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cape

# Annual Report 2008



4pm Pinjarra, Western Australia

**Cape is an international leader in the provision of essential industrial services principally to the energy and natural resources sectors.**

**The range of multi-disciplinary services includes common user access systems, insulation, fire protection, abrasive blasting, refractory, cleaning and other essential industrial services.**

## 8am Eggborough, UK

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# Financial highlights

Group revenue from continuing operations
**up 45.2% to £622.7m** (2007: £428.8m)
– Up 39.3% at constant currencies

| | |
|---|---|
| 2008 | **£622.7m** |
| 2007 | **£428.8m** |
| 2006 | **£274.0m** |
| 2005 | **£229.8m** |
| 2004 | **£238.9m** |

+45.2%

Group operating profit before other items[1]
**up 68.0% to £65.0m** (2007: £38.7m)
– Up 58.4% at constant currencies

| | |
|---|---|
| 2008 | **£65.0m** |
| 2007 | **£38.7m** |
| 2006 | **£18.2m** |
| 2005 | **£12.4m** |
| 2004 | **£9.5m** |

+68.0%

Adjusted diluted earnings per share **up 24.5% to 30.0p** (2007: 24.1p). Basic earnings per share **up 2.7% to 26.7p** (2007: 26.0p)

| | |
|---|---|
| 2008 | **30.0p** |
| 2007 | **24.1p** |
| 2006 | **13.8p** |
| 2005 | **9.5p** |
| 2004 | **11.1p** |

+24.5%

Group operating profit **up 46.6% to £52.5m** (2007: £35.8m)

Operating cash flow[2] **increased to £74.7m** (2007: £19.4m) with operating cash conversion[2] of 115.3% (2007: 51.1%). Net cash inflow from operating activities **increased to £48.2m** (2007: £6.9m).

Net debt (excluding Scheme funds) **reduced to £165.5m** (2007: £189.2m) or 2.1 times adjusted EBITDA[3] (2007: 4.0 times)

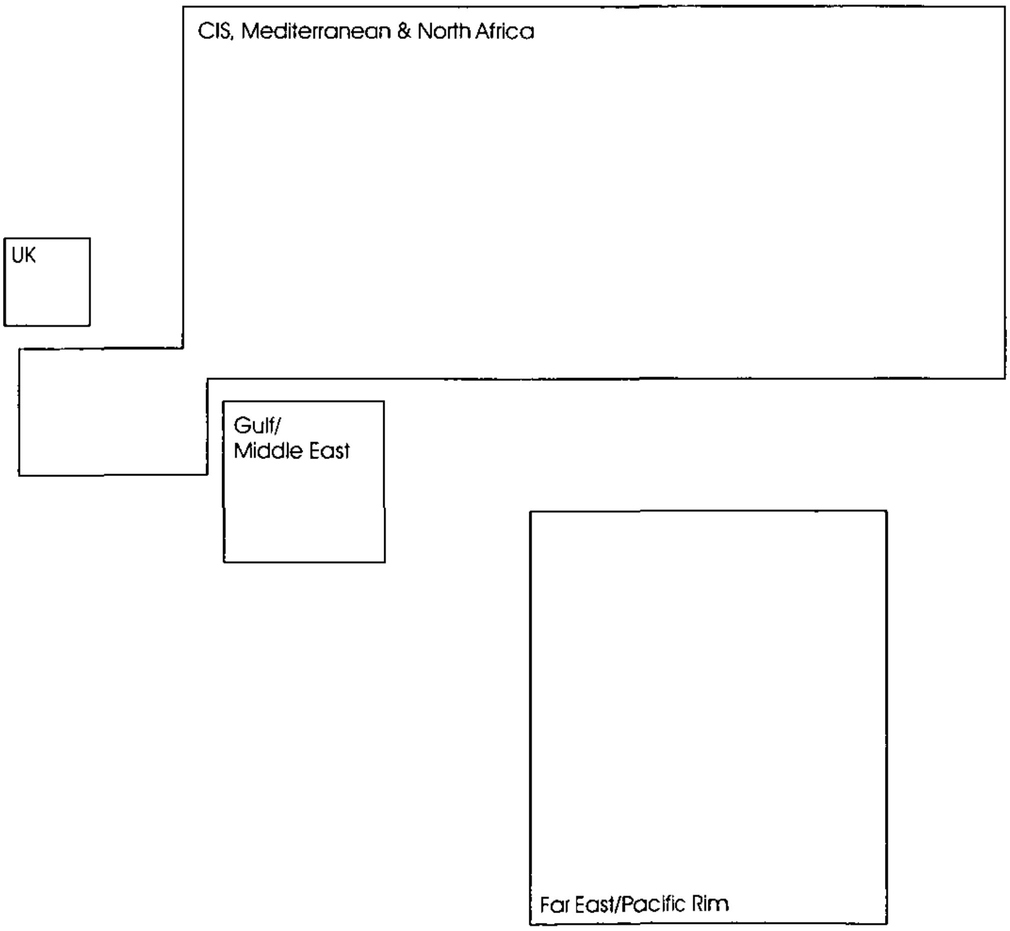
1. Group operating profit before other items comprises profit before interest and taxation of £52.5 million (2007: £35.8 million), adjusted for exceptional items of £4.1 million (2007: £0.3 million), IDC charge of £5.7 million (2007: £1.6 million) and amortisation of intangible assets of £2.7 million (2007: £1.0 million)
2. Operating cash flow, free cash flow and operating cash conversion are defined in note 30 to the Group financial statements
3. Adjusted EBITDA is defined as Group operating profit before other items of £65.0 million (2007: £38.7 million) adjusted for depreciation of £15.3 million (2007: £8.7 million)

