolution at the General Meeting as it is required to implement the Scheme. Refer to Section 1.2 for the reasons why the Independent Directors support the Scheme.

All of the Excluded Directors are also employed by the Murray & Roberts Group and, on that basis, do not make any recommendation in relation to the Clough Loan Resolution.

**(b) Approval and voting exclusions**

Pursuant to section 260B(1) of the Corporations Act, the Financial Assistance must be approved by a special resolution (ie 75% or more) of Clough Shareholders. The Financial Benefit, however, only need to be approved by a simple majority (ie more than 50%) of Clough Shareholders.

For the Scheme to be implemented, Clough Shareholders need to approve both the Financial Assistance and the Financial Benefit. Accordingly, the Clough Loan Resolution needs to be approved by a special resolution of Clough Shareholders present and voting (either in person, or by proxy or representative).

In accordance with the Corporations Act, Clough will disregard any votes cast in favour of the Clough Loan Resolution by any Murray & Roberts Group Entity or their Associates.

Under the Corporations Act, the Clough Directors (including the Independent Directors) are classified as Associates of Murray & Roberts (Aus) because Clough is considered a Subsidiary of Murray & Roberts and, therefore, a Related Body Corporate of Murray & Roberts (Aus). Accordingly, no Clough Director may vote their Clough Shares in favour of the Clough Loan Resolution. For this same reason, the Chairman of the General Meeting will not vote any undirected proxy appointment nominating him on the Clough Loan Resolution. **If you appoint the Chairman of the General Meeting as your proxy, you are therefore urged to indicate on your blue proxy form how he should cast your vote on the Clough Loan Resolution.**



# 10

## **ADDITIONAL INFORMATION**



This Section 10 sets out the statutory information required under section 412(1) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations, but only to the extent that this information is not otherwise disclosed in other sections of this Scheme Booklet. This Section 10 also includes additional information that the Clough Board considers material to a decision on how to vote on the Resolutions required to implement the Scheme.

### 10.1 MANAGEMENT OF POTENTIAL CONFLICT ISSUES

Each Excluded Director has the following role (or roles) in the Murray & Roberts Group:

- (a) Henry Laas is the Group Chief Executive of Murray & Roberts.
- (b) Cobus Bester is the Group Financial Director of Murray & Roberts.
- (c) Ian Henstock is the Group Commercial Director of Murray & Roberts Limited.

Following the receipt of the Murray & Roberts Proposal, in order to manage any potential or perceived conflict of interest or duty in relation to the Excluded Directors' role in the Murray & Roberts Group, the Clough Board authorised its response sub-committee to consider the proposal and the Transaction, and negotiate the Scheme Implementation Agreement. For this purpose, the response sub-committee comprised the Independent Directors (being, Keith Spence, Kevin Gallagher, Neil Siford, Emma Stein and David Crawford).

### 10.2 CLOUGH LOAN AGREEMENT

Under the Scheme Implementation Agreement, Clough and Murray & Roberts (Aus) will enter into the Clough Loan Agreement on or before 5:00 pm on the Business Day before the Second Court Date (or such earlier date agreed by the parties).

A summary of the key terms of the Clough Loan Agreement is set out below.

#### (a) Conditions precedent

It is a condition of the Clough Loan, and the Clough Loan Agreement becoming effective, that:

- (i) Clough receives written consent under its existing banking facilities to the Transaction (including without limitation the Clough Loan);
- (ii) the required majority of Clough Shareholders passed the Clough Loan Resolution;
- (iii) the Scheme becomes Effective; and
- (iv) Murray & Roberts (Aus) has paid into the Scheme Trust Account an amount equal to the aggregate Scheme Consideration payable for all of the Scheme Shares (less the amount of the Clough Loan) two Business Days before the Implementation Date.

#### (b) Payment of loan

Upon satisfaction of the conditions precedent, Clough must pay an amount equal to the Clough Loan into the Scheme Trust Account two Business Days before the Implementation Date.

#### (c) Interest and security

The Clough Loan is unsecured and will incur interest at a margin of 4.50% per annum above the 3 month Bank Bill Swap Rate (being approximately 2.6% as at the Last Practical Trading Day), with interest payable quarterly in arrears (subject to the right of Murray & Roberts (Aus) to have interest capitalised). The interest rate reflects the circumstances and terms of the Clough Loan and is at a premium to the interest rate payable under the Bridging Facilities to be utilised by Murray & Roberts (Aus) to partially fund the Scheme Consideration.

#### (d) Repayment of loan

Murray & Roberts (Aus) must repay the Clough Loan on or before 30 June 2018.

### 10.3 INTERESTS OF CLOUGH DIRECTORS IN CLOUGH SECURITIES

#### (a) Clough Directors' interests in Clough Shares

As at the date of this Scheme Booklet, the number of Clough Shares held by or on behalf of each Clough Director are as follows:

CLOUGH DIRECTOR	NUMBER OF CLOUGH SHARES	% INTEREST IN CLOUGH ISSUED CAPITAL
Keith Spence	Nil	0.0%
Kevin Gallagher	1,136,394	0.15%
Neil Siford	20,000	0.003%
Emma Stein	74,900	0.01%
David Crawford	Nil	0.0%
Henry Laas <sup>1</sup>	Nil	0.0%
Cobus Bester <sup>1</sup>	Nil	0.0%
Ian Henstock <sup>1</sup>	Nil	0.0%
<b>Total</b>	<b>1,231,294</b>	<b>0.158%</b>

1. Each of these Clough Directors is a director of one or more entities in the Murray & Roberts Group. Murray & Roberts Group Entities together are the registered holder of 478,957,478 Clough Shares.

Each Independent Director (being, Keith Spence, Kevin Gallagher, Neil Siford, Emma Stein and David Crawford) intends to vote any Clough Shares held or controlled by him or her in favour of the Scheme Resolution, in the absence of a Superior Proposal.

**(b) Clough Directors' interests in Clough Securities**

As at the date of this Scheme Booklet, the number of Clough Shares held by or on behalf of each Clough Director are as follows:

CLOUGH DIRECTOR	NUMBER OF CLOUGH OPTIONS	NUMBER OF CLOUGH PERFORMANCE RIGHTS
Keith Spence	Nil	Nil
Kevin Gallagher	1,394,220 <sup>1</sup>	377,064
Neil Siford	902,932 <sup>2</sup>	378,451
Emma Stein	Nil	Nil
David Crawford	Nil	Nil
Henry Laas	Nil	Nil
Cobus Bester	Nil	Nil
Ian Henstock	Nil	Nil
<b>Total</b>	<b>2,297,152</b>	<b>755,515</b>

1. Of the Clough Options held by Kevin Gallagher, 687,185 have an exercise price of \$0.68 and 707,035 have an exercise price of \$1.055.

2. Of the Clough Options held by Neil Siford, 50,000 have an exercise price of \$0.86, 94,185 have an exercise price of \$0.34, 141,364 have an exercise price of \$0.82, 164,692 have an exercise price of \$0.89, 202,474 have an exercise price of \$0.68 and 250,217 have an exercise price of \$1.055.

Details regarding the treatment of Clough Options and Clough Performance Rights if the Scheme proceeds are set out in Sections 3.9 and 3.10 of this Scheme Booklet.

**10.4 CLOUGH DIRECTORS' DEALINGS IN CLOUGH SECURITIES**

No Clough Director acquired or disposed of a Relevant Interest in any Clough Security in the four month period ending on the date immediately before the date of this Scheme Booklet, other than Kevin Gallagher who was issued 377,064 Clough Performance Rights and Neil Siford who was issued 72,566 Clough Performance Rights following approval by Clough Shareholders at Clough's 2013 Annual General Meeting on 9 October 2013.

## 10.5 INTERESTS AND DEALINGS OF CLOUGH DIRECTORS IN SECURITIES IN MURRAY & ROBERTS GROUP ENTITIES

### (a) Clough Directors' interests in securities in Murray & Roberts Group entities

As at the date immediately before the date of this Scheme Booklet, the number of securities held by or on behalf of each Excluded Director in any member of the Murray & Roberts Group are as follows:

EXCLUDED DIRECTOR	ENTITY	NUMBER OF SHARES (DIRECTLY)	NUMBER OF SHARES (INDIRECTLY) <sup>1</sup>	NUMBER OF OPTIONS
Mr Henry Laas	Murray & Roberts	-	394,000	1,261,610
Mr Cobus Bester	Murray & Roberts	8,169	282,000	1,156,420
Mr Ian Henstock	Murray & Roberts	-	179,000	578,880

1. Includes shares held indirectly through the Forfeitable Share Plan.

As at the date immediately before the date of this Scheme Booklet, no securities in any member of the Murray & Roberts Group were held by or on behalf of any Independent Director.

### (b) Clough Directors' dealings in securities in Murray & Roberts Group Entities

No Clough Director acquired or disposed of a Relevant Interest in any securities in any member of the Murray & Roberts Group in the four month period ending on the date immediately before the date of this Scheme Booklet.

## 10.6 BENEFITS AND AGREEMENTS

### (a) Benefits in connection with retirement from office

It is proposed that no payment or other benefit be made or given to any director, secretary or executive officer of Clough or of any Related Body Corporate as compensation for loss of, as consideration for, or in connection with, his or her retirement from, office as director, secretary or executive officer of Clough or of a Related Body Corporate, as a result of the Scheme.

### (b) Other agreements or arrangements connected with or conditional on the Scheme

There is no agreement or arrangement made between any Clough Director and another person in connection with or conditional on the outcome of the Scheme, other than in their capacity as a holder of Clough Securities (see Sections 10.3(a) and (b) for details) or as set out in this Section 10.6(b).

The treatment of Clough Options and Clough Performance Rights is set out in Sections 3.9 and 3.10 of this Scheme Booklet.

Each Independent Director who is a non-executive director (being, Keith Spence, Emma Stein and David Crawford) will be paid a special exertion fee of \$40,000 for the increased time spent on the Scheme. This fee is not conditional on the Scheme - it will be paid irrespective of whether or not the Scheme proceeds.

If the Scheme is implemented, Clough's existing long term incentive schemes for its senior management (being the Clough Employee Option Plan and the Clough Employee Incentive Plan) are expected to be replaced. As at the date of this Scheme Booklet, the terms of any replacement scheme have not been determined, although it is anticipated that any replacement scheme will be on terms analogous to Clough's existing schemes.

Murray & Roberts has indicated to Clough that if the Scheme is implemented, it will propose that retention arrangements be offered to Clough's key management personnel and senior management (refer to Section 6.7(c) of this Scheme Booklet). As at the date of this Scheme Booklet, the terms of any retention arrangements have not been determined.

### (c) Interests of Clough Directors in contracts with Murray & Roberts Group Entities

None of the Clough Directors are interested in any contract entered into by a Murray & Roberts Group Entity, other than in their capacity as a holder of Clough Securities or as set out in this Section 10.6(c).

Each Excluded Director (being, Henry Laas, Cobus Bester and Ian Henstock) is also a director of one or more entities within the Murray & Roberts Group and is employed by the Murray & Roberts Group.

(d) **Benefits from Murray & Roberts (Aus)**

None of the Clough Directors has agreed to receive, or is entitled to receive, any benefit from Murray & Roberts (Aus) or any Related Body Corporate of Murray & Roberts (Aus) which is conditional on, or is related to, the Scheme, other than in their capacity as a holder of Clough Securities or as set out in this Section 10.6(d).

**10.7 ASIC AND ASX RELIEF**

(a) **ASIC relief**

No ASIC relief was required for the purposes of the Scheme or the issue of this Scheme Booklet.

(b) **ASX waivers**

A waiver was obtained from ASX Listing Rule 7.14 to permit the Special Dividend Record Date to be within 6 Business Days of the Scheme Record Date. This waiver was required because Listing Rule 7.14 provides that an entity must not have a record date for any purpose until at least 6 Business Days after its last record date, but that an entity can have an identical record date for different purposes.

ASX also granted Clough a waiver from ASX Listing Rule 6.23.2 to enable the Clough Options to be cancelled for consideration without the approval of Clough Shareholders.

**10.8 FORMAL DISCLOSURES AND CONSENTS**

The following parties have given and have not, before the date of this Scheme Booklet, withdrawn their written consent:

- (a) to be named in this Scheme Booklet in the form and context in which they are named; and
- (b) if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appears in this Scheme Booklet.

NAME	ROLE
Ashurst Australia	Australian legal adviser to Clough
Deloitte Touche Tohmatsu	Auditor of Clough
Grant Samuel & Associates Pty Limited	Independent Expert
JB North & Co Pty Ltd and Gresham Advisory Partners Limited	Financial advisers to Clough
Ernst & Young	Australian tax adviser to Clough
Link Market Services Limited	Share registry to Clough

Murray & Roberts (Aus) and Murray & Roberts:

- (a) has accepted responsibility for the Murray & Roberts Information; and
- (b) has given and has not, before the date of this Scheme Booklet, withdrawn its written consent to the inclusion of the Murray & Roberts Information in the form and context in which it appears in this Scheme Booklet.

Grant Samuel & Associates Pty Limited has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it appears in Annexure F and references to the Independent Expert's Report in the form and context in which they appear.

Deloitte Touche Tohmatsu has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of references to the audited financial reports of the Clough Group for the financial years ended 30 June 2013 and 30 June 2012 in this Scheme Booklet in the form and context in which those references appear in Section 5.6.

Ernst & Young has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of the Section entitled "Taxation Implications" in this Scheme Booklet in the form and context in which it appears in Section 7.

Each person named above:

- (a) does not make or purport to make any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than Murray & Roberts (Aus) and Murray & Roberts in respect of the Murray & Roberts Information, Grant Samuel & Associates Pty Limited in respect of the Independent Expert's Report, Ernst & Young in respect of Section 7 of the Scheme Booklet and Deloitte Touche Tohmatsu in respect of the Clough Group's audited financial reports for the financial years ended 30 June 2013 and 30 June 2012;
- (b) to the maximum extent permitted by law, disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than, in the case of Murray & Roberts (Aus), Murray & Roberts, Grant Samuel & Associates Pty Limited, Deloitte Touche Tohmatsu and Ernst & Young, any statement included in this Scheme Booklet with the consent of that person as specified in this Section 10.8; and
- (c) has not authorised or caused the issue of the Scheme Booklet.

### **10.9 MATERIAL LITIGATION**

To the best knowledge of the Clough Board and senior management, Clough is not currently involved in any litigation or dispute which is material in the context of Clough and its Subsidiaries taken as a whole.

### **10.10 NO UNACCEPTABLE CIRCUMSTANCES**

The Clough Board believes that the Scheme does not involve any circumstances in relation to the affairs of Clough that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

### **10.11 FOREIGN JURISDICTIONS**

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. Clough disclaims all liabilities to such persons.

Clough Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside Australia.

### **10.12 FEES AND EXPENSES**

The aggregate amount of fees and expenses to be incurred (or expected to be incurred) by Clough in connection with the Scheme is estimated to be approximately \$4.5 million (exclusive of GST).

These amounts do not include the transaction costs that may be incurred by Murray & Roberts (Aus) in relation to the Scheme.

### **10.13 OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION IN RELATION TO THE SCHEME**

Except as set out in this Scheme Booklet, so far as the Independent Directors are aware, there is no information material to the making of a decision by a Clough Shareholder in relation to the Scheme, being information that is within the knowledge of any Independent Director or director of any Related Bodies Corporate of Clough, as at the date of this Scheme Booklet, which has not been previously disclosed to Clough Shareholders.

### **10.14 SUPPLEMENTARY INFORMATION**

Clough will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- (a) a material statement in the Scheme Booklet is or becomes false or misleading in a material respect;
- (b) a material omission from this Scheme Booklet;
- (c) a significant change affecting a matter included in this Scheme Booklet; or
- (d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.



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Depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Clough may circulate and publish any supplementary document by:

- (e) making an announcement to ASX;
- (f) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- (g) posting the supplementary document to Clough Shareholders at their registered address as shown in the Register; or
- (h) posting a statement on Clough's website at **[www.clough.com.au](http://www.clough.com.au)**,

as Clough, in its absolute discretion, considers appropriate.

# 11

## GLOSSARY



## 11.1 DEFINITIONS

The meaning of the terms used in this Scheme Booklet are set out below.

TERM	MEANING
<b>ASIC</b>	the Australian Securities and Investments Commission.
<b>Associate</b>	has the meaning given by sections 10 to 17 of the Corporations Act.
<b>ASX</b>	ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.
<b>ASX Listing Rules</b>	the official listing rules of the ASX.
<b>ATO</b>	the Australian Taxation Office and includes the Commissioner of Taxation.
<b>Business Day</b>	a day that is each of the following: (a) a business day for the purposes of the ASX Listing Rules; or (b) a weekday on which trading banks are open for business in Perth, Western Australia and Johannesburg, South Africa (other than a Saturday).
<b>CGT</b>	Australian capital gains tax.
<b>CHESS</b>	the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited ABN 49 008 504 532.
<b>Class Ruling</b>	a public determination by the Commissioner of Taxation in respect of a particular class of taxpayers, and pertaining to the Australian taxation implications of certain aspects of participating in the Scheme.
<b>Clough</b>	Clough Limited ABN 59 008 678 813.
<b>Clough Board</b>	the board of directors of Clough.
<b>Clough Director</b>	a director on the Clough Board.
<b>Clough Employee Option Plan</b>	Clough's employee option plan last approved by Clough Shareholders at its 2011 Annual General Meeting on 18 October 2011, as amended from time to time.
<b>Clough Executive Incentive Scheme</b>	Clough's employee incentive scheme approved by Clough Shareholders at its 2012 Annual General Meeting on 23 October 2012, as amended from time to time.
<b>Clough Group</b>	Clough and each of its Related Entities.
<b>Clough Loan</b>	the loan from Clough to Murray & Roberts (Aus) of \$200.0 million: (a) plus (if applicable) any amount by which the Special Dividend is less than \$0.14 per Clough Share; and (b) less any amounts paid or payable by Clough to holders of Clough Options and Clough Performance Rights in accordance with validly accepted Options Offers and PR Offers, which loan is to be funded from Clough's existing cash resources in order to partially satisfy the Scheme Consideration.

TERM	MEANING
<b>Clough Loan Agreement</b>	the short form loan agreement to be entered into by Clough as lender and Murray & Roberts (Aus) as borrower under which Clough will provide the Clough Loan to Murray & Roberts (Aus) on the terms summarised in Section 10.2 of the Scheme Booklet.
<b>Clough Loan Approvals</b>	the Clough Shareholder approvals required for the Financial Assistance and the Financial Benefit to be provided to Murray & Roberts (Aus) or the Murray & Roberts Group (as the case may be); namely, the Clough Loan Resolution.
<b>Clough Loan Resolution</b>	the resolution to approve the Financial Assistance and the Financial Benefit to be voted on at the General Meeting, as set out in the Notice of General Meeting.
<b>Clough Option</b>	an option to acquire a Clough Share.
<b>Clough Performance Right</b>	a performance right to acquire a Clough Share.
<b>Clough Security</b>	Clough Shares, Clough Options and Clough Performance Rights.
<b>Clough Share</b>	a fully paid ordinary share in the capital of Clough.
<b>Clough Shareholder</b>	each person who is registered in the Register as a holder of Clough Shares.
<b>Clough Shareholder Information Line</b>	the information line set up for the purpose of responding to enquiries from Clough Shareholders in relation to the Scheme, being 1800 992 673 (within Australia) or +61 1800 992 673 (from outside Australia) Monday to Friday between 8.30 am and 7.30 pm (Sydney time).
<b>Clough Shareholders' Meeting</b>	the Scheme Meeting and the General Meeting.
<b>Competing Proposal</b>	<p>any proposal (including a scheme of arrangement) or offer that if completed substantially in accordance with its terms would mean a person other than Murray &amp; Roberts (Aus) or its Related Entities:</p> <ul style="list-style-type: none"> <li>(a) acquiring (directly or indirectly) an interest, a Relevant Interest in or becoming the holder of: <ul style="list-style-type: none"> <li>(i) more than 10% of the issued Clough Shares or more than 50% of the shares in any of Clough's material Related Entities;</li> <li>(ii) an interest in all or a material part of the business or assets of Clough or in a material Related Entity of Clough; or</li> </ul> </li> <li>(b) otherwise acquiring or merging with Clough (including by way of reverse takeover, reverse scheme of arrangement or dual listed company structure).</li> </ul>
<b>Corporations Act</b>	the <i>Corporations Act 2001</i> (Cth).
<b>Court</b>	the Federal Court of Australia, or such other court of competent jurisdiction as Clough and Murray & Roberts (Aus) agree.
<b>Deed Poll</b>	the deed poll entered into by Murray & Roberts (Aus) and Murray & Roberts, in the form set out in Annexure B.

TERM	MEANING
<b>Effective</b>	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
<b>Effective Date</b>	the date on which the Scheme becomes Effective.
<b>End Date</b>	31 December 2013, or such other date as Clough and Murray & Roberts (Aus) agree.
<b>Excluded Director</b>	Each Clough Director that is also a director of one or more entities within the Murray & Roberts Group and is employed by the Murray & Roberts Group, being Mr Henry Laas, Mr Cobus Bestler and Mr Ian Henstock.
<b>Excluded M&amp;R Shareholder</b>	a Clough Shareholder who is Murray & Roberts or a Related Entity of Murray & Roberts.
<b>Financial Assistance</b>	the financial assistance to be given by Clough and its Subsidiaries to Murray & Roberts (Aus) in connection with the Scheme by providing the Clough Loan.
<b>Financial Benefit</b>	the financial benefit to be given by Clough and its Subsidiaries to the Murray & Roberts Group, in particular Murray & Roberts (Aus), in connection with the Scheme by providing the Clough Loan in accordance with the Clough Loan Agreement.
<b>FIRB</b>	the Foreign Investment Review Board.
<b>First Court Hearing</b>	the hearing by the Court of an application for an order under section 411(1) of the Corporations Act convening the Scheme Meeting.
<b>Forfeitable Share Plan</b>	Murray & Roberts' Forfeitable Share Plan approved by Murray & Roberts shareholders in October 2012.
<b>General Meeting</b>	the meeting of Clough Shareholders to vote on the Clough Loan Approvals.
<b>Government Agency</b>	any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition, authority or entity and includes any minister, ASIC, ATO, ASX, the Foreign Investment Review Board, JSE, the South African Reserve Bank and any regulatory organisation established under statute or stock exchange.
<b>GST</b>	has the meaning given to that term in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Implementation Date</b>	the fifth Business Day after the Scheme Record Date, or such other date as Clough and Murray & Roberts (Aus) agree.
<b>Implementation Period</b>	the period commencing on the date of the Scheme Implementation Agreement and ending on the first to occur of: <ul style="list-style-type: none"> <li>(a) termination of the Scheme Implementation Agreement in accordance with its terms;</li> <li>(b) the End Date; and</li> <li>(c) the Implementation Date.</li> </ul>



TERM	MEANING
<b>Independent Directors</b>	a director on the Clough Board other than the Excluded Directors (being, Keith Spence, Kevin Gallagher, Neil Siford, Emma Stein and David Crawford).
<b>Independent Expert</b>	Grant Samuel & Associates Pty Limited.
<b>Independent Expert's Report</b>	the report by the Independent Expert set out in Annexure F.
<b>JSE</b>	JSE Limited, or, as the context requires, the financial market operated by it.
<b>Last Practical Trading Day</b>	the trading day that is five trading days prior to the date of this Scheme Booklet.
<b>Murray &amp; Roberts</b>	Murray & Roberts Holdings Limited 1948/029826/06, a company incorporated in South Africa and listed on the JSE.
<b>Murray &amp; Roberts (Aus)</b>	Murray & Roberts Pty Ltd ACN 105 617 865, a wholly owned Subsidiary of Murray & Roberts.
<b>Murray &amp; Roberts Shareholders Meeting</b>	a meeting of Murray & Roberts' shareholders to approve the Transaction for the purposes of, and in accordance with the South African Companies Act (no 71 of 2008) and the Listing Requirements of the JSE.
<b>Murray &amp; Roberts Group</b>	Murray & Roberts and each of its Related Entities.
<b>Murray &amp; Roberts Group Entity</b>	an entity in the Murray & Roberts Group.
<b>Murray &amp; Roberts Information</b>	the information contained in: <ul style="list-style-type: none"> <li>(a) paragraph (a) of the subsection headed "Responsibility for information" in the Important Notices;</li> <li>(b) the subsection headed "Forward looking statements and intentions" (as it pertains to statements made by the Murray &amp; Roberts Group);</li> <li>(c) the subsection headed "Privacy" (as it pertains to the Murray &amp; Roberts Group);</li> <li>(d) Sections 1.2(a), 2, 3.4(f), 3.6, 3.8(b), 9.2(b), 9.4(a), 10.1, 10.3(a) and "Important Dates and expected timetable for the Scheme" (to the extent each Section pertains to Murray &amp; Roberts, the Excluded Directors' role or roles in the Murray &amp; Roberts Group, the Murray &amp; Roberts Shareholders Meeting and Murray &amp; Roberts (Aus)'s financing of the Scheme Consideration);</li> <li>(e) Section 6 – Information relating to Murray &amp; Roberts (Aus) and the Murray &amp; Roberts Group;</li> </ul>

TERM	MEANING
	<p>(f) Section 3.4 (as it pertains to Murray &amp; Roberts (Aus)'s knowledge) and Sections 10.6 and 10.8 (in both cases, as it pertains to Murray &amp; Roberts (Aus) or the Murray &amp; Roberts Group);</p> <p>(g) Section 8.5 – Delisting from ASX; and</p> <p>(h) Section 10.5 – Interests and dealings of Clough Directors in securities in Murray &amp; Roberts Group entities,</p> <p>and all statements of intention or belief of Murray &amp; Roberts (Aus) and Murray &amp; Roberts, and in relation to Clough following implementation of the Scheme.</p>
<b>Murray &amp; Roberts Limited</b>	a public company duly incorporated in accordance with the laws of South Africa with registration number 1979/003324/06.
<b>Murray &amp; Roberts Proposal</b>	the conditional proposal received from Murray & Roberts on 31 July 2013, summarised in Clough's ASX announcement also dated 31 July 2013.
<b>Notice of General Meeting</b>	the notice in relation to the General Meeting set out in Annexure D to this Scheme Booklet.
<b>Notice of Scheme Meeting</b>	the notice in relation to the Scheme Meeting set out in Annexure E to this Scheme Booklet.
<b>Option Offer</b>	has the meaning given in Section 3.9 of this Scheme Booklet.
<b>Option Offer Consideration</b>	has the meaning given in Section 3.9 of this Scheme Booklet.
<b>PR Offer</b>	has the meaning given in Section 3.10 of this Scheme Booklet.
<b>PR Offer Consideration</b>	has the meaning given in Section 3.10 of this Scheme Booklet.
<b>Register</b>	the share register of Clough.
<b>Registered Address</b>	in relation to a Clough Shareholder, the address of the shareholder shown in the Register as at the Scheme Record Date.
<b>Related Body Corporate</b>	has the meaning given in section 50 of the Corporations Act.
<b>Related Entity</b>	<p>In relation to Clough means any other entity:</p> <p>(a) which is a Subsidiary of Clough; or</p> <p>(b) which Clough controls.</p> <p>In relation to Murray &amp; Roberts (Aus) and Murray &amp; Roberts means any other entity:</p> <p>(a) which is a Related Body Corporate of Murray &amp; Roberts;</p> <p>(b) which is in any consolidated entity which contains Murray &amp; Roberts; and</p> <p>(c) which Murray &amp; Roberts controls,</p> <p>other than the Clough Group.</p>
<b>Relevant Interest</b>	has the meaning given in sections 608 and 609 of the Corporations Act.

TERM	MEANING
<b>Requisite Majorities</b>	<p>(a) a majority in number (ie more than 50%) of Clough Shareholders (other than Excluded M&amp;R Shareholders) present and voting on the Scheme Resolution at the Scheme Meeting (either in person, or by proxy or representative); and</p> <p>(b) at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by Clough Shareholders (other than Excluded M&amp;R Shareholders) (either in person, or by proxy or representative).</p>
<b>Resolutions</b>	<p>the following resolutions that are to be put to Clough Shareholders at the Clough Shareholders' Meetings:</p> <p>(a) the Clough Loan Resolution; and</p> <p>(b) the Scheme Resolution.</p>
<b>SARB</b>	South African Reserve Bank.
<b>Scheme</b>	the scheme of arrangement under Part 5.1 of the Corporations Act pursuant to which all Scheme Shares will be transferred to Murray & Roberts (Aus), in the form set out in Annexure C together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.
<b>Scheme Booklet</b>	this document, including any annexure to it.
<b>Scheme Consideration</b>	in respect of each Scheme Share, \$1.46 per Clough Share less the amount of any dividend(s) declared or determined to be payable, or paid, by Clough in respect of Clough Shares (including the Special Dividend) up to the Implementation Date.
<b>Scheme Implementation Agreement</b>	the Scheme Implementation Agreement between Clough, Murray & Roberts (Aus) and Murray & Roberts dated 28 August 2013. A summary of the Scheme Implementation Agreement (as amended) is set out in Annexure A and a full copy can be obtained from Clough's website, <a href="http://www.clough.com.au">www.clough.com.au</a> .
<b>Scheme Meeting</b>	the meeting of Clough Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.
<b>Scheme Order</b>	the order of the Court under section 411(4)(b) of the Corporations Act approving the Scheme, with or without modifications.
<b>Scheme Participant</b>	each person who is a Clough Shareholder as at the Scheme Record Date, other than an Excluded M&R Shareholder.
<b>Scheme Record Date</b>	the record date for determining entitlements to the Scheme Consideration, which is expected to be 5.00 pm on the ninth Business Day after the Effective Date (or such other date as Clough and Murray & Roberts (Aus) agree).
<b>Scheme Resolution</b>	the resolution to approve the Scheme to be voted on at the Scheme Meeting, as set out in the Notice of Scheme Meeting.
<b>Scheme Share</b>	a Clough Share held by a Scheme Participant.
<b>Scheme Trust Account</b>	a bank account operated by Clough (as trustee or agent for each Scheme Participant) established to hold the Scheme Consideration.

TERM	MEANING
<b>Second Court Date</b>	<p>the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.</p> <p>The hearing of the application made to the Court for the order under section 411(4)(b) of the Corporations Act approving the Scheme is the <b>Second Court Hearing</b>.</p>
<b>Share Registry</b>	Link Market Services Limited ACN 083 214 537.
<b>Special Dividend</b>	a fully franked dividend of up to \$0.14 per Clough Share which, if determined, will be paid by Clough to those persons registered as Clough Shareholders on the Special Dividend Record Date.
<b>Special Dividend Payment Date</b>	the eighth Business Day following the Effective Date or such other date agreed by Clough and Murray & Roberts (Aus).
<b>Special Dividend Record Date</b>	the record date for determining entitlements to the proposed Special Dividend, which is expected to be 5.00 pm on the fifth Business Day after the Effective Date.
<b>Subsidiary</b>	has the meaning given in the Corporations Act.
<b>Superior Proposal</b>	<p>a bona fide Competing Proposal which the Independent Directors, acting in good faith and in order to satisfy what the Independent Directors believe to be their fiduciary or statutory duties (and after having taken advice from their financial and legal advisers):</p> <p>(a) is capable of being valued and completed, taking into account all aspects of the Competing Proposal, including its conditions precedent and the person making it; and</p> <p>(b) would, if completed substantially in accordance with its terms, reasonably be expected to be more favourable to Clough Shareholders (as a whole which includes whether it is supported by the Excluded M&amp;R Shareholders) than the Scheme, taking into account all the terms and conditions of the Competing Proposal and all aspects of the Transaction.</p>
<b>Transaction</b>	the acquisition by Murray & Roberts (Aus) of all the Clough Shares not already held by Excluded M&R Shareholders through implementation of the Scheme.
<b>Treasurer</b>	the Treasurer of the Commonwealth of Australia.
<b>VWAP</b>	the volume-weighted average price.

## 11.2 INTERPRETATION

In this Scheme Booklet, unless the context requires otherwise:

- (a) headings are inserted for convenience and do not affect the interpretation of this Scheme Booklet;
- (b) words and phrases in this Scheme Booklet have the same meaning given to them (if any) in the Corporations Act;
- (c) the singular includes the plural and vice versa;
- (d) a gender includes all genders;
- (e) a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;
- (f) if a word is defined, another part of speech has a corresponding meaning;
- (g) a reference to a Section or Annexure is a reference to a Section or Annexure of this Scheme Booklet;
- (h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (i) unless expressly stated otherwise, a reference to time is a reference to time in Perth, Western Australia; and
- (j) unless expressly stated otherwise, a reference to dollars, \$, A\$ or AUD is a reference to the lawful currency of Australia.





**ANNEXURE A  
SUMMARY OF  
TERMS OF SCHEME  
IMPLEMENTATION  
AGREEMENT**

This Annexure sets out a summary of the key terms of the Scheme Implementation Agreement (as amended), entered into between Clough, Murray & Roberts (Aus) and Murray & Roberts on 28 August 2013 (**Agreement Date**). A full copy of the Scheme Implementation Agreement is annexed to Clough's ASX announcement on 29 August 2013 and is available on ASX's website at [www.asx.com.au](http://www.asx.com.au).

Unless otherwise defined in this Annexure, capitalised terms used in this Annexure have the meaning given to those terms in the Glossary in Section 11 of the Scheme Booklet.

## CONDITIONS

For the Scheme to become Effective, the following conditions must be satisfied or (if permitted) waived.

- (a) **Regulatory approvals:** Before 5.00 pm on the day before the Second Court Date:
- (i) **(FIRB approval)** the Treasurer has either:
    - (A) provided written notice to the effect that there are no objections to the acquisition of the remaining Clough Shares by Murray & Roberts (Aus) in terms of the Commonwealth Government's foreign investment policy; or
    - (B) become precluded by lapse of time from making an order in respect of the Transaction under the *Foreign Acquisitions and Takeovers Act 1975* (Cth).
  - (ii) **(SARB approval)** Murray & Roberts receives all approvals required in connection with the Transaction from the South African Reserve Bank on terms acceptable to Murray & Roberts, and none of those approvals are withdrawn.
  - (iii) **(Other regulatory approvals)** All other consents and approvals from a Government Agency that are necessary to implement the Transaction are obtained and have not been withdrawn.
- (b) **No regulatory actions:** Between the Agreement Date and 5.00 pm on the day before the Second Court Date (each inclusive):
- (i) there is not in effect any preliminary or final decision, order or decree issued by a Governmental Agency;
  - (ii) no action or investigation is announced, commenced or threatened by any Governmental Agency; and
  - (iii) no application is made to any Governmental Agency,
- in consequence of or in connection with the Transaction which restrains, prohibits or impedes the implementation of the Transaction or the Scheme.
- (c) **Court orders:** No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint being in effect at 5.00 pm on the day before the Second Court Date which prevents the consummation of any aspect of the Transaction.
- (d) **Independent Expert recommendation:** The Independent Expert issues the Independent Expert's Report concluding that the Scheme is in the best interests of the Scheme Participants, and does not change this view prior to 5.00pm on the day before the Second Court Date.
- (e) **Shareholder approvals:**
- (i) **(Clough Shareholder approvals)** The Scheme Resolution and Clough Loan Resolution are duly passed by the required majorities of Clough Shareholders.
  - (ii) **(Murray & Roberts shareholder approval)** Before 5.00 pm on the date before the Second Court Date, Murray & Roberts' shareholders approve the Transaction at the Murray & Roberts Shareholders Meeting.
- (f) **Court approval of the Scheme:** The Court approves the Scheme under section 411(4)(b) of the Corporations Act and an office copy of the Scheme Order is lodged with ASIC.

- (g) **No change in recommendation and voting intention:** Between the Agreement Date and the Scheme Meeting, no Independent Director withdraws or modifies their recommendation in relation to the Resolutions, or their intention to vote in favour of the Scheme Resolution, unless a Superior Proposal emerges or the Independent Expert concludes the Scheme is not in the best interests of the Scheme Participants.
- (h) **Clough matters:** Between the Agreement Date and 5.00pm on the day before the Second Court Date, neither a Clough Prescribed Event nor a Clough Material Adverse Change occurs.
- (i) **Options:** Before 5.00pm on the day before the Second Court Date, 75% or more of the Clough Options on issue as at the Agreement Date (by number):
- (i) have vested and been exercised;
  - (ii) are the subject of binding agreements under which they will either be transferred to Murray & Roberts (Aus) or cancelled in accordance with the Option Offers as agreed between Clough and holders of Clough Options; or
  - (iii) are otherwise dealt with as is agreed between Clough and Murray & Roberts (Aus).
- (j) **Representations and warranties:** The representations and warranties given by each of Clough, Murray & Roberts (Aus) and Murray & Roberts are materially true and correct as at 5.00pm on the day before the Second Court Date.

#### **IF THE CONDITIONS PRECEDENT ARE NOT SATISFIED OR WAIVED**

If the conditions precedent are not satisfied or (if permitted) waived by the relevant date specified in the Scheme Implementation Agreement, the parties must consult in good faith with a view to determining whether the Transaction can proceed on alternative terms, the time for satisfaction of conditions precedent can be extended, the application to the Court for a Scheme Order can be delayed, or the End Date can be extended.

#### **SCHEME CONSIDERATION, SPECIAL DIVIDEND AND CLOUGH LOAN**

##### **Scheme Consideration**

Scheme Participants will receive the Scheme Consideration for each Clough Share held by them at the Scheme Record Date on the Implementation Date.

##### **Special Dividend**

Subject to the Scheme becoming Effective, Clough may, in its absolute discretion, determine to pay a Special Dividend for each Clough Share held by Clough Shareholders on the Special Dividend Record Date on the Special Dividend Payment Date to the extent that such dividend can be fully franked.

- (a) Clough must request that the Commissioner of Taxation publish a written Class Ruling outlining the way in which taxation laws will apply to the Transaction for the purposes of determining the extent to which any Special Dividend can be franked.
- (b) Clough must use its reasonable endeavours to obtain a draft Class Ruling in relation to the Transaction and the Special Dividend on or before the date of the Scheme Meeting.

##### **Clough Loan**

- (a) Clough must enter into the Clough Loan Agreement on or before 5.00pm on the Business Day before the Second Court Date.
- (b) Clough will satisfy its obligations to pay the Clough Loan by depositing an amount equal to the Clough Loan into the Scheme Trust Account no later than two Business Days before the Implementation Date.

#### **CONDUCT OF BUSINESS**

Clough has agreed that up to and including the Implementation Date it will conduct, and will procure that each member of the Clough Group conducts its business in the ordinary course consistent with past practice and applicable laws, based on the business plan and budgets in the Clough Disclosure Materials.

Clough must also, and must use its reasonable endeavours to ensure that each other member of the Clough Group must, up to and including the Implementation Date, not make any material change to the following:

- (a) its business, assets, investments or interest in a joint venture, partnership or alliance;
- (b) its officers and employees and their terms of employment; and

(c) its material contracts.

## EXCLUSIVITY

### No existing discussions

Clough represents and warrants that it is not currently in negotiations or discussions regarding a Competing Proposal with any person.

### No-shop restriction

- (a) During the Implementation Period, Clough must not solicit any discussions with a view to obtaining Competing Proposal (**No-shop Restriction**).
- (d) The No-shop Restriction does not prevent Clough from making presentations to, and responding to enquiries from, brokers, investors and analysts in relation to the Scheme or in the ordinary course of business.

### No-talk restriction

Subject to the Fiduciary Exception (set out below), during the Implementation Period, Clough must not participate in discussions or negotiations regarding a Competing Proposal, even if the Competing Proposal was not solicited or the person has publically announced their Competing Proposal (**No-talk Restriction**).

### No due diligence

Without limiting the No-talk Restriction, but subject to the Fiduciary Exception (set out below), during the Implementation Period, Clough must not solicit any party to undertake due diligence or make available any non-public information relating to the Clough Group (other than to Murray & Roberts (Aus)) (**No Due Diligence Restriction**).

