# Half Year Report 2010

6 months to 31 December

New contracts with Chevron and ExxonMobil

Order book at record levels, to underpin growth in 2011/12

5 million man hours injury free in PNG

Marine Construction market recovering

People who deliver

CLOUGH

*Projecting the Future*

# Clough
## at a glance

Clough is an integrated Engineering, Procurement and Construction company specialising in the delivery of world-class oil and gas projects across Australia, South East Asia and the USA. Established in 1919, Clough people today design, construct, commission and maintain leading-edge onshore and offshore oil and gas facilities for the world's largest energy companies.

To learn more about Clough visit us at **www.clough.com.au**

**Underlying earnings before interest and tax $20.1m**

**3373 employees**

**Industry leading safety performance**

**Cash holdings $68.5m**

**Total revenue from continuing operations $524m**

Site preparation for Chevron's Gorgon LNG Project.

**The financial story of the first half of 2010/11 is one of reduced earnings on increased revenues due to the combination of soft market conditions in the marine construction sector mitigated by high levels of activity across primarily two projects; Chevron Gorgon and ExxonMobil PNG LNG.**

## Safety

In the previous 12 months there were 15 million man hours of work executed either directly by Clough or under our supervision. We are pleased to say our lost time injury rate continues to creep down towards the precious "Target Zero" and now stands at 0.33 per million man hours. Expressed in human terms this means 5 people were injured such that they were unable to return to work the following day. Our total recordable injury frequency, whilst industry leading at 3.72 per million man hours, has stagnated and a total of 56 people required some form of medical treatment whilst in the service of Clough. The performance in PNG where we have completed 5 million heavy construction man hours in very arduous conditions without sustaining a single lost time injury, demonstrates that "Target Zero" is possible and there is no excuse for any injury, no matter how minor. We will redouble our efforts.

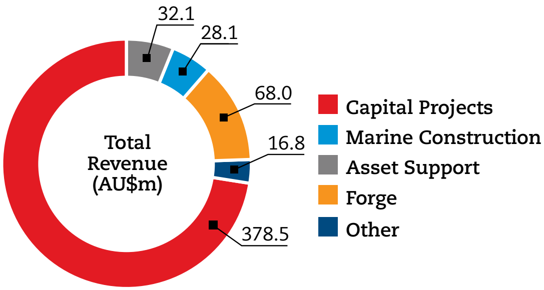
## Operations

### Marine Construction

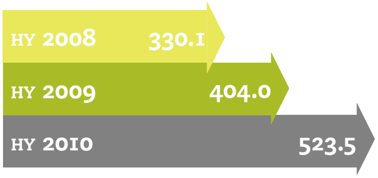
As a result of the global financial crisis many offshore projects were postponed, resulting in a time lag for offshore work and an oversupplied vessel market. These conditions, together with a $3 million cost from the start up of Peritus, have impacted first half results for our Marine Construction business. Revenue was $28.1 million compared with $151.3 million in the corresponding half, resulting in an EBIT loss of $7.6 million compared to a break even result in the second half of 2009/10 and a profit of $23.9 million in the first half of 2009/10. It may seem strange to say, but given the market conditions, the holding costs of the assets and the performance of many of our competitors, this was a reasonable outcome.

The Java Constructor was idle during the period, laid up offshore Singapore with a minimum maintenance crew whilst the Normand Clough worked continuously, albeit on tighter rates, providing services for our JV partner Helix's Lufeng project for CNOOC.

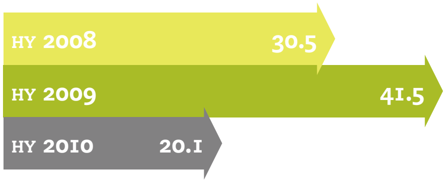
This market began to show signs of recovery towards the end of the first half with four new contracts secured in the sector, the most notable being Chevron's Gorgon Domestic Gas project, which we expect will deliver revenues of about $300 million for Clough and will engage the Java Constructor in Australia for the major part of the 2012 calendar year. The vessel is currently working for ConocoPhillips in Indonesia and is likely to continue with follow on work for other Indonesian clients until late 2011. The Clough Helix JV has picked up a second contract in China with the Normand Clough, this time for CACT, which is a venture between the China National Offshore Oil Corporation, AGIP, Chevron and Texaco. This is expected to run through to Q3 2011 and therefore we expect an improved financial position in the 2011/12 financial year. That said the shape of our participation in marine construction is not optimal. We have completed a strategic review and are now further developing the options to improve our position.