# Cape plc at a glance

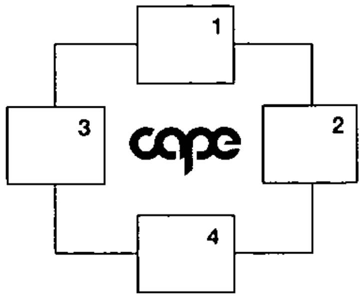
Cape is committed to achieving high standards of business integrity, ethics and professionalism across all of its worldwide operations.

Cape's 13,500 employees deliver safe, reliable and intelligent solutions both on and offshore. International coverage extends from the UK, through the Gulf/Middle East, CIS, Mediterranean & North Africa and into the Far East/Pacific Rim.

Cape operates predominantly in the downstream energy and later stage production sectors with a client list comprising of national and international oil companies, power generators and major engineering contractors.



## Cape plc Company structure




**Cape's recent restructure created four distinct geographical business units.**

1. UK
2. Gulf/Middle East
3. CIS, Mediterranean & North Africa
4. Far East/Pacific Rim

## UK

**Revenues in the UK increased by 14.4% and reflect Cape's ability to continue to grow market share in a mature competitive environment. Success derives from the UK's three business units: onshore and offshore industrial services and environmental services.**

Countries: 4
Cape Offices: 28
Operating Companies: 4
Number of employees: 4,662
Man hours 2008: 11.2 million

**Revenue**

£309.0m

**2008-2009 Highlights**

- A 26% reduction in Lost Time Incident (LTI) frequency rate to 0.08 per 100,000 hours worked
- Provision of services at 27 of the UK's 50 major power stations (2007: 23)
- Renewal of a £35 million, seven year contract for ExxonMobil at its refinery in Fawley
- Award of a £140 million plus, seven year contract for British Energy's UK fleet of stations

## Gulf/Middle East

**The region enjoyed another year of strong organic growth in 2008 with revenues up by 69.4%. It is now represented in 20 locations throughout all six Gulf Cooperation Council (GCC) nations, with its strongest presence in Saudi Arabia, Qatar and Abu Dhabi.**

Countries: 6
Cape Offices: 20
Operating Companies: 8
Number of employees: 4,797
Man hours 2008: 19.3 million

**Revenue**

£112.0m

**2008-2009 Highlights**

- Health and Safety 5 star Award from the British Safety Council for work in the region
- Outstanding Performance Award for access works for Saudi Aramco
- A 17 month contract valued at US$57 million awarded by Nasser Al Hajri for insulation works on Kayan
- Awarded a services contract on a new desalination plant in Qatar by Fisia of Italy

## CIS, Mediterranean & North Africa

**Regional revenues grew by 15.5% in 2008. Revenues were mainly project-driven and largely originated from operations in Kazakhstan, Sakhalin, Malta and Tunisia.**

Countries: 9
Cape Offices: 8
Operating companies: 6
Number of employees: 1,057
Man hours: 5.2 million

**Revenue**

£54.4m

**2008-2009 Highlights**

- 7.5 million man hours on the Sakhalin LNG 2 project without a LTI
- Joint Venture in Spain secured work for the ExxonMobil Adriatic LNG project
- Successful completion of work at the ExxonMobil Dekastri terminal in Eastern Russia
- Continued growth in Kazakhstan through wins on the offshore Karabatan Project

## Far East/Pacific Rim

**The Group has an increasingly strong presence in the region following the Australian acquisitions in late 2007. In addition to Australia the region mainly operates in Singapore, Thailand, the Philippines, New Caledonia, and Indonesia.**

Countries: 9
Cape Offices: 9
Operating companies: 15
Number of employees: 3,028
Man hours: 6.1 million

**Revenue**

£147.3m

**2008-2009 Highlights**

- Completion of 2.9 million man hours in Asia without a LTI
- Award of the Pluto LNG module access contract in Thailand
- Awarded a bundled services contract for Shell at Malampaya, the Philippines
- Award of £29.2 million contract on the Woodside Pluto LNG project
- Successful completion and on time delivery of Train 5 on the North West Shelf

# Chairman's statement

This has been another milestone year for Cape and the fourth consecutive year of significant growth. It reflects a full year contribution from the acquisitions in 2007 as well as continued organic growth from the underlying business.

Revenues grew 45.2% in 2008 to £622.7 million (2007: £428.8 million) with Group operating profit before other items[1] growing by 68.0% to £65.0 million (2007: £38.7 million). Group operating profit increased by 46.6% to £52.5 million (2007: £35.8 million).