### Notification

Subject to the Fiduciary Exception (set out below), Clough must immediately inform Murray & Roberts (Aus) if Clough is approached by any person to engage in any activity that would breach its warranty about no existing discussions referred to above, the No-talk Restriction or the No Due Diligence Restriction (notwithstanding the Fiduciary Exception, if applicable), and immediately provide in writing to Murray & Roberts (Aus) details of the expression of interest or proposed Competing Proposal.

## FIDUCIARY EXCEPTION

The No-talk Restriction and the No Due Diligence Restriction do not apply to the extent that they restrict Clough or the Independent Directors from taking or refusing to take any action with respect to a bona fide Competing Proposal, provided that the Independent Directors have determined, in good faith, after having obtained written legal advice, that the Competing Proposal is a Superior Proposal, and failing to respond would reasonably be expected to constitute a breach of the Independent Directors' fiduciary obligations.

## TERMINATION

### Termination rights

The Scheme Implementation Agreement provides Clough, Murray & Roberts (Aus) and Murray & Roberts with the following termination rights.

- (a) **Termination by any party:** A party may terminate the Scheme Implementation Agreement before 5.00pm on the Business Day before the Second Court Date, if:
  - (i) (**Superior Proposal**) the Clough Board determines that a Competing Proposal is a Superior Proposal;
  - (ii) (**Scheme Resolution voted down**) the Scheme Resolution is not passed by the Requisite Majorities of Clough Shareholders at the Scheme Meeting;
  - (iii) (**No Court orders**) the Court refuses to make an order convening the Scheme Meeting or approving the Scheme and, if required, Clough has appealed the Court's decision to the fullest extent possible;
  - (iv) (**Non-satisfaction of a condition**) a condition precedent benefiting the terminating party is not satisfied or (if permitted) waived;
  - (v) (**Restraint**) if any court, the Takeovers Panel or Government Agency has issued any order restraining or otherwise prohibiting the Scheme, or has refused to do anything necessary to permit

the Scheme, and the parties fail to agree on conducting an appeal within five Business Days;

- (vi) **(End Date)** the Scheme is not Effective by the End Date;
  - (vii) **(Material breach)** the other party is in material breach of the Scheme Implementation Agreement and has not remedied that breach within five Business Days after being notified of the breach; or
  - (viii) **(Insolvency)** an event of insolvency occurs in relation to the other party.
- (b) **Termination by Clough:** Clough may terminate the Scheme Implementation Agreement before 5.00pm on the day before the Second court Date if the Independent Expert concludes the Scheme is not in the best interests of Clough Shareholders.
- (c) **Termination by Murray & Roberts (Aus) and Murray & Roberts:** Murray & Roberts (Aus) or Murray & Roberts may terminate the Scheme Implementation Agreement before 5.00pm on the day before the Second Court Date if any Independent Director changes their recommendation to vote in favour of the Scheme Resolution.

### **EFFECT OF TERMINATION**

On termination, the Scheme Implementation Agreement will have no further force or effect and parties will generally have no further obligations under it, provided that each party will retain any accrued rights and remedies.

### **OTHER CLAUSES**

The Scheme Implementation Agreement contains other clauses. These include some clauses which are customary for an agreement of this nature and particular representations and warranties by the parties.

### **ADDITIONAL DEFINED TERMS**

The terms defined below are used in this Annexure and are in addition to the terms defined in the Glossary in Section 11 of this Scheme Booklet.

**Clough Disclosure Materials** means all written information in connection with the Transaction or relating to the Clough Group's past, present or future operations, affairs, business and/or strategic plans, which:

- (a) is included in the electronic dataroom established by Clough and made available to Murray & Roberts or its representatives between 1 August 2013 and the Agreement Date;
- (b) has been provided to Murray & Roberts or its representatives (including any Clough Provided Information) between 1 August 2013 and the Agreement Date; or
- (c) has been publicly announced prior to the Agreement Date.

**Clough Material Adverse Change** means a matter, event or circumstance (other than any matter consented to in writing by Murray & Roberts (Aus)) that occurs, is announced or becomes known to Murray & Roberts (Aus) (whether or not it becomes public) where that matter, event or circumstance has, has had, or could reasonably be expected to have, individually or when aggregated with all such matters, events or circumstances, the result that:

- (a) the value of the consolidated net assets of Clough Group being reduced by \$45 million or more;
- (b) the forecasted value of consolidated EBIT for the Clough Group (on an annualised basis) having a sustained reduction of \$10 million or more;
- (c) the amount of cash and cash equivalents held by Clough which is not required under the forecast cash utilisation fairly disclosed in the Clough Disclosure Materials is reduced to an amount of \$300 million or less; or
- (d) there is or would be a material adverse effect on the ability of Clough to perform its obligations under the Scheme Implementation Agreement,

other than a matter, event or circumstance:

- (e) required to be done or procured by Clough pursuant to the Scheme Implementation Agreement or the Transaction;
- (f) which is, and to the extent that it is, fairly disclosed in the Clough Disclosure Materials;



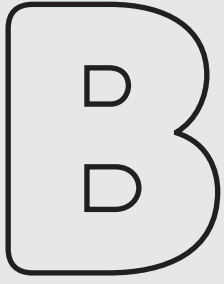
- (g) to the extent that it is known by Murray & Roberts, Murray & Roberts (Aus) or any of their directors or officers prior to the date of the Scheme Implementation Agreement (provided that, only the information authorised by Clough to be disclosed by any Independent Director to Murray & Roberts for the purposes of this Transaction prior to the date of the Scheme Implementation Agreement will be information known to that director); or
- (h) has caused any changes in interest rates or law (including any changes in laws relating to taxes or changes to accounting policy required by law).

**Clough Prescribed Event** means the occurrence of the following between the Agreement Date and 5.00pm on the Business Day before the Second Court Date:

- (a) **Conversion:** Clough converts all or any of its securities into a larger or smaller number of securities;
- (b) **Corporate actions:** Clough or a non wholly owned Subsidiary of Clough resolves to reduce its share capital in any way or reclassifies, combines, splits, redeems or repurchases directly or indirectly any of its shares;
- (c) **Buy-back:** Clough or a non wholly owned Subsidiary of Clough enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) **Distribution:** Clough declares any dividend or pays, makes or incurs any liability to pay or make any distribution whether by way of dividend, capital distribution, bonus or other share of its profits or assets other than the Special Dividend;
- (e) **Issuing or granting shares or options:** Clough or a Related Entity issues or authorises the issue of shares or other instruments convertible into, in lieu of, or in substitution for shares, or grants an option over its shares, or agrees to make such an issue or grant such an option, excluding any Clough Shares issued by Clough as a result of the exercise of the Clough options or the vesting of the Clough Performance Rights pursuant to arrangements entered into before the date of the Scheme Implementation Agreement;
- (f) **Encumbrances:** Clough or a Subsidiary of Clough creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole or a substantial part of the business, assets or property of the Clough Group;
- (g) **Insolvency:** an event of insolvency occurs in relation to Clough or a Subsidiary of Clough;
- (h) **Constitution:** Clough or a non wholly owned Subsidiary of Clough states its intention to, or makes any change in its constitution;
- (i) **Disposal:** Clough or a non wholly owned Subsidiary of Clough disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property; or
- (j) **Settlement:** Clough or a non wholly owned Subsidiary of Clough waives, forgoes or otherwise fails to seek the enforcement of any debt or other liability owed to it by any other entity of an amount greater than \$20 million in aggregate,

other than a matter, event or circumstance:

- (k) consented to in writing by Murray & Roberts (Aus);
- (l) relating to the issue of an agreed maximum of Clough Performance Rights in 2013 and any Clough Shares issued by Clough as a result of the vesting of those Clough Performance Rights;
- (m) relating to the sale of Clough's Thailand fabrication business; or
- (n) required to be done or procured by Clough pursuant to this document or the Transaction.



**ANNEXURE B**  
**DEED POLL**

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Murray & Roberts Pty Ltd

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Murray & Roberts Holdings Limited

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# Deed Poll

## Contents

<b>1</b>	<b>Definitions</b>	<b>1</b>
<b>2</b>	<b>Nature of this deed poll</b>	<b>2</b>
<b>3</b>	<b>Conditions precedent and termination</b>	<b>2</b>
3.1	Conditions precedent	2
3.2	Termination	2
3.3	Consequences of termination	2
<b>4</b>	<b>Scheme Consideration</b>	<b>2</b>
4.1	Performance of obligations generally	2
4.2	Provision of Scheme Consideration	3
4.3	Payment of Scheme Consideration	3
<b>5</b>	<b>Representations and warranties</b>	<b>3</b>
<b>6</b>	<b>Continuing obligations</b>	<b>4</b>
<b>7</b>	<b>Stamp duty</b>	<b>4</b>
<b>8</b>	<b>Notices</b>	<b>4</b>
8.1	General	4
8.2	Particulars for delivery of notices	5
<b>9</b>	<b>General</b>	<b>6</b>
9.1	Waiver	6
9.2	Cumulative rights	6
9.3	Amendment	6
9.4	Assignment	6
9.5	Severability	7
9.6	Further assurances	7
9.7	Governing law and jurisdiction	7
9.8	Construction	7
9.9	Headings	7
	<b>Execution</b>	<b>8</b>

Corrs Chambers Westgarth

**Date 9 October 2013**

**By**

**Murray & Roberts Pty Ltd** ABN 33 105 617 865 of Unit 3, 138 Abernathy Road, Belmont, Western Australia (**Bidco**);

and

**Murray & Roberts Holdings Limited** incorporated in the Republic of South Africa (Registration number 1948/029826/06) of Douglas Roberts Centre, 22 Skeen Boulevard, Bedfordview, Johannesburg, Republic of South Africa (**M&R**),

**in favour of each Scheme Participant.**

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## Background

- A Bidco, M&R and Clough have entered into the Scheme Implementation Agreement.
- B Under the Scheme Implementation Agreement, Bidco and M&R agreed, subject to the satisfaction or waiver of certain conditions, to do all things necessary or desirable on its part to implement the Scheme, including providing the Scheme Consideration.
- C Bidco and M&R are entering into this document for the purpose of covenanting in favour of Scheme Participants to perform their respective obligations under the Scheme.

## Declarations

### 1 Definitions

The following definition applies in this document:

<b>Scheme</b>	The scheme of arrangement pursuant to section 411 of the Corporations Act between Clough and the Scheme Participants in the form set out in Annexure A to the Scheme Implementation Agreement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and approved in writing by Clough and Bidco.
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## 2 Nature of this deed poll

Each of Bidco and M&R acknowledge that:

- (a) this document may be relied on and enforced by any Scheme Participant in accordance with its terms, even though the Scheme Participants are not party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints Clough and each of Clough's directors and officers as its agent and attorney, inter alia, to enforce this document against Bidco and M&R.

## 3 Conditions precedent and termination

### 3.1 Conditions precedent

The obligations of Bidco and M&R pursuant to this document are subject to the Scheme becoming Effective.

### 3.2 Termination

If:

- (a) the Scheme Implementation Agreement is terminated in accordance with its terms; or
- (b) the Scheme does not become Effective on or before the End Date,

Bidco and M&R's obligations under this document will automatically terminate, unless Bidco, M&R and Clough otherwise agree in writing in accordance with the Scheme Implementation Agreement.

### 3.3 Consequences of termination

If this document is terminated under **clause 3.2** then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) Bidco and M&R are released from their obligations to further perform this document, except those obligations contained in **clause 6** and any other obligations which by their nature survive termination; and
- (b) each Scheme Participant retains any rights, power or remedies it has against either Bidco or M&R in respect of any breach of this document by Bidco or M&R which occurred before termination of this document.

## 4 Scheme Consideration

### 4.1 Performance of obligations generally

Subject to **clause 3.1**, each of Bidco and M&R must comply with their respective obligations under the Scheme Implementation Agreement and must do all things necessary or desirable on their part to implement the Scheme.

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#### 4.2 Provision of Scheme Consideration

Subject to **clause 3.1**, in consideration of the transfer to Bidco of all of the Scheme Shares:

- (a) Bidco undertakes in favour of each Scheme Participant to provide the Scheme Consideration in accordance with the Scheme and **clause 4.3**; and
- (b) M&R undertakes in favour of each Scheme Participant to procure that Bidco pays the Scheme Consideration in accordance with the Scheme and **clause 4.3**.

#### 4.3 Payment of Scheme Consideration

The obligation of Bidco to provide the Scheme Consideration to Scheme Participants will be satisfied by:

- (a) Bidco, before 5.00pm on the day that is two Business Days before the Implementation Date, depositing (or procuring the deposit of) an amount equal to the Total Scheme Consideration in cleared funds into an Australian dollar denominated trust account, operated by Clough as trustee for the Scheme Participants, to be held on trust for the Scheme Participants for the purpose of paying the Scheme Consideration to each Scheme Participant, except that any interest on the amounts deposited (less bank fees and other charges) will be to Bidco's account; and
- (b) on the Implementation Date, Bidco must execute the Scheme Transfer as contemplated by **clause 4.2** of the Scheme effecting the transfer of the Scheme Shares from the Scheme Participants to Bidco and must deliver the executed Scheme Transfer to Clough for registration.

### 5 Representations and warranties

Bidco and M&R jointly and severally represents and warrants that:

- (a) Bidco is a company limited by shares under the Corporations Act and validly existing under the laws of Western Australia, Australia;
- (b) M&R is a company limited by shares under the Companies Act 71 of 2008 and validly existing under the laws of the Republic of South Africa;
- (c) each has the corporate power to enter into and perform its obligations under this document and to carry out the transactions contemplated by this document;
- (d) each has taken all necessary corporate action to authorise the entry into this document and has taken or will take all necessary corporate action to authorise the performance of this document and to carry out the transactions contemplated by this document; and
- (e) this document constitutes its valid and binding obligations enforceable against each of them in accordance with its terms.

## 6 Continuing obligations

This document is irrevocable and, subject to **clause 3**, remains in full force and effect until:

- (a) each of Bidco and M&R has completely performed its obligations under this document; or
- (b) this document is terminated in accordance with **clause 3**, whichever comes first.

## 7 Stamp duty

- (a) Bidco will:
  - (i) pay any stamp duty and any related fines, interest and penalties in respect of or in connection with this document, the performance of this document and each transaction effected by or made or any instrument executed under this document or the Scheme, including the transfer of Scheme Shares under the Scheme; and
  - (ii) indemnify each Scheme Participant on demand against any liability arising from its failure to comply with **clause 7(a)(i)**.
- (b) M&R will procure that Bidco complies with its obligations under **clause 7(a)(i)**.

## 8 Notices

### 8.1 General

- (a) A notice, consent, approval, waiver of other communication given or made to Bidco and M&R under this document must be:
  - (i) in writing;
  - (ii) sent by an authorised representative of the sender; and
  - (iii) marked for the attention of the person named below, and must be:
    - (iv) left at, or sent by prepaid ordinary post (or by airmail if posted to or from a place outside Australia) to, the address set out below;
    - (v) sent fax to the number set out below; or
    - (vi) sent by email with the subject line marked "Notice – Deed Poll" to the address set out below.

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## 8.2 Particulars for delivery of notices

- (a) The particulars for delivery of notices are initially:

### **Bidco and M&R**

Attention: Henry Laas  
 Address: 22 Skeen Boulevard, Bedfordview, 2007, South Africa  
 Fax: +27 11 456 1432  
 Email: henry.laas@murrob.com

With a copy to:

Attention: Richard Davies  
 Address: 22 Skeen Boulevard, Bedfordview, 2007, South Africa  
 Fax: +27 11 456 1432  
 Email: Richard.Davies@murrob.com

With a copy (for information purposes only) to:

Attention: Robert Franklyn  
 Address: Corrs Chambers Westgarth, Level 15, Woodside Plaza, 240 St George's Terrace, Perth WA 6000  
 Fax: +61 8 9460 1667  
 Email: robert.franklyn@corrs.com.au

- (b) Bidco and M&R may change its particulars for delivery of notices by notice to each Scheme Participant.
- (c) Subject to **clause 8.2(d)**, a notice is taken to be received:
- (i) if sent by delivery, when it is delivered;
  - (ii) if sent by post, three Business Days after posting (or seven Business Days after posting if sent from one country to another);
  - (iii) if sent by fax, at the time shown in the transmission report reproduced by the machine from which the fax was sent at the time the fax was sent in its entirety; or
  - (iv) if sent by email:
    - (A) when the sender receives an automated message confirming delivery; or
    - (B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,

whichever happens first.

- (d) If a notice is taken to be received under **clause 8.2(c)**:
  - (i) before 9.00am on a Business Day, it will be taken to be received at 9.00am on that Business Day; or
  - (ii) after 5.00pm on a Business Day or on a non-Business Day, it will be taken to be received at 9.00am on the next Business Day.

## 9 General

### 9.1 Waiver

Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this document by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other rights, power or remedy provided by law or under this document. A waiver is not valid or binding on the person granting that waiver unless made in writing.

### 9.2 Cumulative rights

The rights, powers and remedies of Bidco and M&R and of each Scheme Participant under this document are cumulative and do not exclude any other rights, powers or remedies provided by law or equity independently of this document.

### 9.3 Amendment

A provision of this document may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by Clough (on behalf of each Scheme Participant but without the need for such agreement to be given or withheld with reference to or approval by any Scheme Participant); or
- (b) on or after the Second Court Date, the variation is agreed to in writing by Clough (on behalf of each Scheme Participant but without the need for such agreement to be given or withheld with reference to or approval by any Scheme Participant) and is approved by the Court,

in which event each of Bidco and M&R must enter into a further deed poll in favour of the Scheme Participants giving effect to that amendment.

### 9.4 Assignment

The rights and obligations of Bidco and M&R and of each Scheme Participant under this document are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity and no person may attempt, or purport, to do so without the prior written consent of Bidco, M&R and Clough.



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### **9.5 Severability**

If the whole or any part of a provision of this document is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this document has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This **clause 9.5** has no effect if the severance alters the basic nature of this document or is contrary to public policy.

### **9.6 Further assurances**

Each of Bidco and M&R will execute and deliver all documents and do all acts and things (on its own behalf and on behalf of each Scheme Participant) necessary or desirable to give full effect to this document and the transactions contemplated by it.

### **9.7 Governing law and jurisdiction**

- (a) This document is governed by and is to be construed in accordance with the laws applicable in Western Australia.
- (b) Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Western Australia, and any courts which have jurisdiction to hear appeals from any of those courts, and waives any right to object to any proceedings being brought in those courts.

### **9.8 Construction**

- (a) Words and phrases defined in **clause 1** of the Scheme have the same meaning in this documents, unless the context requires otherwise.
- (b) The rules specified in **clause 10.6** of the Scheme apply in interpreting or construing this document, unless the context requires otherwise.

### **9.9 Headings**

Headings do not affect the interpretation of this document.

## Execution

**Executed** as a deed poll in Western Australia.

**Executed by Murray & Roberts Pty Ltd** )  
)



Duly Authorised Director

HENRY LAAS

.....  
Name of Duly Authorised Director  
(print)



Duly Authorised Director

A J BESTER

.....  
Name of Duly Authorised Director  
(print)

**Executed by Murray & Roberts Holdings Limited** )  
)



Duly Authorised Director

HENRY LAAS

.....  
Name of Duly Authorised Director  
(print)



Duly Authorised Director

A J BESTER

.....  
Name of Duly Authorised Director  
(print)



# **ANNEXURE C SCHEME OF ARRANGEMENT**

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Clough Limited

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The holders of ordinary shares in Clough Limited

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# Scheme of arrangement

Pursuant to section 411 of the Corporations Act

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## Contents

<b>1</b>	<b>Definitions</b>	<b>1</b>
<b>2</b>	<b>Preliminary</b>	<b>4</b>
2.1	Clough	4
2.2	Bidco	5
2.3	Summary of the Scheme	5
2.4	Scheme Implementation Agreement	5
2.5	Deed Poll	5
<b>3</b>	<b>Conditions</b>	<b>6</b>
3.1	Conditions of Scheme	6
3.2	Certificate	6
3.3	Conclusive evidence	6
3.4	Termination of Scheme Implementation Agreement	6
3.5	Effective Date	7
3.6	End Date	7
<b>4</b>	<b>Scheme</b>	<b>7</b>
4.1	Lodgement of Court order	7
4.2	Transfer of Scheme Shares held by Scheme Participants	7
4.3	Transfer documentation	7
4.4	Beneficial entitlement by Bidco	7
4.5	Enforcement of Deed Poll	8
<b>5</b>	<b>Scheme Consideration</b>	<b>8</b>
5.1	Entitlement to Scheme Consideration	8
5.2	Payment of Scheme Consideration	8
5.3	Joint holders	9
<b>6</b>	<b>Scheme Participants</b>	<b>9</b>
6.1	Appointment of Bidco as sole proxy	9
6.2	Appointment of Clough as sole attorney and agent	9
6.3	Scheme Participant's consent	9
6.4	Warranties by Scheme Participants	10
<b>7</b>	<b>Dealings in Clough Shares</b>	<b>10</b>
7.1	Determination of Scheme Participants	10
7.2	Maintenance of Clough Register	11
7.3	Information to be made available to Bidco	11
<b>8</b>	<b>Quotation of Clough Shares</b>	<b>11</b>
<b>9</b>	<b>Notices</b>	<b>12</b>
9.1	General	12
9.2	Communications by post	12
9.3	Communications by fax	12
9.4	After hours communications	12

9.5	Notice of Scheme Meeting	12
<b>10</b>	<b>General</b>	<b>12</b>
10.1	Clough and Scheme Participants bound	12
10.2	Further assurances	12
10.3	Alterations and conditions	13
10.4	Costs	13
10.5	Governing law and jurisdiction	13
10.6	Construction	13
10.7	Headings	14



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## Date

# Parties

**Clough Limited** ABN 59 008 678 813 of 58 Mounts Bay Road, Perth, Western Australia  
(Clough)

**The holders of ordinary shares in Clough as at the Scheme Record Date**, other than an Excluded Shareholder

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## Agreed terms

### 1 Definitions

In this document these terms have the following meanings:

<b>2013 Performance Rights</b>	That number of Performance Rights that is equal to \$1,750,000 divided by the 5 day VWAP of Clough Shares traded on ASX prior to the date of grant.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it.
<b>ASX Listing Rules</b>	The official listing rules of ASX.
<b>Bidco</b>	Murray & Roberts Pty Ltd ABN 33 105 617 865 of Unit 3, 138 Abernathy Road, Belmont, Western Australia.
<b>Business Day</b>	A day that is each of the following: <ul style="list-style-type: none"> <li>(a) a Business Day within the meaning given in the ASX Listing Rules; and</li> <li>(b) a day that banks are open for business in Perth, Western Australia and Johannesburg, South Africa (other than a Saturday).</li> </ul>

<b>CHESS</b>	The Clearing House Electronic Subregister System, which facilitates electronic security transfer in Australia, operated by ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.
<b>Clough EIS</b>	The Clough Executive Incentive Scheme last approved by Clough Shareholders at the Clough 2012 annual general meeting (as amended from time to time prior to the date of the Scheme Implementation Agreement).
<b>Clough EOP</b>	The Clough Employee Option Plan last approved by Clough Shareholders at the Clough 2011 annual general meeting (as amended from time to time prior to the date of the Scheme Implementation Agreement).
<b>Clough Group</b>	Clough and each of its Related Entities.
<b>Clough Register</b>	The register of members of Clough maintained by the Clough Share Registry.
<b>Clough Share Registry</b>	Link Market Services Limited ACN 083 214 537, or such other person that provides share registry services to Clough from time to time.
<b>Clough Share</b>	A fully paid ordinary share in the capital of Clough.
<b>Clough Shareholder</b>	Each person who is registered in the Clough Register as the holder of Clough Shares at a relevant point in time.
<b>Corporations Act</b>	The <i>Corporations Act 2001</i> (Cth).
<b>Court</b>	The Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act agreed in writing by Clough and Bidco.
<b>Deed Poll</b>	The deed poll executed by Bidco and M&R in favour of the Scheme Participants, in the form set out in Annexure B to the Scheme Implementation Agreement, under which each of Bidco and M&R covenants in favour of each Scheme Participant to perform their respective obligations under the Scheme and the Scheme Implementation Agreement as regards the implementation of this Scheme.
<b>Effective</b>	The coming into effect, pursuant to section 411(10) of the Corporations Act, of the Scheme Order.
<b>Effective Date</b>	The date on which the Scheme becomes Effective.
<b>End Date</b>	31 December 2013, or such later date as Bidco and Clough may agree in writing.
<b>Excluded Shareholder</b>	Any Clough Shareholder who is M&R or a Related Entity of M&R.
<b>First Court Date</b>	The first day on which the application made to the Court for orders under section 411(1) of the Corporations Act

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	that the Scheme Meeting be convened is heard.
<b>Implementation Date</b>	The fifth Business Day following the Scheme Record Date or such other date as ordered by the Court or agreed between Clough and Bidco.
<b>M&amp;R</b>	Murray & Roberts Holdings Limited incorporated in the Republic of South Africa (Registration number 1948/029826/06) of Douglas Roberts Centre, 22 Skeen Boulevard, Bedfordview, Johannesburg, Republic of South Africa.
<b>Option</b>	An option to subscribe for a Clough Share issued by Clough under the Clough EOP, both vested and unvested.
<b>Performance Right</b>	A right to be issued or transferred Clough Shares, or be paid the market price of those shares (at the election of Clough), as granted by Clough under the Clough EIS, including (after the date of their grant) the 2013 Performance Rights.
<b>Registered Address</b>	In relation to a Clough Shareholder, the address shown in the Clough Register in respect of that Clough Shareholder as at the Scheme Record Date.
<b>Related Body Corporate</b>	Has the meaning it has in the Corporations Act.
<b>Related Entity</b>	In relation to Clough means any other entity: <ul style="list-style-type: none"> <li>(a) which is a subsidiary (as defined in the Corporations Act) of Clough; or</li> <li>(b) which Clough controls; and</li> </ul> In relation to Bidco and M&R means any other entity: <ul style="list-style-type: none"> <li>(c) which is a Related Body Corporate of M&amp;R;</li> <li>(d) which is in any consolidated entity which contains M&amp;R; and</li> <li>(e) which M&amp;R controls,</li> </ul> other than the Clough Group.
<b>Scheme</b>	This scheme of arrangement, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by Clough and Bidco.
<b>Scheme Consideration</b>	The amount of \$1.46 per Clough Share less the amount of any dividend(s) declared or determined to be payable, or paid, by Clough in respect of Clough Shares (including the Special Dividend) from the date of the Scheme Implementation Agreement up to and including the Implementation Date.

<b>Scheme Implementation Agreement</b>	The scheme implementation agreement between Bidco, M&R and Clough dated 28 August 2013.
<b>Scheme Meeting</b>	The meeting to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.
<b>Scheme Order</b>	The Order of the Court made for the purposes of section 411(4)(b) of the Corporations Act in relation to the Scheme.
<b>Scheme Participant</b>	Each holder of Scheme Shares as at the Scheme Record Date, other than an Excluded Shareholder.
<b>Scheme Record Date</b>	5.00pm on the ninth Business Day following the Effective Date or such other date and time as the parties agree.
<b>Scheme Shares</b>	All the Clough Shares on issue on the Scheme Record Date held by the Scheme Participants and for the avoidance of doubt includes any Clough Shares issued on or before the Scheme Record Date, including upon the exercise of any Option or the vesting of any Performance Rights.
<b>Scheme Transfer</b>	For each Scheme Participant, a proper instrument of transfer of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all or part of the Scheme Shares.
<b>Second Court Date</b>	The first day of the Second Court Hearing or, if the Second Court Hearing is adjourned for any reason, the first day on which the adjourned application is heard.
<b>Second Court Hearing</b>	The hearing of the application made to the Court for the Scheme Order.
<b>Special Dividend</b>	A dividend of up to \$0.14 per Clough Share determined and paid in accordance with clause 5.3 of the Scheme Implementation Agreement.
<b>Total Scheme Consideration</b>	The aggregate Scheme Consideration payable to Scheme Participants under the Scheme.

## 2 Preliminary

### 2.1 Clough

- (a) Clough is a public company incorporated in Australia and registered in Western Australia, having its registered office at Alluvion, 58 Mounts Bay Road, Perth, Western Australia.
- (b) Clough is a public company limited by shares under section 112(1) of the Corporations Act.

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- (c) Clough is admitted to the official list of ASX and fully paid Clough Shares are quoted on the official list of ASX.
- (d) As at the date of the Scheme Implementation Agreement:
  - (i) 777,090,670 Clough Shares were on issue;
  - (ii) 16,498,347 Options which may convert into Clough Shares were on issue; and
  - (iii) 2,158,784 Performance Rights, plus the 2013 Performance Rights which may convert into Clough Shares were on issue.

## 2.2 Bidco

- (a) Bidco is a proprietary company incorporated in Australia and registered in Western Australia, having its registered office at Unit 3, 138 Abernathy Road, Belmont, Western Australia.
- (b) Bidco is a proprietary company limited by shares under section 112(1) of the Corporations Act.

## 2.3 Summary of the Scheme

If the Scheme becomes Effective, then:

- (a) in consideration of the transfer of the Scheme Shares to Bidco, Bidco will deposit (or procure the deposit of) an amount equal to the Total Scheme Consideration in cleared funds into an Australian dollar denominated trust account, operated by Clough as trustee for the Scheme Participants, to be held on trust for the Scheme Participants for the purpose of paying the Scheme Consideration to each Scheme Participant in accordance with the terms of the Scheme and the Deed Poll;
- (b) subject to Bidco and M&R's compliance with its obligations in **clause 2.3(a)** and the Deed Poll, all of the Scheme Shares will be transferred to Bidco; and
- (c) Clough will enter the name and address of Bidco in the Clough Register as the holder of the Scheme Shares transferred to Bidco in accordance with the terms of the Scheme.

## 2.4 Scheme Implementation Agreement

Bidco, M&R and Clough have agreed, by executing the Scheme Implementation Agreement, to implement the terms of the Scheme and to perform their respective obligations under the Scheme.

## 2.5 Deed Poll

Bidco and M&R have executed the Deed Poll in favour of Scheme Participants pursuant to which they have covenant to perform their respective obligations under the Scheme, including to deposit (or procure the deposit of) an amount equal to the Total Scheme Consideration in cleared funds into an Australian dollar denominated trust account in accordance with the Scheme.

## 3 Conditions

### 3.1 Conditions of Scheme

The Scheme is conditional upon, and will have no force or effect until, each of the following conditions precedent are satisfied:

- (a) all of the conditions precedent in **Schedule 1** of the Scheme Implementation Agreement having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement (other than the conditions precedent in **item 10 of Schedule 1** of that document), as at 5.00pm on the Business Day before the Second Court Date;
- (b) as at 5.00pm on the Business Day before the Second Court Date, neither the Scheme Implementation Agreement nor the Deed Poll having been terminated in accordance with their terms;
- (c) the Court having approved the Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to both Clough and Bidco;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act as are acceptable to Bidco and Clough being satisfied; and
- (e) the Scheme Order (and, if applicable, any orders made under section 411(6) of the Corporations Act) coming into effect pursuant to section 411(10) of the Corporations Act.

### 3.2 Certificate

Clough, M&R and Bidco must each provide to the Court on the Second Court Date a certificate authorised by each of their respective boards and signed by at least one of their respective directors (or such other evidence as the Court may request) stating (to the best of each of their knowledge) whether or not all the conditions precedent in **clauses 3.1(a)** and **3.1(b)** have been satisfied or waived (subject to the terms of the Scheme Implementation Agreement) as at 8.00am on the Second Court Date.

### 3.3 Conclusive evidence

The giving of a certificate by each of Clough, Bidco and M&R in accordance with **clause 3.2** will, in the absence of manifest error, be conclusive evidence of the matters referred to in the certificate.

### 3.4 Termination of Scheme Implementation Agreement

Without limiting rights under the Scheme Implementation Agreement, if the Scheme Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, Clough, M&R and Bidco are each released from:

- (a) any further obligation to take steps to implement the Scheme; and
- (b) any liability with respect to the Scheme,



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provided that Clough, M&R and Bidco retain the rights they have against each other in respect of any prior breach of the Scheme Implementation Agreement.

### **3.5 Effective Date**

This Scheme takes effect on the Effective Date.

### **3.6 End Date**

The Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

## **4 Scheme**

### **4.1 Lodgement of Court order**

Following the approval of the Scheme by the Court in accordance with section 411(4)(b) of the Corporations Act, Clough will, as soon as reasonably practicable, lodge with ASIC an office copy of the Scheme Order in accordance with section 411(10) of the Corporations Act.

### **4.2 Transfer of Scheme Shares held by Scheme Participants**

On the Implementation Date, in consideration of and subject to provision by Bidco of the Total Scheme Consideration in accordance with **clause 5.2(a)**, all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at that date (other than any right to receive the Special Dividend to the extent that the Special Dividend is determined by Clough) will be transferred to Bidco without the need for any further acts by any Scheme Participant (other than acts performed by Clough or its directors or officers as attorney and agent for Scheme Participants under **clause 6**) by:

- (a) Clough delivering to Bidco on the Implementation Date a duly completed Scheme Transfer executed by Clough as attorney for the Scheme Participants for execution by Bidco; and
- (b) Bidco duly executing and delivering the Scheme Transfer to Clough on the Implementation Date.

### **4.3 Transfer documentation**

As soon as practicable after receipt by Clough of the Scheme Transfer duly executed by Bidco as transferee pursuant to **clause 4.2(b)**, Clough must enter, or procure the entry of, Bidco in the Clough Register as the holder of all of the Scheme Shares.

### **4.4 Beneficial entitlement by Bidco**

From the time of the provision of the Total Scheme Consideration in accordance with **clause 5.2(a)**, Bidco will be beneficially entitled to the Scheme Shares (together with all rights and entitlements attached to the Scheme Shares, other than any right to receive the Special Dividend to the extent that the Special Dividend is determined by Clough) to be transferred to it under the

Scheme pending registration of Bidco in the Clough Register as the holder of those Scheme Shares.

#### **4.5 Enforcement of Deed Poll**

In accordance with **clause 6.2**, Clough undertakes in favour of each Scheme Participant to enforce the Deed Poll against Bidco and M&R on behalf of and as agent for the Scheme Participants.

## **5 Scheme Consideration**

### **5.1 Entitlement to Scheme Consideration**

On the Implementation Date, in consideration for the transfer to Bidco of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with this Scheme.

### **5.2 Payment of Scheme Consideration**

- (a) Before 5.00pm on the day that is two Business Days before the Implementation Date, Bidco must deposit (or procure the deposit of), and Clough must use its best endeavours to procure that Bidco deposits (or procures the deposit of), an amount equal to the Total Scheme Consideration in cleared funds into an Australian dollar denominated trust account, operated by Clough as trustee for the Scheme Participants, to be held on trust for the Scheme Participants for the purpose of paying the Scheme Consideration to each Scheme Participant, except that any interest on the amounts deposited (less bank fees and other charges) will be to Bidco's account.
- (b) On the Implementation Date and subject to Bidco having complied with **clause 5.2(a)**, Clough must pay or procure the payment of the Scheme Consideration to each Scheme Participant from the account referred to in **clause 5.2(a)**.
- (c) For each Scheme Participant, Clough's obligation under **clause 5.2(b)** will be satisfied by Clough taking either of the following actions on the Implementation Date:
  - (i) despatching, or procuring the despatch, to that Scheme Participant of a pre printed cheque in the name of that Scheme Participant and for the relevant amount (denominated in Australian currency) with such despatch to be made by pre-paid post to that Scheme Participant's Registered Address; or
  - (ii) making, or procuring the making of, a deposit for the relevant amount (denominated in Australian currency) in an account with any Australian ADI (as defined in the Corporations Act) in Australia notified by that Scheme Participant to Clough and recorded in or for the purposes of the Clough Register as at the Scheme Record Date.

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### 5.3 Joint holders

Subject to **clause 5.2(c)**, in the case of Scheme Shares held in joint names, any cheque required to be paid to Scheme Participants will be payable to the joint holders and will be forwarded to that Scheme Participant's Registered Address and marked to the attention of the holder whose name appears first in the Clough Register as at the Scheme Record Date.

## 6 Scheme Participants

### 6.1 Appointment of Bidco as sole proxy

From the Effective Date until Bidco is registered as the holder of all the Scheme Shares in the Clough Register, each Scheme Participant:

- (a) is deemed to have irrevocably appointed Bidco as its attorney and agent (and directed Bidco in such capacity) to appoint such officer or agent nominated by Bidco to be its sole proxy and, where applicable, corporate representative, to attend shareholders' meetings of Clough, exercise the votes attaching to Scheme Shares registered in its name and sign any shareholders' resolution, whether in person, by proxy or by corporate representative, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this **clause 6.1(a)**); and
- (b) must take all other actions in the capacity of the registered holder of Scheme Shares as Bidco reasonably directs.

### 6.2 Appointment of Clough as sole attorney and agent

Each Scheme Participant, without the need for any further act, on and from the Effective Date irrevocably appoints Clough and each of the directors and officers of Clough, jointly and severally, as the Scheme Participant's attorney and agent for the purpose of:

- (a) enforcing the Deed Poll against Bidco and M&R; and
- (b) executing any document necessary or expedient to give effect to the Scheme (including executing a Scheme Transfer and any instrument appointing Bidco as sole proxy for or, where applicable, corporate representative of each Scheme Participant as contemplated by **clause 6.1**) or doing any other act necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

### 6.3 Scheme Participant's consent

Each Scheme Participant:

- (a) consents to Clough doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of the Scheme and Clough, as agent of each Scheme Participant, may sub-delegate its

functions under this **clause 6.3** to any of its directors and officers, severally;

- (b) agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares to Bidco (other than any right to receive the Special Dividend to the extent that the Special Dividend is determined by Clough), in accordance with the Scheme; and
- (c) agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from the Scheme.

#### **6.4 Warranties by Scheme Participants**

Each Scheme Participant is deemed to have warranted to Clough, in its own right and for the benefit of Bidco and M&R, that:

- (a) all of their Scheme Shares (including any rights and entitlements attaching to those shares, other than any right to receive the Special Dividend to the extent that the Special Dividend is determined by Clough) which are transferred to Bidco under the Scheme will be transferred to Bidco free from all mortgages, pledges, charges, liens, encumbrances and security interests and other interests of third parties of any kind, whether legal or otherwise (but acknowledging that a security interest holder may potentially have an interest in the Scheme Consideration in accordance with the terms of such security interest); and
- (b) they have full power and capacity to sell and transfer their Scheme Shares to Bidco (including any rights and entitlements attaching to those shares, other than any right to receive the Special Dividend to the extent that the Special Dividend is determined by Clough).

## **7 Dealings in Clough Shares**

### **7.1 Determination of Scheme Participants**

- (a) For the purpose of establishing the persons who are the Scheme Participants, dealings in Scheme Shares will only be recognised if:
  - (i) in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the Clough Register as the holder of the relevant Scheme Shares at the Scheme Record Date; and
  - (ii) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Scheme Record Date at the Clough Share Registry.
- (b) Clough must register registrable transmission applications or transfers of the kind referred to in **clause 7.1(a)(ii)** by, or as soon as practicable after, the Scheme Record Date.
- (c) Clough will not accept for registration or recognise for any purpose any transmission applications or transfers in respect of Scheme Shares

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received after the Scheme Record Date (other than a transfer to Bidco in accordance with the Scheme and any subsequent transfer by Bidco, or its successors in title), or received on or before the Scheme Record Date but is not in registrable form.

- (d) If the Scheme becomes Effective, a holder of Clough Shares (and any person claiming through that holder) must not dispose of or purport to agree to dispose of any Clough Shares or any interest in them after the Scheme Record Date and any such disposal will be void and of no legal effect whatsoever.

## 7.2 Maintenance of Clough Register

- (a) For the purpose of determining entitlements to the Scheme Consideration, Clough will, until the Scheme Consideration has been provided, maintain, or procure the maintenance of, the Clough Register in accordance with the provisions of this **clause 7** and the Clough Register in this form will solely determine entitlements to the Scheme Consideration.
- (b) All certificates and holding statements for Scheme Shares (other than holding statements in favour of Bidco and its successors in title after the Implementation Date) will cease to have any effect from the Scheme Record Date as documents of title in respect of those Scheme Shares. Subject to provision of the Total Scheme Consideration by Bidco and registration of the transfer to Bidco of the Scheme Shares contemplated by **clause 4.2**, after the Scheme Record Date, each entry current at that date on the Clough Register relating to Scheme Shares will cease to be of any effect other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

## 7.3 Information to be made available to Bidco

Clough will procure that, as soon as reasonably practicable after the Scheme Record Date, details of the names, Registered Addresses and holdings of Scheme Shares of every Scheme Participant as shown in the Clough Register as at the Scheme Record Date are made available to Bidco in such form as Bidco reasonably requires.

