

Corporate Governance Statement 2011

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

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

	ASX P & R ¹	If not, why not ²
Recommendation 1.1	✓	
Recommendation 1.2	✓	
Recommendation 1.3	✓	
Recommendation 2.1		✓
Recommendation 2.2	✓	
Recommendation 2.3	✓	
Recommendation 2.4	✓	
Recommendation 2.5	✓	
Recommendation 2.6	✓	
Recommendation 3.1	✓	
Recommendation 3.2	⁴ ✓	
Recommendation 3.3	⁴	✓
Recommendation 3.4	⁴ ✓	
Recommendation 3.5	✓	
Recommendation 4.1	✓	
Recommendation 4.2	✓	
Recommendation 4.3	✓	
Recommendation 4.4	✓	
Recommendation 5.1	✓	
Recommendation 5.2	✓	
Recommendation 6.1	✓	
Recommendation 6.2	✓	
Recommendation 7.1	✓	
Recommendation 7.2	✓	
Recommendation 7.3	✓	
Recommendation 7.4	✓	
Recommendation 8.1	✓	
Recommendation 8.2	⁴ ✓	
Recommendation 8.3	✓	
Recommendation 8.4	✓	

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

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

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

4 Indicates recommendations that were **not in effect** during the current reporting period and, therefore, against which Clough is not strictly required to provide "if not, why not" disclosure.

Principle 1: Lay solid foundations for management and oversight

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

The Remuneration & Human Resources Committee undertakes an annual review of the CEO's performance. Performance measures are established

between the CEO and the Remuneration & Human Resources Committee, which are approved by the Board. The outcome of the CEO review is reported to the Board. All senior executives are subject to a formal annual performance evaluation which is undertaken by the relevant manager. This process involves a meeting between the senior executive and employee at which performance objectives and behavioural competencies are assessed. This process is described in further detail in the Directors' Report, on page 40. An evaluation of senior executives' performance took place during the reporting period in accordance with this process.

Principle 2: Structure the Board to add value

The Clough Board comprises eight directors:

Keith Spence	Chairman and Non-Executive Director	Independent
David Crawford	Non-Executive Director	Independent
Emma Stein	Non-Executive Director	Independent
Cobus Bester	Non-Executive Director	Non-Independent
Henry Laas	Non-Executive Director	Non-Independent
Nigel Harvey	Non-Executive Director	Non-Independent
Neil Siford	CFO and Executive Director	Non-Independent
John Smith	CEO and Managing Director	Non-Independent

Performance Evaluation

The Board has adopted the practice of using an external consultant to review its performance, the performance of the respective committees and the performance of individual directors on a biennial basis. The results of the last review were reported to the Board in May 2009. In each other year an internal review is undertaken. Each director is required to complete a questionnaire concerning the performance of the Board and each other director. The results are compiled by the Company Secretary and provided to the Chairman. The Chairman discusses the results with the directors and the Board as a whole. The last internal review took place in late 2010. With the substantial changes that have recently taken place to the composition of the Board, the next review by an external consultant has been deferred until 2012.

Nomination and Appointment

The Board has established a Governance & Nominations Committee, whose members comprise Keith Spence (Chair), Emma Stein and Henry Laas. Emma Stein and Keith Spence are independent, Non-Executive Directors. Henry Laas is a non-independent, Non-Executive Director. The qualifications of members of the Governance & Nominations Committee are set out in this Annual Report under the heading 'Board of Directors', on page 33. Members of the Governance & Nominations Committee attended the number of meetings set out in this Annual Report under the heading 'Directors' Meetings', on page 52.

The procedure in relation to the nomination and appointment of Directors is contained within the Standard for the Selection and Appointment of Directors. This Standard can be found in the Corporate Governance section of the Company's website.

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

The skills, experience and expertise relevant to the position of director held by each Director in office, and their term of office, as at the date of this Annual Report is set out under the heading 'Board of Directors', on page 33.

Independence

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

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

Director	Status
Keith Spence	Independent.
David Crawford	Independent.
Emma Stein	Independent.
Cobus Bester	Mr Bester is an officer of Murray & Roberts (the controlling shareholder of Clough) and is therefore not considered to be independent.
Henry Laas	Mr Laas is an officer of Murray & Roberts (the controlling shareholder of Clough) and is therefore not considered to be independent.
Nigel Harvey	Mr Harvey is an officer of Murray & Roberts (the controlling shareholder of Clough) and is therefore not considered to be independent.
Neil Siford	Mr Siford is the CFO and an Executive Director of Clough and is therefore not considered to be independent.
John Smith	Mr Smith is the CEO and Managing Director of Clough and is therefore not considered to be independent.