The Group is firmly positioned in the downstream energy infrastructure sector with some 70% of Cape's 2008 revenues generated from capital and maintenance expenditures by customers in the power generation, oil and gas and petrochemical industries. Cape's customers principally comprise a diverse set of the world's largest integrated and independent energy companies and major international engineering contractors engaged in multi-year projects in the sector. Through its Australian acquisitions, Cape now also provides its services to the mineral resources sector. Cape's speciality multi-disciplinary services such as the provision of common user access systems, insulation, fire protection, abrasive blasting, refractory, cleaning and other essential services are required on an ongoing basis throughout the lifecycle of large industrial assets.

Despite the reported growth, 2008 was a year of consolidation for the Group with the completion of the regional structure and the repositioning, restructuring and integration of the three Australian acquisitions. The Group is now well on the path to having a fully integrated industrial services business in Australia providing the full range of Cape services.

**Debt reduction**
The Group's net debt (excluding Scheme cash) reduced by 12.5% to £165.5 million in the year (2007: £189.2 million) only £0.5 million outside of the guidance range of £160.0 million to £165.0 million signalled at the half year. The Group's net debt to adjusted EBITDA[3] of 2.1 times (2007: 4.0 times) provides adequate headroom compared with the Group's covenanted level.

**Private equity interest**
The Board received approaches from a number of interested parties and entered into discussions with a view to generating further shareholder value through an offer for the Company. The Board concluded that the likelihood of an acceptable offer being received in a reasonable timeframe, avoiding a prolonged and distracting period of uncertainty, was low. As announced on 16 February 2009, all these discussions were therefore terminated.

**Move to the Main Market**
The Company is no longer considering a move to the Main Market of the London Stock Exchange as a short-term objective.

**People**
Cape continues to invest in the recruitment, development and retention of high quality management teams. In 2008, we welcomed several new senior executives to the Group all of whom bring with them proven track records, technical expertise and the depth of specialist knowledge necessary to deliver Cape's increasing range of services across its enlarged geographic span.

**Sean O'Connor**
Chairman

The Group's investment in ensuring the safety of our people in 2008 increased significantly with the launch of the Golden Rules and CapeSafe programmes throughout the business combined with specific investment in the acquisitions to bring them into line with Cape standards. Cape is committed to providing the safest work environment for our people.

Cape delivered over 41 million man hours in 2008 (2007: 33 million). On behalf of the Board, I would like to thank all our employees for their continuing dedication and commitment, and the Executive Board and regional management teams, under whose leadership the business is evolving and again delivering a record financial performance.

### Board

I replaced David McManus as Chairman at the Company's AGM in June 2008. David remains on the Board of Cape and is Chairman of the Remuneration Committee. Richard Bingham joined the Board in June 2008 as Chief Financial Officer.

### Outlook

With 70% of our revenues from the downstream energy, power generation and later cycle production markets our business is only partially impacted by lower energy prices. The higher levels of activity seen in the second half of 2008 have continued into 2009. We believe that demand for energy over the medium term across our enlarged and now established footprint will present good opportunities for further growth.

In this environment the Group's focus will continue to be on optimising the efficiency of Cape's bundled services model, maximising free cash flow generation and continued net debt reduction. With scheduled debt repayments for 2009 of £15.0 million the Board remains confident that the Group's debt servicing obligations can be more than met from operating cash flow.

I am confident that our strategy will continue to deliver positive results in the current market conditions.

**Sean O'Connor**
Chairman
15 April 2009

1. Group operating profit before other items comprises profit before interest and taxation of £52.5 million (2007: £35.8 million), adjusted for exceptional items of £4.1 million (2007: £0.3 million), IDC charge of £5.7 million (2007: £1.6 million) and amortisation of intangible assets of £2.7 million (2007: £1.0 million)
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# Resilient

Cape is well placed to provide the cost effective bundled services many customers are increasingly demanding when outsourcing non-core activities.

With 70% of revenues generated from clients in the downstream energy, power generation and later cycle production markets, Cape benefits from high revenue visibility and multi year contracts.

48%

**of our work is maintenance based**

7 years

**is the typical length of a long-term maintenance contract**

## 3.30pm Kwinana, Western Australia

# International

With a broad geographic footprint Cape is now a recognised international industrial services provider with a presence in the majority of the world's major hydrocarbon processing and power generation markets.

Cape's international presence and ability to offer cost effective bundled solutions is attractive to large multinational clients.

**Revenue by region (£m)**

1

4

3

2

1. UK – £309.0m
2. Gulf/Middle East – £112.0m
3. CIS, Mediterranean & North Africa – £54.4m
4. Far East/Pacific Rim – £147.3m

# Essential

Cape's multi-disciplinary industrial services are required on an ongoing basis throughout the lifecycle of large industrial assets.

With the proven safety track record now demanded by blue chip companies, and the ability to supply large numbers of skilled operatives and volumes of equipment, Cape is well equipped to manage large and complex projects.