## 8 Quotation of Clough Shares

- (a) It is expected that the suspension of trading on ASX in Clough Shares will occur from the close of trading on the Effective Date.
- (b) On or after the Implementation Date to be determined by Bidco and M&R, Clough will apply:
  - (i) for termination of the official quotation of Clough Shares on the ASX; and
  - (ii) to have itself removed from the official list of the ASX.

## 9 Notices

### 9.1 General

A notice, consent, approval, waiver of other communication sent to Clough under this document must be:

- (a) in writing; and
- (b) sent by an authorised representative of the sender.

### 9.2 Communications by post

Subject to **clause 9.4**, where a notice referred to in this document is sent by post to Clough, it will not be deemed to have been received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Clough's registered office or at the Clough Registry.

### 9.3 Communications by fax

Subject to **clause 9.4**, at the time shown in the transmission report reproduced by the machine from which the fax was sent at the time the fax was sent in its entirety.

### 9.4 After hours communications

If a notice is taken to be received under **clauses 9.2 or 9.3**:

- (a) before 9.00am on a Business Day, it will be taken to be received at 9.00am on that Business Day; or
- (b) after 5.00pm on a Business Day or on a non-Business Day, it will be taken to be received at 9.00am on the next Business Day.

### 9.5 Notice of Scheme Meeting

The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Clough Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

## 10 General

### 10.1 Clough and Scheme Participants bound

The Scheme binds Clough and all Scheme Participants (including Scheme Participants who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme) and will, for all purposes, to the extent of any inconsistencies and permitted by law, have effect notwithstanding any provision in the constitution of Clough.

### 10.2 Further assurances

Subject to **clause 10.3**, Clough will execute all documents and do all acts and things necessary or expedient for the implementation of, and performance of its obligations under, the Scheme.



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### **10.3 Alterations and conditions**

Clough may, with the consent of Bidco (which may not be unreasonably withheld or delayed), by its counsel consent on behalf of all Scheme Participants to any modifications or conditions which the Court thinks fit to impose, provided that in no circumstances will Clough be obliged to do so. Each Scheme Participant agrees to any such modification or conditions which counsel for Clough consents to.

### **10.4 Costs**

Any costs, and any stamp duty and any related fines, interest or penalties, which are payable on or in respect of this document or on any document referred to in this document will be paid as provided for in the Scheme Implementation Agreement. For the avoidance of doubt, the Scheme Participants do not have to pay any stamp duty, related fines, interest or penalties which are payable on or in respect of this document or any document referred to in this document.

### **10.5 Governing law and jurisdiction**

- (a) This document is governed by and is to be construed in accordance with the laws applicable in Western Australia.
- (b) Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Western Australia and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

### **10.6 Construction**

Unless expressed to the contrary, in this document:

- (a) words in the singular include the plural and vice versa;
- (b) if a word or phrase is defined its other grammatical forms have corresponding meanings;
- (c) 'includes' means includes without limitation;
- (d) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
- (e) a reference to:
  - (i) a holder includes a joint holder;
  - (ii) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
  - (iii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;

- (iv) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
  - (v) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
  - (vi) a right includes a benefit, remedy, discretion or power;
  - (vii) time is to local time in Perth, Australia;
  - (viii) '\$' or 'dollars' is a reference to Australian currency;
  - (ix) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;
  - (x) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;
  - (xi) this document includes all schedules and annexures to it; and
  - (xii) a clause, party, schedule, exhibit or annexure is a reference to a clause, party, schedule, exhibit or annexure, as the case may be, of this document;
- (f) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on or by the next Business Day; and
- (g) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded.

## **10.7 Headings**

Headings do not affect the interpretation of this document.



# **ANNEXURE D NOTICE OF GENERAL MEETING**

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## NOTICE OF GENERAL MEETING

# CLOUGH LIMITED

ABN 59 008 678 813

Notice is given that a general meeting of members of Clough Limited (**Clough**) will be held at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000, at 10.00 am (Perth time) on Friday, 15 November 2013.

### PURPOSE OF THE GENERAL MEETING

To consider and, if thought fit, to pass the Clough Loan Resolution as a **special resolution**.

The Scheme Booklet accompanying this Notice of General Meeting constitutes the explanatory statement for the purposes of sections 219(1) and 260B(4) of the Corporations Act in relation to the Clough Loan Resolution. Unless expressly defined in this Notice of General Meeting, capitalised terms used in this notice have the meaning given to those terms in Section 11 of the Scheme Booklet.

### CLOUGH LOAN RESOLUTION

*"That, subject to and conditional upon:*

(a) *approval of the Scheme by the Requisite Majorities of Clough Shareholders at the Scheme Meeting;*  
*and*

(b) *the Scheme becoming Effective,*

*for the purposes of sections 208(1)(a) and 260A(1)(b) of the Corporations Act and for all other purposes,*  
*approval is given for:*

(c) *any financial assistance to be given by Clough (and its Subsidiaries) to Murray & Roberts (Aus); and*

(d) *any financial benefit to be given by Clough (and its Subsidiaries) to the Murray & Roberts Group (in particular Murray & Roberts (Aus)),*

*in connection with the acquisition by Murray & Roberts (Aus) of the Scheme Shares pursuant to the Scheme and the entry into, and performance of, the Clough Loan Agreement described in further detail in the Scheme Booklet which accompanies this Notice of General Meeting."*

Dated 11 October 2013

### BY ORDER OF THE BOARD



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**Rajiv Ratneser**  
Company Secretary

# EXPLANATORY NOTES FOR THE GENERAL MEETING

## GENERAL

This Notice of General Meeting relates to the Scheme and should be read in conjunction with the accompanying Scheme Booklet.

The Scheme Booklet contains important information to assist you in determining how to vote on the Clough Loan Resolution, including the information prescribed by sections 219 and 260B(4) of the Corporations Act. In particular, Section 9 of the Scheme Booklet (among other things):

- contains the key information prescribed by the Corporations Act;
- explains the nature of the financial assistance and the financial benefit to be given by Clough to Murray & Roberts (Aus) and, in each case, why this requires approval of Clough Shareholders; and
- cross-refers to other Sections of the Scheme Booklet which contain important information in relation to the Clough Loan Resolution, such as Section 10.2 (which contains a summary of the terms of the Clough Loan Agreement).

## REQUIRED VOTING MAJORITY

The Clough Loan Resolution must be approved by way of a special resolution (ie 75% or more) of those Clough Shareholders present and voting (either in person, or by proxy or representative).

## VOTING ENTITLEMENTS

Subject to the exceptions below, each Clough Shareholder who is registered on the Register as at 4.00 pm (Perth time) on Wednesday, 13 November 2013 is entitled to attend and vote at the General Meeting.

In accordance with sections 224(1) and 260B(1)(a), each Murray & Roberts Group Entity and their respective Associates are prohibited from voting on the Clough Loan Resolution. Accordingly, Clough will disregard any votes cast in favour of the Clough Loan Resolution by any Murray & Roberts Group Entity or their respective Associates.

Under the Corporations Act, the Clough Directors (including the Independent Directors) are classified as Associates of Murray & Roberts (Aus) because Clough is considered a Subsidiary of Murray & Roberts and, therefore, a Related Body Corporate of Murray & Roberts (Aus). Accordingly, no Clough Director may vote their Clough Shares in favour of the Clough Loan Resolution.

The voting prohibition does not prevent the casting of a vote if it is cast by a person as a proxy appointed in writing by a Clough Shareholder entitled to vote if the appointment specifies how the proxy is to vote on the Clough Loan Resolution and that vote is not cast on behalf of any Murray & Roberts Group Entity or their respective Associates.

## HOW TO VOTE

If you are a Clough Shareholder entitled to vote at the General Meeting, you may vote by:

- attending and voting in person;
- appointing an attorney to attend and vote on your behalf, using a power of attorney;
- in the case of a body corporate, appointing a body corporate representative to attend the meeting and vote on your behalf, using a certificate of appointment of body corporate representative; or
- appointing a proxy to attend and vote on your behalf, using the blue proxy form accompanying this Scheme Booklet.

### Voting in person

To vote in person, you must attend the General Meeting. Clough Shareholders who wish to attend and vote at the meeting in person will be admitted and given a voting card at the point of entry to the meeting, once they have disclosed their name and address.

### Voting by proxy

Clough Shareholders are advised that:

- each Clough Shareholder who is entitled to attend and cast a vote at the General Meeting has a right to appoint a proxy to attend and vote for them;
- the proxy need not be a Clough Shareholder; and
- a Clough Shareholder who is entitled to cast two or more votes may appoint either one or two proxies, and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment is for two proxies and does not specify the proportion or number of votes each proxy may exercise, then, in accordance with section 249X(3) of the Corporations Act, each proxy may exercise half of the votes.

To vote by proxy the blue proxy form accompanying this Scheme Booklet must be completed and lodged in accordance with this Notice of General Meeting and the instructions on the form.

The proxy form must be signed by the Clough Shareholder or his / her attorney duly authorised in writing. If the Clough Shareholder is a company that has a sole director who is also the sole company secretary, this form must be signed by that person. If the company does not have a company secretary, the sole director must sign the form. Otherwise, the proxy form must be signed by a director jointly with either another director or a company secretary. In the case of shares jointly held by two or more persons, all joint holders must sign the proxy form.

For the reasons set out above, the Chairman of the General Meeting will not vote any undirected proxy appointments nominating him on the Clough Loan Resolution. **If you appoint the Chairman of the General Meeting as your proxy, you are therefore urged to indicate on your blue proxy form how he should cast your vote on the Clough Loan Resolution.**

#### **Voting by attorney**

A Clough Shareholder entitled to attend and vote at the General Meeting is also entitled to appoint an attorney to attend and vote on his or her behalf. An attorney need not be a Clough Shareholder.

The power of attorney appointing the attorney must be duly executed and specify the name of the Clough Shareholder, Clough and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

Attorneys of eligible Clough Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address, and the name of their appointers.

Your appointment of an attorney does not preclude you from attending in person and voting at the meeting.

#### **Lodgement of proxies, powers of attorney and queries**

The blue proxy form (and, if not already lodged, the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and, if not already lodged, the power of attorney or other authority), powers of attorney and authorities, must be received by Clough's Share Registry in any of the following ways:

- **By post** to:  
Clough Limited  
C/- Link Market Services Limited  
Locked Bag A14  
SYDNEY SOUTH NSW 1235
- **By the internet** at the Share Registry's website, [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)
- **By facsimile** to +61 2 9287 0309,

at least 48 hours before the time for holding the General Meeting (that is, not later than 10.00 am (Perth time) on Wednesday, 13 November 2013), or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote. Documents received after this deadline will not be valid for the scheduled meeting.

#### **Voting by corporate representative**

A body corporate that is a Clough Shareholder, or that has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act, meaning that Clough will require a certificate of appointment of body corporate representative to be executed by the body corporate in accordance with the Corporations Act. The certificate of appointment may set out restrictions on the representative's powers.

An "Appointment of Corporate Representative" may be obtained for this purpose from the Share Registry's website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

The certificate should be lodged at the registration desk on the day of the meeting or sent to Clough's Share Registry in advance of the General Meeting, in any of the ways set out above in relation to the lodgement of proxies, powers of attorney and queries.

#### **JOINTLY HELD SECURITIES**

If Clough Shares are jointly held and, more than one member votes in respect of those jointly held shares, only the vote of the Clough Shareholder whose name appears first in the Register will be counted.

#### **ATTENDANCE**

If you or your proxies, attorneys or representative(s) plan to attend the General Meeting, please arrive at the venue at least 15 minutes before the scheduled time for commencement of the meeting, so that your shareholding can be checked against the Register, any power of attorney or certificate of appointment of body corporate representative verified, and your attendance noted.

#### **ADVERTISEMENT**

Where this Notice of General Meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the meeting from Clough's website ([www.clough.com.au](http://www.clough.com.au)) or by contacting Clough's Share Registry.





**ANNEXURE E  
NOTICE OF SCHEME  
MEETING**

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## NOTICE OF SCHEME MEETING

# CLOUGH LIMITED

ABN 59 008 678 813

Notice is given that, by an order of the Federal Court of Australia made on 11 October 2013, pursuant to section 411(1) of the *Corporations Act 2001 (Cth)*, a meeting of the holders of Clough Shareholders will be held at 11.00 am (Perth time) on Friday, 15 November 2013 at the Parmelia Hilton Perth, 14 Mill Street, Perth, Western Australia, 6000.

### PURPOSE OF THE SCHEME MEETING

The purpose of this Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without amendment or any alterations or conditions required by the Court to which Clough and Murray & Roberts (Aus) agree) proposed to be made between Clough and Clough Shareholders and to consider and, if thought fit, pass the Scheme Resolution.

The Scheme Booklet accompanying this Notice of Scheme Meeting constitutes an explanatory statement for the purposes of section 412(1) of the Corporations Act.

Capitalised terms used in this notice have the meaning given to those terms in Section 11 of the Scheme Booklet.

### SCHEME RESOLUTION

*"That pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth):*

- (a) *the scheme of arrangement proposed between Clough and the Clough Shareholders (other than the Excluded M&R Shareholders), as contained in and more particularly described in the Scheme Booklet accompanying this Notice of Scheme Meeting, is agreed to; and*
- (b) *the Independent Directors are authorised:*
  - (i) *to agree to such alterations or conditions as are directed by the Court; and*
  - (ii) *subject to approval of the Scheme by the Court, to implement the Scheme with any such alterations or conditions.*

### CHAIRMAN

The Court has directed that Keith Spence is to act as Chairman of the Scheme Meeting (and that, if Keith Spence is unable or unwilling to attend, David Crawford is to act as Chairman of the Scheme Meeting) and has directed the Chairman to report the result of the Scheme Resolution to the Court.

Dated 11 October 2013

### BY ORDER OF THE BOARD



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**Rajiv Ratneser**  
Company Secretary

# EXPLANATORY NOTES FOR THE SCHEME MEETING

## GENERAL

This Notice of Scheme Meeting relates to the Scheme and should be read in conjunction with the accompanying Scheme Booklet. The Scheme Booklet contains important information to assist you in determining how to vote on the Scheme Resolution, including the information prescribed by the Corporations Act and the *Corporations Regulations 2001* (Cth).

A copy of the Scheme is set out in Annexure C of the Scheme Booklet.

## REQUIRED VOTING MAJORITY

For the proposed Scheme to be binding in accordance with section 411 of the Corporations Act, the Scheme Resolution must be approved by the Requisite Majorities, being:

- a majority in number (ie more than 50%) of Clough Shareholders (other than Excluded M&R Shareholders) who vote at the Scheme Meeting (either in person, or by proxy or representative), unless the Court orders otherwise; and
- at least 75% of the total number of Clough Shares voted by Clough Shareholders (other than Excluded M&R Shareholders) at the Scheme Meeting (either in person, or by proxy or representative).

The vote on the Scheme Resolution will be conducted by a poll.

## COURT APPROVAL

Under section 411(4)(b) of the Corporations Act, the Scheme (with or without amendment or any alteration or condition required by the Court) is subject to the approval of the Court. If the Scheme Resolution is duly passed by the Requisite Majorities and the other conditions to the Scheme (other than approval by the Court and lodgement of the Scheme Order with ASIC) are satisfied or waived by the time required under the Scheme, Clough intends to apply to the Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

## VOTING ENTITLEMENTS

Subject to the exceptions below, each Clough Shareholder who is registered on the Register as at the 4.00 pm (Perth time) on Wednesday, 13 November 2013 is entitled to attend and vote at the Scheme Meeting.

Excluded M&R Shareholders will not vote on the Scheme Resolution.

## HOW TO VOTE

If you are a Clough Shareholder entitled to vote at the Scheme Meeting, you may vote by:

- attending and voting in person;
- appointing an attorney to attend and vote on your behalf, using a power of attorney;
- in the case of a body corporate, appointing a body corporate representative to attend the meeting and vote on your behalf, using a certificate of appointment of body corporate representative; or
- appointing a proxy to attend and vote on your behalf, using the green proxy form accompanying this Scheme Booklet.

### Voting in person

To vote in person, you must attend the Scheme Meeting. Clough Shareholders who wish to attend and vote at the meeting in person will be admitted and given a voting card at the point of entry to the meeting, once they have disclosed their name and address.

### Voting by proxy

Clough Shareholders are advised that:

- each Clough Shareholder who is entitled to attend and cast a vote at the Scheme Meeting has a right to appoint a proxy to attend and vote for them;
- the proxy need not be a Clough Shareholder; and
- a Clough Shareholder who is entitled to cast two or more votes may appoint either one or two proxies, and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment is for two proxies and does not specify the proportion or number of votes each proxy may exercise, then, in accordance with section 249X(3) of the Corporations Act, each proxy may exercise half of the votes.

To vote by proxy the green proxy form accompanying this Scheme Booklet must be completed and lodged in accordance with this Notice of Scheme Meeting and the instructions on the form.

The proxy form must be signed by the Clough Shareholder or his / her attorney duly authorised in writing. If the Clough Shareholder is a company that has a sole director who is also the sole company secretary, this form must be signed by that person. If the company does not have a company secretary, the sole director must sign the form. Otherwise, the proxy form must be signed by a director jointly with either another director or a company secretary. In the case of shares jointly held by two or more persons, all joint holders must sign the proxy form.

### Voting by attorney

A Clough Shareholder entitled to attend and vote at the Scheme Meeting is also entitled to appoint an attorney to attend and vote on his or her behalf. An attorney need not be a Clough Shareholder.

The power of attorney appointing the attorney must be duly executed and specify the name of the Clough Shareholder, Clough and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

Attorneys of eligible Clough Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address, and the name of their appointers.

Your appointment of an attorney does not preclude you from attending in person and voting at the meeting.

### Lodgement of proxies, powers of attorney and queries

The green proxy form (and, if not already lodged, the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and, if not already lodged, the power of attorney or other authority), powers of attorney and authorities, must be received by Clough's Share Registry in any of the following ways:

- **By post** to:  
Clough Limited  
C/- Link Market Services Limited  
Locked Bag A14  
SYDNEY SOUTH NSW 1235
- **By the internet** at the Share Registry's website, [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)
- **By facsimile** to +61 2 9287 0309,

at least 48 hours before the time for holding the Scheme Meeting (that is, not later than 11.00 am (Perth time) on Wednesday, 13 November 2013), or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote. Documents received after this deadline will not be valid for the scheduled meeting.

### Voting by corporate representative

A body corporate that is a Clough Shareholder, or that has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act, meaning that Clough will require a certificate of appointment of body corporate representative to be executed by the body corporate in accordance with the Corporations Act. The certificate of appointment may set out restrictions on the representative's powers.

An "Appointment of Corporate Representative" may be obtained for this purpose from the Share Registry's website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

The certificate should be lodged at the registration desk on the day of the meeting or sent to Clough's Share Registry in advance of the Scheme Meeting, in any of the ways set out above in relation to the lodgement of proxies, powers of attorney and queries.

**JOINTLY HELD SECURITIES**

If Clough Shares are jointly held and, more than one member votes in respect of those jointly held shares, only the vote of the Clough Shareholder whose name appears first in the Register will be counted.

**ATTENDANCE**

If you or your proxies, attorneys or representative(s) plan to attend the Scheme Meeting, please arrive at the venue at least 15 minutes before the scheduled time for commencement of the meeting, so that your shareholding can be checked against the Register, any power of attorney or certificate of appointment of body corporate representative verified, and your attendance noted.

**ADVERTISEMENT**

Where this Notice of Scheme Meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the meeting from Clough's website ([www.clough.com.au](http://www.clough.com.au)) or by contacting Clough's Share Registry.



# **ANNEXURE F INDEPENDENT EXPERT'S REPORT**



## GRANT SAMUEL



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11 October 2013

The Independent Directors  
Clough Limited  
Level 15  
58 Mounts Bay Road  
Perth Western Australia 6000

Dear Independent Directors

### Proposal by Murray & Roberts Holdings Limited

#### 1 Introduction

On 31 July 2013, Clough Limited ("Clough") announced that it had received a conditional proposal from its 61.6% shareholder, Murray & Roberts Holdings Limited ("Murray & Roberts"<sup>1</sup>), to acquire all of the outstanding ordinary shares in Clough that it did not already own for a total cash payment of \$1.46 per share (the "Proposal"). Under the Proposal, Clough shareholders (other than Murray & Roberts) will receive a cash payment of \$1.32 per share from Murray & Roberts ("Scheme consideration") and the payment by Clough of a special dividend of \$0.14 per share that is expected to be fully franked<sup>2</sup>.

As part of the Proposal, Clough:

- will make offers to each option holder and performance right holder to cancel their options and performance rights in return for consideration of \$1.46 per option or performance right (less, in the case of options, the exercise price of the option); and
- has agreed to enter into an agreement to lend Murray & Roberts \$200 million, less any amounts paid or payable by Clough to option holders and performance rights holders and plus any amount by which the dividend paid to Clough shareholders is less than \$0.14 per share (the "Clough Loan"). The Clough Loan will be used by Murray & Roberts to partially fund the cash payment of \$1.32 per share to be received by Clough shareholders under the Proposal.

The Proposal is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") which is required to be approved by Clough shareholders and by the Federal Court of Australia (the "Scheme"). The Proposal is subject to a number of conditions that are set out in the Scheme Booklet and include Clough shareholders (other than Murray & Roberts) approving the provision of the Clough Loan and Murray & Roberts shareholder approval.

The directors of Clough not associated with Murray & Roberts ("independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposal is in the best interests of Clough shareholders. A copy of the report (including this letter) will accompany the Scheme Booklet to be sent to shareholders by Clough. This letter contains a summary of Grant Samuel's opinion and main conclusions.

<sup>1</sup> References in this summary letter to Murray & Roberts include subsidiaries and related entities of Murray & Roberts Holdings Limited.

<sup>2</sup> Clough reserves the right to reduce the amount of the special dividend or not to determine the special dividend in circumstances where it believes that that Commissioner of Taxation may make a determination which would have the effect of the special dividend not being fully franked or imputation credits otherwise being denied. If the special dividend is not determined or is reduced, the Scheme consideration will be adjusted so that Clough shareholders receive a total cash payment of \$1.46 per Clough share.



**2 Opinion**

**In Grant Samuel’s opinion, the Proposal is in the best interests of Clough shareholders, in the absence of a superior proposal.**

**3 Key Conclusions**

- **Clough has been valued in the range \$1,062-1,162 million, equivalent to \$1.37-1.49 per share**

Grant Samuel’s valuation of Clough is summarised below:

<b>Clough - Valuation Summary (\$ millions)</b>			
	Detailed Report Section Reference	Value Range	
		Low	High
Business operations <sup>3</sup>	5.3, 5.4	680.0	780.0
Other assets and liabilities	5.5	10.8	10.8
Adjusted net cash	5.6	370.9	370.9
<b>Value of equity</b>		<b>1,061.7</b>	<b>1,161.7</b>
Fully diluted shares on issue (millions) <sup>4</sup>		777.2	777.2
<b>Value per share</b>		<b>\$1.37</b>	<b>\$1.49</b>

The valuation represents the full underlying value of Clough assuming that 100% of the entity was available to be acquired and includes a premium for control. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect Clough shares to trade on the Australian Stock Exchange in the absence of the Proposal or some similar transaction.

Grant Samuel has valued Clough by estimating the market value of Clough’s business units, adding net cash and adding/subtracting the realisable value of other non-operating assets/liabilities.

The value attributed to Clough’s business operations of \$680-780 million is an overall judgement having regard to discounted cash flow (“DCF”) analysis and capitalisation of earnings or cash flows (multiples of underlying EBITDA<sup>5</sup> and EBIT<sup>6</sup>). The value includes an allowance for savings related to listed company and other costs which are available to acquirers of 100% of the business.

The DCF analysis is based on a financial model that allows the key drivers of revenues and costs to be modelled. As there are inherent uncertainties about future events, Grant Samuel has analysed a number of scenarios that represent differing combinations of assumptions about market share, margins and the number and timing of projects awarded to Clough. Grant Samuel’s value range reflects a subjective balancing of these scenarios, having regard to the risks associated with their achievement (refer to Section 5.3.2 of the detailed report).

<sup>3</sup> After corporate overhead cost savings (i.e. listed company and other costs) which are available to acquirers of 100% of the business (refer to Section 5.4 of the detailed report).

<sup>4</sup> Fully diluted shares on issue assumes that all issued options and performance rights are cancelled by Clough in return for consideration of \$1.46 per option or performance right less, in the case of options, the exercise price of the option (refer to Section 5.6 of the detailed report).

<sup>5</sup> Underlying EBITDA is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items. It includes Clough’s share of EBITDA from joint venture operations.

<sup>6</sup> Underlying EBIT is earnings before net interest, tax and significant and non-recurring items. It includes Clough’s share of EBIT from joint venture operations.

## GRANT SAMUEL



The value range of \$680-780 million implies multiples of:

- 7.0-8.1 times historical underlying EBITDA and 6.5-7.5 times forecast<sup>7</sup> underlying EBITDA; and
- 7.5-8.6 times historical underlying EBIT and 6.8-7.9 times forecast<sup>7</sup> underlying EBIT.

Grant Samuel has considered these implied multiples having regard to EBITDA and EBIT multiples for comparable listed Australian companies and for transactions involving companies or businesses providing engineering and construction services to the resources sector (both in Australia and North America). In particular, Jacobs Engineering Group Inc.'s recent announcement of the \$1.3 billion proposed acquisition of Sinclair Knight Merz Holdings Limited at an implied historical EBITDA multiple of 6.5 times and an implied historical EBIT multiple of 7.5 times is considered a relevant current valuation benchmark. The multiples implied by this transaction provide support for the historical multiples implied by the valuation of Clough's business operations after taking into account the specific attributes of Clough's business operations (refer to Section 5.3.3 of the detailed report).

■ **The Proposal is fair and reasonable to, and therefore is in the best interests of, Clough shareholders**

The total cash payment under the Proposal of \$1.46 for each Clough share falls within the value range of \$1.37-1.49. Accordingly, the Proposal is fair. As the Proposal is fair, it is also reasonable. As the Proposal is fair and reasonable, it is in the best interests of Clough shareholders.

■ **There are other factors that support the reasonableness of the Proposal**

As the Proposal is fair, it is also reasonable. In any event, there are other factors that support the reasonableness of the Proposal:

- the total cash payment under the Proposal of \$1.46 per Clough share represents a premium of 20-30% to recent prices at which Clough shares traded prior to the announcement of the Proposal:

<b>Clough – Premium over Pre-announcement Prices</b>		
Period	Share Price (\$)	Premium
30 July 2013 – pre-announcement closing price	\$1.115	30.9%
1 week prior to 31 July 2013 – VWAP <sup>8</sup>	\$1.143	27.7%
1 month prior to 31 July 2013 – VWAP	\$1.164	25.4%
3 months prior to 31 July 2013 – VWAP	\$1.145	27.5%
6 months prior to 31 July 2013 – VWAP	\$1.206	21.1%

The premium over recent Clough share prices is consistent with those typically seen in takeover offers of 20-35%;

- in the absence of the Proposal or a similar offer, shareholders could only realise their investment by selling on market at a price which does not include any premium and would incur transaction costs (e.g. brokerage). In these circumstances and based on the trading in Clough shares prior to the announcement of the Proposal, it is likely that, under current market conditions, Clough shares would trade at prices below \$1.46;
- an alternative superior proposal is unlikely. While Clough has agreed to no-talk, no-shop and no-due diligence provisions, it can respond to unsolicited approaches from other parties. However, as Murray & Roberts owns 61.6% of Clough, an acquisition proposal by a third

<sup>7</sup> Forecast EBITDA and EBIT are the median of broker's forecasts of underlying EBITDA and EBIT for Clough as set out in Appendix 1 of the detailed report.

<sup>8</sup> VWAP is volume weighted average price.

## GRANT SAMUEL



party could not succeed without its agreement. Grant Samuel is not aware of any alternative acquisition proposals for Clough or that Murray & Roberts would have any interest in disposing of its controlling shareholding. Since the announcement of the Proposal on 31 July 2013 there has been ample opportunity for any interested party to make a superior offer. No such offer has been made although the opportunity to do so remains until the Scheme meeting; and

- of the total cash payment of \$1.46, \$0.14 per share is to be paid by Clough as a special dividend that is expected to be fully franked. The franking credits attached to the dividend may provide additional value over and above \$1.46 to some shareholders compared to receiving the \$0.14 per share as a capital gain. In summary:
  - foreign shareholders (who are generally unable to use franking credits) will be no better off, assuming capital gains are taxed at the same rates as dividends;
  - individual Australian resident shareholders on the top marginal rate (45% plus the Medicare levy) will be no better off;
  - individuals on rates below the top marginal rate and superannuation funds will be better off by varying amounts (up to 6 cents per \$0.14 of consideration paid as a fully franked dividend); and
  - Australian corporations will be better off by 4.2 cents per \$0.14 of consideration paid as a fully franked dividend.

### ■ Other matters that Clough shareholders should consider

While there are few issues other than price when shareholders are faced with a cash offer, other matters that shareholders should take into consideration are:

- if the Proposal is implemented shareholders may realise a capital gain or loss on disposal of their Clough shares. The quantum of any gain or loss will depend on the cost base for the Clough shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for taxation purposes;
- Clough will incur transaction costs of approximately \$4.5 million in relation to the Proposal if it is implemented. A proportion of these costs will be incurred prior to the Scheme meeting, which, if the Proposal is not implemented, Clough will meet as a standalone company (albeit they are immaterial in the context of Clough's revenue and earnings); and
- even if the Scheme is approved by shareholders, it is possible that the Proposal may not be implemented if any of the other conditions (including Clough shareholder approval of provision of the Clough Loan and Murray & Roberts shareholder approval) are not obtained or waived (if permitted). In this case, Clough would remain listed with a 61.6% controlling shareholder and, in the absence of the Proposal or a similar transaction, it is likely that, under current market conditions, Clough shares would trade at prices below \$1.46.

## 4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Clough shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Clough in relation to the Proposal.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposal, the responsibility for which lies with the independent directors of Clough. In any event, the decision to vote for or against the Proposal is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

## G R A N T S A M U E L



Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Clough. This is an investment decision independent of a decision on whether to vote for or against the Proposal upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

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**Financial Services Guide  
and  
Independent Expert's Report  
in relation to the Proposal by  
Murray & Roberts Holdings Limited**

**Grant Samuel & Associates Pty Limited**  
(ABN 28 050 036 372)

**11 October 2013**

# GRANT SAMUEL



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## Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Clough Limited in relation to the proposal from Murray & Roberts Holdings Limited ("the Clough Report"), Grant Samuel will receive a total fixed fee of \$425,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Clough Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Clough Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Clough Report:

*"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Clough or Murray & Roberts or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that Pepper Property Pty Limited (formerly Grant Samuel Property Pty Limited and owned by The Pepper Group since July 2012) has provided property advisory services to Clough in recent years and has invested in a property development in conjunction with Clough.*

*Grant Samuel commenced analysis for the purposes of this report in August 2012 prior to the announcement of the Proposal. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Proposal.*

*Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*

*Grant Samuel will receive a total fixed fee of \$425,000 for the preparation of this report (including \$200,000 for the preliminary work). This fee is not contingent on the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*

*Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Clough Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Clough Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

## GRANT SAMUEL



## Table of Contents

<b>1</b>	<b>Details of the Proposal.....</b>	<b>1</b>
<b>2</b>	<b>Scope of the Report.....</b>	<b>3</b>
2.1	Purpose of the Report .....	3
2.2	Basis of Evaluation .....	3
2.3	Sources of the Information .....	4
2.4	Limitations and Reliance on Information .....	5
<b>3</b>	<b>Industry Overview.....</b>	<b>8</b>
<b>4</b>	<b>Profile of Clough.....</b>	<b>13</b>
4.1	Background.....	13
4.2	Business Operations .....	14
4.3	Financial Performance.....	19
4.4	Financial Position .....	24
4.5	Taxation Position.....	25
4.6	Capital Structure and Ownership.....	25
4.7	Share Price Performance.....	27
<b>5</b>	<b>Valuation of Clough.....</b>	<b>29</b>
5.1	Summary .....	29
5.2	Methodology .....	29
5.3	Value of Business Operations.....	33
5.4	Corporate Overhead Costs .....	46
5.5	Other Assets and Liabilities.....	46
5.6	Adjusted Cash.....	47
5.7	Franking Credits .....	47
<b>6</b>	<b>Evaluation of the Proposal.....</b>	<b>48</b>
6.1	Conclusion.....	48
6.2	Fairness .....	48
6.3	Reasonableness .....	48
6.4	Shareholder Decision .....	52
<b>7</b>	<b>Qualifications, Declarations and Consents.....</b>	<b>53</b>
7.1	Qualifications.....	53
7.2	Disclaimers.....	53
7.3	Independence.....	53
7.4	Declarations .....	54
7.5	Consents .....	54
7.6	Other.....	54

## Appendices

<b>1</b>	<b>Broker Consensus Forecasts</b>
<b>2</b>	<b>Market Evidence</b>
<b>3</b>	<b>Selection of Discount Rate</b>
<b>4</b>	<b>Discounted Cash Flow Model Assumptions</b>

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## G R A N T S A M U E L



## 1 Details of the Proposal

On 31 July 2013, Clough Limited ("Clough") announced that it had received a conditional proposal from its 61.6% shareholder, Murray & Roberts Holdings Limited ("Murray & Roberts"), to acquire all of the outstanding ordinary shares in Clough that it did not already own for a total cash payment of \$1.46 per share (the "Proposal"). The Proposal was confirmed on 29 August 2013 following a period during which Murray & Roberts undertook confirmatory due diligence and Murray & Roberts and Clough negotiated and executed a Scheme Implementation Agreement.

Under the Proposal, Clough shareholders (other than Murray & Roberts) will receive a cash payment of \$1.32 per share from Murray & Roberts ("Scheme consideration") and the payment by Clough of a special dividend of \$0.14 per share that is expected to be fully franked<sup>2</sup>.

The Proposal is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") between Clough and its shareholders (the "Scheme").

In addition to its ordinary shares, Clough has other equity securities on issue which, under the Proposal, will be dealt with as follows:

- Clough will make an offer to each option holder (including holders of unvested options) to cancel their options in return for consideration of \$1.46 per option less the exercise price of the option (the "option consideration"); and
- Clough will make an offer to each holder of performance rights to cancel their performance rights in return for consideration of \$1.46 per performance right. If any holder of performance rights rejects this offer and the Scheme is approved by Clough shareholders, the performance rights will automatically vest, Clough will issue ordinary shares to holders of performance rights and these shares will participate in the Scheme and receive the total cash payment under the Proposal of \$1.46 per share.

As part of the Proposal, if the Scheme becomes effective Clough has agreed to enter into an agreement to lend Murray & Roberts \$200 million, less any amounts paid or payable by Clough to option holders and performance rights holders and plus any amount by which the dividend paid to Clough shareholders is less than \$0.14 per share (the "Clough Loan"). The Clough Loan is to be funded from Clough's existing cash resources and will be used by Murray & Roberts to partially fund the Scheme consideration of \$1.32 per share to be received by Clough shareholders under the Proposal.

The Proposal is subject to a number of conditions that are set out in the Scheme Booklet. In summary, the key conditions include:

- receipt of all regulatory approvals, including Foreign Investment Review Board approval in Australia and Murray & Roberts receiving necessary approvals from the South African Reserve Bank<sup>3</sup>;
- receipt of an independent expert's report concluding that the Scheme is in the best interests of Clough shareholders;
- Clough shareholders (other than Murray & Roberts) approve the Scheme by the necessary majorities;

<sup>1</sup> References in this report to Murray & Roberts include subsidiaries and related entities of Murray & Roberts Holdings Limited.

<sup>2</sup> Clough reserves the right to reduce the amount of the special dividend or not to determine the special dividend in circumstances where it believes that that Commissioner of Taxation may make a determination which would have the effect of the special dividend not being fully franked or imputation credits otherwise being denied. If the special dividend is not determined or is reduced, the Scheme consideration will be adjusted so that Clough shareholders receive a total cash payment of \$1.46 per Clough share.

<sup>3</sup> As at the date of this report, Murray & Roberts had obtained the necessary approvals from the South African Reserve Bank although these approvals were subject to conditions that Murray & Roberts expects to satisfy prior to the Scheme meeting.

## GRANT SAMUEL



- Clough shareholders (other than Murray & Roberts) approve by the necessary majorities the giving of financial assistance to Murray & Roberts to acquire Clough shares (for the purposes of Part 2J.3 of the Corporations Act) and the giving of a financial benefit to Murray & Roberts (for the purposes of Chapter 2E of the Corporations Act) through provision of the Clough Loan;
- Murray & Roberts shareholders approve the Proposal by the necessary majorities;
- no Clough independent director withdraws or modifies their recommendation or voting intention unless this is because of a superior proposal or the independent expert concludes that the Scheme is not in the best interests of Clough shareholders; and
- prior to the second Court date, 75% or more of the issued options have vested and been exercised, have been cancelled in return for payment of the option consideration or have otherwise been dealt with as agreed between Clough and Murray & Roberts<sup>4</sup>.

Other elements of the Scheme include:

- Clough and Murray & Roberts have agreed to certain exclusivity restrictions including no-shop, no-talk and no due diligence provisions. The no-talk and no due diligence provisions apply unless the directors of Clough not associated with Murray & Roberts (“the independent directors”) have determined in good faith that a competing proposal is, or would reasonably be expected to, lead to a superior proposal and that failing to respond to that competing proposal would reasonably be expected to constitute a breach of the independent directors’ fiduciary or statutory obligations;
- Clough must notify Murray & Roberts of any approach that would, or of any intention to, breach its no-talk and no due diligence obligations (unless the board determines that such notification would be likely to constitute a breach of the independent directors’ fiduciary or statutory obligations); and
- a sunset date of 31 December 2013 (unless extended by written agreement of Clough and Murray & Roberts).

The independent directors of Clough have announced that they intend to unanimously recommend the Proposal, subject to no superior proposal emerging and an independent expert’s opinion that the Proposal is in the best interests of Clough shareholders.

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<sup>4</sup> As at 4 October 2013, holders of approximately 95% of the Clough options on issue had either accepted the option offer or had exercised their options.



## GRANT SAMUEL



## 2 Scope of the Report

### 2.1 Purpose of the Report

The Proposal is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act between Clough and its shareholders ("the Scheme"). Under Section 411 the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Clough shareholders, the Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. A prescribed shareholding is defined as an entitlement to not less than 30% of the voting shares in the company. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders of the company the subject of the scheme and must state reasons for that opinion.

Murray & Roberts is a party to the Scheme. Murray & Roberts was entitled to 61.6% of the shares on issue in Clough immediately prior to the announcement of the Proposal. Messrs Henry Laas and Cobus Lester are directors of Clough and are also directors of Murray & Roberts. Accordingly, the independent directors have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report for the purposes of Section 411 of the Corporations Act. The report is to set out Grant Samuel's opinion as to whether the Proposal is in the best interests of Clough shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Clough.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Clough shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Clough in relation to the Proposal.

Voting for or against the Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

### 2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Proposal is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Proposal as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".



Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Proposal is fair by comparing the estimated underlying value range of Clough with the offer price. The Proposal will be fair if it falls within the estimated underlying value range. In considering whether the Proposal is reasonable, the factors that have been considered include:

- the existing shareholding structure of Clough;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Clough shares in the absence of the Proposal; and
- other advantages and disadvantages for Clough shareholders of approving the Proposal.