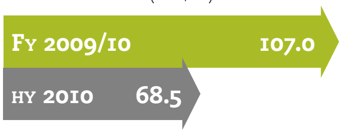

**Total Revenue** (AU$m)[1]




**Underlying Earnings** (AU$m)[2]




**Cash Holdings** (AU$m)




Note: (1) Includes share of revenue from jointly controlled entities and associates.

(2) Before adjusting items: businesses disposed of and acquired, amortisation of Forge intangible assets and revaluation of options.

## Capital Projects

Capital Projects revenue grew to $378.5 million, primarily driven by Clough's work on Gorgon and three major contracts for ExxonMobil's PNG LNG project. EBIT increased to $19 million and order book closed at $1.3 billion. Order intake for the period was $705.5 million and included an additional $250 million work order for Clough Curtain JV for the PNG LNG Upstream Infrastructure project and the award of the US$308 million PNG LNG Jetty contract to BAM Clough.

Construction and site works commenced in earnest on the $2.7 billion EPCM contract for Chevron's massive Gorgon LNG project, which Clough is delivering in partnership with KBR, JGC and Hatch as part of the Kellogg Joint Venture Gorgon (KJVG). Over 1500 people have been mobilised to Barrow Island, a figure which is expected to double by the end of the year. The KJVG team has grown to over 2200 people operating from offices in Perth, London, Singapore, Yokohama and Jakarta. Clough employees number over 380. Two Lost Time Injuries (LTIs) were recorded in over 10 million man-hours worked while rigid environmental and quarantine processes continue to protect the biodiversity of Barrow Island.

On 30 August, after a nine month tendering period, Chiyoda JGC JV awarded Clough and long term partner BAM the design and construct contract for the LNG and condensate offloading jetty for ExxonMobil's PNG LNG project. The initial contract, valued at US$258 million, increased in value when additional scope was awarded in October for the fabrication and construction of the jetty topsides, valued at approximately US$50 million. This project is beginning to ramp up with the BAM's IB428 jack up barge mobilised to site to drive test piles and commence piling work for the temporary seawater intake.

The PNG LNG Upstream Infrastructure project currently employs over 2000 people across eight sites in PNG. Despite an environment that is culturally and topographically challenging Clough and JV partner Curtain Bros have achieved 5 million man hours injury free, an exceptional outcome considering the workforce is predominantly local labour with limited education and training. Good progress was made on the Hides Gas Conditioning plant site in preparation for CBI Clough to commence site work on the EPC4 project, while the Kopi wharves and Highlands Highway scopes of work have been completed.

The $1.2 billion EPC contract for the PNG LNG gas conditioning plant ramped up, as Clough and joint venture partner CBI established project offices in Brisbane, Singapore and Perth and commenced mobilisation of personnel to the site in Hides. Engineering on this project is 65% complete, with long lead items procured, and more than 50% of subcontracts in place. Construction of the 1400 man camp has commenced on site.

## Asset Support

Revenue for the Asset Support business grew to $32.1 million while EBIT was slightly down at $1.7 million, compared to $2 million in the corresponding period, reflecting the ongoing investment in the business and in the new Performance Improvement consultancy.

A stable base work-load for Clough AMEC continues to come from Woodside, Maersk, Chevron and ConocoPhillips. The first half has seen some consolidation, with the finalisation of a major shutdown on Bayu-Undan, where additional work was awarded by ConocoPhillips. Maersk's Ngujima-Yin FPSO will reach the start up and commissioning phase of compressor modules in the second half, which will result in a wind down of offshore execution work on this project.