45%

**of sales attributed to our top 20 customers**

**Revenue by activity (%)**

1. Access – 43%
2. Insulation – 14%
3. Multi-discipline – 29%
4. Cleaning – 7%
5. Coatings – 5%
6. Hire and sale – 2%

# Chief Executive's review

Cape made significant progress in 2008 building on the reorganisation and acquisition activity undertaken in 2007. This progress is reflected in the year on year growth in both revenues and operating profits.

**A strong financial performance in 2008**
Revenues were up 45.2% (24.1% from organic growth) at £622.7 million (2007: £428.8 million) with revenues from outside the UK now exceeding 50% of total Group revenues. Cape is now a recognised international industrial services provider with a presence in the large majority of the world's major hydrocarbon processing and power generation markets.

Operating profits before other items were up 68.0% (39.8% from organic growth) at £65.0 million (2007: £38.7 million), with the operating margin before other items increasing to 10.4% (2007: 9.0%).

**Progress with Australian acquisitions**
Notable progress has been made with the integration, restructuring and repositioning of the three Australian acquisitions completed towards the end of 2007, into a single multi-disciplinary industrial services business trading under the Cape brand. We are now bidding and winning major contracts under the Cape name and have continued to invest in the key areas of health, safety, environment and quality, business development and information systems.

Over the full year the combined revenues of the three businesses have been broadly flat. However margins in the second half recovered strongly under Cape's newly appointed Australian management team.

Cape now has a presence in what is recognised as the second largest growth market for LNG exports in the world behind only Sub-Saharan Africa. The planned and announced construction of between nine and eleven new LNG liquefaction trains makes Australia a key market for Cape. Recent investments in coal seam gas projects by ConocoPhillips, BG, Petronas and others provide an excellent medium-term opportunity for Cape's Australian business.

**Cash generation and debt reduction**
The Group's operating cash flow[2] of £74.7 million (2007: £19.4 million) reflects a strong operating cash conversion[2] of 115.3% (2007: 51.1%). Net cash inflow from operating activities was £48.2 million (2007: £6.9 million).

At 31 December 2008, Cape had net debt excluding Scheme Funds of £165.5 million (2007: £189.2 million) including cash balances of £33.3 million (2007: £20.1 million). The Group's balance sheet gearing has reduced to 67.2% (2007: 104.7%) and the ratio of net debt to adjusted EBITDA[3] has fallen from 4.0 times to 2.1 times.

**Strategy continues to deliver**
With a clear focus on the downstream energy and mineral resources infrastructure markets, Cape's broadened geographical and sector spread have provided a platform across which to sell both its core and additional services. Whilst we have seen low commodity prices impacting on some of our customers' investment decisions, our strategy continues to be underpinned by the following key market drivers:

- increasing levels of maintenance and capital spending to maintain, extend the life and decommission an ageing energy infrastructure in the UK;
- an increasing trend on the part of Cape's major customers to outsource non-core services and to look for cost effective bundled service proposals. These customers increasingly seek to outsource multi-disciplinary services for both maintenance and capital projects to a smaller number of professional suppliers with larger scale operations that can provide a single source solution;
- a strong position in higher growth international markets such as the Gulf/Middle East and Far East/Pacific Rim following the Australian acquisitions;

**Revenue from continuing operations**

2008 **£622.7m**

2007 **£428.8m**

2006 **£274.0m**

2005 **£229.8m**

2004 **£238.9m**

**Martin May**
Chief Executive

- a strong reputation in growing market segments such as the LNG producing/exporting market where there is a long list of projects announced in all Cape's key overseas regions and in particular Australia; and
- a demand on the part of blue chip clients to work with safe suppliers who have a proven track record and access to local workforces, with the ability to train their employees to exacting standards.

### Safety
Cape's accident frequency rate performance of 0.08 per 100,000 hours worked has exceeded management's target and is world class within the sector. The primary international benchmark measure of safety performance is Lost Time Incidents (LTI) per 100,000 hours worked, and this has shown a further 20% improvement against the excellent performance achieved last year. Once again Cape's safety record was recognised with a number of industry awards in 2008, all of which are detailed in the Health, safety and the environment report on page 24.

### Key Performance Indicators
The Group monitors the performance of the business using a range of Key Performance Indicators (KPIs) on a monthly and annual basis. These include adjusted Group operating profit margin, return on managed assets, operating cash conversion and LTI frequency rate. Definitions and analysis of the KPIs are shown on page 90.

### Outlook
Current activity levels remain high with strong demand for our broadening range of essential industrial services. Recent contract wins in the UK have reinforced our market leading position in the region. In the medium term we expect demand in the UK to continue to increase as our clients' maintenance and decommissioning requirements for their ageing assets becomes more evident.

Cape's overseas markets are more project dependent; our strategy is to offer services throughout asset lifecycles, and I am pleased that year on year revenue from repeat maintenance contracts has increased. In the majority of our overseas businesses we remain a small player in very large markets. Activity levels have remained high into the first quarter of this year, particularly in the UK and Gulf/Middle East, and again highlight the benefit of Cape's downstream and production asset focus. We are confident that with Cape's ability to offer cost effective bundled solutions, throughout asset lifecycles, across our enlarged footprint, means that the Company is well positioned to continue to deliver positive growth.