### **2.3 Sources of the Information**

The following information was utilised and relied upon, without independent verification, in preparing this report:

#### ***Publicly Available Information***

- the Scheme Implementation Agreement dated 28 August 2013;
- the Scheme Booklet (including earlier drafts);
- annual reports of Clough for the four years ended 30 June 2012;
- annual financial report of Clough for the year ended 30 June 2013;
- press releases, public announcements, media and analyst presentation material and other public filings by Clough including information available on its website;
- brokers' reports and recent press articles on Clough and the engineering and construction contracting industry; and

## G R A N T S A M U E L



- sharemarket data and related information on Australian and international listed companies engaged in the engineering and construction contracting industry and on acquisitions of companies and businesses in this industry.

*Non Public Information provided by Clough*

- budget for the year ending 30 June 2014 prepared by Clough management;
- a cash flow model including projections for Clough's business operations; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has held discussions with, and obtained information from, senior management of Clough.

**2.4 Limitations and Reliance on Information**

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Clough. Grant Samuel has considered and relied upon this information. Clough has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposal is in the best interests of Clough shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Clough. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included the budget for Clough for the year ending 30 June 2014 ("FY14 Budget") prepared by management and adopted by the directors of Clough.

## GRANT SAMUEL



Clough is responsible for the information contained in the FY14 Budget. Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis. The major assumptions underlying the FY14 Budget were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the FY14 Budget and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the FY14 Budget has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the FY14 Budget was reviewed in detail by and has been adopted by, the directors of Clough;
- the FY14 Budget has been prepared through a detailed budgeting process involving preparation of "ground up" budgets by the management of individual operations and review by management of Clough;
- \$1.4 billion of revenue in the FY14 Budget is from projects that have already been secured and the majority of these projects are on a cost reimbursable basis; and
- taking into account the variability in monthly performance that results from large projects, the overall performance of Clough in the first three months of the year ending 30 June 2014 is not inconsistent with the FY14 Budget.

While Clough has made guidance statements about secured revenue for the year ending 30 June 2014 and longer term EBIT margin targets, the directors of Clough have decided not to include the FY14 Budget in the Scheme Booklet and therefore the budget has not been disclosed in this report.

To provide an indication of the expected financial performance of Clough, Grant Samuel has considered brokers' forecasts for Clough (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of Clough. The median of broker's forecasts is not inconsistent with the guidance provided by Clough and is sufficiently close to Clough's FY14 Budget to be useful for analytical purposes.

The information provided to Grant Samuel also included Clough's longer term management projections for its business operations (the "Projections"). Clough is responsible for the Projections. Grant Samuel has not relied on the Projections for the purposes of its report but has taken this information into consideration in developing financial models for Clough's business operations as discussed in Section 5.3.2.

Grant Samuel has no reason to believe that the FY14 Budget or the Projections (together, the "forward looking information") reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

Grant Samuel has not undertaken any valuations of the properties owned or jointly owned by Clough and, for the purposes of this report, has relied on the independent property valuations commissioned by Clough for those properties and subsequent letters of advice received from independent property valuers in determining the underlying net asset value of investments in property assets.

As part of its analysis, Grant Samuel has considered the net present value under a number of scenarios involving changes in key variables. These scenarios isolate a limited number of

## G R A N T S A M U E L



assumptions and show the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the scenarios do not, and do not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the scenarios;
- greater or lesser variations to the assumptions considered in the scenarios than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Scheme Booklet sent by Clough to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



### 3 Industry Overview

#### *Australian Energy and Resources Sector*

The Australian energy and resources sector plays a vital role in the Australian economy. It is the largest contributor to exports, a major contributor to gross domestic product (“GDP”), a major employer and a major contributor to government revenue. The sector is estimated to have earned approximately \$176.6 billion in 2012/13 from exports (down from \$192.5 billion in 2011/12 primarily due to a decline in prices for metallurgical coal and iron ore) and, based on higher prices and increased volumes for most commodities, particularly from alumina, zinc, liquefied natural gas (“LNG”) and iron ore, is forecast to earn \$196.7 billion in 2013/14.

Australia has extensive oil and gas reserves with its major energy resource regions including the North West Shelf off the north coast of Western Australia and the onshore Cooper/Eromanga and Bowen/Surat Basins which straddle Queensland, New South Wales and South Australia. It is also a significant producer of most of the world’s key mineral commodities including iron ore, uranium, zinc, bauxite, lead, black coal and gold.

Western Australia and Queensland are the most resource rich states. Western Australia produces a range of commodities including almost all of Australia’s iron ore from the Pilbara region in the north west and gold and nickel from the Eastern Goldfields region around Kalgoorlie in the south east. Western Australia also has significant conventional gas reserves which are mostly located in remote areas in the north and north west of the state, including the Carnarvon Basin, Browse Basin and Bonaparte Basin. Queensland has significant deposits of black coal, lead, zinc, bauxite, gold and mineral sands. The Bowen Basin region of Queensland contains the largest coal reserve in Australia and a major part of the rapidly developing east coast coal seam gas (“CSG”) industry. Basins in Western Australia and Queensland, as well as the Northern Territory, are also the focus of exploration for the nascent shale gas industry.

The growth of resource commodity exports over the last decade has been largely driven by strong demand for iron ore, coal and LNG from emerging economies in Asia, which drove up commodity prices. However, the global economic outlook is now more subdued, with recession in many parts of the European Union and lower growth expectations for China and India constraining demand for commodities. This has been reflected in the decline in commodity prices, particularly for iron ore, gold and thermal coal from the peak prices achieved during 2011 and early 2012. The softening of the Chinese economy and the proposed tapering off of quantitative easing in the United States before the end of 2013 have also led to volatility in equity markets and a weakening of the Australian dollar against the United States dollar (which has a positive impact on the value of commodity exports denominated in United States dollars). While major commodity prices bottomed towards the end of 2012 and have since shown some recovery (other than thermal coal prices which remain low but appear to have stabilised at late 2012 prices), prices remain above long term averages but are likely to settle below the peak prices achieved in 2011 and early 2012.

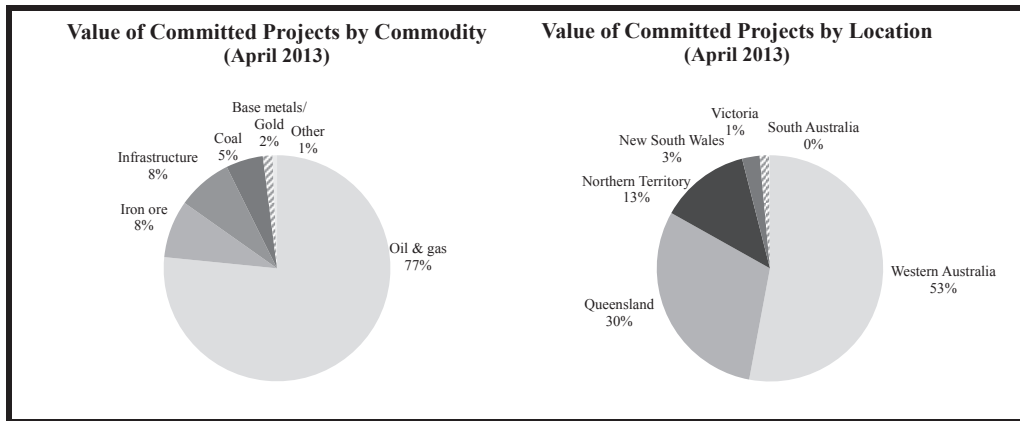
Strong export demand for commodities has led to significant investment in the Australian energy and resources sector. As a result, Australia is experiencing an unprecedented boom in mining construction, driven by the commencement of significant, multi-billion dollar investments in LNG, iron ore and coal projects across Queensland, Western Australia and the Northern Territory.

Investment in the Australian energy and resources sector can be divided into proposed capital expenditure on committed projects (those projects that have received all government and internal company approvals and the intention to proceed with them has been publicly announced or construction has commenced) and projects in the planning stage (those projects undergoing feasibility study, awaiting the outcome of a government approval process or not yet subject to final investment decision by the project partners). The April 2013 Bureau of Resources and Energy Economics (“BREE”) report on major development projects in Australia shows the combined estimated capital expenditure for 73 committed energy and resource projects is \$268 billion, while a further 287 projects are in the planning phase with a total estimated capital expenditure of \$353-403 billion. Despite a decline in committed projects over the last 12 months (as projects have completed), the value of committed projects has not changed significantly, reflecting

## GRANT SAMUEL



cost increases on these projects. The majority of committed capital expenditure is for oil and gas projects in Western Australia and Queensland:



Source: BREE Mining Industry Major Projects, April 2013

Of the 73 committed projects:

- 18 are energy projects with forecast capital expenditure of \$205 billion, including seven LNG projects (six in Western Australia and Queensland) with a value of over \$189 billion; and
- 40 are mineral mining projects with forecast capital expenditure of \$42 billion, including eight iron ore projects (seven in Western Australia) with a value of approximately \$21 billion.

Projects in the planning stage include:

- 12 LNG projects that could collectively add over 42 million tonnes to Australia's annual LNG production capacity in the longer term (including the Scarborough, Bonaparte, Browse and Sunrise projects off the coast of Western Australia, the fourth train at the Gorgon LNG project on Barrow Island, Western Australia and the Arrow Energy Pty Ltd<sup>5</sup> ("Arrow Energy") LNG plant in Queensland); and
- 39 iron ore projects that have a combined capacity of 605 million tonnes. Of these, 27 have an estimated capital expenditure of \$1 billion or more and include Hancock Prospecting Pty Ltd's ("Hancock Prospecting") Roy Hill project, Aquila Resources Limited's ("Aquila Resources") West Pilbara mine and Rio Tinto Limited's ("Rio Tinto") Koodaideri project.

Investment in mineral mining projects differs from investment in energy projects. Energy projects (such as LNG) are characterised by large one-off investment decisions supported by long term sales contracts whereas mining groups negotiate sales contracts on a short term basis and therefore the decision making process is driven more by current market conditions. As a result, there is much more uncertainty regarding the level of future investment in mineral mining projects. The greater concern for energy projects is the high cost of labour and construction causing capital costs to exceed budget and competition for export markets from existing and emerging commodity suppliers such as, in the case of LNG, the Russian Federation and North America and low cost domestic producers in China and India.

The fall in commodity prices, high labour and construction costs and the relatively strong Australian dollar has resulted in the delay or cancellation of some projects in the planning phase, especially mineral mining projects. BREE estimates that in the last 12 months, around \$150 billion of projects have been delayed, cancelled or had reassessed development plans. These projects include BHP Billiton Limited's ("BHP Billiton") Olympic Dam expansion project, Hancock Prospecting's Roy Hill project, the Arrow Energy LNG project and Woodside Petroleum Limited's ("Woodside") Browse LNG development.

<sup>5</sup> Arrow Energy Pty Ltd is a joint venture between Royal Dutch Shell Plc and PetroChina Company Limited





However, while current market conditions will impact short and medium term investment decisions, overall investment in the Australian energy and resources sector is expected to continue to remain relatively strong. The outlook for oil and gas is stronger, with a peak expected in the 2014 financial year driven primarily by committed projects, particularly in the LNG sector. In the long term, underlying demand from emerging Asian economies is expected to underpin continued investment in the Australian energy and resources sector, although at lower average levels than the peak experienced in the current boom, which largely relates to initial investment in large LNG export projects.

**Engineering and Construction Contracting**

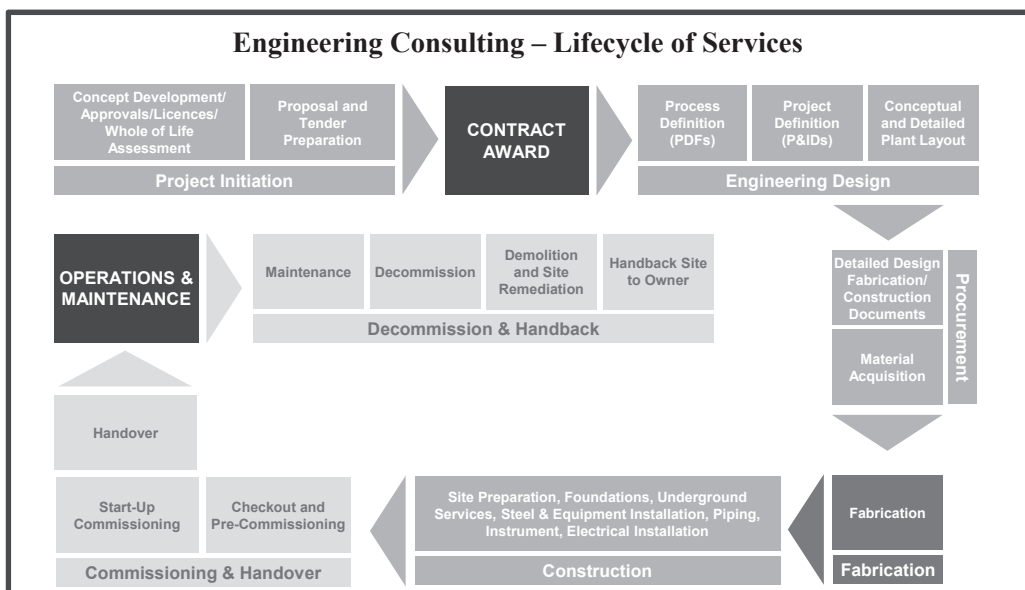
**Overview**

Engineering and construction contracting is a multi-faceted industry involving research, planning, design and development of engineering solutions for developing infrastructure (urban and industrial), processing resources (oil and gas and minerals), managing the environment (e.g. water, waste) and building construction for both government and private clients. All engineering disciplines are offered and there are many areas of specialisation within each discipline. Many businesses combine their technical expertise with management skills to provide services in areas such as project management, risk management and asset management.

Services provided by engineering consultants can be broadly categorised as:

- study services including conceptual studies, feasibility studies and preliminary design services;
- detailed design services;
- project delivery services which are provided in a number of ways including under:
  - engineering procurement and construction project management (“EPCM”) contracts where the consultant provides project management, cost control, forecast scheduling, procurement and construction management services, generally on a cost reimbursable basis; and
  - engineering procurement and construction (“EPC”) contracts where the consultant provides a complete solution through construction either on a fixed price or a cost reimbursable basis; and
- operational support and enhancement services (including commissioning and decommissioning).

These services, through the lifecycle of an asset are illustrated in the following chart:



## GRANT SAMUEL



As contractors, these businesses are subject to activity levels in the sectors in which they tender their services (e.g. for the energy and resources sector, the global demand for commodities and the level of investment in projects). Activity levels are largely dependent on general economic conditions.

Fee arrangements vary and range from reimbursement of hours incurred based on hourly rates (including a margin) to fixed price contracts and combinations thereof. Engineering services lend themselves to an hourly rate basis as the hours involved in an assignment can be difficult to estimate. Fixed price arrangements increase the risk to the service provider of financial loss.

Study services generate lower revenue but higher margins than detailed design, project delivery or operational support services. Different end markets generate different profitability although this is also dependent on market conditions. Contracts have varying durations and, depending on the business mix, changes in economic conditions may have an immediate or delayed impact on financial performance.

It is common to use contractors (either individuals or groups) to supplement employees. This provides operational and financial flexibility although there is a significant training and management effort required to ensure that specific technical, quality assurance and safety standards are met. Staff retention is an issue for all engineering firms and this is accentuated by increasing demand for, and a worldwide shortage of, experienced engineering professionals.

While price is an important factor, the experience, reputation and client relationships of an engineering and construction contracting business are critical to winning tenders. Furthermore, specific project experience and good client working relationships increase the likelihood of converting study services to detailed design and/or project delivery services and/or operational support. Smaller businesses with less financial backing are generally considered to be at a disadvantage to win tenders to provide services to larger projects.

#### Market Structure

The engineering and construction contracting industry is made up of a large number of small businesses and few large businesses (including a small number of global or regional service providers). These businesses have different strategic focuses, core competencies, geographic expertise and target markets. They can offer one, some or all of the services required during the lifecycle of an asset, and for very large assets, can partner with other parties with expertise in specific areas.

In the year ended 30 June 2013 revenue from engineering consulting services in Australia is estimated to total \$32 billion. Over the last five years industry revenue has grown by around 5.5% per annum, approximately the same as Australia's GDP growth over the same period.

Global engineering service providers with a primary focus on the resources sector include The Hatch Group, Sinclair Knight Merz Holdings Limited ("SKM"), Fluor Corporation ("Fluor"), KBR Inc., AMEC plc ("AMEC"), Aker Solutions ASA, SNC Lavalin Group Inc and WorleyParsons Limited ("WorleyParsons"). These firms generally have a strategic focus on the oil and gas segment with the minerals segment a lesser focus. Other international engineering service providers (including Ausenco Limited ("Ausenco") and Bateman Engineering N.V.) have a greater minerals segment focus. Other large engineering businesses tend to have a regional focus. A number of the major global service providers operate in the Australian resources sector and there are also a number of regional players including Monadelphous Group Limited ("Monadelphous"), Lycopodium Limited ("Lycopodium") and Sedgman Limited ("Sedgman").

Weaker market conditions are expected to lead to consolidation in the Australian engineering and construction contracting sector, with interest from international companies and for smaller niche participants, as businesses attempt to increase their client base and diversify their earnings streams (in particular, to include operational support).



### **Market Outlook**

The significant number of committed projects in the energy and resources sector is expected to result in sustained demand for engineering and construction contracting services to this sector (particularly EPC and EPCM services) over the next 2-3 years. Current market conditions have and are likely to continue to result in projects in the planning stage being deferred and cancelled, particularly in the mineral mining sector, and the rate of conversion of engineering design assignments to EPC/EPCM roles on projects is likely to decrease in the short term. However:

- project deferrals are likely to provide some relief to overheated labour and construction markets;
- engineering design activity is expected to continue, with a focus on study services (as feasibility studies are updated to reflect changes in the project execution environment and to re-evaluate existing development options) and on process optimisation and plant expansion; and
- the major investments across the energy and resources sector present significant, ongoing operating and maintenance opportunities over the 30+ year operating life of the projects (particularly new LNG assets) as they are commissioned and commence operations in 2-3 years' time.

Revenue from engineering consulting services in Australia is forecast to fall from peak levels generated in the year ended 30 June 2013, but is expected to remain strong and at historically high levels in the medium term.

## GRANT SAMUEL



## 4 Profile of Clough

### 4.1 Background

Clough was established in 1919 as a family-owned construction company. It diversified into civil and heavy engineering contracting in the 1950s and established its first joint venture in 1957 to deliver the Narrows Bridge in Perth. In the 1960s, Clough moved into multidisciplinary construction and began to focus on resource projects in Western Australia's Pilbara region, entering into what is now known as the BAM Clough joint venture which delivered Clough's first ship loading jetty for Hammersley Iron and being awarded its first oil and gas project, the Barrow Island Oilfield Development.

From the late 1970s through to the 1980s, Clough expanded its business operations both in terms of engineering capability and geographically, moving to the east coast of Australia in the 1970s and internationally (to Indonesia, the Middle East, Nigeria and Papua New Guinea) in the late 1970s and 1980s. In 1984, Clough acquired an 82% interest in PT Petrosea Tbk ("Petrosea") (an Indonesian based engineering company operating in Singapore, Indonesia, Malaysia and Hong Kong). By the 1990s, Clough had become a recognised participant in EPC contracting for the oil and gas industry and provided a substantial full project lifecycle offering from 2004, when it established a joint venture with AMEC to deliver asset services to the Australasian region. It also diversified its business operations into property development during this period. Clough listed on the Australian Securities Exchange ("ASX") in March 1998.

Clough grew revenue and profits consistently until the year ended 30 June 2003 when it reported an after tax loss of \$9.5 million despite record revenue of \$1.08 billion. A period of consolidation and change followed during which Clough undertook an organisational and strategic review and disposed of non-core assets. At this time, Clough introduced the strategic goal to generate more than 50% of earnings from lower risk sectors of engineering and contracting rather than the traditional fixed price contracting business. Although Clough returned to profitability in the year ended 30 June 2004, it reported further losses in the years ended 30 June 2005, 2006 and 2007, largely as a result of ongoing disputes in relation to legacy contracts.

During this period, Murray & Roberts made a proposal to take a significant stake in Clough to provide Clough with the scale to enable it to take advantage of strong market conditions in Australia, acquiring a 29.3% interest in Clough in November 2004 through a placement and the acquisition of shares from the Clough family (in addition to its existing 4.9% interest). Over the following three years, Murray & Roberts provided significant financial support to Clough in the form of share placements and subscription agreements, further acquisitions of shares held by the Clough family, participation in and underwriting of convertible note issues and renounceable rights issues as well as the provision of a number of loan facilities and loan guarantees. By the end of 2007, Murray & Roberts' shareholding in Clough had increased to 56.2% and the Clough family had sold down its interest to a nominal shareholding. Through on market purchases and conversion of convertible notes over 2008 and 2009, Murray & Roberts increased its shareholding in Clough to its current shareholding of 61.6%.

Since 2008, Clough has been repositioning its business, with a growth strategy focussed on further strengthening its engineering and project services capability in the oil and gas sector. As part of this strategy Clough has:

- divested or committed to divest non-core businesses:
  - the decision to exit the property business was made during the year ended 30 June 2009. An active sales process has been underway since this time although Clough has not yet completely exited this business;
  - its 82% interest in Petrosea (which was almost entirely focused on the Indonesian coal sector), which was sold in July 2009 for US\$83.6 million;
  - the Marine Construction business, which was sold in December 2011 for \$126.1 million; and



- an agreement to sell the fabrication operation in Sattahip on the eastern seaboard of the Gulf of Thailand (which specialises in the delivery of low cost, highly engineered modularised structures for upstream oil and gas projects) was executed on 20 August 2013 and is expected to complete in the first half of calendar 2014, following completion of the contract with MPGG (Thailand) Limited (formerly known as Pearl Oil (Amata) Limited), an affiliate of Mubadala Petroleum LLC (“Pearl Oil”);
- over the period from February to April 2010, acquired a 31.3%<sup>6</sup> strategic investment in, and established a Strategic Alliance (the Clough Forge Joint Venture) with, Forge Group Limited (“Forge”), a Western Australian based company providing engineering, construction, management and maintenance services to the resource and oil and gas sectors, primarily in Western Australia, but also with operations in West Africa. On 25 March 2013, Clough announced that it had sold its 35.85% interest in Forge for \$187 million, intending to use the proceeds to deliver shareholder value through strategic acquisitions and/or capital management initiatives; and
- strengthened its expertise in Commissioning & Asset Support, a business Clough expects to have medium term growth potential through:
  - the acquisition of e<sub>2</sub>o Pty Ltd (“e<sub>2</sub>o”) in January 2013 for \$14.3 million (\$9.3 million in cash on completion and \$5 million over three years in cash and shares, subject to meeting certain performance conditions). e<sub>2</sub>o is a South Australian based engineering firm that provides specialised commissioning, completions and hazardous area inspection services to the energy and resources sectors. Clough previously had a partnership with e<sub>2</sub>o; and
  - in May 2013, entering into a Memorandum of Understanding with COENS Energy, a Korean oil and gas manpower and logistics company providing services to fabrication yards globally, to create Clough Coens Commissioning and Completions (“Clough Coens”), an incorporated joint venture (55% Clough, 45% COENS Energy) that will provide specialised commissioning and completions services to onshore and offshore oil and gas facilities. The joint venture will combine Clough’s project management capability, commissioning systems and commissioning project execution expertise with COENS Energy’s skilled local workforce, training and development expertise, local infrastructure and project execution knowledge in the Asian market.

#### 4.2 Business Operations

Clough provides full project lifecycle services to the energy and chemicals (upstream, downstream, offshore, onshore, oil, gas and LNG, petrochemical) and mining and minerals (iron ore, coal, precious and other metals) markets in Australia (primarily Western Australia and Queensland) and Papua New Guinea. The ability to provide full project lifecycle solutions provides Clough with a competitive advantage over other engineering and construction contractors.

Clough operates primarily through joint ventures with highly regarded domestic partners (such as Downer EDI Limited (“Downer EDI”) and international partners (such as the Royal BAM Group and AMEC) which enable the experience and expertise of both partners to be drawn on to more effectively compete for and deliver projects.

At 30 June 2013, Clough’s workforce was 6,343, 29% of which comprised the core Clough workforce and 71% of which were contractors and other various contract arrangements.

Following a business restructure during the second half of the year ended 30 June 2012, Clough operates through three business units, Engineering, Projects (split into Capital Projects and Jetties & Near Shore Marine) and Commissioning & Asset Support. An outline of each of these business units is set out below.

<sup>6</sup> Clough subsequently increased its shareholding in Forge to 35.85% through the purchase of shares and options from senior management of Forge followed by the exercise of the options.

## GRANT SAMUEL

**Engineering**

Engineering provides engineering and project management services from concept evaluation and project feasibility studies, front end engineering design ("FEED") and detailed design through to EPCM, process optimisation and debottlenecking. Under EPCM contracts, other companies are contracted directly by the client to provide construction services and Clough manages these companies on behalf of the client. Control and cost risk under these contracts is weighted towards the client. Engineering employs more than 400 engineers across core disciplines (process, mechanical, instrumentation, electrical, civil, structural and architectural).

Key contracts for Engineering are summarised in the table below:

Engineering - Key Contracts				
Project	Client	Location	Joint Venture	Contract Period
Gorgon Downstream LNG Project	Chevron Australia Pty Ltd ("Chevron")	Barrow Island, Western Australia	Kellogg Joint Venture Gorgon ("KJVG") (20% Clough)	Sep 2009 – Sep 2015
Ichthys LNG Project Offshore Integrated Project Management Support Services ("IPMS")	Ichthys Joint Venture <sup>7</sup>	Browse Basin, Western Australia	Clough DORIS (50% Clough)	Aug 2011 – 1st quarter 2016
BP Tangguh	BP Exploration Operating Company Limited	West Papua, Indonesia	100% Clough	Apr 2012 – Apr 2015
Varanus Island Compression Project	Apache Energy Ltd	Varanus Island, Western Australia	100% Clough	Nov 2012 – 1st quarter 2014
Arrow Energy Upstream Pre-FEED	Arrow Energy	Gladstone, Queensland	Clough AMEC (50% Clough)	May 2013 – Sep 2013

Source: Clough

Engineering also has engineering service agreements with Woodside, Chevron and Queensland Gas Company ("QGC"), a subsidiary of BG Group plc.

Near term opportunities for Engineering include:

- Varanus Island Compression Project additional scope;
- Arrow Energy Upstream FEED/EPCM; and
- Arrow Energy Daandine Expansion Project.

As part of its "new horizons" growth plan, Clough has a short to medium term strategy for an expansion of engineering led activities beyond Australia and Papua New Guinea. The first step will be the establishment of a United Kingdom engineering centre in Scotland during the year ending 30 June 2014 to provide low cost engineering services to the North Sea and Africa, where Clough management sees future LNG opportunities.

The longer term outlook for Engineering includes FEED studies for new LNG projects (particularly the Browse, Prelude and Scarborough floating LNG projects) and expansions, gas

<sup>7</sup> The Ichthys Joint Venture is a joint venture between INPEX Corporation (76%) and Total S.A (24%).

## GRANT SAMUEL



turbine power plants, a greater focus on EPCM in the mining and minerals market and international expansion.

### *Projects*

Projects provides integrated engineering, procurement and construction services through a number of delivery models including EPC, design and construct or construct only. Projects comprises two separate divisions, Capital Projects and Jetties & Near Shore Marine.

Capital Projects currently operates primarily through joint ventures to deliver projects depending on the type and location of the project and the skills required. Clough's approach of designing to construct and constructing to operate enables greater management of risk across the project lifecycle and positions Clough well for continued growth in this business. During the year ended 30 June 2013, Clough was awarded its only current Capital Projects contract in the minerals and mining sector, the Wafi-Golpu construction management early works contract for the Marobe Mining Joint Venture Limited ("Marobe Mining JV")<sup>8</sup>.

Jetties & Near Shore Marine has specialist skills and a track record in providing an integrated design and construction service for LNG and minerals offloading jetties and near shore marine facilities through the BAM Clough Joint Venture. The BAM Clough Joint Venture commenced in 1964 and to date has delivered 14 major marine construction projects throughout Australasia, the most recent being the PNG LNG Jetty for the Chiyoda JGC Joint Venture at the Gulf of Papua in Papua New Guinea, completed in August 2013. BAM International, part of the Royal BAM Group, provides technical knowledge, access to a worldwide pool of experienced personnel and specialised equipment and Clough supplies local expertise (including local personnel, knowledge of the Australian construction industry and an Australian workforce).

Key contracts for Projects are summarised in the table below:

<b>Projects – Key Contracts</b>				
<b>Project</b>	<b>Client</b>	<b>Location</b>	<b>Joint Venture</b>	<b>Contract Period</b>
<b>Capital Projects</b>				
PNG LNG Upstream Infrastructure	Esso Highlands <sup>9</sup>	Southern Highlands, Papua New Guinea	Clough Curtain (65% Clough)	Jun 2009 – July 2013 <sup>10</sup>
PNG LNG Gas Gathering Plant EPC4	Esso Highlands	Southern Highlands, Papua New Guinea	CBI Clough (35% Clough)	Dec 2009 – Feb 2015
Santos GLNG K128	Fluor Australia	Fairview, Queensland	Clough Downer (50% Clough)	Sep 2011 – Jul 2014
Nitric Acid Plant and Ammonium Nitrate Plant Number 3 ("NAAN3") <sup>11</sup>	CSBP	Kwinana, Western Australia	Downer Clough (50% Clough)	Dec 2011 – Jan 2014
QCLNG Woleebee Creek Compression Stations 8 plus 2 – Phase 1	QGC	Central Queensland	Transfield Clough (50% Clough)	Nov 2012 – Sep 2013

<sup>8</sup> Marobe Mining JV is a joint venture between Harmony Gold Mining Company Limited (50%) and Newcrest Mining Limited (50%).

<sup>9</sup> Esso Highlands is a subsidiary of Exxon Mobil Corporation.

<sup>10</sup> The Clough Curtain Joint Venture has subsequently received work orders worth approximately \$75 million (November 2012) and \$76 million (April 2013) associated with the PNG LNG Upstream Infrastructure contract.

<sup>11</sup> The NAAN3 Project was awarded to the Downer Clough Joint Venture after successful completion of the ECI stage.



## GRANT SAMUEL



Projects – Key Contracts				
Project	Client	Location	Joint Venture	Contract Period
Pearl Manora Wellhead Platform Fabrication	Pearl Oil	Gulf of Thailand	consortium with TL Offshore SDN Berhad	Jul 2012 – Mar 2014
Wafi-Golpu Construction Management Early Works	Marobe Mining JV	Marobe Province, Papua New Guinea	Clough Nuigini (100% Clough)	Oct 2012 – Aug 2013
Jetties & Near Shore Marine				
Ichthys LNG Project: Module Offloading Facility (“MOF”)	JKC JV <sup>12</sup>	Darwin, Northern Territory	BAM Clough (50% Clough)	Mar 2012 – Mar 2014
Wheatstone Marine Facilities Project: Product Loading Facility (“PLF”) and Tug Berths	Bechtel	Onslow, Western Australia	BAM Clough (50% Clough)	Feb 2012 – Aug 2015
Ichthys LNG Project: Product Loading Jetty	JKC JV	Darwin, Northern Territory	BAM Clough (50% Clough)	Mar 2012 – Mar 2014

Source: Clough

All of the key contracts (with the exception of the NAAN3 Project and each of the Jetties & Near Shore Marine projects) are cost reimbursable contracts. Whether a contract is cost reimbursable or lump sum is a function of the type and size of the contract as well as the demands of the client. Clough undertakes Jetty & Near Shore Marine projects on a lump sum basis given its vast experience on these types of projects. In contrast, the size, complexity and the bespoke nature of the work undertaken on most other oil and gas projects makes estimating scope and costs difficult and Clough prefers to undertake these projects on cost reimbursable basis (although this is not always possible).

Near term opportunities for Projects include:

- further PNG LNG Project Upstream Infrastructure work orders;
- Gloucester Gas Project EPC;
- Gladstone LNG (“GLNG”) Looping Pipeline Construction;
- Arrow Energy Daandine Expansion Project Construction;
- Queensland Curtis LNG (“QCLNG”) and GLNG Upstream EPC; and
- Gulf LNG Export Facility Jetty and Breakwater.

Longer term, Projects intends to continue to capitalise on the ongoing capital expenditure in the unconventional gas (CSG and shale) sector and plans to increase its focus on projects in the mining and minerals market in Australia. The Jetties & Near Shore Marine division is also well placed to expand its services to include mineral offloading facilities, breakwaters, quay wells and port developments as well as expanding internationally.

<sup>12</sup> JKC JV is the JGC Corporation, KBR and Chiyoda Corporation Joint Venture.



**Commissioning & Asset Support**

Commissioning & Asset Support covers the services to start up and maintain an asset through its operating life. The services provided by Clough include:

- pre-commissioning and commissioning;
- brownfield engineering;
- operations and maintenance;
- shutdowns and campaign management;
- supply chain management; and
- decommissioning.

Commissioning involves the hook-up and commissioning of onshore and offshore energy and resource facilities and is undertaken 100% by Clough (i.e. not through a joint venture). To take advantage of the expected increase in demand for commissioning as major LNG projects are completed, Clough has strengthened its commissioning capability during the year ended 30 June 2013 through:

- the acquisition of e<sub>2</sub>o, a provider of specialised commissioning, completions and hazardous area inspection services to the energy and resources sector which is currently undertaking commissioning scopes for major LNG projects including the Wheatstone LNG Project, the Australia Pacific LNG (“APLNG”) Project and the GLNG Project. e<sub>2</sub>o is expected to generate in excess of \$5 million in earnings before interest and tax from revenue of approximately \$40 million in the year ending 30 June 2014; and
- the establishment of the Clough Coens Joint Venture that will provide specialised commissioning and completions services to onshore and offshore oil and gas facilities, enabling oil and gas facilities to be commissioned in the fabrication yard before carrying out hook-up and commissioning services at the project location.

Asset Support operates through the Clough AMEC Joint Venture, which provides engineering led asset support services that enable the operation, maintenance and upgrade of onshore and offshore facilities in the Australasian oil and gas sector. Asset Support aims to maximise the life and profitability of facilities and completes Clough’s service offering across the lifecycle of facilities.

Key contracts for Commissioning & Asset Support are summarised in the table below:

<b>Commissioning &amp; Asset Support - Key Contracts</b>				
Project	Client	Location	Joint Venture	Contract Period
Bayu-Undan Operations and Maintenance Services	ConocoPhillips Australia	Timor Sea	Clough AMEC (50% Clough)	Jun 2004 – Oct 2013 (extension option to Nov 2015)
Barrow Island Engineering Services	Chevron	Barrow and Thevenard Islands, Western Australia	Clough AMEC (50% Clough)	Oct 2008 – Oct 2012
Woodside Offshore Maintenance Services	Woodside	North West Shelf, Australia	Clough AMEC (50% Clough)	Dec 2009 – Dec 2013 <sup>13</sup>
Kumul Terminal Rejuvenation	Oil Search	Gulf of Papua, Papua New Guinea	Clough AMEC (50% Clough)	Feb 2011 – Jun 2103
Wheatstone Offshore Hook-up and Commissioning	Chevron	Onslow, Western Australia	100% Clough	Feb 2012 – Dec 2015

<sup>13</sup> A \$20 million contract extension was awarded to the Clough AMEC Joint Venture in November 2012.

## GRANT SAMUEL



Commissioning & Asset Support - Key Contracts				
Project	Client	Location	Joint Venture	Contract Period
ENI Blacktip	ENI Australia	Northern Territory	Clough AMEC (50% Clough)	Apr 2012 – Apr 2015 (with extension options)
Wheatstone Operability, Reliability and Maintainability (“ORM”)	Chevron	Onslow, Western Australia	Clough AMEC (50% Clough)	Aug 2012 – Jun 2015
APLNG Upstream Commissioning	Origin	Gladstone, Queensland	e <sub>2</sub> o (100% Clough)	Feb 2013 – Jun 2016
GLNG Commissioning and Management	Santos	Gladstone, Queensland	e <sub>2</sub> o (100% Clough)	Feb 2013 – Jun 2016
Gorgon LNG Onshore Commissioning	Chevron	Barrow Island, Western Australia	KJVG (20% Clough)	Sep 2009 – Sep 2015

Source: Clough

Near term opportunities for Commissioning & Asset Support include:

- Bayu-Undan Operations and Maintenance Services contract extension (Clough AMEC Joint Venture);
- Oil Search onshore maintenance services (Clough AMEC Joint Venture);
- new LNG facilities (Pluto LNG, floating LNG (Browse, Prelude, Scarborough), QCLNG, APLNG and GLNG); and
- Clough Coens commissioning opportunities.

Commissioning & Asset Support has significant long term opportunities as Australasian LNG projects move from the construction to the operation phase (expected to be around 2015/2016). It will also seek to expand its services in the energy and chemicals and the mining and minerals markets.

#### 4.3 Financial Performance

The statutory historical financial performance of Clough is difficult to analyse as a result of:

- changes to its segment based reporting, which prior to the year ended 30 June 2010 was prepared on a geographical (rather than a business unit) basis;
- the operational restructure of Clough during the second half of the year ended 30 June 2012. Allocation of revenue and earnings on this restructured basis is not available for years prior to the year ended 30 June 2012;
- the disposal of businesses, including the ongoing exit from the property business, over the last four years as Clough focused on its activities in the oil and gas sector. These businesses have been treated as discontinued operations (from the date the decision to sell was made);
- the sale of its investment in Forge during the year ended 30 June 2013 and its treatment as a discontinued operation in the 2013 financial year; and
- the majority of the earnings of the business is generated from joint ventures which, under Australian Accounting Standards are shown in the statement of financial performance as a single amount representing the net profit after tax contribution from joint ventures. Clough operates through both incorporated and unincorporated joint ventures. All joint ventures are largely self-funding.

GRANT SAMUEL



To enable more meaningful analysis of Clough's historical financial performance from continuing operations, the underlying revenue, EBITDA and EBIT from Clough's continuing operations (including its share of revenue, EBITDA and EBIT from all joint ventures) for the four years ended 30 June 2013 is summarised below:

<b>Clough – Financial Performance (\$ millions)</b>				
	Year ended 30 June			
	2010 actual	2011 actual	2012 actual	2013 actual
<b>Underlying construction contract revenue<sup>14</sup></b>	<b>588.7</b>	<b>782.5</b>	<b>1,005.4</b>	<b>1,509.8</b>
<b>Underlying EBITDA<sup>15</sup></b>	<b>39.8</b>	<b>40.3</b>	<b>41.3</b>	<b>96.9</b>
Depreciation and amortisation <sup>16</sup>	(3.5)	(4.5)	(4.1)	(6.2)
<b>Underlying EBIT<sup>17</sup></b>	<b>36.3</b>	<b>35.8</b>	<b>37.2</b>	<b>90.7</b>
Net interest income	1.0	2.6	3.2	7.2
Share of net interest income/(expense) in joint ventures	-	(0.4)	0.1	0.7
Share of tax benefit/(expense) in joint ventures	-	1.0	(0.5)	(0.7)
Amortisation arising from business acquisitions	(2.4)	(4.3)	-	-
Net impact arising from disposal of businesses	1.7	-	-	-
Other adjustments including legacy project costs	(3.1)	(0.6)	-	-
<b>Statutory operating profit before tax</b>	<b>33.6</b>	<b>34.1</b>	<b>40.0</b>	<b>107.3</b>
Income tax expense	(1.1)	(2.2)	(4.9)	(24.0)
<b>Profit after tax from continuing operations</b>	<b>32.5</b>	<b>31.8</b>	<b>35.1</b>	<b>73.9</b>
Profit/(loss) after tax from discontinued operations <sup>18</sup>	18.8	1.1	8.1	53.5
<b>Profit after tax</b>	<b>51.2</b>	<b>32.9</b>	<b>43.2</b>	<b>127.4</b>
Profit attributable to non-controlling interests	(1.1)	0.4	(0.3)	-
<b>Profit after tax attributable to Clough shareholders</b>	<b>50.1</b>	<b>33.3</b>	<b>42.9</b>	<b>127.4</b>
<b>Statistics</b>				
<i>Basic earnings per share – continuing operations</i>	<i>4.5¢</i>	<i>4.1¢</i>	<i>4.5¢</i>	<i>9.5¢</i>
<i>Basic earnings per share</i>	<i>6.9¢</i>	<i>4.3¢</i>	<i>5.6¢</i>	<i>16.4¢</i>
<i>Dividends per share</i>	<i>2.2¢</i>	<i>2.2¢</i>	<i>2.6¢</i>	<i>-</i>
<i>Dividend payout ratio</i>	<i>34%</i>	<i>51%</i>	<i>47%</i>	<i>-</i>
<i>Amount of dividend franked</i>	<i>9%</i>	<i>45%</i>	<i>25%</i>	<i>-</i>
<i>Underlying construction contract revenue growth</i>	<i>33.3%</i>	<i>32.9%</i>	<i>28.5%</i>	<i>50.2%</i>
<i>Underlying EBIT growth</i>	<i>25.3%</i>	<i>-1.5%</i>	<i>4.0%</i>	<i>143.8%</i>
<i>Underlying EBIT margin</i>	<i>6.2%</i>	<i>4.6%</i>	<i>3.7%</i>	<i>6.0%</i>

Source: Clough and Grant Samuel analysis

Clough has generated strong growth in underlying construction contract revenue of around 30% per annum over the three years ended 30 June 2012 and approximately 50% in the year ended 30 June 2013, reflecting the boom in the energy and resources sectors over this period as well as Clough's strong position in the LNG sector. However underlying EBIT, after growing significantly in 2009, was relatively flat up until the year ended 30 June 2013 as a result of

<sup>14</sup> Underlying construction contract revenue includes Clough's share of construction contract revenue from joint venture operations.