The new consulting arm, Performance Improvement, kicked off with projects for Apache, Wesfarmers, Origin Energy, ExxonMobil, Rio Tinto and Woodside. Several large opportunities in 'Operations Readiness' services are being pursued with LNG operators.

Whilst there has been a flat result for the period the new management team are making tangible progress in improving the quality of our offering. Management systems have been improved in the period and the Performance Improvement consultancy has been established. Consequently we are seeing a significant ramp up in the opportunities and the tender pipeline represents four times current revenues.

## Strategy

Strategically, we continue to focus on the theme of engineering led EPC. Gary Bowtell, the new Engineering VP, has made good progress with organic strengthening of our engineering capability, particularly in the process and electrical disciplines and the East Coast capacity is being built up under the lead of Terry Stamatiou. The build up in Peritus has been slower than planned, held back by the low level of activity in the US Gulf of Mexico following the BP Macondo induced moratorium. However several key milestones were met with important scopes of work for Woodside and Apache for new FPSO developments and some high end analysis work for the proposed Browse DTU platform out of Houston. We expect this division to make a positive contribution in FY 2011/12.


Workers on ExxonMobil's PNG LNG Project.

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It was a similar story for the newly created Clough Seam Gas division in Brisbane although towards the end of the half, the first two revenue generating contracts were awarded, an engineering call off agreement with BG to support the Queensland Gas project and a small contract with Arrow for the upgrade of a compressor station. However, with the positive FID decisions by BG and Santos, the level of tendering activity has increased exponentially. With further positive news from Origin and ConocoPhillips we are hopeful that the breakthrough for this division will come in the second half. The market is now there.

Forge turned in an impressive half with significant growth but importantly solid operational performance. We elected to exercise our options acquired in the original investment and our shareholding now stands at 33.4% which is valued using the 15 February share price at approximately $177 million versus the balance sheet carrying value of $68 million. Given that there would appear to be ample market opportunity the principle risk in this business is around growth outstripping management's capacity for control. Therefore the Forge Board are in action with a management transition plan.

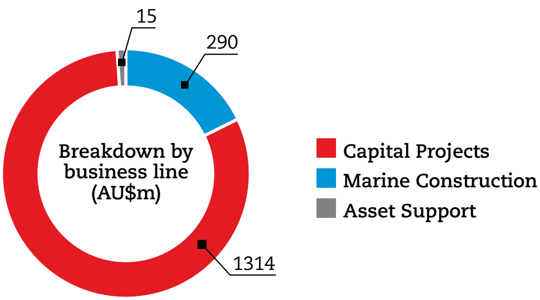
Whilst financially the return on the investment has on paper been beyond expectations, progress has been slow in realising the strategic intent, which was to open up joint EPC opportunities that would be unavailable to each company in isolation. To provide more focus we have formalised an incorporated Clough Forge JV which will target and execute projects suitable to our combined skills. The first major project has been tendered and we hope for positive news in the second half.

The most significant piece of strategic work in the half was the analysis of Clough's participation in the Marine Construction business. As mentioned above this is complete and we are now in action exploring our options to improve the shape of our participation.

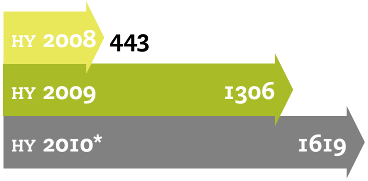
## People

We have seen a growth in our workforce commensurate with revenue and have continued to invest in training through our "Success through People" and graduate programmes as well as job specific training in our core competencies. Whilst our turnover rate continues to improve slightly it hovers around the average for an

### Order Book Analysis




**Order Book Comparison** (AU$m)




* Excludes Forge ($275m order book at 31 December 2010) and further forecast ExxonMobil PNG LNG work orders. Includes estimate of KJV Gorgon labour.

Australian project environment. We expect a tightening of the market and increased competition given the high level of forecast energy and resources investment and therefore will work hard to ensure our employment offering is in aggregate top quartile. A top priority is the creation of conditions to maximise the attraction and retention of women in our workforce.