**Martin K May**
Chief Executive Officer
15 April 2009

1. Group operating profit before other items comprises profit before interest and taxation of £52.5 million (2007: £35.8 million), adjusted for exceptional items of £4.1 million (2007: £0.3 million), IDC charge of £5.7 million (2007: £1.6 million) and amortisation of intangible assets of £2.7 million (2007: £1.0 million)
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# Operating and financial review

**OPERATING REVIEW**

Cape's speciality multi-disciplinary services are required on an ongoing basis throughout the lifecycle of large industrial infrastructure assets. Cape supports the construction of new facilities, as well as the maintenance, extension of life and decommissioning of existing facilities both onshore and offshore.

Clients choose Cape for its proven ability to:

- provide a multi-discipline, 'bundled services' solution with a single point of contact and management responsibility for an increasing array of complementary multi-disciplinary services;
- deliver the highest standards of safety performance often in harsh industrial environments; and
- supply and manage large numbers of skilled operatives and volumes of equipment for large and complex projects.

These services often form a critical part of ongoing maintenance of our customers' facilities. The successful execution of recurring maintenance helps Cape's customers avoid unplanned down-time and ultimately optimises the efficiency of their facilities.

For project work, Cape is typically commissioned by major Engineering Procurement and Construction (EPC) contracting companies including Chiyoda, Foster Wheeler, KBR, Parsons Fluor Daniel and Saipem. The market thus refers to Cape as a 'tier 2' service provider. Once a build project is completed, Cape is well positioned to secure long-term maintenance and campaign contracts that follow, typically contracting directly with the plant operator as 'tier 1' for these essential non-mechanical and non-electrical maintenance services.

The Group's operations are organised on a geographical basis with four regions:

**UK Region**

Revenues in the UK increased by 14.4% to £309.0 million (2007: £270.1 million) and reflect Cape's ability to continue to grow market share in a mature competitive environment. The business also benefited from a full year contribution from the environmental services division.

Operating profits before other items increased by 25.6% to £27.0 million (2007: £21.5 million) with operating margins before other items widening to 8.7% (2007: 8.0%).

Cape's UK business has over 4,500 employees and expended over 11 million man hours in 2008 (2007: 9.8 million). With 28 facilities located strategically throughout the country and in excess of 38,000 tonnes of access equipment Cape has one of the largest stockholdings within the UK. In addition, Cape UK applied over 1.2 million metres of insulation to our UK clients' pipe-work systems in 2008.

Cape segments its UK operations into three market facing business units:

- onshore industrial services;
- offshore industrial services; and
- environmental services.

The forward order visibility in the UK is favourable given that a typical contract arrangement is of three to seven years duration. The forward order book value closed 19% ahead of year end 2007 levels and has increased by a further 26% since the year end. The UK Region's forward order value is based upon actual committed orders with initial contract order values, defined by the clients' maintenance and outage programmes. Over 83% of the UK Region's budgeted 2009 revenues have been secured.

**9.30am Shetland Islands, UK**
Cape's customers principally comprise a diverse set of the world's largest integrated and independent energy companies and major international engineering contractors engaged in multi-year projects in the sector.

**10.45am Wilton, UK**
Cape can offer insulation to ecological thicknesses calculated to reduce harmful $CO_2$ emissions from clients' plant.

### Onshore industrial services

Revenue from onshore industrial services in the UK grew 14.2% in 2008 to £194.2 million (2007: £170.0 million). Cape further consolidated its position as the market leader in 2008 and currently services in excess of 50 large industrial sites.

Over half of the UK onshore revenue in 2008 was derived from the power generation segment (which includes gas, nuclear and coal fired power stations). Cape currently provides services at 27 of the UK's 50 major power stations* (2007: 23) and supports over 50% of the UK's total power generation capability (2007: 43%).

Cape currently supplies services at EDF's two coal power stations at West Burton and Cottam as well as the recently announced new fleet-wide seven year contract across British Energy's (BE) eight nuclear stations, and also their only coal fired station at Eggborough.

Cape provided services at five of the UK's 12 oil refineries in 2008 including the largest oil refinery in the UK, the ExxonMobil owned refinery at Fawley, Southampton where it has recently agreed a new seven year contract.

Major projects in 2008 included South Hook LNG, Sabic LDPE and BE's Heysham site.

### Offshore industrial services

Offshore revenues grew by 13.3% in 2008 to £88.6 million (2007: £78.2 million) reflecting additional works at Shell's St Fergus and Mossmorran gas plants and BP's Schiehallion Floating Production, Storage and Offloading (FPSO) vessel. All offshore revenue is derived from the offshore natural resources (oil & gas) market with the vast majority of the income generated from statutory maintenance activities.

Cape currently operates on 45 offshore installations plus various partly manned and partly unmanned units. Cape's offshore revenues have grown steadily during the past five years reflecting the need to service the industry's ageing North Sea assets.

### Environmental services

In 2008 Cape DBI and Endecon generated revenues of £26.2 million (2007: £21.9 million) from specialist 'heavy end' industrial cleaning in both the onshore and offshore markets with many common clients such as BP, Chevron, Exxon, Dow, Corus and BASF.