<sup>15</sup> Underlying EBITDA is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items. It includes Clough's share of EBITDA from joint venture operations.

<sup>16</sup> Depreciation and amortisation includes Clough's share of depreciation from joint venture operations.

<sup>17</sup> Underlying EBIT is earnings before net interest, tax and significant and non-recurring items. It includes Clough's share of EBIT from joint venture operations.

<sup>18</sup> Discontinued operations include the property business (all years), the 82% interest in Petrosea (2010), the Marine Construction business (2010, 2011 and 2012) and the investment in Forge (all years).

## GRANT SAMUEL



declining margins. The reasons for the decline in underlying EBIT margins up until the year ended 30 June 2013 is clearer from an analysis of business unit operating performance:

<b>Clough – Business Unit Operating Performance (\$ millions)</b>					
	Year ended 30 June				
	2010 actual	2011 actual	2012 actual	2012 actual (restated)	2013 actual
Engineering	na <sup>19</sup>	na	na	353.9	514.6
Capital Projects/Projects	517.7	720.9	902.6	548.8	843.7
Commissioning & Asset Support	59.9	53.2	80.0	80.0	121.8
Other <sup>20</sup>	11.0	8.4	22.8	22.7	29.7
<b>Underlying construction contract revenue</b>	<b>588.7</b>	<b>782.5</b>	<b>1,005.4</b>	<b>1,005.4</b>	<b>1,509.8</b>
Engineering	na	na	na	49.2	74.4
Capital Projects/Projects	34.2	38.7	37.2	34.5	57.6
Commissioning & Asset Support	4.5	2.5	3.7	5.3	11.1
Other <sup>20</sup>	(2.3)	(5.4)	(3.7)	(51.8)	(50.9)
<b>Underlying EBIT</b>	<b>36.3</b>	<b>35.8</b>	<b>37.2</b>	<b>37.2</b>	<b>90.7</b>
<b>Underlying construction contract revenue growth</b>					
Engineering					45.4%
Capital Projects/Projects	37.2%	39.2%	25.2%		53.7%
Commissioning & Asset Support	41.8%	-11.2%	50.4%		52.3%
<b>Underlying EBIT growth</b>					
Engineering					48.2%
Capital Projects/Projects	18.4%	13.2%	-3.8%		67.0%
Commissioning & Asset Support	51.8%	-43.8%	47.8%		109.4%
<b>Underlying EBIT margin</b>					
Engineering				13.9%	14.2%
Capital Projects/Projects	6.6%	5.4%	4.1%	6.3%	6.8%
Commissioning & Asset Support	7.4%	4.7%	4.6%	6.6%	9.1%

Source: Clough and Grant Samuel analysis

Analysis of business unit performance is further complicated by the change to segment reporting from 1 July 2012. The figures for the year ended 30 June 2012 have been shown on both bases to enable historical comparison. Engineering had historically been included in Capital Projects. It is not possible to provide historical analysis of Engineering on a stand-alone basis as this information is not available for years prior to the year ended 30 June 2012.

Capital Projects (which historically included Engineering) represents the vast majority of revenue and earnings. Growth in Capital Projects underlying revenue has been strong, at almost 40% in the years ended 30 June 2010 and 2011, due to increased activity on major projects, in particular the Gorgon Downstream LNG Project FEED and EPCM and the Upstream Infrastructure and Gas Gathering Plant EPC4 Projects in Papua New Guinea. Growth slowed in the year ended 30 June 2012 but was still considerable at 25% over the prior year. Revenue growth for both Engineering and Projects increased significantly (by approximately 50% combined) in the year ended 30 June 2013:

<sup>19</sup> na = not available.

<sup>20</sup> Other includes Clough's fabrication operation in Thailand, head office expenses, foreign exchange on the revaluation of central bank accounts and the cost of share based payments.

GRANT SAMUEL



- Engineering benefited from continued activity on the Gorgon Downstream LNG Project EPCM and a significant increase in revenue from engineering consulting work including the BP Tangguh LNG expansion; and
- Projects growth was attributable to progress on the NAAN3 Project and work on two Queensland CSG projects (the GLNG Project and the QCLNG Project) in the second half.

Underlying EBIT growth for Capital Projects had been declining, with underlying EBIT falling in the year ended 30 June 2012 as a result of continued annual declines in the margin (which fell from 7.6% in the year ended 30 June 2009 to 4.1% in the year ended 30 June 2012). Capital Projects' underlying EBIT and the underlying EBIT margin in the year ended 30 June 2011 were impacted by delays to projects (such as the Gorgon Downstream LNG Project which was affected by bad weather and access problems at the Exxon C1 Project in Papua New Guinea), which although fully cost reimbursable, delayed the release of profit to Clough and final investment decision being reached for two major LNG projects in Queensland which caused a sharp increase in tendering activity and cost for Clough.

The underlying EBIT margin in the year ended 30 June 2012 was impacted by significantly lower margins for Capital Projects in the first half compared to the second half:

<b>Clough – EBIT Margin by Half Year</b>										
Year ended 30 June										
	2010		2011		2012		2012 (restated)		2013	
	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
<b>Overall</b>										
Revenue	252.8	335.9	427.4	355.1	465.7	539.7	465.7	539.7	660.3	849.5
EBIT	17.7	18.6	17.6	18.2	12.8	24.4	12.8	24.4	38.0	52.7
<i>EBIT margin</i>	7.0%	5.5%	4.1%	5.1%	2.7%	4.5%	2.7%	4.5%	5.8%	6.2%
<b>Engineering</b>										
Revenue							159.5	194.4	235.2	279.4
EBIT							21.6	27.6	33.8	39.1
<i>EBIT margin</i>							13.5%	14.2%	14.4%	14.0%
<b>Capital Projects/Projects</b>										
Revenue	225.5	292.2	378.5	342.4	417.7	484.9	258.2	290.6	355.6	488.1
EBIT	17.7	16.5	19.0	19.7	11.5	25.7	13.5	21.0	24.5	33.1
<i>EBIT margin</i>	7.8%	5.6%	5.0%	5.7%	2.8%	5.3%	5.2%	7.2%	6.9%	6.8%

Source: Clough and Grant Samuel analysis

The considerably lower underlying EBIT margin for Capital Projects in first half of the year ended 30 June 2012 (of 2.8% or 5.2% restated to exclude Engineering and allocated corporate overheads) was due to cost overruns on a fixed price contract which resulted in a loss of \$3 million (the contract was subsequently closed out) and margin reduction for two EPC contracts as a result of increased contract values without a commensurate increase in fee. The fee structure for these projects was subsequently renegotiated.

A greater focus on improved operational performance and cost efficiency resulted in growth in EBIT in the year ended 30 June 2013 for Engineering and Projects exceeding growth in revenue and an improvement in EBIT margins. EBIT margins have been fairly consistent over the last three half years at around 14% for Engineering and 7% for Projects.

Underlying revenue and EBIT for Commissioning & Asset Support has been more erratic. Underlying revenue fell in the year ended 30 June 2011, primarily due to the Bayu-Undan shutdown in the prior year and grew by around 50% in the years ended 30 June 2012 and 2013 as a result of the impact of the Kumul Terminal Rejuvenation Project (in 2012 and 2013) and increased work on the Wheatstone Hook-Up and Commissioning contract, continued operations and

## GRANT SAMUEL



maintenance support for the Bayu-Undan facility and a \$14.3 million contribution from e<sub>2</sub>o in the second half (in 2013). The underlying EBIT margin declined from 7.4% in the year ended 30 June 2010 to 4.7% in the year ended 30 June 2011, reflecting the impact of continued investment in business development. The underlying EBIT margin was stable at 4.6% (6.6% before allocation of corporate costs) in the year ended 30 June 2012 and increased to 9.1% in the year ended 30 June 2013 as Clough increased its focus on improved operational performance and cost efficiency.

The overall EBIT margin of 6.0% in the year ended 30 June 2013 also benefited from over \$10 million of sustainable savings (including reductions in business unit overhead which are reflected in the business unit EBIT margins) from an increase in focus on project and cost efficiency and significant investment in technology and systems to improve productivity performance.

Clough has historically paid minimal tax (with an effective tax rate of 12% or less up to the year ended 30 June 2012) reflecting utilisation of prior year tax losses. These tax losses were fully utilised during the year ended 30 June 2013 with the effective tax rate increasing to 25%.

### Outlook

Clough has not publicly released earnings forecasts for the year ending 30 June 2014 or beyond. To provide an indication of the expected future financial performance of Clough, Grant Samuel has considered brokers' forecasts for Clough (see Appendix 1):

<b>Clough – Financial Performance (\$ millions)</b>		
	Year end 30 June	
	2013 actual	2014 broker consensus (median)
Underlying construction contract revenue	1,509.8	1,590.0
Underlying EBITDA	96.9	104.6
Underlying EBIT	90.7	99.3
<i>Underlying EBIT margin</i>	<i>6.0%</i>	<i>6.2%</i>

Source: Grant Samuel analysis (see Appendix 1)

On 21 August 2013, Clough made the following statements in relation to its outlook for the year ending 30 June 2014:

- secured underlying revenue of approximately \$800 million for the six months ending 31 December 2013 and \$1,411 million for the year ending 30 June 2014; and
- longer term margin target on track. Clough has previously stated that it is targeting an EBIT margin in the longer term of 7% which it expects to achieve as a result of:
  - changing contract and portfolio mix improving blended margins; and
  - a continued focus on improved performance and cost efficiency.

The median consensus brokers' forecast indicates revenue of \$1,590.0 million and an EBIT margin of 6.2% for the year ending 30 June 2014 which is not inconsistent with the guidance provided by Clough. A 6.2% EBIT margin is consistent with the EBIT margin achieved by Clough in the second half of the year ended 30 June 2013.

At 30 June 2013, Clough's order book was at \$2,279 million, not materially different from its record order book at 30 June 2012 of \$2,338 million. In addition to the \$1,411 million secured for the year ending 30 June 2014, the order book includes \$705 million of secured revenue for the year ending 30 June 2015 and \$163 million of secured revenue for the year ending 30 June 2016<sup>21</sup>.

<sup>21</sup> On 9 October 2013, Clough announced that its order book at 30 September 2013 (adjusted for revenue for the three months ended 30 September 2013 and order intake and changes in value to current contracts for the period from 1 July 2013 to 30 September 2013) had fallen to \$2.0 billion although secured revenue had increased to \$1.47 billion for the year ending 30 June 2014, \$735 million for the year ending 30 June 2015 and \$190 million for the year ending 30 June 2016.





#### 4.4 Financial Position

The financial position of Clough as at 30 June 2013 is summarised below:

<b>Clough - Financial Position (\$ millions)</b>	
	<b>As at 30 June 2013 actual</b>
Debtors and prepayments <sup>22</sup>	90.6
Work in progress	13.2
Creditors, accruals and provisions <sup>23</sup>	(135.4)
Amounts due to customers for contract work	(40.6)
<b>Net working capital</b>	<b>(72.2)</b>
Interests in jointly controlled entities	65.2
Deferred tax assets (net)	27.2
Property, plant and equipment	18.1
Assets classified as held for sale (net)	11.5
Other loans and receivables <sup>24</sup>	3.6
Intangible assets <sup>25</sup>	9.1
Other assets	0.5
Loans and advances from jointly controlled entities	(29.5)
Provisions	(8.4)
Deferred revenue (deferred lease incentive fees)	(4.6)
Derivative financial instruments (net)	0.1
<b>Total funds employed</b>	<b>20.6</b>
Cash and deposits	441.2
<b>Equity attributable to Clough shareholders</b>	<b>461.8</b>
<b>Statistics</b>	
<i>Shares on issue at period end (million)</i>	776.7
<i>Net assets per share</i>	0.59
<i>NTA<sup>26</sup> per share</i>	0.58
<i>Gearing<sup>27</sup></i>	<i>nmc<sup>28</sup></i>

Source: Clough and Grant Samuel analysis

As Clough is primarily a service provider it does not have a large requirement for capital other than to fund the working capital of the business (including, as necessary, the underlying joint ventures). As a result, Clough has no borrowings and a relatively large cash position, particularly following the sale of its investment in Forge. Other than cash, Clough's largest asset is its interests in jointly controlled entities of \$65.2 million, which is a function of Clough conducting the majority of its business operations through joint ventures. Interests in jointly controlled entities are accounted for using the equity method of accounting after initially being recognised at

<sup>22</sup> Debtors and prepayments include other debtors of \$19.5 million which are predominantly accruals from jointly controlled entities.

<sup>23</sup> Provisions include current employee benefits and other provisions of \$28.1 million and the current tax provision of \$45.6 million (which includes \$32.9 million capital gains tax on the sale of the investment in Forge).

<sup>24</sup> Other loans and receivables include a \$1.6 million loan to Twin Ocean Property Pty Ltd (former Clough property business staff).

<sup>25</sup> Intangible assets represent goodwill and customer relationships associated with the acquisition of e<sub>2</sub>o and computer software.

<sup>26</sup> NTA is net tangible assets, which is calculated as net assets less intangible assets.

<sup>27</sup> Gearing is net borrowings divided by net assets plus net borrowings.

<sup>28</sup> nmc = not a meaningful calculation

## G R A N T S A M U E L



cost. Other than a small amount of plant and equipment (\$14.3 million), interests in jointly controlled entities represent working capital.

Assets classified as held for sale (net) of \$11.5 million relate to the discontinued property business. An active sales process has been underway and net assets represent the fair value of the remaining property development inventories less their costs to sell.

Loans and advances from jointly controlled entities primarily represent an advance from the BAM Clough Joint Venture as well as smaller advances from the Clough AMEC Joint Venture and the NAAN3 Project. These amounts represent large advance payments received by the projects/joint ventures which have been transferred to Clough, reflecting a policy to minimise cash holdings in joint venture entities. The projects/joint ventures will require the advance payments to fund their operations over the next 12 months and Clough will transfer the funds back to the projects/joint ventures as they are required.

While Clough has no borrowings, it does have in place a \$200 million bank bonding facility<sup>29</sup> with a syndicate of three leading banks and the Australian Export Finance and Insurance Corporation as well as a further \$150 million in surety bonds (a total bonding capacity of \$350 million). As at 30 June 2013, these facilities were drawn to \$218.5 million.

On 30 May 2013, Clough announced an intention to undertake an on-market share buyback over the period from 13 June 2013 to 4 July 2013. As at 30 June 2013, a total of 1,352,769 shares had been bought back. A further 198,391 shares were bought back and cancelled post 30 June 2013.

#### 4.5 Taxation Position

Under the Australian tax consolidation regime, Clough and its wholly owned Australian resident entities have elected to be taxed as a single entity.

At 30 June 2013, Clough had no carried forward Australian income tax losses or capital losses but did have carried forward foreign tax losses (in various jurisdictions) of approximately \$17.7 million. The recovery of these foreign losses is considered to be uncertain and they have not been recognised in the balance sheet.

At 30 June 2013, Clough had \$2.9 million of accumulated franking credits. This will be supplemented by franking credits that will arise from payment of income tax by 1 December 2013 (relating to the year ended 30 June 2013) as well as payment of the first quarter tax instalment for the year ending 30 June 2014, which will increase accumulated franking credits to an estimated \$44.7 million.

#### 4.6 Capital Structure and Ownership

##### 4.6.1 Capital Structure

As at 11 October 2013, Clough had the following securities on issue:

- 777,203,039 ordinary shares;
- 16,385,978 options over unissued ordinary shares; and
- 3,347,289 performance share rights over unissued ordinary shares.

The options were granted for no consideration and carry no dividend entitlement or voting right. When exercisable, each option on issue is exercisable into one ordinary share. The vesting period is four years and options will only vest if certain performance criteria are met. If an option holder ceases to be an employee, the option holder has six months in

<sup>29</sup> The \$200 million of bank facilities includes a borrowing facility of \$20 million that may also be utilised when required as a bonds and guarantees facility.

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which to exercise vested options. Unvested options will lapse at the end of the six month period except in certain circumstances approved by the Board. If there is a change in control<sup>30</sup> of Clough, the Board may declare that some or all of the outstanding options will vest immediately. Details of the options on issue at 4 October 2013 are set out below:

<b>Clough – Options on Issue as at 4 October 2013</b>				
Issue Date	Expiry Date	Exercise Price	Issued Options	Vested and Exercisable Options
26 November 2007	26 November 2013	\$0.75	200,000	200,000
1 February 2008	1 February 2014	\$0.86	330,000	330,000
5 March 2008	5 March 2014	\$0.86	745,000	745,000
1 February 2009	1 February 2015	\$0.34	330,000	330,000
11 February 2009	11 February 2015	\$0.34	1,095,585	1,095,585
16 March 2010	16 March 2016	\$0.90	340,000	340,000
16 March 2010	16 March 2017	\$0.82	2,039,748	-
24 February 2011	23 February 2018	\$0.89	2,626,571	-
25 November 2011	24 November 2018	\$0.89	164,692	-
24 February 2012	24 February 2019	\$0.68	4,217,662	-
8 March 2013	7 March 2020	\$1.06	4,296,720	-
<b>Total</b>			<b>16,385,978</b>	<b>3,040,585</b>

Source: Clough

In relation to the performance rights granted to senior executives:

- 1,284,717 were granted on 1 March 2012 and a further 305,885 were issued on the same terms on 25 October 2012. These performance rights have a vesting date of 1 March 2015 and an expiry date of 1 March 2018;
- 568,182 were granted on 15 August 2012 and vest in three equal tranches on 15 August 2014, 15 August 2015 and 15 August 2016; and
- 738,875 were granted on 1 October 2013 and vest on 1 October 2016 and a further 449,630 were issued on 9 October 2013 and vest on 9 October 2016.

All performance rights have been issued for no consideration and have a nil exercise price. Other key terms of the performance rights are:

- no dividend entitlement or voting right;
- no performance criteria other than time served that must be met before they vest;
- on vesting, each performance right entitles the holder to receive, at Clough's discretion, either:
  - one ordinary share in Clough; or
  - the market price of one ordinary share in Clough as at the vesting date in cash;
 and
- if a holder of performance rights ceases to be an employee before the vesting date, the Board may determine in its absolute discretion the number of unvested performance

<sup>30</sup> A change of control is defined as (i) approval of a scheme which would, if it became effective, result in any person owning all the ordinary shares in Clough or a scheme for the reconstruction of Clough or its amalgamation with any other body corporate; (ii) a takeover bid or other offer being made to acquire more than 50% of the voting shares of Clough that the bidder does not already own and that takeover bid or offer becoming unconditional; or (iii) a person who does not have a relevant interest in Clough at the date of adoption of the Executive Incentive Scheme obtains a relevant interest in sufficient ordinary shares to give it the ability, in a general meeting, to replace all or a majority of the Board.

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rights that will vest and the balance will automatically lapse. If there is a change in control of Clough, all performance rights will vest automatically.

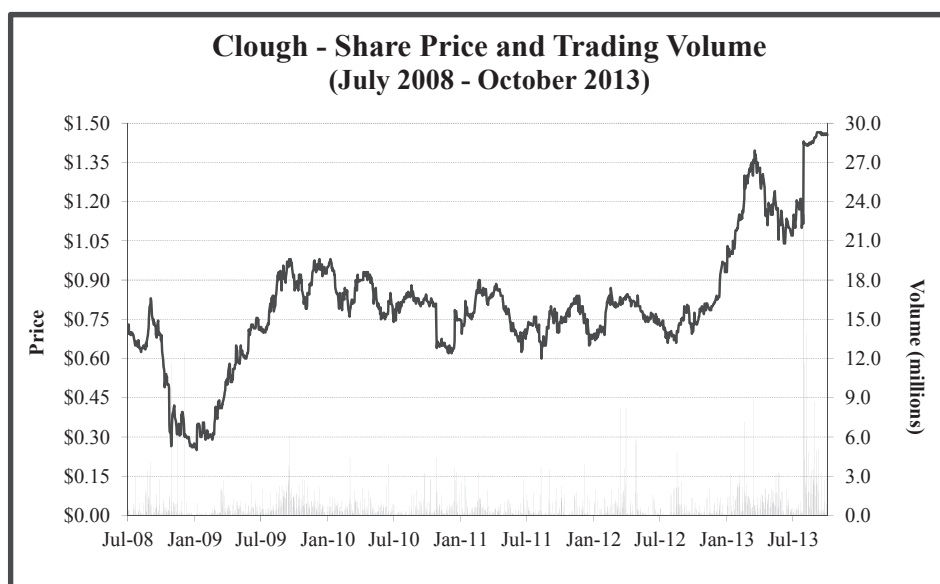
#### 4.6.2 Ownership

As at 13 August 2013 there were approximately 3,400 registered shareholders in Clough. The top 10 registered shareholders represent more than 85% of the ordinary shares on issue and, other than Murray & Roberts, are principally institutional nominee or custodian companies.

Clough has not received a current substantial shareholder notice from any shareholder other than Murray & Roberts.

#### 4.7 Share Price Performance

The following graph illustrates the movement in the Clough share price and trading volumes since 1 July 2008:



Source: IRESS, closing share price

Over the last five years, Clough shares have traded in a wide range, particularly early in this period, when shares traded as low as \$0.245 in December 2008 up to a high of \$1.035 in September 2009. The significant fall in the share price in October 2008 reflected equity market conditions at the time and followed Clough's announcement of a potential exposure of up to \$23 million to a project being undertaken by its 82% owned subsidiary, Petrosea in the event that a refinancing process was not successfully concluded. The share price subsequently recovered as the exposure did not eventuate, Clough announced new contract wins (particularly the PNG LNG contracts in May and December 2009) and announced that it would strengthen its focus on the oil and gas sector and sell its interest in Petrosea. The peak in the share price in September 2009 coincided with the announcement of a significant improvement in underlying performance for the year ended 30 June 2009 as well as the announcement that KJVG (in which Clough has a 20% interest) had been awarded the \$2.7 billion Gorgon Downstream LNG Project EPCM contract.

Since that time and up until mid-December 2012, Clough shares have generally traded in the range \$0.60-0.90, although with a slight downward trend over this period. The downward trend possibly reflects the declining net profit after tax over this period, particularly in the year ended 30 June 2011, primarily as a result of the impact of now discontinued operations (in particular the Marine Construction business which was acquired and disposed of during this period) and a period of Board and management change. Significant movements in the share price over this period have

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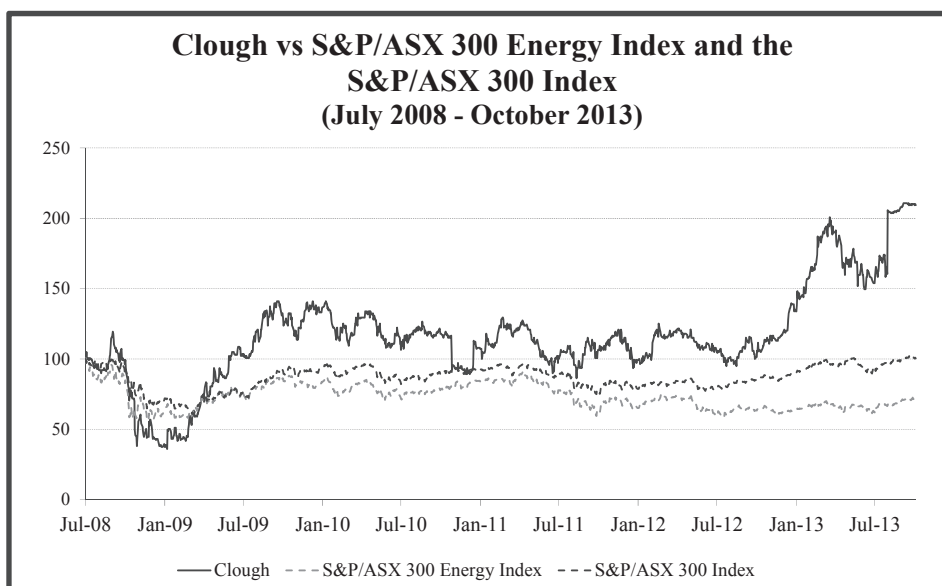


coincided with the announcement by Clough of downwards revision to earnings outlooks (e.g. in October 2010, the May 2011 and December 2011) and significant new contracts (e.g. the Gorgon Project in December 2010, the Wheatstone Offshore Hook-Up and Commissioning contract and the Wheatstone Project LNG PLF contract in February 2012 and the Ichthys LNG MOF and PLF in March 2012).

The Clough share price increased steadily from mid-December 2012 until mid-March 2013, following the 14 December 2012 announcement of a second upgrade to its earnings outlook for the year ending 30 June 2013, the acquisition of e<sub>2</sub>o at the end of January 2013 and the announcement of above expectations results for the six months ended 31 December 2012 in mid-February 2013. The share price peaked at \$1.395 in mid-March 2013, following Clough's inclusion in the S&P/ASX 300 Index, but then fell until a small rally on the announcement of a further earnings upgrade for the year ending 30 June 2013 on 13 June 2013. The Clough share price closed at \$1.115 on 30 July 2013, the day prior to the announcement of the Proposal.

Clough is a relatively illiquid stock given its free float of only approximately 38% of issued shares. Average weekly volume over the twelve months prior to the announcement of the Proposal represented approximately 0.5% of average issued shares or annual turnover of around 26% of total average issued shares (74% of the free float).

Despite its limited free float, Clough was included as a member of the S&P/ASX 300 Index in March 2013. Given Clough's exposure to the oil and gas sector, there is also some level of correlation between the performance of Clough shares and the performance of shares of companies involved in oil and gas exploration and production (which primarily make up the S&P/ASX 300 Energy Index). The following graph illustrates the performance of Clough shares since 1 July 2008 relative to these indices:



Source: IRESS

The Clough share price has outperformed the S&P/ASX 300 Energy Index and the S&P/ASX 300 Index since July 2008, primarily as a result of outperformance over the period from January to September 2009 and the period from December 2012 to March 2013, both of which have coincided with the announcement of significant improvements in underlying performance (for the year ended 30 June 2009 and the year ended 30 June 2013 respectively). Other than over those periods, the Clough share price has generally tracked the S&P/ASX 300 Energy Index with a slight lag (i.e. movements in the S&P/ASX 300 Energy Index tend to precede movements in the Clough share price). This is not unexpected given Clough's heavy exposure to the oil and gas sector.

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## 5 Valuation of Clough

### 5.1 Summary

Clough has been valued in the range \$1,062-1,162 million which corresponds to a value of \$1.37-1.49 per share. The valuation represents the estimated full underlying value of Clough assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Clough shares to trade on the ASX in the absence of a takeover offer.

The value for Clough is the aggregate of the estimated market value of Clough's business operations and other assets (including cash) less non-trading liabilities. The valuation is summarised below:

Clough - Valuation Summary (\$ millions)			
	Report Section Reference	Value Range	
		Low	High
Business operations <sup>31</sup>	5.3, 5.4	680.0	780.0
Other assets and liabilities	5.5	10.8	10.8
Adjusted net cash	5.6	370.9	370.9
<b>Value of equity</b>		<b>1,061.7</b>	<b>1,161.7</b>
Fully diluted shares on issue (millions) <sup>32</sup>		777.2	777.2
<b>Value per share</b>		<b>\$1.37</b>	<b>\$1.49</b>

The value attributed to the business operations of \$680-780 million (which includes an allowance for savings related to listed company and other costs which are available to acquirers of 100% of the business) is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow ("DCF") analysis and capitalisation of earnings or cash flows (multiples of EBITDA and EBIT). The specific factors taken into consideration in reaching this judgement are set out in Section 5.3 of this report.

The value for Clough's business operations includes a premium for control. The premiums implied by the value range over the share price prevailing prior to the announcement of the Proposal are in the range of 19-34%. Takeover premiums are typically in the range 20-35% depending on the individual circumstances. Synergies available to acquirers such as cost savings through merging operations are normally a significant factor in justifying their ability to pay a meaningful premium over market prices.

### 5.2 Methodology

#### 5.2.1 Overview

Grant Samuel's valuation of Clough has been estimated by aggregating the estimated market value of its business operations together with the realisable value of non-trading assets (including cash) and non-trading liabilities. The value of the business operations has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

<sup>31</sup> After corporate overhead cost savings (i.e. listed company and other costs) which are available to acquirers of 100% of the business (refer to Section 5.4 for details).

<sup>32</sup> Fully diluted shares on issue assumes that all issued options and performance rights are cancelled by Clough in return for consideration of \$1.46 per option or performance right less, in the case of options, the exercise price of the option (refer to Section 5.6 for details).



The valuation of Clough is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Clough could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- discounting of projected cash flows;
- capitalisation of earnings or cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Nevertheless, valuations are generally based on either or both discounted cash flow or multiples of earnings and Grant Samuel has had regard to both methodologies in the valuation of Clough.

#### 5.2.2 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation).

The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least



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because explicit and relatively detailed assumptions as to expected future performance need to be made.

A financial model of the business operations has been developed by Grant Samuel with reference to the FY14 Budget and the Projections. The model allows the key drivers of revenues, costs and capital expenditure (although capital expenditure is generally minimal for services businesses such as Clough) to be modelled. The model is based on a large number of assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of Clough. A number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions relating to market share, margins and other factors. The financial model is discussed in more detail in Section 5.3.2 of this report.

### 5.2.3 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

In determining a value for Clough's business operations, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can

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provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the

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business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

#### 5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of Clough. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

#### 5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Clough's case.

### 5.3 Value of Business Operations

#### 5.3.1 Overview

Grant Samuel estimates the value of Clough's business operations to be in the range \$680-780 million. This valuation is a subjective judgement having regard to both discounted cash flow analysis and earnings multiple analysis.

The value range selected is a judgement derived through an iterative process. The objective is to determine a value that is consistent with both the market evidence as to multiples and the output of the discounted cash flow analysis, having regard to a range of scenarios and the risks associated with their achievement.

#### 5.3.2 Discounted Cash Flow Analysis

Grant Samuel has prepared a DCF analysis of Clough's business operations. A DCF model has been developed by Grant Samuel with reference to the FY14 Budget and the Projections prepared by Clough. Grant Samuel has made adjustments to the Projections to reflect its judgement on certain matters.

The assumptions adopted and the associated calculations of future earnings do not represent forecasts or projections by Grant Samuel and Grant Samuel does not provide any assurance or warranty that they will be achieved. The assumptions and the associated future earnings are merely assumptions adopted for the purposes of the valuation. The assumptions made may differ from the assumptions and expectations of Clough management as to the future performance of Clough's business operations.

The balance sheet as at 30 June 2013 has been used as the starting point for the DCF analysis. The DCF model forecasts nominal after tax cash flows from 1 July 2013 to 30 June 2023, a period of 10 years, with a terminal value calculated to represent the value of cash flows in perpetuity. The terminal value has been calculated as 7 times forecast EBIT for the year ending 30 June 2024. A multiple of EBIT was chosen to calculate the terminal value given the difficulty in assessing an appropriate perpetual growth assumption for a cyclical business. A discount rate (weighted average cost of capital) in the range 11-12% has been used. The rationale for selection of this discount rate is set out in Appendix 3. A corporate tax rate of 30% has been assumed.

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The DCF model allows the key drivers of revenues and costs to be modelled for each of Clough's business units. As with any long term projections, there are inherent uncertainties about future events and outcomes and small changes in certain assumptions can have disproportionate impacts on the calculated values. The DCF model is based on a number of assumptions which are subject to significant uncertainty, many of which are outside the control of Clough, including:

- reliance on activity in the energy and resources industry, in particular the oil and gas sector;
- commodity prices/demand for energy and resources and the impact of these factors on new projects over the short term and the long term in regard to which projects proceed, when they proceed and the number of contracts available in the market at any point in time;
- competition for contracts and tenders won;
- the pricing of tenders and the risk associated with pricing structures, in particular, lump sum contracts compared to cost reimbursable contracts. Uncertain market conditions may result in clients seeking more certainty around cost and demanding lump sum contracts, which carry additional risk for Clough;
- the impact of delays in execution of committed projects on Clough's ability to generate expected project margins; and
- the ability to attract and retain appropriately qualified personnel.

The DCF model includes corporate overhead costs, net of estimated cost savings that any acquirer of 100% of Clough would be able to achieve (refer to Section 5.4 for details).

Clough has publicly stated an aim to grow mining and minerals project revenue to 10-20% of annual revenue and to expand internationally. While some revenue from mining and minerals projects and from international expansion may be able to be generated organically, it is likely that an acquisition would be necessary to make a meaningful contribution to annual revenue. Accordingly, Grant Samuel's DCF analysis does not specifically include any additional contribution from mining and minerals projects or international expansion.

Forecasts of operational assumptions over the next 2-3 years are uncertain. Assumptions up to ten years into the future are even more uncertain. There is significant scope for differences in opinion on key assumptions. As a result of these uncertainties, there are a range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes). Accordingly, Grant Samuel has analysed a number of scenarios that represent differing combinations of assumptions. While these scenarios are indicative of a range of potential outcomes that could be faced by Clough, the magnitude of the impact of each outcome on key assumptions and the exact combination of assumptions that would be impacted is unknown and, therefore, the scenarios are arbitrary. Furthermore, outcomes more or less extreme are quite conceivable.

Each scenario (other than Scenario G) assumes as a starting point that the FY14 Budget will be achieved. Longer term assumptions have been made by Grant Samuel with reference to the Projections and following discussion with Clough management. A description of each scenario is outlined in the table below:

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DCF Scenarios	
Scenario A	<p>Revenue forecasts for Engineering and Projects are based on BIS Shrapnel<sup>33</sup> projections of capital project expenditure in the oil and gas industry, which assumes the market peaks in the year ending 30 June 2014. Clough's market share for Engineering and Projects initially declines reflecting the impact of the completion of major projects but then recovers by the year ending 30 June 2017. Estimates of market size for Commissioning &amp; Asset Support are based on the current LNG investment cycle and expected levels of maintenance and minor capital works provided by Clough. Share of the Commissioning &amp; Asset Support market declines following completion of the bulk of the Wheatstone Offshore Hook-Up and Commissioning in the year ending 30 June 2015 but recovers to above prior levels consistent with the focus on this market and the commissioning of a number of LNG projects.</p> <p>Project margins are consistent with those forecast by Clough in the FY14 Budget and the Projections through to the year ending 30 June 2017.</p> <p>Direct costs are calculated as a constant percentage of revenue and indirect costs and unallocated indirect corporate overheads increase by inflation.</p> <p>The resulting average underlying EBIT margin over the forecast period is approximately 7% (before corporate overhead cost savings).</p>
Scenario B	Clough increases its market share gradually to reach 10% higher market share in each of its business units by the year ending 30 June 2020.
Scenario C	Clough achieves an average underlying EBIT margin of approximately 8% (before corporate overhead cost savings) over the forecast period.
Scenario D	Clough's underlying EBIT margin remains below 7% for the entire forecast period (the average underlying EBIT margin for the forecast period is 6.6% before corporate overhead cost savings).
Scenario E	\$1.2 billion of proposed LNG projects that were assumed to be awarded to Clough in the year ending 30 June 2015 do not go ahead (affects the Projects and Commissioning & Asset Support business units).
Scenario F	\$1.2 billion of proposed LNG projects that were assumed to be awarded to Clough are delayed for three years (i.e. these projects commence in the year ending 30 June 2018 instead of the year ending 30 June 2015). Commissioning & Asset Support for these proposed projects is also delayed for three years.
Scenario G	One year extension to the construction period for major projects that have been awarded to Clough and are currently underway due to factors outside of Clough's control (e.g. weather).

The key general and specific operational assumptions underlying the DCF model are set out in more detail in Appendix 4.

The output of the DCF analysis is summarised below:

Clough's Business Operations – Net Present Value Analysis (\$ millions)		
Scenario	Discount Rate	
	12.0%	11.0%
Scenario A	702	747
Scenario B	749	798
Scenario C	754	803
Scenario D	638	679
Scenario E	645	689
Scenario F	687	733
Scenario G	683	729

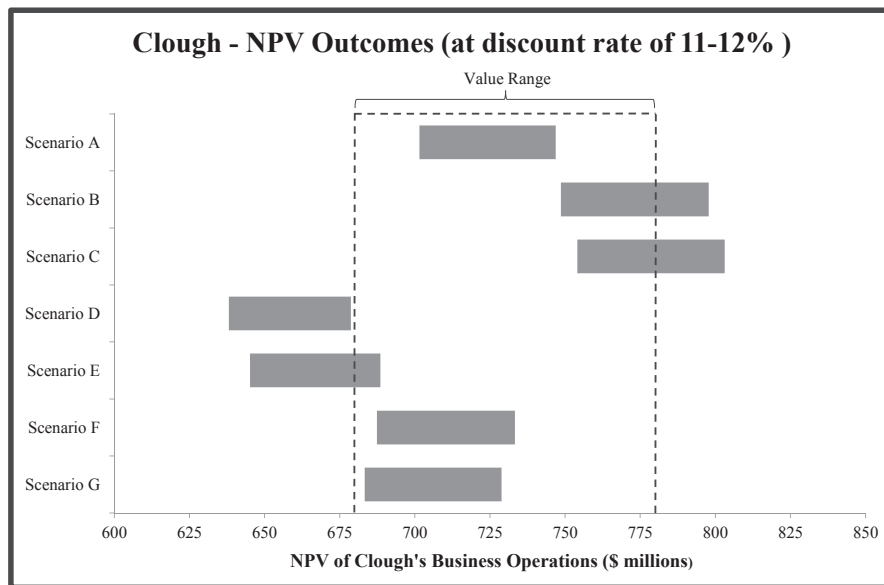
<sup>33</sup> BIS Shrapnel, Mining and heavy Industry Construction in Australia, 2013-2027, April 2013.

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As discussed above, net present values from discounted cash flow analyses are subject to significant limitations and should always be treated with considerable caution. The net present values show a relatively wide range across the different scenarios, highlighting the sensitivity to relatively small changes in assumptions. In particular, the analysis shows the very high sensitivity to EBIT margins (Scenario C and Scenario D) and the number of projects that proceed (Scenario E).