## Outlook

Looking forward, our order book for the remainder of 2010/11 is secure and we already have $840 million of work under contract for execution in 2011/12, excluding our share of Forge revenue. The tender pipeline is strong across the business with $1 billion of tenders submitted awaiting an outcome and a further $2.4 billion of known prospects available to be bid in the next 12 months.

Revenue growth for next year is therefore predictable and we are indicating an expectation in the range of $1.2 - $1.4 billion including our share of Forge. Given the improved backlog for Marine Construction the opportunity is also there to grow earnings significantly. Of course this will require good project execution and it should be highlighted that whilst about two thirds of our $1.6 billion order book is fully cost reimbursable, we now have two lump sum contracts, being the Chevron Gorgon Domestic Gas pipeline and the ExxonMobil PNG LNG export jetty. The risks on these projects have been carefully considered at the tender stage and either excluded or mitigated. Efficient execution is still essential.

In summary, whilst the profit for the half year was down we have continued to grow profitable order book and invest in organic growth.

Assuming on plan execution, the second half will show an improvement over the first and the platform is built for growth in 2011/12 and beyond.


Keith Spence
Chairman


John Smith
Chief Executive Officer


Neil Siford
Chief Financial Officer

## Financial Summary

| Statement of Comprehensive Income<br>For the 6 months ended 31 December 2010 | 31 December 2010 Actual ($'000) | 31 December 2009 Actual ($'000) |
|---|---|---|
| Revenue from continuing operations[1] | **152,753** | 255,131 |
| Profit before income tax<br>Income tax expense | **21,004**<br>**(1,535)** | 35,275<br>(4,861) |
| Profit from continuing operations<br>Loss from discontinued operations | **19,469**<br>**(3,989)** | 30,414<br>(4,335) |
| Profit for the half year<br>Other comprehensive income for the half year, net of tax | **15,480**<br>**(7,776)** | 26,079<br>7,161 |
| Total comprehensive income for the half year | **7,704** | 33,240 |
| Profit for the half year is attributable to:<br>Owners of Clough Limited<br>Non-controlling interests | <br>**15,253**<br>**227** | <br>25,333<br>746 |
| | **15,480** | 26,079 |
| Total comprehensive income for the half year is attributable to:<br>Owners of Clough Limited<br>Non-controlling interests | <br>**7,637**<br>**67** | <br>32,519<br>721 |
| | **7,704** | 33,240 |
| Earnings per share for profit from continuing operations attributable to the ordinary equity holders of Clough Limited:<br>Basic earnings per share | <br>**2.50 cents** | <br>4.36 cents |
| Earnings per share for profit attributable to the ordinary equity holders of Clough Limited:<br>Basic earnings per share | <br>**1.98 cents** | <br>3.71 cents |

| Balance Sheet<br>As at 31 December 2010 | 31 December 2010 Actual ($'000) | 30 June 2010 Actual ($'000) |
|---|---|---|
| **ASSETS**<br>Current assets[2]<br>Non-current assets | <br>**157,349**<br>**271,693** | <br>209,061<br>256,147 |
| **Total assets** | **429,042** | 465,208 |
| **LIABILITIES**<br>Current liabilities<br>Non-current liabilities | <br>**76,584**<br>**55,522** | <br>96,783<br>63,675 |
| **Total liabilities** | **132,106** | 160,458 |
| **Net assets** | **296,936** | 304,750 |
| **EQUITY**<br>Shareholders' equity<br>Non-controlling interest | <br>**295,934**<br>**1,002** | <br>303,499<br>1,251 |
| **Total equity** | **296,936** | 304,750 |

Note: (1) Excludes share of revenue from jointly controlled entities and associates. Total revenue from continuing operations including share of revenue from jointly controlled entities and associates was $523.5m (H1 2009: $404.0m).

(2) Includes cash holdings of $68.5m at 31 December 2010 and $107.0m at 30 June 2010.

People who **deliver**

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Normand Clough vessel on the Lufeng Project, offshore China.

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