Heavy end industrial cleaning involves cleaning of contaminated tanks, vessels, pipes, drains, heat exchangers and surfaces as well as waste handling and site support services.

Contracts include a 10 year contract with Scottish Power Generation Ltd for industrial cleaning and surface preparation at the principal power generating stations at Longannet and Cockenzie on the River Forth in Scotland.

* Defined as those with a generating capacity of more than 100MW

**1pm Yanbu' al Bahr, Saudi Arabia**
User access systems utilised in Saudi Arabia were provided entirely from within the Cape Group; the work is guaranteed to Cape's usual high standards.

### Gulf/Middle East Region

The region enjoyed another year of strong growth in 2008 with revenues growing by 69.4% to £112.0 million (2007: £66.1 million). Although the region's performance benefited from exchange movements, this represents a particularly impressive performance coming after the 62.8% revenue growth achieved in 2007. Operating profits increased by 86.3% in 2008 to £23.1 million (2007: £12.4 million).

Cape has been operating in the Gulf/Middle East for over 30 years and now has operations in over 20 locations throughout all six Gulf Cooperation Council (GCC) countries, with its strongest presence in Qatar, Saudi Arabia and Abu Dhabi. Cape ended the year with 4,800 employees in the region (2007: 3,900), and delivered 19 million man hours in the year (2007: 13 million). While the region holds an inventory of over 37,000 tonnes of access equipment, the major service provided continues to be insulation services, including refractory lining and fireproofing.

Qatar, Saudi Arabia and Abu Dhabi again accounted for 85% of 2008 revenue. The high level of investment in the infrastructure and energy sectors in the Middle East during 2007 continued into 2008 and has been focused on the petrochemicals sectors. We have also seen significant investment in Qatar in the LNG sector and expansion of its downstream oil and gas refining capability.

Cape's strategic decision during 2006 to invest in the region continued with capital expenditure of circa £10 million in 2008 again increasing our access capability in the region. Access revenues grew from around 12% of overall revenue in 2007 to more than 30% in 2008.

Whilst the vast majority of the region's revenues are generated from the oil and gas/petrochemical sectors, Cape also provides services to power/desalination, steel, aluminium, chemical and cement plants. Cape provides services at 50 of the 80 large scale industrial complexes in the region requiring significant ongoing maintenance, shutdowns and capital programmes.

Apart from the refractory market, where Cape is recognised as the dominant service provider in the Gulf with over 50% market share, the market for Cape's services is highly fragmented with many local small companies offering single discipline services.

The region's order book closed the year 49% up on year end 2007 levels. Since the year end the region's order book has benefited from additional packages on the Kayan project and shutdown works in Qatar and Abu Dhabi. Some 85% of the region's budgeted 2009 revenues have now been secured.

### CIS, Mediterranean & North Africa Region

Cape's revenues in the region, which are largely project driven, increased by 15.5% year on year to £54.4 million (2007: £47.1 million) whilst operating profits increased by 20.8% to £5.8 million (2007: £4.8 million).

With 1,000 employees, the region delivered over 5.2 million man hours in 2008 (2007: 6.1 million). The region holds an inventory of 4,000 tonnes of access equipment and the major services provided are access, coatings and insulation.

### CIS

Revenues from Cape's operations in the CIS countries reached £46.3 million (2007: £42.7 million) and included the Sakhalin 2 LNG project and extensive onshore and offshore operations in Kazakhstan. The Sakhalin 2 build project was completed on time with over 7.5 million man hours executed without a Lost Time Incident (LTI). Cape has secured a four year maintenance contract at the plant. The proposed third train has been postponed until 2010-2011.

**2pm Ras Laffan Industrial City, Qatar**
We have been working on the LNG plant in Ras Laffan for 14 years due to our ability to offer cost effective bundled solutions throughout asset lifecycles. This means that once a build project is completed, we are well positioned to secure long-term maintenance contracts that follow.

**12pm Spain**
Cape is experienced in providing essential industrial services to major fabrication projects. The Adriatic LNG terminal was the first of its kind; it was constructed in Spain then floated to its permanent location in the Adriatic Sea.

In Western Kazakhstan, we successfully completed extensive works at Tengiz with Parsons Fluor Daniel. Substantial awards have been secured on the Karabatan project and the initial work on the expansion project at Karachaganak.

It is anticipated that Cape's revenues in the CIS will reduce in 2009 reflecting completion of the Sakhalin 2 project but this will be offset to a large extent by our business units in the Caspian where Cape's major activities will be in Actau, the offshore base for the Kashagan project and at Atyrau, the onshore Kashagan base.

### Mediterranean & North Africa

The fledgling Mediterranean and North Africa operation generated revenues of £8.1 million in 2008 (2007: £4.4 million). Cape's activities in 2008 included support services for ExxonMobil's Adriatic LNG project and shutdown projects for BG in Tunisia and ELNG in Egypt.