Grant Samuel's selected value range of \$680-780 million for Clough's business operations reflects a subjective balancing of the scenarios. This is depicted graphically below:



The range of net present values produced by the scenarios is wider than the value range Grant Samuel has placed on Clough's business operations of \$680-780 million. Grant Samuel's range straddles the middle of the values produced by the DCF analysis, incorporating the values produced by Scenarios A, F and G and spanning the values produced by Scenarios B, C, and E. The top end of Scenario D is just outside the low end of the value range. Grant Samuel has considered the outcome of all of the scenarios in determining its value range for Clough's business operations. However, it should be noted that:

- it is unlikely that Clough would consistently generate an EBIT margin of 8% per annum (Scenario C) or less than 7% per annum (Scenario D) but it is possible that Clough could generate margins at these levels in individual years (although Clough would be likely to take action if EBIT margins were to exhibit a downward trend or fall materially). Clough has previously stated that it is targeting an EBIT margin in the longer term of 7% and has a higher internal EBIT margin target. In Grant Samuel's view, there is the potential for upside from Scenario A which has an average EBIT margin over the forecast period of approximately 7% and this is reflected in the value range determined by Grant Samuel; and
- \$1.2 billion of proposed LNG projects assumed to be awarded to Clough not going ahead (Scenario E) has a significant impact on value as it affects both the Projects and Commissioning & Asset Support business units. While this is a possible scenario, albeit extreme, the DCF analysis does not make allowance for any mitigating factors (other than a proportionate reduction in direct costs and a partial reduction in indirect costs) that Clough would put in place if this scenario eventuated (such as significant reduction in costs, focussing on projects in other sectors etc).

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Taking these factors into account, Grant Samuel believes that the values produced by the DCF analysis support a range of values for Clough's business operations of \$680-780 million.

### 5.3.3 Earnings Multiple Analysis

#### *Summary of Implied Multiples*

The value range of \$680-780 million for Clough's business operations implies the following multiples of earnings:

<b>Clough's Business Operations – Implied Valuation Parameters</b>			
	<b>Variable (\$ million)</b>	<b>Low</b>	<b>High</b>
<b>Multiple of underlying EBITDA</b>			
Year ended 30 June 2013 <sup>34</sup>	96.9	7.0	8.1
Year ending 30 June 2014 <sup>35</sup>	104.6	6.5	7.5
<b>Multiple of underlying EBIT</b>			
Year ended 30 June 2013 <sup>34</sup>	90.7	7.5	8.6
Year ending 30 June 2014 <sup>35</sup>	99.3	6.8	7.9

While Clough has provided guidance statements about secured revenue for the year ending 30 June 2014 and longer term EBIT margin targets, the directors of Clough have decided not to include the FY14 Budget in the Scheme Booklet and therefore this information has not been disclosed in this report. Accordingly, the implied prospective multiples set out above are based on the median of brokers' forecasts for Clough (see Appendix 1 for details). These forecasts are not inconsistent with the guidance provided by Clough and are sufficiently close to Clough's FY14 Budget to be useful for analytical purposes.

The underlying EBITDA and EBIT used to calculate the multiples implied by the valuation of Clough have not been adjusted to eliminate corporate overhead cost savings of \$3-4 million per annum that would be available to acquirers of 100% of Clough. Accordingly, the implied multiples include the impact of synergies. This is consistent with the presentation of the comparable transaction multiples in the table below. Making the adjustment for corporate overhead cost savings would result in marginally (around 3%) lower implied multiples.

Grant Samuel has reviewed these implied valuation multiples having regard to EBITDA and EBIT multiples for comparable listed companies and for transactions involving companies or businesses providing engineering and construction services to the resources sector.

#### *Transaction Evidence*

Grant Samuel has focussed its review of transactions on the period since mid-2007 as being most indicative of current market conditions and growth expectations. The resources sector experienced particularly strong growth in the period from 2004 on the back of strong global economic demand and high demand for resources (particularly from China) which resulted in strong prices for commodities. As a consequence, demand for engineering and construction services was high with substantial growth in work pipelines. Substantially weaker global economic conditions from mid-2007 reduced resources demand. Subsequently, confidence in the resources sector recovered but deteriorating economic

<sup>34</sup> Clough's actual underlying EBITDA and underlying EBIT for the year ended 30 June 2013 (refer to Section 4.3).

<sup>35</sup> Median of broker's forecasts of underlying EBITDA and underlying EBIT for Clough as set out in Appendix 1.



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conditions in Europe since 2009 has reduced demand for mineral resources (with consequential impacts on the demand for engineering and construction services) while increasing demand for energy in Asia has stimulated substantial activity in the oil and gas sector.

Notwithstanding activity levels in the resources sector since mid-2007, the number of transactions involving engineering and construction businesses focused on the resources sector in Australia is limited. As a consequence, Grant Samuel has also reviewed transactions involving engineering and construction businesses based in North America which have either been acquired by Australian based engineering and construction companies or which provide services to the global resources sector.

The following table sets out the EBITDA and EBIT multiples implied by selected transactions involving the acquisition of resources sector engineering and construction services businesses since mid-2007:

<b>Recent Transaction Evidence</b>								
Date	Target	Transaction	Consideration (millions)	EBITDA Multiple (times)		EBIT Multiple (times)		
				Historical	Forecast	Historical	Forecast	
<i><b>Australia</b></i>								
Sep 2013	SKM	Acquisition by Jacobs Engineering	A\$1,300	6.5	na	7.5	na	
Feb 2013	Eastcoast Development	Acquisition by Decmil	A\$19-29	na	1.5-2.3	na	na	
Jan 2013	e <sub>2</sub> o	Acquisition by Clough	A\$9-14	na	na	na	1.8-2.8	
Oct 2012	G&S Engineering	Acquisition by Calibre	A\$64-71	na	5.7-6.0	na	na	
Aug 2012	Rylson Group	Acquisition of 75% by Ausenco	A\$6	na	na	na	3.0	
May 2012	Unidel	Acquisition by AMEC	A\$27-41	4.1-6.3	na	5.1-8.0	na	
Jan 2012	CTEC	Acquisition by Forge	A\$16-39	na	0.3-1.8	na	na	
Dec 2010	Valemus	Acquisition by Lend Lease	A\$960	4.3	3.9	5.3	4.9	
Feb 2010	Forge	Acquisition of 18.3% by Clough	A\$182	8.2	3.7-3.8	9.4	3.9-4.1	
Nov 2009	Evans & Peck	Acquisition by WorleyParsons	A\$87	4.6	na	4.8	na	
Jun 2009	GRD	Acquisition by AMEC	A\$106	4.2-5.4	6.7-7.9	5.0-6.4	7.3-9.4	
Nov 2007	Abesque Engineering	Acquisition by Forge	A\$19-21	na	na	na	3.3-4.0	
Jun 2007	Metplant Engineering	Acquisition by Bateman	A\$20	na	na	15.0	5.8	
Jun 2007	Intermet Engineering	Acquisition by Sedgman	A\$16	na	na	9.4	6.3	
May 2007	Decmil	Acquisition by Paladio	A\$50-54	na	na	4.8-5.2	4.0-4.3	
<i><b>North America</b></i>								
Jul 2013	PROJEX	Acquisition by Ausenco	A\$15	na	na	na	3.0	
Jun 2013	Brinderson	Acquisition by Aegion Corporation	US\$150	6.3	na	na	na	
Jun 2013	Taggart Global	Acquisition by Forge	US\$43	na	3.0	na	3.4	
Dec 2012	Bottom Line Services	Acquisition by MasTec	US\$68-79	na	4.0-4.6	na	na	
Jul 2012	Shaw Group	Acquisition by Chicago Bridge & Iron	US\$3,155	7.0	5.6	9.6	7.2	
May 2011	MACTEC	Acquisition by AMEC	US\$280	na	na	8.8	na	
Dec 2010	Aker Solutions' P&C Business	Acquisition by Jacobs Engineering	US\$913	7.3	8.6	7.5	na	

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Recent Transaction Evidence							
Date	Target	Transaction	Consideration (millions)	EBITDA Multiple (times)		EBIT Multiple (times)	
				Historical	Forecast	Historical	Forecast
Dec 2010	PSN	Acquisition by Wood Group	US\$627	11.4	9.6	11.9	10.1
Sep 2009	Parsons Brinckerhoff	Acquisition by Balfour Beatty	US\$626	4.0	3.6	5.0	4.4
Jun 2008	Westmar Consultants	Acquisition by WorleyParsons	CS48	5.5	na	na	na
Apr 2008	INTEC Engineering	Acquisition by WorleyParsons	US\$109	9.5	na	na	na
Mar 2008	Vector Engineering	Acquisition by Ausenco	US\$31	7.1	na	7.5	na
Mar 2008	Sandwell International	Acquisition by Ausenco	C\$77-82	7.6-8.1	na	8.5-9.1	na
Feb 2008	Pipeline Systems	Acquisition by Ausenco	US\$33-39	6.2-7.3	na	6.5-7.7	na
May 2007	Washington Group	Merger with URS Corporation	US\$3,297	17.2	na	23.6	na
Feb 2007	Colt Engineering	Acquisition by WorleyParsons	C\$1,035	9.7	na	10.4	8.6
Oct 2004	Parsons E&C	Acquisition by Worley	US\$245.0	6.9	5.5	7.9	6.1
<b>Other</b>							
Feb 2013	Bergen Group Rosenberg	Acquisition by WorleyParsons	NOK1,088	5.0	na	6.1	na
Oct 2012	TWP Holdings	Acquisition by WorleyParsons	ZAR900	9.3	8.0	10.5	na

Source: Grant Samuel analysis (see Appendix 2)

Further details on these transactions are set out in Appendix 2. The following factors are relevant to consideration of the transaction evidence:

- the implied multiples reflect a range of business specific factors including:
  - the stage of the resources cycle at which the transaction was undertaken. In this regard, earnings during 2009 declined due to the postponement of resource projects following the global financial crisis. Earnings in subsequent years have increased reflecting the increased level of activity in the oil and gas segment;
  - the mix of services offered (i.e. engineering consulting, construction services, operational support) and the basis of remuneration adopted. In this context, GRD Limited (“GRD”) was an engineering consulting business and Evans & Peck Group Limited provided a range of business advisory services and both were primarily remunerated under fully reimbursable contracts. In comparison, Valemus Australia Pty Limited (“Valemus”) provided services in the engineering, construction, residential and non-residential building markets and around 50% of revenue was derived under fixed price contracts;
  - the sector focus of the business (e.g. resource processing or project infrastructure). In this context, Valemus was primarily a construction company and Parsons Brinckerhoff Inc. (“Parsons Brinckerhoff”) had a civil infrastructure focus and both attracted lower multiples than businesses with a greater focus on the resources sector such as SKM (which generates approximately 50% of revenue from the power and energy and mining and metals sectors) and PSN Limited (“PSN”);
  - the size and geographic footprint of the business (e.g. SKM derives approximately 80% of revenue from Australia whereas Aker Solutions’ Process & Construction Business (“Aker Solutions’ P&C Business”) derived its revenue from the United States, South America, China, Australia/Asia Pacific and Western Europe);

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- the capital intensity of the business (e.g. The Shaw Group Inc. (“Shaw Group”) and Washington Group International Inc. (“Washington Group”) transactions took place at considerably higher EBIT multiples than EBITDA multiples as a result of significant depreciation charges. In contrast, the majority of the transactions (for which information is available) are more service-based businesses and have taken place at similar EBITDA and EBIT multiples);
  - the quantum of synergies that may be available to the acquirer (e.g. earnings multiples for Washington Group reflect its size, diverse activities and strong growth outlook as well as the expectation of significant synergy savings upon merging its business with that of URS Corporation). Where synergies are significant, the implied transaction multiples would be lower if synergies were included in the EBITDA and EBIT used in the calculation; and
  - the extent to which cash advances under contracts have been received. In all transactions analysed (except Clough’s acquisition of an 18.3% interest in Forge) insufficient information is available to adjust for contract advances (if any) and therefore the implied multiples presented may be understated;
- given the uncertainty of future profitability notwithstanding strong order books, a number of the smaller transactions involve deferred consideration subject to performance hurdles (i.e. Eastcoast Development Engineering Pty Ltd, e<sub>2</sub>o, G&S Engineering Services Pty Ltd, Unidel Group Pty Limited, CTEC Pty Limited, Abesque Engineering & Construction Ltd, Decmil Australia Pty Ltd, Bottom Line Services, LLC., Sandwell International Inc. and Pipeline Systems Inc.). In these cases, the multiples presented are calculated by reference to both the base and maximum consideration payable and, where available, the base and targeted earnings;
  - WorleyParsons and AMEC are both large global providers of engineering, project and operational support services across a range of sectors with WorleyParsons more highly focussed on the resources and energy sectors (82% of 2013 revenue) than AMEC (62% of 2013 revenue). Both have been active in making bolt on acquisitions in Australia and North America in the last five years;
  - the multiples for AMEC’s acquisition of GRD reflect value attributed to the Global Renewables business. However, it is considered that AMEC attributed little value to Global Renewables and, on that basis, the multiples implied increase (i.e. historical EBITDA and EBIT multiples to 7.1 and 8.4 times respectively and forecast EBITDA and EBIT multiples to 10.3 and 12.3 times respectively);
  - Clough’s acquisition of an additional 18.3% interest in Forge (to take its aggregate interest to 31.3%) was not a control transaction and therefore the multiples implied by the transaction do not reflect a premium for control; and
  - recent acquisitions by WorleyParsons, although small (at A\$100-200 million), indicate the variability in multiples depending on the individual circumstances of transactions, with the Norwegian offshore oil and gas focussed Bergen Group Rosenberg AS (“Rosenberg”) transaction taking place at significantly lower multiples than the South African mining sector focussed TWP Holdings (Proprietary) Limited (“TWP Holdings”), although TWP Holdings’ service offering across the full project lifecycle (in contrast to Rosenberg) may have influenced the price paid.

Multiples paid for engineering and construction services businesses are generally low due to the uncertainty associated with future revenue and as their major assets are human capital and business reputation. The transaction evidence indicates that since 2007 acquirers of engineering and construction services businesses with a major focus on the resources sector in Australia have paid multiples in a reasonably wide range of 4-8 times EBITDA and 5-9 times EBIT.

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*Sharemarket Evidence*

The following table sets out the implied EBITDA and EBIT multiples for selected Australian listed comparable companies based on share prices as at 4 October 2013:

<b>Sharemarket Ratings – Listed Engineering and Construction Services Companies</b>							
Company	Market Capitalisation (\$ millions)	EBITDA Multiple <sup>36</sup> (times)			EBIT Multiple <sup>37</sup> (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
<b>Diversified Engineering and Construction</b>							
Leighton	5,678	4.1	3.6	3.6	10.3	7.9	7.9
Downer EDI	2,117	3.6	3.6	3.6	6.6	6.5	6.5
UGL	1,269	8.4	7.0	6.7	12.4	9.5	9.1
Transfield	584	5.1	4.8	4.5	10.9	9.2	8.4
<b>Resources Engineering and Construction</b>							
WorleyParsons	5,763	10.3	9.2	8.7	12.3	10.8	10.2
Monadelphous	1,657	6.1	7.1	7.0	6.9	8.2	8.1
RCR Tomlinson	467	8.8	6.2	5.4	11.7	8.4	6.9
Forge	421	3.3	3.1	3.0	4.2	3.8	3.9
Ausenco	199	3.1	6.4	5.4	3.6	9.4	7.3
Lycopodium	181	5.8	na	na	6.4	na	na
Sedgman	168	2.2	2.7	2.7	4.0	5.0	4.9
Macmahon	164	1.6	1.7	1.7	3.2	4.4	4.4
Calibre	148	3.2	3.1	3.3	6.9	5.7	4.9

Source: Grant Samuel analysis (see Appendix 2)

A detailed analysis of these companies is set out in Appendix 2.

The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed companies are based on share prices and therefore do not include a premium for control;
- given the large number of Australian listed comparable companies (some, but not all of which operate primarily in Australia) and Clough generating the vast majority of its revenue and earnings from Australia, Grant Samuel has not considered in detail the trading multiples of listed comparable companies in other countries as these multiples will be influenced by the market outlook in the countries in which they operate as well as other company specific factors;
- diversified engineering and construction businesses generally trade at higher EBIT multiples than those focused on the resources sector reflecting diversification of activities and income streams by both industry and geography as well as the greater capital intensity of these businesses (with EBITDA multiples generally more in line with those of other comparable companies):
  - Leighton Holdings Limited operates globally and while around 43% of revenue is generated from the resources sector, it also has significant exposure to

<sup>36</sup> Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

<sup>37</sup> Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

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economic infrastructure (e.g. rail, roads, bridges, telecommunications, oil and gas pipelines);

- Downer EDI provides services across the full project lifecycle, predominantly in Australia and New Zealand but is diversified across a number of industries and the majority of its revenue is from schedule of rates or fixed price projects;
  - UGL Limited also has a property business which represents around 50% of revenue and is a higher margin business; and
  - Transfield Services Limited (“Transfield”) operates globally and has a focus on infrastructure;
- WorleyParsons and Monadelphous both have a focus on the oil and gas sector (although resources and energy are core markets for Monadelphous and it has a greater exposure to resources projects which in the year ended 30 June 2013 represented in excess of 60% of revenue). Both companies trade at a premium to their Australian peers, WorleyParsons because it is regarded as a global industry participant and leader in the hydrocarbons sector (although 80% of revenue is from the resources industry, only 17% of revenue is generated in Australia) and Monadelphous because of its execution track record, low capital intensity and strong cash generation;
  - the other resources engineering and construction companies are smaller than Clough and are predominantly focused on the mining and minerals sector, which has a more subdued outlook than the oil and gas sector. The smaller size and market outlook is reflected in the lower trading multiples for these companies, which are generally trading at a forecast EBIT multiple of around 4-5 times (Forge, Macmahon Holdings Limited (“Macmahon”) and Sedgman), although others are trading at forecast EBIT multiples in the range 6-9 times due to company specific factors:
    - RCR Tomlinson Limited (“RCR Tomlinson”) (forecast EBIT multiple of 8.4 times) recently completed the acquisition of Norfolk Group Limited (“Norfolk”) (which provides engineering services in electrical, heating, ventilation and air-conditioning and facilities management markets), reflecting a move away from the resources industry and towards infrastructure. RCR Tomlinson is also expected to be able to better manage Norfolk’s business, given its management have a track record of turning around and growing contracting businesses;
    - Ausenco (forecast EBIT multiple of 9.4 times) has a December year end so the equivalent forecast EBIT multiple for the year ending 30 June 2014 is between 7.3 times and 9.4 times. Ausenco also generates the majority of its revenue from non-Australian based projects; and
    - Calibre Group Limited (forecast EBIT multiple of 5.7 times) has a heavy exposure to rail infrastructure and an EBIT margin that is expected to increase from 4% in the year ended 30 June 2013 to 7% in the year ending 30 June 2016; and
  - brokers are forecasting an increase in earnings in the year ending 30 June 2014 for the majority of comparable companies (other than Monadelphous, Ausenco and Sedgman which have flagged a decline in earnings and/or challenging domestic market conditions and Macmahon which is transitioning to a focused mining strategy following its exit from the construction sector). Forecast multiples for the year ending 30 June 2015 are generally flat reflecting the market outlook.

## G R A N T S A M U E L

*Analysis and Commentary*

The multiples implied by the valuation of Clough are generally higher than most Australian transactions for which there is available evidence. The vast majority of comparable transactions in Australia are considerably smaller than Clough and the only transactions of a similar size are:

- Lend Lease Corporation Limited's acquisition of Valemus for \$960 million (which took place at a forecast EBITDA multiple of 3.9 times and a forecast EBIT multiple of 4.9 times). Valemus is primarily a construction company and generates a significant proportion of its revenue from fixed price contracts. As a result, it would be expected that this transaction would take place at lower multiples than a company such as Clough which is primarily a service provider with the majority of its contracts on a cost reimbursable basis; and
- Jacob Engineering Group Inc.'s recent announcement of the proposed acquisition of SKM for \$1.3 billion (which implies an historical EBITDA multiple of 6.5 times and an historical EBIT multiple of 7.5 times). This proposed acquisition is a more relevant transaction when considering the valuation of Clough. While SKM does not operate across the full project lifecycle (it provides strategic consulting, engineering and project management and does not operate in commissioning and asset support), there are many similarities between SKM and Clough in terms of being resources sector and Australian focused (although SKM is more diversified than Clough and is a higher margin business, reporting an underlying EBIT margin in the year ended 30 June 2013 of 10.9%). While only historical information is available, the historical implied multiples of 6.5 times EBITDA and 7.5 time EBIT provide support for the historical multiples implied by the valuation of Clough (albeit at the low end) of 7.0-8.1 times EBITDA and 7.5-8.6 times EBIT, after taking into account the minimal synergies in the SKM transaction and the growth expected from Clough's Commissioning & Asset Support business.

The market evidence from North American transactions indicates that larger transactions generally take place at higher multiples. The larger acquisitions (Shaw Group, Aker Solutions' P&C Business, PSN, Parsons Brinckerhoff, Washington Group and Colt Engineering Corporation) were executed at forecast EBITDA multiples of 3.6-8.6 times and forecast EBIT multiples of 4.4-10.1 times. In this regard it is worth noting that:

- while Parsons Brinckerhoff (forecast EBITDA and EBIT multiples of 3.6 and 4.4 times respectively) provides services across the project lifecycle, it has a focus on civil infrastructure, particularly in the United States so it is arguably less relevant in considering the value of Clough; and
- PSN (forecast EBITDA and EBIT multiples of 9.6 and 10.1 times respectively), while focused on the oil and gas sector operates globally and only in the asset support segment of market which is a higher margin business. The transaction was also expected to generate significant synergies. Each of these factors is reflected in the higher multiples paid in this transaction.

Excluding these two outlier transactions, the larger North American transactions have taken place at forecast EBITDA multiples of 5.6-8.6 times and forecast EBIT multiples of 7.2-8.6 times. While the remaining large North American transactions are still not directly comparable to Clough (most have global operations and operate across a number of industries, some but not all operate across the full project lifecycle), they do provide evidence to take into account and some support for the multiples implied by the valuation of Clough of 6.5-7.5 times forecast EBITDA and 6.8-7.9 times forecast EBIT.

None of the Australian listed companies are directly comparable to Clough in terms of providing services across the full project lifecycle, the focus on the oil and gas sector and

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predominantly operating in Australia. The multiples implied by the valuation of Clough are generally lower or around the trading EBIT multiples of the most relevant listed comparable companies. However:

- the diversified engineering and construction contractors are much larger than Clough (other than Transfield) and diversified geographically and by industry. They are also more capital intensive businesses (evidenced by their significantly lower EBITDA multiples). Downer EDI is trading (i.e. before any premium for control) at a discount to its peers, with a forecast EBIT multiple of 6.5 times (compared to 8-9.5 times for other diversified engineering and construction contractors). This discount is arguably due to legacy issues, particularly around the Waratah trains contract and there is the potential for the discount to reduce as Downer EDI makes progress on the delivery of the Waratah trains, delivers on earnings guidance and reduces its gearing;
- WorleyParsons and Monadelphous are the most similar resources engineering and construction contracting companies to Clough. Both have a focus on the oil and gas sector, but both are also considerably larger than Clough and have a track record of higher margins (EBIT margins generally in excess of 7% and 8% respectively). As a result, it is arguably appropriate that the multiples implied by the valuation of Clough are below the trading multiples for WorleyParsons and Monadelphous, even though these multiples exclude a premium for control; and
- the remaining resources engineering and construction contracting companies (other than RCR Tomlinson and Ausenco, which are discussed on page 42) generally trade at multiples below the multiples implied by the valuation of Clough, even after allowing for a premium for control. This is considered to be appropriate given their primary focus on the more subdued and volatile mining and minerals sector of the resources industry.

There are a number of reasons why higher multiples can be justified for Clough:

- exposure to the Australian oil and gas sector, which although expected to peak in the year ending 30 June 2014, has a stronger outlook than the mining and minerals sector in terms of large committed projects, planned projects and follow on work. In particular, Clough has a significant exposure to LNG projects (it is working on every major LNG project in the execution phase in Australia and Papua New Guinea), where Clough sees future opportunities including brownfield engineering operations and maintenance services and minor and medium sustaining capital works following completion of the existing projects;
- service offering that spans the full project lifecycle (from engineering through to operations) which provides Clough with the unique ability to optimise safety, productivity and cost across each phase of a project (i.e. design to construct, construct to operate) and develop ongoing relationships with clients as well as assisting in smoothing the cyclicalities in revenue and earnings;
- low capital intensity, with limited requirement to incur significant capital expenditure on a regular basis. Annual capital expenditure is low other than for specific internal projects such as Clough's current computer software upgrade;
- a substantial proportion of Clough's revenue in the short term is underpinned by secured contracts (\$1.4 billion for the year ending 30 June 2014 and \$0.7 billion for the year ending 30 June 2015);
- its joint venture structure and the strong relationships it has with its international and domestic partners (e.g. Royal BAM Group, AMEC and Downer EDI) which enable it to more effectively compete for and execute projects;



## G R A N T S A M U E L



- contract mix, with the majority of contracts being on a cost reimbursable basis, which reduces Clough's risk of margin erosion from cost overruns and scope growth. Lump sum or fixed price contracts are generally limited to those projects where Clough has considerable experience (e.g. jetties);
- strengthened capability in commissioning (a growth area for Clough over the medium term) through the acquisition of e<sub>2</sub>o and the establishment of the Clough Coens Joint Venture; and
- the potential for further cost savings, particularly execution efficiency at the project level and property and information technology cost savings at the business unit and corporate level.

On the other hand, there are a number of factors that would constrain the appropriate multiples for Clough:

- expenditure on construction in the oil and gas sector is expected to peak in the year ending 30 June 2014, resulting in revenues and earnings of companies with significant exposure to this sector also tending to peak in this year, putting downward pressure on multiples;
- while there is a reasonable degree of certainty around revenue for the years ending 30 June 2014 and 2015 given current secured contracts, the outlook past this period is much more uncertain although the outlook for the oil and gas sector is more positive than for mining and minerals. In particular, the timing of major projects could have an impact on revenue if committed projects are delayed or proposed projects are deferred;
- significant exposure to an individual client, Chevron, through the Gorgon and Wheatstone LNG Projects. Clough currently has five separate projects where Chevron is the client which together represent approximately 30% of Clough's secured revenue for the year ending 30 June 2014;
- the Gorgon LNG Project has been a significant contributor to Clough's revenue and earnings. This project is scheduled to complete by September 2015 and it is unlikely that Clough will be able to source a replacement project of similar size and duration;
- a number of projects in Papua New Guinea (including two large Capital Projects) where there is the potential for security/sovereign risk;
- execution risk. While Clough turned around its project execution in the year ended 30 June 2013, increasing its EBIT margin from 3.7% to 6.0%, execution remains a risk as Clough does not have a consistent track record in this respect;
- staff costs and access to/retention of skilled staff. Clough is a service business and relies on its ability to provide experienced and competent project management staff. While Clough is putting in place project management programs to assist staff development and retention, this is a long term process and any loss of key staff in the interim would be detrimental to Clough; and
- while the joint venture structure used by Clough has advantages, there are also drawbacks that have an impact on earnings such as lack of control over projects, implications for geographic areas of activity and value leakage through duplication of activities and an additional layer of management and cost.

On balance, Grant Samuel believes that the multiples implied by the valuation of Clough of 6.5-7.5 times forecast EBITDA and 6.8-7.9 times forecast EBIT are appropriate.



#### 5.4 Corporate Overhead Costs

Clough incurs unallocated corporate overhead costs of approximately \$40 million per annum. These costs represent costs associated with running Clough's head office and include:

- the Clough executive office (such as costs associated with the offices of the Managing Director and Chief Financial Officer, company secretarial and legal, planning and development, corporate affairs, treasury, tax etc.);
- being a listed company (such as directors fees, annual reports and shareholder communications, share registry and listing fees and dividend processing); and
- certain group shared services (such as human resources, information technology etc.) not fully recharged to the business operations during the year.

Any acquirer of 100% of Clough would be able to save the costs associated with being a publicly listed company as well as achieve savings in areas such as information technology and funding costs for guarantees. Clough has estimated these cost savings to be \$3-4 million per annum. Other acquirers of Clough are likely to be large international engineering and construction contractors and it would usually be expected that these companies would be able to achieve significant cost savings through closure of the majority of (if not the entire) head office. However, given the nature of Clough's operations, where it undertakes the majority of its projects through joint ventures with domestic and international partners, other acquirers of Clough are unlikely to have a significant presence in Australia so would need to retain a large proportion of corporate overhead costs.

For valuation purposes, Grant Samuel has reduced unallocated corporate overheads by \$3.5 million per annum (in 2013 dollars) (the mid-point of the estimated cost savings range of \$3-4 million) in the DCF model described in Section 5.3.2 and consequently, no separate adjustment has been made for these cost savings.

#### 5.5 Other Assets and Liabilities

Clough's other assets and liabilities as at 30 June 2013 have been attributed a value of \$10.8 million:

<b>Clough – Other Assets and Liabilities</b>	
	<b>\$ millions</b>
Fair value of property development inventories less their costs to sell	11.5
Loan to Twin Ocean <sup>38</sup>	1.6
Proceeds from sale of Thailand Fabrication business (net of tax)	1.6
Net mark to market gain on forward exchange contracts	0.1
Deferred acquisition consideration for e <sub>20</sub>	(4.0)
<b>Total other assets and liabilities</b>	<b>10.8</b>

In relation to other assets and liabilities:

- the fair value of property development inventories, the Twin Ocean loan and the net mark to market gain are from Clough's balance sheet as at 30 June 2013;
- the after tax proceeds from the sale of the Thailand Fabrication business have been provided by Clough; and
- the deferred acquisition consideration for e<sub>20</sub> has been calculated as the present value of the agreed cash payment of \$5 million over three years. It has been assumed that the performance criteria that this additional payment is subject to will be met.

No deduction has been made for the dividend of \$0.14 per share to be paid by Clough as part of the Proposal as the valuation is effectively "cum dividend".

<sup>38</sup> Twin Ocean is a company established by former Clough property executives. The loan to Twin Ocean is due to be repaid in full in January 2014.

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No value has been attributed to Clough's accumulated franking credits (see Section 5.7).

### 5.6 Adjusted Cash

Clough's adjusted cash for valuation purposes is \$370.9 million. This amount is based on Clough's cash and cash equivalents as at 30 June 2013 of \$441.2 million:

<b>Clough – Adjusted Cash</b>	
	<b>\$ millions</b>
Cash as at 30 June 2013	441.2
Loans and advances from jointly controlled entities (less capital expenditure)	(22.3)
Cash used to buy back shares subsequent to 30 June 2013	(0.2)
Cash from the exercise of options subsequent to 30 June 2013	0.5
Capital gains tax payable on the sale of the Forge shares	(32.9)
Cash paid to option holders and performance right holders	(15.4)
<b>Adjusted cash</b>	<b>370.9</b>

In relation to these adjustments:

- loans and advances from jointly controlled entities predominantly represent large advance payments received by jointly controlled entities which have been transferred to the partners but which will be required to fund operations over the next 12 months at which time Clough will transfer the funds back to the jointly controlled entities. Of the total of \$29.5 million, \$7.2 million relates to Clough's contribution to the capital expenditure for a barge being built by the BAM Clough joint venture which has been deducted from the loans and advances balance as it is included in the DCF analysis;
- the capital gains tax payable on the sale of the Forge shares is expected to be paid prior to the end of the 2013 calendar year; and
- the cash paid to option holders and performance right holders of \$15.4 million is in return for the cancellation of their options and performance rights in accordance with the terms of the Proposal.

### 5.7 Franking Credits

Under Australia's dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for tax paid by a company. The franking credit attaches to any dividends paid by a company and the franking credit offsets personal tax for Australian investors. To the extent that personal tax has been fully offset the individual will receive a refund of the balance of the franking credit. Franking credits therefore have value to the recipient.

However, in Grant Samuel's opinion, while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the sharemarket evidence used by Grant Samuel in valuing Clough will already reflect the value impact of the existence of franking credits). Further, franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. To some shareholders (e.g. foreign shareholders) they will have very little or no value. Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit to the shareholder.

Accordingly, while franking credits may have value to some shareholders they do not affect the underlying value of the company itself. No value has therefore been attributed to Clough's accumulated franking credit position in the context of the value of Clough as a whole.



## **6 Evaluation of the Proposal**

### **6.1 Conclusion**

In Grant Samuel's opinion, the Proposal is in the best interests of Clough shareholders, in the absence of a superior proposal.

The total cash payment under the Proposal of \$1.46 cash per share is within Grant Samuel's value range of \$1.37-1.49 and is therefore "fair". As the Proposal is fair, it is also "reasonable". As the Proposal is fair and reasonable, it is in the best interests of shareholders. In any event, Clough shareholders should take the following factors into account:

- the premium that the total cash payment under the Proposal provides over the share price prevailing at the time of the announcement of the Proposal on 31 July 2013 of 20-30%;
- in the absence of the Proposal or a similar offer (or speculation), it is likely that Clough shares would trade at levels below \$1.46;
- there is no more attractive alternative that is, or is likely to become, available to Clough shareholders given Murray & Roberts' 61.6% interest in Clough; and
- the franking credits attached to the \$0.14 dividend component of the total cash payment under the Proposal may create additional value for some shareholders (relative to a capital gain).

### **6.2 Fairness**

Grant Samuel has estimated the full underlying value of Clough, including a premium for control, to be in the range \$1,062-1,162 million which corresponds to \$1.37-1.49 per share. This value is the aggregate of the estimated market value of Clough's business operations together with the realisable value of other assets less non-trading liabilities plus net cash. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect Clough shares to trade on the ASX in the absence of the Proposal or some similar transaction. The valuation is set out in Section 5 of this report.

The total cash payment under the Proposal of \$1.46 for each Clough share falls within the value range of \$1.37-1.49. Accordingly, the Proposal is fair. As the Proposal is fair, it is also reasonable. As the Proposal is fair and reasonable, it is in the best interests of Clough shareholders.

### **6.3 Reasonableness**

As the Proposal is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Proposal and which Clough shareholders should consider in determining whether or not to vote in favour of the Scheme. These factors are set out in the following sections.

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### 6.3.1 Premium for Control

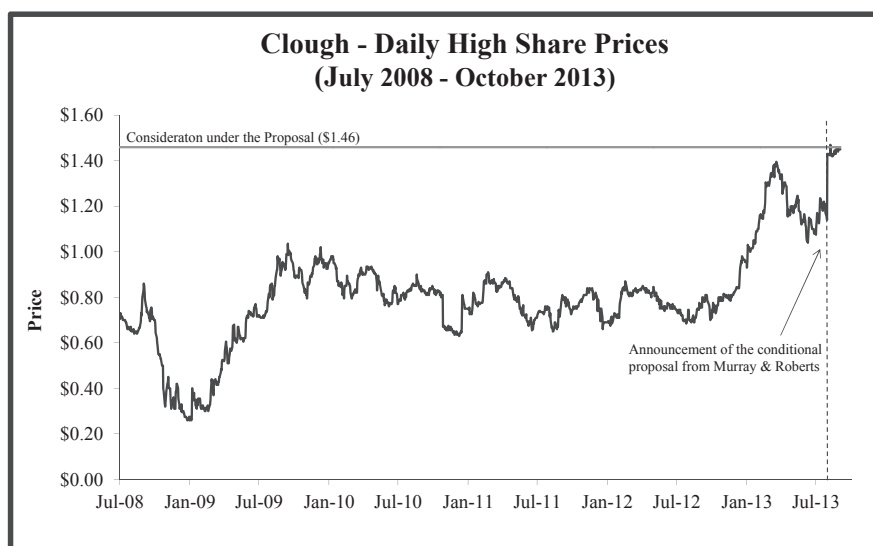
The total cash payment under the Proposal of \$1.46 per Clough share represents a premium of 20-30% to recent prices at which Clough shares traded prior to the announcement of the Proposal:

Clough – Premium over Pre-announcement Prices		
Period	Share Price (\$)	Premium
30 July 2013 – pre-announcement closing price	\$1.115	30.9%
1 week prior to 31 July 2013 – VWAP	\$1.143	27.7%
1 month prior to 31 July 2013 – VWAP	\$1.164	25.4%
3 months prior to 31 July 2013 – VWAP	\$1.145	27.5%
6 months prior to 31 July 2013 – VWAP	\$1.206	21.1%

The level of premiums observed in takeovers varies depending on the circumstances of the target and other factors (such as the potential for competing offers) but tend to fall in the range 20-35%. The premium over recent Clough share prices is consistent with those typically seen in takeover offers.

### 6.3.2 Share Trading in the Absence of the Proposal

In the absence of the Proposal or a similar offer, shareholders could only realise their investment by selling on market at a price which does not include any premium and would incur transaction costs (e.g. brokerage). In these circumstances (assuming no speculation as to an alternative or revised proposal) and based on the trading in Clough shares prior to the announcement of the Proposal, it is likely that, under current market conditions, Clough shares would trade at prices below \$1.46:



Source: IRESS

In this regard:

- the total cash payment under the Proposal of \$1.46 is above Clough's highest trading price (prior to the announcement of the Proposal) since listing on the ASX in March 1998 of \$1.395 which occurred in mid-March 2013;

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- in the six months prior to the announcement of the Proposal, Clough shares traded in the range \$1.03-1.395 and at a VWAP of \$1.206; and
- since the announcement of the Proposal the Clough share price has generally traded at or below \$1.46<sup>39</sup> (at a VWAP to 4 October 2013 of \$1.434).

Accordingly, it is considered unlikely that Clough shares would trade above \$1.46 in the foreseeable future in the absence of the Proposal.

### 6.3.3 Alternatives

While Clough has agreed to no-talk, no-shop and no-due diligence provisions, it can respond to unsolicited approaches from other parties. There is no break fee, Murray & Roberts does not have the right to match or better a superior proposal and there is no other impediment to an alternative acquisition proposal being put by any other party.

However, as Murray & Roberts owns 61.6% of Clough, an acquisition proposal by a third party could not succeed without its agreement. Grant Samuel is not aware of any alternative acquisition proposals for Clough or that Murray & Roberts would have any interest in disposing of its controlling shareholding. Since the announcement of the Proposal on 31 July 2013 there has been ample opportunity for any interested party to make a superior offer. No such offer has been made although the opportunity to do so remains until the Scheme meeting.

It would be open to shareholders to vote against the Scheme in the expectation that Murray & Roberts would make a subsequent higher offer. However, there is no evidence that Murray & Roberts would be prepared to pay a higher price:

- the Proposal is the outcome of due diligence and detailed negotiations involving Clough and Murray & Roberts;
- the Proposal is to be implemented by way of a scheme of arrangement and therefore Murray & Roberts is demonstrating an unwillingness to increase its interest in Clough unless shareholder approval is obtained for it to acquire all of the issued shares that it does not already own;
- the total cash payment under the Proposal reflects a significant premium to Clough shareholders over trading prices prior to the announcement of the Proposal; and
- the total cash payment to be received under the Proposal represents a full price for 100% of Clough and it is unlikely that alternative bidders (if any) would be prepared to offer a price equal to or higher than \$1.46 per share.

Voting against the Scheme involves significant risk that shareholders would not be able to realise a price as high as \$1.46 if they wish to sell at a later date.

### 6.3.4 Franking Credit Benefits

The total cash payment under the Proposal of \$1.46 per share includes a dividend of 14.0 cents per share which is expected to be fully franked.

In Grant Samuel's opinion, it is not appropriate for the assessment of the Proposal to either:

- factor into the value of Clough the value of the franking credits held by Clough (refer to Section 5.7); or

<sup>39</sup> Other than a small number of shares traded on 8 August 2013, 6 September 2013, 9-13 September 2013, 17 September, 20 September and 26 September (when Clough shares traded as high as \$1.47).

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- include in the value of the Proposal the value of the credits attached to any dividend that forms part of the consideration.

The reasons are manifold but not the least of these is that the franking credits do not have value to a company per se but instead only have value to the shareholders of a company (when attached to dividends) and, moreover, the value of those credits to each shareholder varies depending on their individual circumstances (from zero to \$1 per \$1 of franking credit).

Nevertheless, it needs to be recognised that, where part of the consideration offered in a transaction comprises a fully franked dividend, some shareholders may receive additional value from the franking credits (i.e. they are better off in after tax terms than they would have been had the same amount been paid as part of the acquisition price and been received as a capital gain).