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

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

Board Committees

Clough has three Board committees: Governance & Nominations Committee, Audit & Risk Committee and Remuneration & Human Resources Committee. The Health, Safety, Environment and Sustainability Committee was disbanded in June 2011. The matters previously dealt with by the Health, Safety, Environment and Sustainability Committee will in future be dealt with by the full Board.

All Board committees have a formal operating charter which set out their respective roles and responsibilities and these are disclosed on the Company's website. The number of meetings held by each committee and attendance at those meetings is outlined in the Directors' Report under the heading 'Directors' Meetings', on page 52.

Independent Advice

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

Principle 3: Promote ethical and responsible decision-making

Code of Conduct

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

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

Clough has also adopted a Share Trading Policy which sets out how and when Directors, officers and senior staff may trade in the Company's shares. The Share Trading Policy is available in the Corporate Governance section of the Company website.

Diversity

Clough's commitment to diversity is set out in our Diversity Policy, which was released during the year and can be found on the Company's website.

Clough aims to create a workforce profile which reflects the talent available in the many communities in which we work, by offering flexible and fair working arrangements focussed on outputs, not hours.

A key diversity goal is to improve female participation in the Clough workforce. Clough's current permanent workforce composition consists of 33% women, which compares favourably with other companies in similar industries such as construction, mining and resources. However, not surprisingly, women are underrepresented in traditionally male dominated roles such as engineering, construction, project management and senior management.

To improve female participation in these areas, Clough has established the Women@Clough Forum. The forum engages men and women at all levels across the organisation to provide views to the Board and the leadership team on improving the attraction, retention and progression of women at Clough.

The Clough Diversity Policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. Clough is currently developing a number of metrics and measurable targets for objectives relating to gender. As measurable targets for gender diversity are not yet finalised, Clough is not in a position to disclose against them, as contemplated by the recently introduced recommendation 3.3 of the Corporate Governance Principles. In any case, the Corporate Governance Principles do not require disclosure against recommendation 3.3 in this year's Annual Report. However, Clough is actively working towards compliance with recommendation 3.3, and will disclose against it in next year's Annual Report, as contemplated by the Corporate Governance Principles.

The following table shows the representation of women in the Company at 30 June 2011.

	Actual	
	Number	%
Number of women employees in the whole organisation	302	33%*
Number of women in senior executive positions	0	0
Number of women on the Board	1	12.5%

*Relates to permanent Clough Employees

Principle 4: Safeguard integrity in financial reporting

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

Clough complies with this requirement in a number of ways. The Company has an Audit & Risk Committee whose members include Emma Stein (Chair), Keith Spence and Cobus Bester. Emma Stein and Keith Spence are independent, Non-Executive Directors. Cobus Bester is a non-independent, Non-Executive Director. The qualifications of members of the Audit & Risk Committee are set out in this Annual Report under the heading 'Board of Directors', on page 33.

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

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

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

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

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

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

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

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

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

Related Party Transactions. Oversight of all related party transactions.

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

The Audit & Risk Committee has access to both internal audit and the external auditor without the presence of other management. Internal audit has a direct reporting relationship with the Audit & Risk Committee and provides written reports to the Committee. The Audit & Risk Committee leads the review of the performance of the external auditor. The Standard for the Selection, Appointment and Rotation of the External Auditor can be found in the Corporate Governance section of the Company's website.

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

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

Principle 5: Make timely and balanced disclosure

Clough's Continuous Disclosure Policy details the process by which information is disclosed to the market. This policy is available on the Company's website.

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

Principle 6: Respect the rights of shareholders

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

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

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

Principle 7: Recognise and manage risk

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

The Board has adopted a Risk & Opportunity Management Policy which is available on the Company's website. Clough has developed a risk management approach that is consistent with Australian Standard ISO 31000. The Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control. Risk is managed at three levels – corporate, operational and strategic.

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

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

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

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

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

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

Principle 8: Remunerate fairly and responsibly

The ASX recommends the Company ensure that the level of remuneration is sufficient and reasonable and that its relationship to performance is clear. The Board has established a Remuneration & Human Resources Committee. The Committee oversees the following:

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

Human Resources Strategy and Policy.

CEO Engagement.

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

Senior Executives Engagement.

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

Superannuation. Oversight of the Clough Superannuation Fund.

Non-Executive Director's Fees.

- The annual review of Non-Executive Director's fees.
- Ensuring the Non-Executive Director's fees remain within the cap approved by the shareholders.

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

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

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

Clough distinguishes the structure of Non-Executive remuneration from that of Executive Directors and senior executives. Details of Clough's Director and senior management remuneration policy are set out in the Directors' Report, on page 41. There are no schemes for retirement benefits for Non-Executive Directors.

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

The members of the Remuneration & Human Resources Committee are David Crawford (Chair), Keith Spence and Nigel Harvey. Keith Spence and David Crawford are independent Non-Executive Directors and Nigel Harvey is a non-independent, Non-Executive Director.