Cape has again targeted the oil and gas sector and in particular the LNG segment. Africa's LNG export capacity is already more than a quarter of the world total, and this is projected to double over the next five years. Cape is actively targeting the North African states of Algeria, Egypt and Libya where five significant new LNG projects have been announced. Cape estimates the potential value of the available work on these projects at in excess of £150 million. Given the extensive lead times on projects of this scale, we do not expect any significant contribution from any major project awards in North Africa in 2009. Project deferrals in North Africa have also been announced in recent months by BG at its Hasdrubal plant in Tunisia and by Sonatrach at its Arzew LNG plant in Algeria.

Cape's forward order book in the CIS, Mediterranean & North Africa region is currently ahead of year end 2007 levels with over 60% of 2009 budgeted revenues secured.

# 24.6%

**increase in employee numbers since 2007**

### Employees by region

1
4
3
2

1. UK – 34%
2. Gulf/Middle East – 36%
3. CIS, Mediterranean & North Africa – 8%
4. Far East/Pacific Rim – 22%

# Operating and financial review
continued

**5pm Sakhalin Island, Russia**
The Sakhalin 2 build project was completed on time, with over 7.5 million man hours executed without a Lost Time Incident.

68%

**growth of Group operating profit before other items[1] in 2008**

4 years

**4 consecutive years of growth**

**Far East/Pacific Rim Region**
Cape generated revenues of £147.3 million (2007: £45.5 million) from its operations in this region in 2008 with an operating profit before other items of £16.1 million (2007: £3.4 million). For operational management purposes the region is currently segmented into two separately managed geographic territories:

- Australia, with a head office based in Perth; and
- Asia based in Singapore and with operations in Thailand, the Philippines, New Caledonia, Indonesia, Malaysia and Brunei.

**Australia**
Revenues in 2008 were £117.6 million (2007: £26.0 million) with full year operating profits before other items of £12.3 million (2007: £1.3 million). This result reflects the full year contribution from the three Australian acquisitions:

- TCC Group, a privately owned blasting, painting and coatings contractor based in Western Australia; and
- Concept Hire and PCH Group, two previously ASX listed commercial and industrial scaffold hire businesses with operations across the country.

**3pm Bayu-Udan Platform, Timor Sea (East Indian Ocean)**
We have maintained our excellent reputation in Asia and have participated in some of its largest flagship projects including on the Bayu-Udan Platform where we have provided essential industrial services for over six years.

**7.30pm Kwinana, Western Australia**
In Australia we have a workforce of over 1,250 staff, trading from 19 locations throughout the country including newly established facilities at Darwin and Mackay.

The integration, restructuring and repositioning of these three operations into a single multi-disciplinary industrial services business trading under the Cape brand is continuing with significant investment in health, safety, environment and quality management, extension of service offering, marketing and re-branding and information systems.

Over the full year the underlying Australian revenue growth of the three acquired businesses has been broadly flat. The combined revenues of £113.3 million (excluding revenue from the discontinued Blackadder business) in 2008 compares with their combined full revenues in 2007 of £107.1 million.

The full year operating margin before other items of the acquired businesses of 10.9% (excluding Blackadder) reflects the strong margin recovery in the second half to 13.5% and the progress made by Cape's Australian management team.

Cape has a workforce in Australia of over 1,250 staff trading from 19 locations throughout the country including newly established facilities at Darwin and Mackay. Cape now provides services at over 50 large industrial sites for mineral resources clients such as Alcoa, BHP Billiton, Rio Tinto, FMG, Minara Resources and Iluka, major oil and gas clients including BP and Woodside Energy as well as the commercial construction market. Cape's operations in Australia have been organised into four geographic regions managed from key facilities in Perth, Karratha (WA), Melbourne and Brisbane. With over 50,000 tonnes, Cape has one of the largest stocks of access equipment in Australia.

Whilst the global recession and fall in commodity prices has had a significant impact on the outlook for the Australian economy, with project deferrals in the resources sector announced in the last six months, we remain confident that positive growth will be achieved in 2009 as our bundled services offering gains momentum.

LNG production represents one of the most important growth sectors for Cape. With plans to add over 50 million tonnes per year of new LNG export capacity within the next five years (Source: Petroleum Economist LNG Data centre), Australia is recognised as the second largest growth market for LNG export in the world behind only Sub-Saharan Africa. The planned construction of between nine and eleven new production trains makes Australia a key market for Cape. With its acquisition of PCH and TCC, Cape has been involved in the construction of all of Australia's six existing LNG production trains including five at the NW Shelf JV, including the recently completed fifth train, as well as the single train Darwin LNG plant.

With the current Pluto LNG project in progress, Woodside are expected to announce a final investment decision on a second liquefaction train (Pluto 2) expansion early in 2010. Similarly, recently confirmed gas reserves are more than sufficient to support Chevron's proposed two LNG train Wheatstone development and front end engineering and design is expected to commence in the second half of 2009.

In addition to the production of LNG from conventional natural gas, Australia is ideally placed to produce liquefied gas from lower quality coal seam methane in Queensland. With five proposed projects and substantial recent investments from ConocoPhillips, Petronas and BG in local operators Origin, Santos and QGC, Queensland is identified as a potential high growth market for Cape.

**3.30pm The Philippines**
We continue to invest in our workforce by providing world class training facilities and courses to internationally recognised standards.