The following table shows the net benefits for certain types of shareholders (assuming the shares are held on capital account):

	Foreign Shareholder <sup>40</sup>	Australian Resident Individual <sup>41</sup>			Australian Super-annuation Fund <sup>41</sup>	Australian Corporation
		45% Marginal Rate	30% Marginal Rate	0% Tax Rate		
<b>14.0 cents received as a Fully Franked Dividend</b>						
Dividend	14.0	14.0	14.0	14.0	14.0	14.0
Franking credit	-	6.0	6.0	6.0	6.0	6.0
Gross taxable income	14.0	20.0	20.0	20.0	20.0	20.0
Tax payable	-	(9.3)	(6.3)	-	(3.0)	(6.0)
Tax credit	-	6.0	6.0	6.0	6.0	6.0
Net tax payable	-	(3.3)	(0.3)	6.0	3.0	-
<b>Net after tax income</b>	<b>14.0</b>	<b>10.7</b>	<b>13.7</b>	<b>20.0</b>	<b>17.0</b>	<b>14.0</b>
<b>14.0 cents received as a Capital Gain</b>						
Capital gain	14.0	14.0	14.0	14.0	14.0	14.0
Tax payable	-	(3.3)	(2.2)	-	(1.4)	(4.2)
<b>Net after tax income</b>	<b>14.0</b>	<b>10.7</b>	<b>11.8</b>	<b>14.0</b>	<b>12.6</b>	<b>9.8</b>
<b>Net benefit of dividend (cents)</b>	<b>-</b>	<b>-</b>	<b>1.9</b>	<b>6.0</b>	<b>4.4</b>	<b>4.2</b>

In summary:

- foreign shareholders (who are generally unable to use franking credits) will be no better off, assuming capital gains are taxed at the same rates as dividends;
- individual Australian resident shareholders on the top marginal rate (45% plus the Medicare levy) and holding the shares for more than 12 months will no better off;
- individuals on rates below the top marginal rate and superannuation funds will be better off by varying amounts (up to 6 cents per 14.0 cents of consideration paid as a fully franked dividend);

<sup>40</sup> Assumes the same tax rate applies to dividend income and a capital gain for a foreign shareholder.

<sup>41</sup> Assumes the shares have been held for more than 12 months and that the Medicare levy is 1.5%.



## GRANT SAMUEL



- individuals holding the shares on “revenue account” or owning the shares for less than 12 months (at the time of disposal) will be worse off; and
- Australian corporations will be better off by 4.2 cents per 14.0 cents of consideration paid as a fully franked dividend.

### 6.3.5 Other Matters

There are few issues other than price when shareholders are faced with a cash offer. Other matters that shareholders should take into consideration are:

- if the Proposal is implemented, Clough shareholders will be treated as having disposed of their Clough shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the Clough shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for taxation purposes. Details of the taxation consequences are set out in Section 7 of the Scheme Booklet. If in any doubt, shareholders should consult their own professional adviser;
- Clough will incur transaction costs of approximately \$4.5 million in relation to the Proposal if it is implemented, a proportion of which will be incurred prior to the Scheme meeting. These costs include legal and other adviser’s fees, as well as communications, share registry, printing and mailing costs. If the Proposal is not implemented, Clough will meet this proportion of the costs as a standalone company (albeit they are relatively immaterial in the context of Clough’s revenue and earnings); and
- even if the Scheme is approved by shareholders, it is possible that the Proposal may not be implemented if the any of the other conditions precedent set out in the Scheme Implementation Agreement, including:
  - Clough shareholder approval of the giving of financial assistance to Murray & Roberts to acquire Clough shares and the giving of a financial benefit to Murray & Roberts through provision of the Clough Loan; and
  - Murray & Roberts shareholder approval,are not obtained or waived (if permitted). In this case, Clough would remain listed with a 61.6% controlling shareholder and, in the absence of the Proposal or a similar transaction, it is likely that, under current market conditions, Clough shares would trade at prices below \$1.46 (see Section 6.3.2).

### 6.4 Shareholder Decision

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposal, the responsibility for which lies with the independent directors of Clough. In any event, the decision whether to vote for or against the Proposal is a matter for individual shareholders based on each shareholder’s views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposal, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Clough. This is an investment decision independent of a decision on whether to vote for or against the Proposal upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

## GRANT SAMUEL



## 7 Qualifications, Declarations and Consents

### 7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 490 public independent expert and appraisal reports.

The person responsible for preparing this report on behalf of Grant Samuel is Jaye Gardner BCom LLB (Hons) CA SF Fin. Caleena Stilwell BBus FCA F Fin and Hannah Crawford BCom LLB CA F Fin assisted in the preparation of the report. Each of the above persons has a significant number of years of experience in relevant corporate advisory matters and is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### 7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposal is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any Clough shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Clough and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

### 7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Clough or Murray & Roberts or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that Pepper Property Pty Limited (formerly Grant Samuel Property Pty Limited and owned by The Pepper Group since July 2012) has provided property advisory services to Clough in recent years and has invested in a property development in conjunction with Clough.

Grant Samuel commenced analysis for the purposes of this report in August 2012 prior to the announcement of the Proposal. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Proposal.

Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a total fixed fee of \$425,000 for the preparation of this report (including \$200,000 for the preliminary work). This fee is not contingent on the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

## GRANT SAMUEL



Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

### 7.4 Declarations

Clough has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by the negligence or wilful misconduct by Grant Samuel. Clough has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Clough are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Clough and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

### 7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Clough. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

### 7.6 Other

The accompanying letter dated 11 October 2013 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

11 October 2013

## GRANT SAMUEL



## Appendix 1

## Broker Consensus Forecasts

Clough has not publicly released earnings forecasts for the year ending 30 June 2014 or beyond. Accordingly, the prospective multiples implied by the valuation of Clough in the Grant Samuel report are based on median broker forecasts. These forecasts are not inconsistent with the guidance provide by Clough and are sufficiently close to Clough's FY14 Budget to be useful for analytical purposes.

Set out below is a summary of forecasts prepared by brokers that follow Clough in the Australian stockmarket:

Clough – Broker Forecasts for the Year Ending 30 June 2014 (\$ millions)				
Broker	Date	Underlying Revenue	Underlying EBITDA	Underlying EBIT
Broker 1	21 August 2013	1,535.3	110.7	99.3
Broker 2	28 August 2013	1,590.0	109.4	102.4
Broker 3	21 August 2013	1,601.6	104.6	98.9
Broker 4	27 August 2013	1,597.9	103.3	100.6
Broker 5	21 August 2013	1,559.0	102.0	97.0
<i>Minimum</i>		<i>1,535.3</i>	<i>102.0</i>	<i>97.0</i>
<i>Maximum</i>		<i>1,601.6</i>	<i>110.7</i>	<i>102.4</i>
<b><i>Median</i></b>		<b><i>1,590.0</i></b>	<b><i>104.6</i></b>	<b><i>99.3</i></b>
<i>Average</i>		<i>1,576.8</i>	<i>106.0</i>	<i>99.6</i>

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- the forecasts presented above represent the latest available broker forecasts for Clough;
- the brokers presented are those who have published research on Clough following Clough's announcement of its results for the year ended 30 June 2013 and outlook for the year ending 30 June 2014 on 21 August 2013;
- Grant Samuel is not aware of any other brokers that follow Clough; and
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not incorporate any one-off adjustments or non-recurring items.

## Appendix 2

### Market Evidence

Valuation analysis involves the review of earnings and other multiples that buyers have been willing to pay for similar businesses in the recent past and a review of the multiples at which shares in comparable listed companies trade on stockmarkets. This analysis will not always lead to an obvious conclusion of an appropriate range of multiples as there will often be a wide spread of multiples. It is necessary to consider the particular attributes of the business being valued as well as the prevailing economic conditions.

#### 1 Valuation Evidence from Transactions

Set out below is a summary of transactions for which there is sufficient information to calculate meaningful valuation parameters:

Recent Transaction Evidence – Engineering and Construction Services							
Date	Target	Transaction	Consideration <sup>1</sup> (millions)	EBITDA Multiple <sup>2</sup> (times)		EBIT Multiple <sup>3</sup> (times)	
				Historical <sup>4</sup>	Forecast <sup>4</sup>	Historical	Forecast
<i>Australia</i>							
Sep 2013	SKM	Acquisition by Jacobs Engineering	A\$1,300	6.5	na	7.5	na
Feb 2013	Eastcoast Development	Acquisition by Decmil	A\$19-29	na <sup>5</sup>	1.5-2.3	na	na
Jan 2013	e <sub>2</sub> o	Acquisition by Clough	A\$9-14	na	na	na	1.8-2.8
Oct 2012	G&S Engineering	Acquisition by Calibre	A\$64-71	na	5.7-6.0	na	na
Aug 2012	Rylson Group	Acquisition of 75% by Ausenco	A\$6	na	na	na	3.0
May 2012	Unidel	Acquisition by AMEC	A\$27-41	4.1-6.3	na	5.1-8.0	na
Jan 2012	CTEC	Acquisition by Forge	A\$16-39	na	1.8-0.3	na	na
Dec 2010	Valemus	Acquisition by Lend Lease	A\$960	4.3	3.9	5.3	4.9
Feb 2010	Forge	Acquisition of 18.3% by Clough	A\$182	8.2	3.7-3.8	9.4	3.9-4.1
Nov 2009	Evans & Peck	Acquisition by WorleyParsons	A\$87	4.6	na	4.8	na
Jun 2009	GRD	Acquisition by AMEC	A\$106	4.2-5.4	6.7-7.9	5.0-6.4	7.3-9.4
Nov 2007	Abesque Engineering	Acquisition by Forge	A\$19-21	na	na	na	3.3-4.0
Jun 2007	Metplant Engineering	Acquisition by Bateman	A\$20	na	na	15.0	5.8
Jun 2007	Intermet Engineering	Acquisition by Sedgman	A\$16	na	na	9.4	6.3
May 2007	Decmil	Acquisition by Paladio	A\$50-54	na	na	4.8-5.2	4.0-4.3
<i>North America</i>							
Jul 2013	PROJEX	Acquisition by Ausenco	A\$15	na	na	na	3.0
Jun 2013	Brinderson	Acquisition by Aegion	US\$150	6.3	na	na	na
Jun 2013	Taggart Global	Acquisition by Forge	US\$43	na	3.0	na	3.4
Dec 2012	Bottom Line Services	Acquisition by MasTec	US\$68-79	na	4.0-4.6	na	na
Jul 2012	Shaw Group	Acquisition by Chicago Bridge & Iron	US\$3,155	7.0	5.6	9.6	7.2
May 2011	MACTEC	Acquisition by AMEC	US\$280	na	na	8.8	na

<sup>1</sup> Implied equity value if 100% of the company or business had been acquired.

<sup>2</sup> Represents gross consideration divided by EBITDA. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash. Where information is available, gross consideration is also after adjusting for cash advances made under contracts. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

<sup>3</sup> Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

<sup>4</sup> Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

<sup>5</sup> na = not available

## GRANT SAMUEL



Recent Transaction Evidence – Engineering and Construction Services							
Date	Target	Transaction	Consideration <sup>1</sup> (millions)	EBITDA Multiple <sup>2</sup> (times)		EBIT Multiple <sup>3</sup> (times)	
				Historical <sup>4</sup>	Forecast <sup>4</sup>	Historical	Forecast
Dec 2010	Aker Solutions' P&C Business	Acquisition by Jacobs Engineering	US\$913	7.3	8.6	7.5	na
Dec 2010	Roberts & Schaefer	Acquisition by KBR	US\$297	na	na	na	na
Dec 2010	PSN	Acquisition by Wood Group	US\$627	11.4	9.6	11.9	10.1
Sep 2009	Parsons Brinckerhoff	Acquisition by Balfour Beatty	US\$626	4.0	3.6	5.0	4.4
Jun 2008	Westmar Consultants	Acquisition by WorleyParsons	C\$48	5.5	na	na	na
Apr 2008	INTEC Engineering	Acquisition by WorleyParsons	US\$109	9.5	na	na	na
Mar 2008	Vector Engineering	Acquisition by Ausenco	US\$31	7.1	na	7.5	na
Mar 2008	Sandwell International	Acquisition by Ausenco	C\$77-82	7.6-8.1	na	8.5-9.1	na
Feb 2008	Pipeline Systems	Acquisition by Ausenco	US\$33-39	6.2-7.3	na	6.5-7.7	na
Jun 2007	VECO Corporation	Acquisition by CH2M	US\$366	12.2 <sup>6</sup>	na	na	na
May 2007	Washington Group	Merger with URS	US\$3,297	17.2	na	23.6	na
Feb 2007	Colt Engineering	Acquisition by WorleyParsons	C\$1,035	9.7	na	10.4	8.6
Oct 2004	Parsons E&C	Acquisition by Worley	US\$245	6.9	5.5	7.9	6.1
<b>Other</b>							
Feb 2013	Bergen Group Rosenberg	Acquisition by WorleyParsons	NOK1,088	5.0	na	6.1	na
Oct 2012	TWP Holdings	Acquisition by WorleyParsons	ZAR900	9.3	8.0	10.5	na

Source: Grant Samuel analysis<sup>7</sup>

A brief summary of each transaction is set out below:

***Sinclair Knight Merz Holdings Limited / Jacobs Engineering Group Inc.***

On 9 September 2013, Jacobs Engineering Group Inc. (“Jacobs Engineering”) announced that it had entered into a merger implementation agreement with Sinclair Knight Merz Holdings Limited (“SKM”) to acquire SKM for approximately A\$1.3 billion in cash. The purchase price reflected an enterprise value of approximately A\$1.2 billion plus adjustments for cash, debt and other items. SKM is an employee owned company with capability in strategic consulting, engineering and project delivery. It generates the majority of its revenue (approximately 80%) from Australia although it also has operations in Asia, South America and the United Kingdom. SKM operates across a range of industries including Mining and Metals, Buildings and Infrastructure, Water and Environment and Power and Energy. Mining and Metals and Power and Energy together represent approximately 50% of SKM’s revenue. While there is little overlap in the business operations of Jacobs Engineering and SKM (in terms of capability or geography), the acquisition is seen as a strategic fit for Jacobs Engineering, uniquely positioning it amongst its global peers and adding scale, diversification and growth opportunities to the business.

***Eastcoast Development Engineering Pty Ltd / Decmil Group Limited***

On 25 February 2013, Decmil Group Limited (“Decmil”) announced the acquisition of Eastcoast Development Engineering Pty Ltd (“Eastcoast”). Eastcoast is a Brisbane based specialist engineering business which specialises in the fabrication and installation of high pressure pipes, vessels and tanks which are used in the oil and gas, mining and minerals, heavy industrial, water and power generation industries across Australia and the Pacific Islands. The consideration for Eastcoast includes an initial cash payment of A\$19.275 million and a deferred cash payment of up to A\$10 million on achievement of certain financial targets over the next year. The

<sup>6</sup> No earnings data is publicly available for VECO. However, market commentators have estimated that the transaction was undertaken on an historical EBITDA multiple of 12.2 times.

<sup>7</sup> Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers’ reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.



low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

***e2o Pty Ltd / Clough Limited***

On 31 January 2013, Clough Limited (“Clough”) announced the acquisition of e<sub>2</sub>o Pty Ltd (“e<sub>2</sub>o”), a provider of specialised commissioning, completions and hazardous area inspection services to the energy and resources sectors. The consideration for e<sub>2</sub>o includes an initial cash payment of A\$9 million and an additional A\$5 million in cash and shares being paid over a three year period, subject to meeting certain performance criteria. The low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

***G&S Engineering Services Pty Ltd / Calibre Group Limited***

On 10 October 2012, Calibre Group Limited (“Calibre”) announced the acquisition of G&S Engineering Services Pty Ltd (“G&S Engineering”). G&S Engineering is a Queensland based provider of operations, maintenance and asset management services to the coal sector with revenue of around A\$279 million. The consideration for G&S Engineering includes an initial cash and scrip payment with a value of around A\$53.4 million and a deferred cash payment on achievement of certain 2013 financial performance milestones by G&S Engineering of approximately A\$18 million, with a floor of A\$11 million. The multiples have been calculated by reference to the minimum (A\$64.4 million) and the maximum (A\$71.4 million) consideration under the acquisition agreement.

***Rylson Group / Ausenco Limited***

On 28 August 2012, Ausenco Limited (“Ausenco”) announced the acquisition of a 75% interest in Rylson Group, a Queensland based global provider of business improvement and asset management solutions for A\$4.2 million. The acquisition strengthens Ausenco’s asset optimisation capabilities and Ausenco intends to acquire the remaining 25% of the business in two years.

***Unidel Group Pty Limited / AMEC plc.***

On 30 May 2012, AMEC plc. (“AMEC”) acquired Unidel Group Pty Limited (“Unidel”) for A\$27 million with a further A\$14 million payable over three years subject to achievement of profit targets. Unidel is a Brisbane based consulting, engineering and technical services company focused on the energy, resources and infrastructure sectors. The low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

***CTEC Pty Limited / Forge Group Limited***

On 13 January 2012, Forge Group Limited (“Forge”) announced the acquisition of CTEC Pty Limited (“CTEC”) for an upfront payment of A\$16 million and deferred payments dependent on the net profit before tax of CTEC over the two years ending 30 June 2013 (total maximum payment of A\$38.6 million). CTEC is a Western Australian based company providing engineering, procurement and construction, operations and maintenance solutions to the energy and utilities sectors. The multiples have been calculated based on the net present value of the maximum total payment estimated by Forge in its financial statements for the year ended 30 June 2012 (\$32.3 million) and Forge’s estimate of contribution to revenue and EBITDA for the first full year of ownership of A\$200-250 million and A\$15-20 million respectively. The multiples implied by this transaction are low possibly reflecting the anticipated growth in earnings.

***Valemus Australia Pty Limited / Lend Lease Corporation Limited***

On 20 December 2010, Lend Lease Corporation Limited (“Lend Lease”) announced the acquisition of Valemus Australia Pty Limited (“Valemus”) from Bilfinger Berger AG (“Bilfinger”) for A\$960 million (plus A\$106.6 million being an amount representing profits from 1 January 2010 to 10 March 2011 not distributed to Bilfinger). Valemus provides services in the engineering, construction, residential and non-residential building and engineering services markets in Australia. It operates through the businesses of Abigroup, Baulderstone and Conneq across a number of sectors including roads and tunnels, water, mining and oil and gas, power,



## GRANT SAMUEL



telecommunications and social and institutional building. Bilfinger postponed an initial public offering (“IPO”) for Valemus in July 2010 due to market conditions. The multiples presented are based on the pro forma earnings for Valemus for the year ended 31 December 2009 and the year ending 31 December 2010 as set out in the IPO prospectus.

***Forge Group Limited / Clough Limited***

On 23 February 2010, Clough and Forge agreed to create a strategic alliance and that Clough would become a cornerstone investor in Forge by way of a placement of 10,257,262 shares at \$1.90 per share and a proportional cash takeover offer at \$2.10 per share to all existing Forge shareholders for 50% of their shares in Forge. Forge is a company which provides engineering, construction, management and maintenance services particularly for the resource and oil and gas sectors in Western Australia and West Africa. Shareholders approved the share placement in April 2010 and Clough held a 13% interest when the proportional takeover offer was made. Notwithstanding that the independent expert concluded that Clough’s offer was not fair and not reasonable and the independent directors recommended that Forge shareholders not accept, when the offer closed in May 2010 Clough had acquired a further 18.3%, increasing its interest in Forge to 31.3%. Earnings multiples are based enterprise value adjusted for cash advances received under contracts. The forecast multiples are for the year ending 30 June 2010 and are relatively low reflecting the substantial growth outlook of the business and that the offer price did not represent full value. The range of multiples reflects the earnings guidance provided by Forge in March 2010.

***Evans & Peck Group Limited / WorleyParsons Limited***

On 11 November 2009, WorleyParsons Limited (“WorleyParsons”) announced an off market cash takeover offer for unlisted public company Evans & Peck Group Limited (“Evans & Peck”). The consideration under the offer was \$30.00 per share (A\$87.1 million in aggregate). Evans & Peck provides business advisory services across the transport, power and energy, resources, water and social infrastructure sectors. It specialises in major infrastructure and offers a range of services from business consulting, project strategy and business case development to commercial/contractual support, project delivery and asset management.

***GRD Limited / AMEC plc***

On 11 June 2009, GRD Limited (“GRD”) announced that it had received a conditional proposal from AMEC to acquire all of the shares in GRD for a price of 55 cents per share (\$105.8 million) subject to completion of due diligence and further negotiations. On 20 July 2009, GRD announced that it had agreed to recommend the offer from AMEC. GRD is an international engineering and development company. Its operations comprise GRD Minproc, an engineering and project delivery business specialising in the design, procurement and construction of mineral resources and water to resources projects (with also operates a construction and maintenance business in the resources sector) and Global Renewables, a business which develops projects to recover resources from municipal waste. The offer from AMEC attributed little value to the Global Renewables business. The multiples presented exclude the Global Renewables business with enterprise value calculated based on the value range attributed by the independent expert to Global Renewables (A\$37-63 million). If no value is allowed for Global Renewables, the historical EBITDA and EBIT multiples increase to 7.1 and 8.4 times respectively and the forecast EBITDA and EBIT multiples increase to 10.3 and 12.3 times respectively. Forecast multiples implied by the transaction are higher than historical multiples due to the decline in demand for engineering services as a consequence of the curtailment of capital expenditure by resources companies following the global financial crisis.

***Abesque Engineering & Construction Ltd / Forge Group Limited***

On 30 November 2007, Forge announced the acquisition of Abesque Engineering and Construction Ltd (“Abesque”) for A\$19.3 million comprising A\$10 million cash and 14 million Forge shares. A further 3 million Forge shares could be issued depending on achievement of profit targets. Abesque is a Western Australian engineering, procurement and construction company. The multiples presented are based on the base consideration and the base earnings.

***Metplant Engineering Services Pty Limited / Bateman Engineering N.V.***

On 14 June 2007, Bateman Engineering N.V. (“Bateman”) announced the acquisition of West Australian based mining engineer and project management service provider Metplant Engineering Services Pty Limited (“Metplant”) for A\$19.55 million (comprising an upfront payment of A\$9.8 million and three equal deferred payments over the next three years subject to certain performance hurdles). Metplant was established in 1987 and has specific experience in nickel and gold projects. At the time of acquisition, Metplant was managing projects across South East Asia, Africa, Mongolia, the Kyrgyz Republic and Kazakhstan. Metplant was to be integrated into Bateman’s existing Australian operations and provide additional scale to Bateman’s existing Australian and South East Asian activities. The multiples are calculated by reference to the maximum consideration payable and the acquisition occurred towards the end of the forecast year (30 June 2007).

***Intermet Engineering Pty Limited / Sedgman Limited***

On 27 June 2007, Sedgman Limited (“Sedgman”) announced the acquisition of Perth based resources project management and engineering company Intermet Engineering Pty Limited (“Intermet”). Intermet was established in 2001 and at the time of acquisition employed approximately 80 staff. Intermet’s core business provided design, testing, feasibility, materials handling and project execution services to Australian and international mining companies, including gold, lead, copper and iron ore. The acquisition was expected to yield synergies with PAC-RIM (Sedgman’s existing Australian mining contracting business) and facilitate growth in the Australian metals and mining market. The historical multiples for the transaction are relatively high due to Intermet’s strong project pipeline. Furthermore, it should be noted that the acquisition occurred towards the end of the forecast year (30 June 2007).

***Decmil Australia Pty Ltd / Paladio Group Limited***

On 4 May 2007, Paladio Group Limited (“Paladio”) announced the acquisition of Decmil Australia Pty Ltd (“Decmil Australia”) for A\$50 million comprising 60% cash and 40% Paladio shares. Decmil Australian is a construction and maintenance services provider specialising in accommodation villages, non-process infrastructure and civil contracting to the resources and oil and gas sectors. Additional consideration of A\$4 million cash and 2.5 million options exercisable at \$1 each is payable subject to the satisfaction of financial performance criteria for Decmil for the year ending 30 June 2008. The low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

***PROJEX Technologies Limited / Ausenco Limited***

On 8 July 2013, Ausenco announced the acquisition of PROJEX Technologies Limited (“PROJEX”), a Canadian based provider of engineering, procurement and construction management services to the North American oil sands sector for A\$15.2 million. PROJEX has a strong order book, a solid pipeline of tender opportunities and operates with seven of the top oil sands producers in Canada.

***Brinderson, L.P / Aegion Corporation***

On 24 June 2013, Aegion Corporation (“Aegion”) announced the acquisition of Brinderson, L.P. (“Brinderson”) for US\$150 million. Brinderson is an integrated service provider of maintenance, construction, engineering and turnaround activities for the upstream and downstream oil and gas markets. It is primarily focussed on large oil and gas customers in California. Through long term contracts and nearly 40 master service agreements, Brinderson derives around 75% of its revenue from recurring activities.

***Taggart Global LLC / Forge Group Limited***

On 3 June 2013, Forge announced the acquisition of Taggart Global LLC (“Taggart”), a provider of asset management, engineering and engineering, procurement and construction services across the mineral processing and materials handlings sectors in the United States, South Africa and China. The consideration for Taggart comprises an initial cash payment of US\$43 million plus potential future earn-out amounts of up to a maximum value of US\$25 million on achievement of earnings milestones between 2014 and 2016. The deferred amounts will be met on a 70/30 cash and scrip basis. The multiples have been calculated by reference to the initial payment. Forge has advised that the effective EBITDA multiple remains at 3 times if the full earn out is paid.

## GRANT SAMUEL

***Bottom Line Services, LLC / MasTec Inc.***

On 1 December 2012, MasTec Inc. ("MasTec" announced the acquisition of Bottom Line Services, LLC ("Bottom Line"), a provider infrastructure services (including pipeline and facility construction, painting and maintenance) to the natural gas and petroleum sectors, primarily in eastern Texas. The consideration for Bottom Line comprises an initial cash payment of US\$67.6 million plus a five year earn-out valued at US\$11.1 million at the date of acquisition. The multiples have been calculated by reference to the maximum consideration.

***The Shaw Group Inc. / Chicago Bridge & Iron NV***

On 30 July 2012 The Shaw Group Inc. ("Shaw Group") and Chicago Bridge & Iron NV ("CB&I") announced an agreement under which subject to shareholder approval of both companies CB&I would acquire Shaw Group for US\$3,155 million (US\$46 per share in cash (US\$41) and stock (\$US5)). The Shaw Group is a global provider of engineering, construction, technology, fabrication, remediation and support services in the energy, chemicals, environmental, infrastructure and emergency response industries. In May 2012 Shaw Group had announced the sale of its non-core Energy & Chemicals business to Technip SA for €225 million (completed on 31 August 2012) and an intention to exercise its put option on Westinghouse Electric shares to Toshiba. The merger of CB&I and Shaw creates one of the largest engineering and construction companies focussed on the global energy industry. The multiples shown in the table are as announced by CB&I.

***MACTEC Inc. / AMEC plc.***

On 18 May 2011, AMEC announced the acquisition of United States based MACTEC Inc. ("MACTEC") for US\$280 million. MACTEC is an engineering and design, environmental and construction firm focused on the industrial/commercial, infrastructure (transportation and municipal), energy and government sectors. It offers a portfolio of solutions from renewable energy to facility asset management. The acquisition complemented AMEC's existing Environment and Infrastructure business in North America.

***Aker Solutions ASA Process & Construction Business / Jacobs Engineering Group Inc.***

On 21 December 2010, Jacobs Engineering announced the acquisition of certain components of Aker Solutions ASA's ("Aker") process and construction business for US\$913 million (US\$675 million after adjusting for net cash). The business provides engineering, design, procurement, construction, project management and maintenance services in the mining and metals, oil and gas, energy and environmental end markets. The business operates principally in the United States, South America, China, Australia/Asia Pacific and Western Europe. The acquisition significantly expands Jacob's global presence in the mining and metals market and involves expansion into a new market, South America. The historical multiples are calculated based on the actual result for the acquired business for the year ended 31 December 2010 (which was marginally higher than annualised results for the nine months ended 30 September 2010) at a 11.3% EBITDA margin (EBITDA margin had fluctuated between 6-12% in the four years prior to divestment). The forecast multiples are higher than the historical multiples as they are based on broker forecasts which assume a decline in EBITDA margin to 9%.

***Roberts & Schaefer Company / KBR Inc.***

On 21 December 2010, KBR Inc. ("KBR") announced the acquisition of all of the shares in ENI Holdings, Inc. the holding company for Chicago based Roberts & Schaefer Company ("R&S") for US\$297 million. R&S provides engineering, procurement and construction services for bulk material handling and processing systems in the mining and minerals, power, industrial, refining, precious and base metals industries (including ports and marine capabilities). R&S has major operations in the United States, Australia, Poland, Indonesia and India. As R&S was owned by a private equity fund earnings information is limited to KBR's guidance for 2011 revenue of US\$300 million and that the R&S acquisition was expected to contribute US\$0.11 to 2011 earnings per share.

***PSN Limited / John Wood Group Plc.***

On 13 December 2010, John Wood Group Plc. ("Wood Group") announced the acquisition of all of the shares in PSN Limited ("PSN") for US\$627 million. PSN is an international energy services company employing over 8,000 people worldwide and operating in 23 countries. It provides life of field support to oil and gas facilities, through brownfield engineering modifications, production enhancement, operations management, maintenance



management and decommissioning services. The business is organised into three geographical operating regions: United Kingdom, Americas and International. PSN's EBITDA margin has increased from 5.7% in 2007 to 8.3% in 2010. The forecast multiples are based on the year ended 31 December 2010 and consequently are more akin to historical multiples. PSN will merge with Wood Group's Production Facilities business and is expected to result in synergies of US\$15 million per annum from a reduction in operational overheads and corporate costs by year three.

***Parsons Brinckerhoff Inc. / Balfour Beatty plc.***

On 17 September 2009, Balfour Beatty plc. ("Balfour Beatty") announced the acquisition of employee owned, United States based Parsons Brinckerhoff Inc. ("Parsons Brinckerhoff") for US\$626 million. Parsons Brinckerhoff is a global professional services firm providing services across the project lifecycle from management consultancy and planning to design and engineering; programme, project and construction management services and operational, maintenance and support services. It has a strong focus on civil infrastructure, particularly transportation in the United States. Its key markets are the United States (around 50%), the United Kingdom, Australia, Asia, the Middle East and South Africa.

***Westmar Consultants Inc. / WorleyParsons Limited***

On 6 June 2008, WorleyParsons announced the acquisition of Westmar Consultants Inc. ("Westmar"), a Canadian engineering consultant specialising in the resource, mining, port, civil and transport sectors for C\$47.5 million. Westmar was to be integrated into WorleyParsons' existing Infrastructure Division and provide specific experience in planning and design, pit to port development, offshore structures, bulk materials and liquids handling and transport. The acquisition offered WorleyParsons increased strength in international markets through offices in Canada and north western United States, the addition of over 270 professional staff and a substantial client list.

***INTEC Engineering Inc. / WorleyParsons Limited***

On 1 April 2008, WorleyParsons announced the acquisition of United States based, hydrocarbon engineering and consulting company INTEC Engineering Inc. ("INTEC") for US\$108.5 million. INTEC offered specialist capabilities and experience in deepwater oil and gas exploration, production and transport and worked with leading global public and private oil and gas companies. Historical multiples implied by the transaction are relatively high which may reflect the positive market outlook for deepwater hydrocarbon exploration and construction projects.

***Vector Engineering Inc. / Ausenco Limited***

On 5 March 2008, Ausenco Limited ("Ausenco") announced the acquisition of Vector Engineering Inc. ("Vector"), a United States mining services, environmental, energy and water engineering consultant for US\$31 million. Vector was a leading international geotechnical civil, environmental, waste and water service consultant employing approximately 400 staff primarily in South America. Vector offered Ausenco 22 years market experience; exposure to broader global markets (particularly in South America); specific consulting experience and greater service capabilities across environmental waste, resources and energy (including nuclear, oil and gas) sectors; and a portfolio of clients which included leading international minerals and mining companies.

***Sandwell International Inc. / Ausenco Limited***

On 5 March 2008, Ausenco also announced the acquisition of Vancouver based engineering contracting company Sandwell International Inc. ("Sandwell") for C\$82 million (including a deferred payment of C\$5 million due in March 2009 contingent on Sandwell's performance). Sandwell was established in 1948 and was an international provider of engineering, industrial process and project design, renewable energy systems and design management, feasibility and planning services to the civil, power, water, port, energy (including offshore) and resources sectors. Sandwell was expected to contribute approximately 25% of Ausenco's revenue in the first full year of operation. In 2008 Sandwell employed over 650 staff and operated through offices in Canada, the United States, Brazil, Australia, South Africa, India, Peru and Indonesia. The low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

## GRANT SAMUEL

***Pipeline Systems Inc. / Ausenco Limited***

On 5 February 2008, Ausenco announced the acquisition of Pipeline Systems Inc. ("PSI") for US\$38.9 million (including a deferred payment of US\$5.8 million). PSI was established in 1979 and was a multi-discipline engineering services business with a leading global position in the design and delivery of slurry pipeline transport systems. PSI had a diversified client base primarily in the iron ore, bauxite and base metals sectors. It employed over 450 people predominantly in South America and had a network of offices in Brazil, Chile, Peru, the United States, Canada, China and Australia. The acquisition complemented Ausenco's mining and minerals engineering services business and provided diversification into the process infrastructure engineering sector. The low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

***VECO Corporation / CH2M Hill Companies, Ltd***

On 16 June 2007, CH2M Hill Companies, Ltd ("CH2M") announced that terms had been agreed to acquire VECO Corporation ("VECO") for US\$365.7 million. CH2M is an employee owned global provider of program management, construction management and design services primarily in the areas of transportation, water, energy, environment, communication, construction and industrial facilities. VECO provides engineering, construction and field support services in the oil and gas sector in Alaska, west Canada, the United States, Russia and the Middle East. No earnings data is available for VECO. However, market commentators have estimated that the transaction was undertaken on an historical EBITDA multiple of 12.2 times.

***Washington Group International Inc. / URS Corporation***

On 27 May 2007, global engineering and construction companies URS Corporation ("URS") and Washington Group International Inc. ("Washington") entered into a merger agreement for a combined cash and scrip consideration of approximately US\$80.00 per Washington share (US\$2.3 billion total equity value excluding options). Washington provided design, engineering, construction, project management and remediation services to public and private clients internationally within power, infrastructure, mining, industrial, energy, environment and defence sectors. The merger was generally viewed as a complementary move which would create a large-scale provider of both engineering and construction services and which would be capable of more competitively bidding for large scale infrastructure, power and environmental projects. On 4 November 2007, following opposition from key shareholders and negative market commentary in relation to the original offer, the consideration was increased to approximately US\$97.89 per share (US\$2.8 billion total equity, excluding options). The earnings multiples implied by the transaction are high reflecting the diverse range of activities, the growth outlook and the expectation of significant synergy savings.

***Colt Engineering Corporation / WorleyParsons Limited***

On 8 February 2007, WorleyParsons announced the C\$1.03 billion (A\$1.13 billion) acquisition of Canadian based Colt Engineering Corporation ("Colt"), a contracting, engineering and construction management business specialising in the hydrocarbon industry. The acquisition provided WorleyParsons with a platform for continued growth in the Canadian oil and gas sector (particularly oil sands) and strategic benefits including improved market position and a strong management team. At the time of acquisition Colt employed approximately 4,600 staff. The earnings multiples are calculated by reference to pro forma earnings which reflect changes to be made to remuneration costs.

***Parsons E&C Corporation / Worley Group Limited***

In October 2004 ASX listed Worley Group Limited ("Worley") announced the acquisition of Parsons E&C Corporation ("Parsons") for US\$245 million. At the time of acquisition Worley employed 4,500 staff and operated primarily within Australia, South-East Asia and the Middle East. Parsons was a leading Texas based design, engineering and project management provider, with experience working in large scale, oil, gas, power, chemical and related sectors projects and working with leading international clients. Parsons employed approximately 5,400 staff and operated across the United States, Canada, Russia, Central Asia, China and the Middle East. This was a company transforming transaction and the merged, rebranded entity, WorleyParsons, benefited from greater contract revenue, geographical diversification, scale to complete large global projects and increased skill capabilities. The forecast multiples are calculated by reference to the actual results for the six



months ended 30 June 2004 annualised. It should also be noted that, although there was little geographic and capability overlap, synergies were expected to be achieved.

***Bergen Group Rosenberg AS / WorleyParsons Limited***

On 21 February 2013, WorleyParsons announced the acquisition of Bergen Group Rosenberg AS (“Rosenberg”) for cash consideration of NOK1,088 from Bergen Group ASA. Rosenberg is a Norwegian offshore oil and gas engineering, procurement and construction services provider involved in front end engineering and design, maintenance, modifications and operations, subsea fabrication and installation work.

***TWP Holdings (Proprietary) Limited / WorleyParsons Limited***

On 24 October 2012, Worley Parsons announced an agreement to acquire TWP Holdings (Proprietary) Limited (“TWP”) for cash consideration of ZAR900 million from Basil Read Holdings Limited (“Basil Read”). TWP is a major provider of engineering design, procurement, construction management and asset services largely within the mining sector. It primarily operates in South Africa but also has operations in greater Africa, Latin America and Australia. The acquisition was subject to the approval of Basil Read shareholders and was completed in March 2013.

**2 Valuation Evidence from Comparable Companies**

The sharemarket ratings of selected Australian listed companies operating in the engineering and construction services sector are set out below.

<b>Sharemarket Ratings – Listed Engineering and Construction Services Companies<sup>8</sup></b>									
Company	Market Capitalisation <sup>9</sup> (A\$ millions)	EBITDA Multiple <sup>10</sup> (times)				EBIT Multiple <sup>11</sup> (times)			
		Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3	Historical	Forecast Year 1	Forecast Year 2	Forecast Year 3
<b><i>Diversified Engineering and Construction</i></b>									
Leighton	5,678	4.1	3.6	3.6	3.7	10.3	7.9	7.9	7.8
Downer EDI	2,117	3.6	3.6	3.6	3.6	6.6	6.5	6.5	6.9
UGL	1,269	8.4	7.0	6.7	6.4	12.4	9.5	9.1	8.4
Transfield	584	5.1	4.8	4.5	4.3	10.9	9.2	8.4	7.9
<b><i>Resources Engineering and Construction</i></b>									
WorleyParsons	5,763	10.3	9.2	8.7	8.3	12.3	10.8	10.2	9.6
Monadelphous	1,657	6.1	7.1	7.0	7.3	6.9	8.2	8.1	8.7
RCR Tomlinson	467	8.8	6.2	5.4	4.9	11.7	8.4	6.9	6.1
Forge	421	3.3	3.1	3.0	2.9	4.2	3.8	3.9	3.8
Ausenco	199	3.1	6.4	5.4	4.7	3.6	9.4	7.3	6.2
Lycopodium	181	5.8	na	na	na	6.4	na	na	na
Sedgman	168	2.2	2.7	2.7	2.9	4.0	5.0	4.9	5.4
Macmahon	164	1.6	1.7	1.7	1.8	3.2	4.4	4.4	4.0
Calibre	148	3.2	3.1	3.3	3.2	6.9	5.7	4.9	4.0

Source: Grant Samuel analysis<sup>12</sup>

<sup>8</sup> The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent three forecast years.

<sup>9</sup> Market capitalisation based on sharemarket prices as at 4 October 2013.

<sup>10</sup> Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

<sup>11</sup> Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

<sup>12</sup> Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers’ reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

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The multiples shown above are based on sharemarket prices as at 4 October 2013 and do not reflect a premium for control.

All of the companies have a 30 June year end with the exception of Leighton Holdings Limited (“Leighton”) and Ausenco which have a 31 December year end. No adjustments have been made to align year ends and therefore the forecast year 1 multiples for each company are for the year ending 31 December 2013.

Engineering and construction contracting is often undertaken via joint ventures (both incorporated and unincorporated) and partnerships. The majority of Clough’s earnings are derived in from joint ventures and it provides sufficient information to enable analysts to review financial performance on a proportional share of earnings (or “underlying”) basis. The extent to which the earnings of the selected comparable companies are equity accounted impacts the usefulness of the valuation metrics implied by sharemarket trading (if no adjustments are made). In addition, market analysts only present forecasts for certain of the selected companies on an underlying basis. Therefore, for the purposes of this review and where sufficient information exists, Grant Samuel has prepared the valuation parameters on an underlying basis. In this regard:

- the multiples for Leighton, Downer EDI Limited (“Downer”), UGL Limited (“UGL”), Transfield Services Limited (“Transfield”) and WorleyParsons have been calculated on an underlying basis (i.e. no adjustment made to enterprise value for the equity accounted investment and EBITDA and EBIT have been presented on an underlying basis, to the extent possible based on available information); and
- the multiples for the remaining companies have been calculated by excluding the equity accounted investment and the share of net profit after tax of equity accounted investments (where applicable). In these cases, equity accounted investments have not been material or there have been no equity accounted investments (e.g. Monadelphous).

In addition, where comparable companies have recorded as a liability loans and advances from joint venture entities and the information is available, these loans and advances have been offset against cash.

A brief description of each company is set out below:

***Leighton Holdings Limited***

Leighton is a leading global contractor with operations in more than 20 countries in Asia, the Middle East, Southern Africa, Australia and New Zealand. It is the holding company for five operating companies: Leighton Contractors, Thiess, John Holland, Leighton Asia, India and Offshore and Leighton Properties and has a 45% interest in Habtoor Leighton Group which operates in the Middle East. At 30 June 2013 approximately 43% of Leighton’s A\$40.1 billion work-in-hand was from the resources sector, 40% from economic infrastructure (e.g. rail, roads and bridges, telecommunications and oil and gas pipelines), 8% from social infrastructure and 9% from property. Leighton is the largest contract miner in the world and challenging market conditions in 2013 led to a 20% net reduction in contract mining work across the group (or A\$3.7 billion). Hochtief AG holds a 56.4% interest in Leighton and is itself majority owned by Spanish company, ACS Actividades de Construccion y Servicios S.A.

***Downer EDI Limited***

Downer EDI provides engineering, construction and asset management services to the minerals and metals, oil and gas, power, transport infrastructure, telecommunications, water and property sectors primarily in Australia and New Zealand but also in the Asia-Pacific region, Southern America and southern Africa. At 30 June 2013, Downer EDI had work-in-hand totalling A\$19 billion including A\$6.7 billion in Australian infrastructure, A\$5.6 million in mining, A\$4 billion in rail and A\$2.7 billion on New Zealand infrastructure. Work-in-hand is comprised of schedule of rates work (38%), fixed price work (25%), recurring/annuities work (30%), cost plus work (3%) and alliance work (1%).

***UGL Limited***

UGL is a global services company comprising two businesses, DTZ and Engineering. DTZ operates in 52 countries providing property services including investment agency, leasing agency, property and facilities management, project and building consultancy, valuation, research and investment and asset management.





Engineering provides engineering, construction and maintenance services to the rail, transport and technology systems, water, power, resources and defence as well as operations and maintenance capabilities in Australia, New Zealand, South East Asia and India. At 30 June 2013 UGL's order book totalled A\$8.3 billion of which 58% was in Engineering. In August 2013 UGL announced its intention to pursue a demerger of DTZ and Engineering in the year ended 30 June 2015. UGL is trading at a premium to its engineering peers reflecting the contribution from the higher margin DTZ property business.

#### ***Transfield Services Limited***

Transfield provides operations and maintenance, asset management, project and capital management outsourcing and infrastructure development services company. It operates in Australia and New Zealand, the Americas (United States, Canada and Chile) and the Middle East and Asia. A significant proportion of its activities are undertaken through joint ventures and partnerships. It also holds a 20% interest in RATCH Australia Corporation Limited which invests in infrastructure activities. In the year ended 30 June 2013 Transfield recorded post tax impairment charges totalling A\$296 million including in its Easternwell minerals exploration and marine geotechnical businesses and its United States downstream maintenance business.

#### ***WorleyParsons Limited***

WorleyParsons is an Australian based global provider of professional services to the resources and energy sectors and complex process industries. Representing around 65% of revenue and earnings, hydrocarbons is its major area of expertise with WorleyParsons providing services across the upstream, mid stream and downstream sectors including early conceptual studies to the executive of major projects as well as asset management and enhancement programs. Canada, Australia and the United States are WorleyParson's largest markets, however, it has operations around the world including in the key growth regions of Asia, the Middle East, North Africa and India. WorleyParsons trades close to its global peers at a premium to its Australian peers as it is regarded as a global industry participant and a leader in the hydrocarbons sector.

#### ***Monadelphous Group Limited***

Monadelphous Group Limited ("Monadelphous") provides engineering services to the resources, energy and infrastructure sectors in Australia and Papua New Guinea. In the year ended 30 June 2013, resources (iron ore and coal) projects contributed over 60% of revenue and energy projects contributed 27% of revenue. The majority of revenue (approximately 70%) was generated by the Engineering Construction division, providing multi-disciplinary project management and engineering construction services, mainly to iron ore, coal and oil and gas companies. The Maintenance and Industrial Services division contributed 25% of revenue. Monadelphous has experienced substantial growth in recent years (revenue has more than doubled over the last three years) and it is focussed on positioning the business in the tightening market conditions.

#### ***Forge Group Limited***

Forge is a Western Australia based provider of engineering, procurement and construction services as well as asset management services to the resources, energy and public utilities sectors. The year ended 30 June 2013 was a period of consolidation and rebranding for Forge. It operates in eight countries in four continents with over 90% of 2013 revenue derived in Australia. In June 2013 Forge announced the acquisition of North American based Taggart Global, contributing US\$350 million in revenue and geographically diversifying its business. This acquisition was completed on 3 July 2013 and therefore the historical multiples presented do not reflect the future Forge business. Forge commenced 2014 with a A\$1.3 billion order book.

#### ***RCR Tomlinson Limited***

RCR Tomlinson Limited ("RCR Tomlinson") is an integrated engineering company providing engineering, construction, maintenance and repair services to the metals, resources, oil and gas, power and energy sectors in Australia, New Zealand and Asia. In April 2013 RCR Tomlinson announced the acquisition of Norfolk Group Limited (a provider of integrated engineering services in the electrical, heating, ventilation and air-conditioning and facilities management markets in Australia, New Zealand and Vietnam) for A\$78 million cash by way of a scheme of arrangement. This transaction was completed on 31 July 2013 and consequently the historical multiples for RCR Tomlinson are not meaningful. Furthermore, as the contribution to RCR Tomlinson's future

## GRANT SAMUEL



earnings from services to the resources sector will be lower, the forecast multiples presented may not provide meaningful guidance for the valuation of Clough.

***Ausenco Limited***

Ausenco provides engineering, construction and project management services to the resources and energy markets. The minerals and metals processing and process infrastructure sectors represents approximately 50% of revenue but substantially all of Ausenco's earnings. More than 80% of Ausenco's revenue is generated from non-Australian based projects. The historical multiples relate to the year ended 31 December 2012 and since then Ausenco has provided profit guidance indicating a decline in revenue and profits as a consequence of the downturn in the mineral resources sector and margin deterioration in its Asia/Pacific and Africa segment.

***Lycopodium Limited***

Lycopodium Limited ("Lycopodium") is an engineering consulting firm providing services in the mining, metallurgical and manufacturing sectors. Headquartered in Perth, Western Australia, Lycopodium has significant international operations (approximately half of total revenue). Lycopodium's minerals division provides engineering and related services to a wide variety of commodities and generates more than 70% of revenue and over 60% of its earnings. Lycopodium expects demand for its services to be lower than in the past two years as a consequence of the outlook for the mineral resources sector and the nearing completion of three major projects. No brokers had released research on Lycopodium following the release of its 2013 results on 23 August 2013 prior to this report being completed.

***Macmahon Holdings Limited***

Macmahon Holdings Limited ("Macmahon") provides end to end mining services throughout Australia, New Zealand, South East Asia, Mongolia and Africa across a range of base and precious metals and commodities. It specialises in surface mining, underground mining, engineering, infrastructure services and plant and maintenance. During the year ended 30 June 2013 Macmahon exited its traditional construction activities to focus on its mining activities. At 30 June 2013 Macmahon's order book was A\$3.2 billion plus A\$383 million of expected contract renewals. Macmahon is trading at a discount to its peers reflecting its recent performance, the negative outlook for the mineral resources sector and the weighting of its operations to contract mining services. Leighton Holdings holds a 19.6% interest in Macmahon.

***Calibre Group Limited***

Calibre is an engineering services and project delivery group servicing the resources and infrastructure markets in Australia with specific capability in heavy haul rail projects. Calibre was listed in August 2012 with a strategy of growing its existing businesses, expanding its geographic presence in Australia and in select international markets as well as its market sector reach and developing new asset management products and services and new rail products and markets. Calibre's performance during the year ended 30 June 2013 was below prospectus guidance as a consequence of the downturn in resource sector activity and it has implemented cost reduction measures to reposition the company. At 30 June 2013 Calibre's order book was A\$625 million, including A\$193 million of recurring revenue. Calibre's free float is restricted with 58% owned by funds managed by First Reserve XII Advisors, LLC (a global energy and natural resources focused investment firm), a further 11% is owned by a co-founder of the business and certain other pre-listing shareholders have agreed not to dispose a portion of their shares unless the FR Funds disposes of its shares.

***Sedgman Limited***

Sedgman provides project and operational services to the resources sector. Traditionally Sedgman focused on the coal sector but in recent years has broadened its activities. Approximately 60% of revenue and earnings are derived from the design, construction and commissioning of coal handling and preparation plants, mineral processing plants and other related equipment. The remainder is earned through the operation and ownership of coal handling and preparation plants and ore crushing and screening plants. Approximately 90% of Sedgman's revenue is derived from its Australian operations with the balance mainly coming from activities in Mongolia, South Africa, Mozambique and Chile. Leighton Holdings has a 33.2% interest in Sedgman.



## Appendix 3

### Selection of Discount Rate

#### 1 Overview

A discount rate in the range 11-12% has been selected as appropriate to apply to the forecast nominal ungeared after tax cash flows of Clough's business operations.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome or shortcomings of applying any particular theoretical model.

Having said this, the discount rate that Grant Samuel has adopted is reasonable relative to the rates derived from theoretical models, which estimate the weighted average cost of capital ("WACC") appropriate for these assets. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC. These are:

- cost of equity;
- cost of debt; and
- debt/equity mix.

WACC is a commonly used basis but it should be recognised that it has shortcomings in that it:

- represents a simplification of what are usually much more complex financial structures; and
- assumes a constant degree of leverage which is seldom correct.

In selecting the discount rate range, Grant Samuel utilised the Capital Asset Pricing Model ("CAPM") as the starting point in its analysis to determine a cost of equity. The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice.

However, while the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and it is easy to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model. For example:

- the CAPM theory is based on expectations but uses historical data as a proxy. The future is not necessarily the same as the past;
- the measurement of historical data such as risk premia and beta factors is subject to very high levels of statistical error. Measurements vary widely depending on factors such as source, time period and sampling frequency;

## GRANT SAMUEL



- the measurement of beta is often based on comparisons with other companies. None of these companies is likely to be directly comparable to the entity for which the discount rate is being calculated and may operate in widely varying markets;
- parameters such as the debt/equity ratio and risk premium are based on subjective judgements; and
- there is not unanimous agreement as to how the model should adjust for factors such as taxation. The CAPM was developed in the context of a “classical” tax system. Australia’s system of dividend imputation has a significant impact on the measurement of net returns to investors.

The cost of capital is fundamentally a matter of judgement, not merely a calculation. In this context, regard was also had to other methods such as the implied cost of equity based on the Gordon Growth Model (or perpetuity formula), market evidence that suggests that equity investors have substantially repriced risk since the global financial crisis and the fact that interest rates are at low levels by comparison with historical norms. The CAPM methodology does not readily allow for these types of events.

The cost of debt has been determined by reference to the pricing implied by the debt markets in Australia. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over the forecast period, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of the industry in general and comparable companies, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flow stream.

The following sections set out the basis for Grant Samuel’s determination of the discount rates for Clough and the factors which limit the accuracy and reliability of the estimates.

## 2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore a relevant measure for estimating a company’s weighted average cost of capital. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as Australian government bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market in general, then the return required on the investment would be equal to the return required from the market in general (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;



- cyclicity of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market and an investment with a beta of less than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta (Rm - Rf)$$

Where:

- $Re$  = the cost of equity capital;
- $Rf$  = the risk free rate;
- $Beta$  = the beta factor;
- $Rm$  = the expected market return; and
- $Rm - Rf$  = the market risk premium.

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a classical tax system is as follows:

$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

Where:

- $E/V$  = the proportion of equity to total value (where  $V = D + E$ );
- $D/V$  = the proportion of debt to total value;
- $Re$  = the cost of equity capital;
- $Rd$  = the cost of debt capital; and
- $t$  = the corporate tax rate

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

■ **Risk Free Rate**

Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official “risk free” rate but rates on government securities are typically used as an acceptable substitute. More importantly, forecast rates for each future period are not readily available. In practice, the long term Commonwealth Government Bond rate is used as a substitute in Australia and medium to long term Treasury Bond rates are used in the United States. It should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has

## GRANT SAMUEL



the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a very limited market for bonds of more than ten years. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate is a widely used benchmark. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.

■ **Market Risk Premium**

The market risk premium ( $R_m - R_f$ ) represents the “extra” return that investors require to invest in equity securities as a whole over risk free investments. This is an “ex-ante” concept. It is the expected premium and as such it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and therefore the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term numbers are highly volatile and that a long term average return would be a fair indication of what most investors would expect to earn in the future from an investment in equities with a 5-10 year time frame.

In the United States it is generally believed that the premium is in the range of 5-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited and mainly derive from the Officer Study<sup>1</sup> which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation) and indicated that the long run average premium was in the order of 8% using an arithmetic average but subject to significant statistical error<sup>2</sup>. More recently, the Officer Study has been updated to 2008<sup>3</sup> with the long term average declining to 7.1%. However, due to concerns about the earlier market data, Officer now places emphasis on the average risk premium since 1958 which is estimated to be 5.7% ignoring the impact of imputation<sup>4</sup>.

In addition, the market risk premium is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase or decrease their expected premium. Indeed, prior to 2008 there were arguments being put forward that the risk premium was lower than it had been historically while today there is evidence to indicate that current market risk premiums are above historical averages. However, there is no accepted approach to deal with changes in market risk premiums for current conditions.

■ **Beta Factor**

The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past

<sup>1</sup> R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., “Share Market and Portfolio Theory: Readings and Australian Evidence” (second edition), University of Queensland Press, 1989 (“Officer Study”).

<sup>2</sup> The “true” figure lies within a range of approximately 2-10% at a 95% confidence level.

<sup>3</sup> R.R. Officer and S. Bishop, “Market Risk Premium: A Review Paper” (August 2008) and “Market Risk Premium: Further Comments” (January 2009), papers prepared for Energy Networks Association, Australian Pipeline Industry Australia and Grid Australia.

<sup>4</sup> Where the market return explicitly includes a component for imputation benefits of 1.0 the market risk premium over the same period is 6.4%. Consequently, Officer and Bishop recommend that, if no allowance is made for imputation, the generally accepted level of 6% for the market risk premium is appropriate. In comparison, they recommend that where the market return explicitly includes a component for imputation benefits greater than 0.3 the market risk premium for Australia should be increased to 7%.





share price data and use it as a proxy for the future but it must be recognised that the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time.

The appropriate beta is the beta of the company being acquired rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company may be utilised. However, it is also appropriate (and may be necessary if the investment is not listed) to utilise betas for comparable companies and sector averages (particularly as those may be more reliable).

However, there are very significant measurement issues with betas which mean that only limited reliance can be placed on such statistics. There is no "correct" beta. For example, the standard error of the AGSM's estimate of the beta for Clough has generally been in the order of 0.40 meaning that for a beta of, say, 1.45 even at a 68% confidence level, the range is 1.05 to 1.85.

- **Debt/Equity Mix**

The tax deductibility of the cost of debt means that the higher the proportion of debt the lower the WACC, although this would be offset, at least in part, by an increase in the beta factor as leverage increases.

The debt/equity mix assumed in calculating the discount rate should be consistent with the level implicit in the measurement of the beta factor. Typically, the debt/equity mix changes over time and there is significant diversity in the levels of leverage across companies in a sector. There is a tendency to calculate leverage at a point in time whereas the leverage should represent the average over the period the beta was measured. This can be difficult to assess with a meaningful degree of accuracy.

The measured beta factors for listed companies are "equity" betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel's view this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Deleveraging and releveraging is also incorrectly calculated based on debt levels at a single point in time.

In addition, the actual debt and equity structures of most companies are typically relatively complex. It is necessary to simplify this for practical purposes in this kind of analysis.

Finally, it should be noted that, for this purpose, the relevant measure of the debt/equity mix is based on market values not book values.

- **Specific Risk**

The WACC is designed to be applied to "expected cash flows" which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.



## GRANT SAMUEL



### 3 Calculation of WACC for Clough

#### 3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM to be in the range 10.0-11.2% as follows:

- **Risk Free Rate**

Grant Samuel has adopted a risk free rate of 4%. The risk free rate approximates the current yield to maturity on ten year Australian Government bonds.

- **Market Risk Premium**

Grant Samuel has consistently adopted a market risk premium of 6% and believes that, particularly in view of the general uncertainty, this continues to be a reasonable estimate. It:

- is not statistically significantly different to the premium suggested by long term historical data;
- is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
- makes no explicit allowance for the impact of Australia's dividend imputation system.

- **Beta Factor**

Grant Samuel has adopted a beta factor in the range 1.0-1.2 for the purposes of valuing Clough's business operations.

Grant Samuel has considered the beta factors for a range of engineering and construction contracting companies in determining an appropriate beta for Clough's business operations. The betas have been calculated on two bases relative to each company's home exchange index and relative to the Morgan Stanley Capital International Developed World Index ("MSCI"), an international equities market index that is widely used as a proxy for the global stockmarket as a whole. Betas calculated with reference to the local index rather than the MSCI are arguably more relevant since while Clough does have operations in Papua New Guinea and Thailand, it arguably does not operate internationally and is not widely held by international investors (other than the long term holding of Murray & Roberts).

A summary of betas for selected comparable listed companies is set out in the table below:

GRANT SAMUEL



<b>Equity Beta Factors – Listed Engineering and Construction Services Companies</b>						
Company	Market Capitalisation <sup>5</sup> (millions)	Monthly Observations over 4 years			Weekly Observations over 2 years	
		AGSM <sup>6</sup>	Bloomberg <sup>7</sup>		Bloomberg	
			Local Index	MSCI <sup>8</sup>	Local Index	MSCI
Clough	873	1.51	1.27	1.21	0.98	0.97
<b>Diversified Engineering and Construction</b>						
Leighton	5,678	1.98	1.41	1.21	1.43	1.13
Downer EDI	2,117	2.57	1.66	1.63	1.36	0.85
UGL	1,269	1.24	1.17	1.03	1.01	0.91
Transfield	584	1.97	1.51	1.51	1.58	1.03
<i>Minimum</i>		<i>1.24</i>	<i>1.17</i>	<i>1.03</i>	<i>1.01</i>	<i>0.85</i>
<i>Maximum</i>		<i>2.57</i>	<i>1.66</i>	<i>1.63</i>	<i>1.58</i>	<i>1.13</i>
<b>Median</b>		<b>1.98</b>	<b>1.46</b>	<b>1.36</b>	<b>1.40</b>	<b>0.97</b>
<i>Weighted average</i> <sup>9</sup>		<i>2.01</i>	<i>1.44</i>	<i>1.30</i>	<i>1.37</i>	<i>1.03</i>
<b>Resources Engineering and Construction</b>						
WorleyParsons	5,763	1.33	1.13	1.14	1.01	0.82
Monadelphous	1,657	1.19	1.08	0.90	1.08	0.93
RCR Tomlinson	467	1.85	1.46	1.68	1.06	0.76
Forge	421	na <sup>10</sup>	2.31	1.97	1.42	1.15
Ausenco	199	3.21	2.03	1.95	1.21	1.03
Lycopodium	181	1.70	0.89	1.08	0.62	0.49
Sedgman	168	2.25	1.37	1.12	0.90	0.70
Macmahon	164	1.63	1.26	1.13	1.40	1.26
Calibre	148	na	na	na	na	na
<i>Minimum</i>		<i>1.19</i>	<i>0.89</i>	<i>0.90</i>	<i>0.62</i>	<i>0.49</i>
<i>Maximum</i>		<i>3.21</i>	<i>2.31</i>	<i>1.97</i>	<i>1.42</i>	<i>1.26</i>
<b>Median</b>		<b>1.70</b>	<b>1.32</b>	<b>1.14</b>	<b>1.07</b>	<b>0.88</b>
<i>Weighted average</i> <sup>9</sup>		<i>1.41</i>	<i>1.21</i>	<i>1.18</i>	<i>1.05</i>	<i>0.86</i>

Source: AGSM, Bloomberg

The beta estimates suggest that over a four year period Australian engineering and construction contracting companies have betas of significantly over 1.0 (indicating more systematic riskiness than the overall market).

Companies with a primarily exposure to the minerals sector generally have a higher beta calculated over a four year period than those with an exposure to the oil and gas sector as

<sup>5</sup> Based on share prices as at 4 October 2013, except Clough which is based on its share price as at 30 July 2013 (being the day prior to the announcement of the Proposal).

<sup>6</sup> The Australian beta factors calculated by the Australian Graduate School of Management (“AGSM”) as at 31 March 2013 over a period of 48 months using ordinary least squares regression or the Scholes-Williams technique where the stock is thinly traded.

<sup>7</sup> Bloomberg betas have been calculated up to 30 August 2013. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel’s view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg “adjusted” betas.

<sup>8</sup> MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.

<sup>9</sup> Weighted by market capitalisation.

<sup>10</sup> na = not available.

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movements in commodity prices have resulted in substantial underperformance or outperformance of these companies relative to broader measures of equity market performance. Diversified engineering and construction companies are also less relevant as they have significant exposure to other sectors (e.g. infrastructure, property) and, other than Leighton, also have relatively high gearing.

For companies with a primary exposure to the oil and gas sector, betas calculated over a four year period (in the range 0.9-1.3) are generally higher than those calculated over a two year period (in the range 0.8-1.1). Betas based on data over the last four years may reflect swings in oil and gas prices during the global economic recession. However, more recently, the performance of these companies appears to have decoupled from the broader market as a result of a fall in the prices of both oil and gas and commodities, resulting in relatively lower betas. Over a 10 year period, Clough's Bloomberg monthly beta was 1.13. Excluding the period since September 2008 (when oil and gas prices fell), Clough's beta was 0.89. None of these estimates are necessarily reflective of expectations of future share price performance relative to broader measures of equity markets.

Finally, intuitively, it would be expected that an engineering and construction company with an exposure to the oil and gas sector would have a beta of at least 1.0 in view the sensitivity of oil and gas prices to global demand (and the resulting impact on oil and gas construction activity).

Taking all of these factors into account, Grant Samuel believes that a beta in the range 1.0-1.2 is a reasonable estimate of the appropriate beta for Clough.

■ **Calculation**

Using the estimates set out above, the cost of equity capital in the range 10.0-11.2% can be calculated as follows:

<b>Low</b>	<b>High</b>
$Re = Rf + Beta (Rm - Rf)$	$Re = Rf + Beta (Rm - Rf)$
$= 4.0\% + (1.0 \times 6.0\%)$	$= 4.0\% + (1.2 \times 6.0\%)$
$= 10.0\%$	$= 11.2\%$

### 3.2 Cost of Debt

A cost of debt of 6.5% has been adopted (a margin of 2.5% over the risk free rate). This figure represents the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including a margin, that would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt.

### 3.3 Debt/Equity Mix

The selection of the appropriate debt/equity ratio involves perhaps the most subjectivity of discount rate selection analysis. In determining an appropriate debt/equity mix, regard was had to gearing levels of Clough and the peer group companies used in the beta analysis.

Gearing levels for these companies for the past four years are set out below:

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<b>Gearing Levels - Listed Engineering and Construction Services Companies</b>						
	Net Debt/(Net Debt + Market Capitalisation)					
	30 June				Current <sup>11</sup>	4 Year Average
	2010	2011	2012	2013		
<b>Clough</b>	<b>-9.6%</b>	<b>-13.1%</b>	<b>-34.0%</b>	<b>-113.0%</b>	<b>-90.4%</b>	<b>-31.7%</b>
<b>Diversified Engineering and Construction</b>						
Leighton	3.9%	5.5%	10.5%	14.9%	21.8%	8.7%
Downer EDI	29.9%	23.5%	21.3%	13.4%	10.5%	22.0%
UGL	9.4%	7.2%	17.7%	33.8%	31.2%	17.0%
Transfield	17.6%	12.0%	34.5%	59.1%	49.1%	30.8%
<i>Minimum</i>	<i>3.4%</i>	<i>5.5%</i>	<i>10.5%</i>	<i>13.4%</i>	<i>10.5%</i>	<i>8.7%</i>
<i>Maximum</i>	<i>29.9%</i>	<i>23.5%</i>	<i>34.5%</i>	<i>59.1%</i>	<i>49.1%</i>	<i>30.8%</i>
<b>Median</b>	<b>13.5%</b>	<b>9.6%</b>	<b>19.5%</b>	<b>24.4%</b>	<b>26.5%</b>	<b>19.5%</b>
<i>Weighted average</i>	<i>10.7%</i>	<i>9.8%</i>	<i>15.0%</i>	<i>19.7%</i>	<i>22.2%</i>	<i>13.8%</i>
<b>Resources Engineering and Construction</b>						
WorleyParsons	10.5%	6.8%	7.3%	13.3%	11.1%	9.5%
Monadelphous	-11.9%	-8.7%	-8.6%	-10.6%	-10.9%	-9.9%
RCR Tomlinson	17.4%	2.9%	-23.7%	-38.8%	9.9%	-10.6%
Forge	-27.4%	-18.3%	-7.1%	-21.9%	-22.8%	-18.7%
Ausenco	1.0%	1.7%	0.3%	4.6%	7.8%	1.9%
Lycopodium	-21.1%	-11.8%	-10.6%	-24.0%	-21.6%	-16.9%
Sedgman	-5.8%	-3.7%	-28.0%	-179.4%	-68.8%	-54.3%
Macmahon	-12.3%	-10.6%	17.4%	29.5%	27.3%	6.0%
Calibre	na	na	na	28.9%	22.6%	28.9%
<i>Minimum</i>	<i>-27.4%</i>	<i>-18.3%</i>	<i>-28.0%</i>	<i>-179.4%</i>	<i>-68.8%</i>	<i>-54.3%</i>
<i>Maximum</i>	<i>17.4%</i>	<i>6.8%</i>	<i>17.4%</i>	<i>29.5%</i>	<i>27.3%</i>	<i>28.9%</i>
<b>Median</b>	<b>-8.9%</b>	<b>-6.2%</b>	<b>-7.8%</b>	<b>-10.6%</b>	<b>7.8%</b>	<b>-9.9%</b>
<i>Weighted average</i>	<i>2.9%</i>	<i>1.2%</i>	<i>1.0%</i>	<i>0.7%</i>	<i>3.8%</i>	<i>1.8%</i>

Source: Capital IQ, Grant Samuel analysis

The table shows a range of gearing levels and a general trend of decreasing leverage in 2011 (this reflects both the recovery in stockmarket values and corporate activity to strengthen balance sheets), although there has been some reversal of this trend in 2012 and 2013. The relevant debt levels should be the weighted average measured over the same period as the beta factor rather than just at the current point in time. Moreover, these debt levels do not always bear any relationship to the betas of the individual companies. In some cases lowly geared companies still have equity betas towards the higher end of the range (e.g. Sedgman or even Clough).

The engineering and construction contracting companies with a primary exposure to the resources industry generally have net cash (or limited net debt) reflecting the low capital intensity of the businesses and the general lack of access to debt capital markets. WorleyParsons and Monadelphous have four year average gearing of 9.5% and -9.9%, respectively. Clough's four year average gearing is significantly above this range at -31.7%, although this level of gearing reflects the impact of the cash received from the sale of Clough's 35.85% interest in Forge in March 2013.

Having regard to the above, the debt/equity mix has been estimated as 90-100% equity and 0-10% debt. This is regarded as being broadly consistent with a beta factor of 1.0-1.2.

<sup>11</sup> Current gearing levels are based on the most recent balance sheet information and on sharemarket prices as at 4 October 2013, except Clough which is based on its share price as at 30 July 2013 (being the day prior to the announcement of the Proposal).

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### 3.4 WACC

On the basis of the parameters outlined and assuming a corporate tax rate of 30%, the nominal WACC is calculated to be in the range 9.5-11.2%.

#### Low

$$\begin{aligned} WACC &= (Re \times E/V) + (Rd \times (1-t) \times D/V) \\ &= (10.0\% \times 90\%) + (6.5\% \times 0.7 \times 10\%) \\ &= 9.5\% \end{aligned}$$

#### High

$$\begin{aligned} WACC &= (Re \times E/V) + (Rd \times (1-t) \times D/V) \\ &= (11.2\% \times 100\%) + (6.5\% \times 0.7 \times 0\%) \\ &= 11.2\% \end{aligned}$$

This is an after tax discount rate to be applied to nominal ungeared after tax cash flows. However, it must be recognised that this is a calculation based on statistics of limited reliability and involving a multitude of assumptions. In this regard, Grant Samuel's view is that the selected cost of capital should incorporate a margin over the calculated WACC range to reflect:

- alternative approaches for estimating the cost of equity such as the Gordon Growth Model suggest higher rates than the 9.5-11.2% implied by the CAPM. Analysis of the entities most comparable to Clough (i.e. WorleyParsons and Monadelphous) using the Gordon Growth Model suggests costs of capital of up to 12% (based on WorleyParsons' current year dividend yield of 4.5% and its long term growth in dividends of approximately 7.5%. The Gordon Growth Model is an alternative approach to estimating the cost of equity under which it is calculated as the current forecast yield plus the expected long term growth rate. However, caution is warranted in considering this analysis because of the difficulties of putting the yields of the engineering and construction contracting companies on a comparable basis because of differing tax treatments;
- anecdotal information suggests that equity investors have substantially repriced risk since the global financial crisis (notwithstanding the uplift in equity markets since March 2009) and that acquirers are pricing offers on the basis of hurdle rates well above those implied by theoretical models. This can be evidenced through the decline in listed company earnings multiples (relative to the peak in 2007) although it has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). There is also data from the United States indicating that high yield bonds are trading at a premium of around 600 basis points to government bonds of the same tenor, implying that the equity risk premium is at least 6%. In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 10.4-12.4%; and
- global interest rates, including long term bond rates, are at very low levels by comparison with historical norms reflecting the very substantial amounts of liquidity being pumped into many advanced economies (particularly Western Europe and the United States) to stimulate economic activity. Effective real interest rates are now extremely low, if not negative in some cases (e.g. the United States). Grant Samuel does not believe this position is sustainable and, in our view, the risk is clearly towards a rise in bond yields. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore a "normalised" risk free rate should be used. On this basis, an increase in the risk free rate to (say) 5% would increase the calculated WACC range to 10.4-12.2%.

Having regard to these matters and the calculations set out above, Grant Samuel has selected a discount rate range of 11-12% for application in the discounted cash flow analysis.



#### 4 Dividend Imputation

The conventional WACC formula set out above was formulated under a “classical” tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received. Accordingly, there is a benefit to equity investors from increased gearing.

Under Australia’s dividend imputation system, domestic equity investors now receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added into any analysis of value.

There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic community as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre tax cash flows, with an increase in the discount rate to “gross up” the market risk premium for the benefit of franking credits that are on average received by shareholders. On this basis, the discount rate might increase by approximately 2% but it would be applied to pre tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits. If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;
- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the tax rate in the discount rate by a factor reflecting the effective use or value of franking credits. If the credits can be used, the tax rate is reduced towards zero. The proponents of this approach have in the past suggested a factor in the range 50-65% as representing the appropriate adjustment ( $\gamma$ ). Alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed.

There is undoubtedly merit in the proposition that dividend imputation affects value. Over time dividend imputation will become factored into the determination of discount rates by corporations and investors. In Grant Samuel’s view, however, the evidence gathered to date as to the value the market attributes to franking credits is insufficient to rely on for valuation purposes. More importantly, Grant Samuel does not believe that such adjustments are widely used by acquirers of assets at present. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows. The studies that measure the value attributed to franking credits are based on the immediate value of franking credits distributed and do not address the risk and other issues associated with the ability to utilise them over the longer term. Accordingly, it is Grant Samuel’s opinion, that it is not appropriate to make any adjustment.

## G R A N T S A M U E L



## Appendix 4

### Discounted Cash Flow Model Assumptions

#### 1 General Assumptions

The following general assumptions have been adopted in the discounted cash flow model:

- inflation based on the BIS Shrapnel<sup>1</sup> price deflator to the year ended 30 June 2017 and 2.5% per annum in subsequent years;
- corporate tax rate of 30%;
- a discount rate of 11-12% is applied to nominal ungeared after tax cash flows;
- the model runs from 1 July 2013 for 10 years to 30 June 2023 with a terminal value based on forecast multiple of 7 times EBIT; and
- no acquisitions or divestitures of business units occur.

#### 2 Operational Assumptions

The cash flows use the FY14 Budget as a starting point (other than as detailed below) and capture Clough's share of revenue and earnings from joint venture operations.

##### 2.1 Scenario A

The main business assumptions underlying Scenario A are:

- industry assumptions:
  - the Projects market (including Capital Projects and Jetties & Near Shore Marine) is based on BIS Shrapnel<sup>1</sup> forecasts for engineering construction activity in the oil and gas sector in Queensland, Western Australia and Northern Territory for the years ending 30 June 2014 to 2023 which assume expenditure peaks at \$36.5 billion (real) in the year ending 30 June 2014;
  - the market for Engineering is based on BIS Shrapnel<sup>1</sup> forecasts for engineering construction activity in the oil and gas sector in Queensland, Western Australia and Northern Territory for the years ending 30 June 2016 to 2025 (i.e. the Engineering market in the year ending 30 June 2014 is based on forecast engineering construction activity in the year ending 30 June 2016), with the two year lead to reflect that expenditure on a significant proportion of engineering services generally precedes expenditure on construction;
  - the market for Commissioning reflects the LNG investment cycle, which is assumed to grow from approximately \$550 million (real) in the year ending 30 June 2014 to peak at \$2.75 billion (real) in the year ending 30 June 2018 followed by a gradual decline in market size (in real terms) over the balance of the forecast period; and
  - the Asset Support market has been split into two components based on discussions with Clough:
    - an LNG plant and related maintenance market of approximately 1.1% of the initial capital investment in LNG plants. Based on the current LNG investment cycle, this market is estimated to grow to approximately \$2.5 billion (real) by the year ending 30 June 2016 and then increase by 1.5% per annum (in real terms) over the balance of the forecast period; and

<sup>1</sup> BIS Shrapnel, Mining and heavy Industry Construction in Australia, 2013-2027, April 2013.



## GRANT SAMUEL



- an annual minor capital works market of approximately \$2.1 billion (real) which increases by 1.5% per annum (in real terms);
- key revenue assumptions:
  - Clough's share of the Projects market declines from an estimated 2.6% in the year ended 30 June 2013 to 1.7% in the year ending 30 June 2015 reflecting the impact of completion of key large projects such as the PNG LNG Gas Gathering Plant EPC4, the Santos GLNG K128 Project and each of the Jetties & Near Shore marine projects before recovering back to 2.8% by the year ending 30 June 2017 and remaining at this level for the balance of the forecast period;
  - Clough's share of the Engineering market declines from approximately 1.4% in the years ended 30 June 2013 to 2015 to approximately 0.9% in the year ending 30 June 2017 reflecting the impact of completion of the Gorgon Downstream LNG Project and its replacement by consecutive, relatively smaller Engineering projects. Clough's share of the Engineering market remains at this level for the balance of the forecast period; and
  - Clough captures an approximate 6% share of the total Commissioning & Asset Support market following completion of the Wheatstone Offshore Hook-Up and Commissioning in the year ending 30 June 2016;
- project margins (i.e. divisional EBIT margin before direct and allocated indirect overheads) consistent with the FY14 Budget and the Projections through to the year ending 30 June 2018 (which reflect the impact of the completion of key large projects and the run off of the Wheatstone Offshore Hook-up and Commissioning and the Gorgon Downstream LNG Project) and then remaining at these levels for the balance of the forecast period;
- key cost assumptions:
  - direct costs comprise each division's management team (e.g. tender and business development costs, payroll and other overheads, net risk and opportunity overheads) and are assumed to remain at a constant proportion of divisional revenue;
  - indirect costs comprise other services that the division uses (e.g. legal, tax, finance) passed on to divisions by Clough based on hours spent or cost of bonds and are assumed to increase by inflation. Where Clough's real revenue declines, it has been assumed that Clough is able to achieve a relative reduction in indirect costs;
  - unallocated indirect corporate overheads (e.g. Chief Executive Officer, Chief Financial Officer) are assumed to increase by inflation. Where Clough's real revenue declines, it has been assumed that Clough is able to achieve a relative reduction in unallocated indirect corporate overheads;
  - unallocated indirect corporate overheads have been reduced by \$3.5 million per annum (in 2013 dollars) to reflect the corporate overhead cost savings available to any acquirer of 100% of Clough (refer to Section 5.4 of the report for details). These cost savings are assumed to increase by inflation in subsequent years; and
  - costs incurred under Clough's Short Term Incentive Plan are assumed to be 0.3% of revenue. The actual threshold earnings and business plan targets are set at the start of each year by the Clough Board. The aggregate payment in any one year is limited to a maximum of 10% of EBIT under the Short Term Incentive Plan;
- the average underlying EBIT margin throughout the forecast period is approximately 7% (before corporate overhead cost savings);
- capital expenditure is assumed to be 0.5% of revenue, other than the completion of construction of a barge by the BAM Clough joint venture (50% of the cost or which is contributed by Clough) and expenditure on new software and leasehold improvements in the year ending 30 June 2014. It is assumed that the barge is sold for its written down value during the year ending 2017. Fixed assets as at 30 June 2013 and capital expenditure are

## GRANT SAMUEL



depreciated over 13 years based on the straight line method, other than the barge and the new software, which are depreciated over 5 years; and

- working capital was abnormally low at 30 June 2013 and has therefore been assumed to increase from 0.8% of revenue in the year ended 30 June 2013 to 4.0% of revenue (a more normal level of working capital) by the year ending 30 June 2016 and remain at this level of revenue for the balance of the forecast period.

## 2.2 Scenario B

The assumptions adopted in Scenario B are the same as those for Scenario A except that Clough increases its market share gradually to reach a 10% higher market share in all of its divisions by the year ending 30 June 2020 (compared to its market share in the year ending 30 June 2017).

## 2.3 Scenario C

The assumptions adopted in Scenario C are the same as those for Scenario A except that Clough achieves an average underlying EBIT margin of approximately 8% (before corporate overhead cost savings) over the forecast period.

## 2.4 Scenario D

The assumptions adopted in Scenario D are the same as those for Scenario A except that market conditions and execution risk affect project margins such that Clough's underlying EBIT margin remains below 7% for the forecast period (the average underlying EBIT margin for the forecast period is 6.6% before corporate overhead cost savings).

## 2.5 Scenario E

The assumptions adopted in Scenario E are the same as those for Scenario A except that lower global demand for oil and gas results in \$1.2 billion of proposed LNG capital projects (\$300 million per year over four years) that were assumed to be awarded to Clough in the year ending 30 June 2015 do not go ahead (with flow on effects for Commissioning & Asset Support revenue for these projects).

## 2.6 Scenario F

The assumptions adopted in Scenario F are the same as those for Scenario A except that there is a three year delay in the commencement of \$1.2 billion of proposed LNG projects (\$300 million per year over four years) that were assumed to be awarded to Clough (i.e. these projects commence in the year ending 30 June 2018 instead of the year ending 30 June 2015). Commissioning & Asset Support revenue for these projects is also delayed three years.

## 2.7 Scenario G

The assumptions adopted in Scenario G are the same as those for Scenario A except that there is a one year extension of the construction period for major capital projects that have been awarded to Clough and are currently underway (e.g. due to inclement weather or other delays).

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