# 70%

**of revenues generated from clients in the downstream energy, power generation and later cycle production markets**

### Asia

Revenues in Asia grew by 52.3% in 2008 to £29.7 million (2007: £19.5 million) bolstered by the PCH acquisition, with operating profits increasing by 81.0% to £3.8 million (2007: £2.1 million). Cape has a workforce of over 1,700 in Asia and delivered 4.5 million man hours in 2008 (2007: 3.8 million). Trading from six locations, with its strongest presence in Singapore, Thailand, the Philippines and New Caledonia, the PCH acquisition boosted the Cape inventory of access and formwork equipment in Asia by 12,000 tonnes to 20,000 tonnes.

The oil and gas sector represents the largest source of revenue for Cape in Asia, with 50% of 2008 revenues generated from services both onshore and offshore. Cape has maintained its excellent reputation in Asia having participated in some of its largest flagship projects in 2008 including the following projects related to the oil and gas sector:

- ConocoPhillips FPSO Project (Singapore);
- Woodside Pluto LNG Project (Thailand);
- Shell Mono Ethylene Glycol (MEG) Project (Singapore); and
- CUEL Offshore Fabrication (Thailand).

Cape's offshore maintenance projects in the region included the Bayu-Udan offshore facilities in the Joint Petroleum Development Area (Timore Leste/Australia) and the Shell Malampaya Offshore Platform (the Philippines).

In the mineral resources sector Cape continues to provide services to the Goro Nickel Project (New Caledonia) and the FRP Fabrication Project (the Philippines).

Once again Cape's safety record in the region was recognised with an award from Esso Thailand for the safest contractor on site on the Sup 5 project Esso Sriracha refinery 2008.

The Asian businesses forward order book continues to grow rapidly and with recent awards is now over seven times year end 2007 levels. Revenue visibility remains favourable with over 73% of 2009 budgeted revenues secured.

**2pm Ras Laffan Industrial City, Qatar**
All scaffolding and access solutions are bespoke to the customers' needs - from the simplest to the most complex - and are provided on a fully designed, costed and cost effective basis.

**9.45am Fawley, UK**
In the UK, Cape applied over 1.2 million metres of installation to our clients' pipe-work systems in 2008.

## FINANCIAL REVIEW

Cape's adjusted diluted earnings per share increased by 24.5% in 2008 to 30.0 pence (2007: 24.1 pence). Basic earnings per share increased by 2.7% to 26.7 pence (2007: 26.0 pence).

### Operating and free cash flow

The Group's operating cash flow[2] of £74.7 million (2007: £19.4 million) represents a strong operating cash conversion[2] of 115.3% (2007: 51.1%). Net cash inflow from operating activities was £48.2 million (2007: £6.9 million). The working capital inflow in the second half of £5.4 million was insufficient to recover the first half outflow with a full year working capital outflow of £2.9 million (2007: £29.9 million outflow).

Capital expenditure net of disposals in the year (including assets acquired on finance lease) amounted to £23.5 million (2007: £29.9 million). This investment was weighted heavily towards the first half and was predominantly Middle East focused. With slower growth forecast and the extensive amounts of equipment acquired through the Australian acquisitions, the capital investment programme is expected to be substantially reduced going forward.

Cape generated free cash flow of £26.9 million in the second half of 2008 giving rise to full year free cash inflow of £23.7 million (2007: outflow of £21.7 million).

### Capital structure and debt reduction

The Group's primary sources of liquidity are cash flow from operations and borrowings under its syndicated banking facilities. The Group's primary uses of cash are debt service and capital expenditure.

At 31 December 2008, Cape had net debt excluding Scheme Funds of £165.5 million (2007: £189.2 million) including cash balances of £33.3 million (2007: £20.1 million).

Cape entered into a five year syndicated Senior Credit Facility totalling £220.0 million on 3 September 2007. Borrowings under the facilities are available to fund the Group's working capital requirements, capital expenditures and other general corporate purposes and will terminate on 3 September 2012. Some £20.0 million was repaid during 2008 and the remaining facilities comprise:

- a £75.0 million fully amortising term loan with bi-annual repayments totalling £15.0 million in 2009 increasing to £20.0 million in 2010, 2011 and 2012;
- a revolving credit facility of £80.0 million with expiry on 3 September 2012; and
- an overdraft and ancillary facility of £45.0 million with expiry on 3 September 2012.

### Total assets (£m)

1

2

4 3

1. UK - £106.5m
2. Gulf/Middle East - £96.1m
3. CIS, Mediterranean & North Africa - £26.3m
4. Far East/Pacific Rim - £293.8m

# Operating and financial review
continued

**9am Wilton, UK**
At Cape, we recognise that our people are our strongest asset and have put in place effective management systems which allow every individual staff member to contribute to the Group's quality performance.

Of the revolving credit facility some £43.9 million is denominated in US and Australian dollars and these foreign currency borrowings provide a partial hedge for the Group's net investment in non sterling denominated entities.

The Group's balance sheet gearing has reduced to 67.2% (2007: 104.7%) and the ratio of net debt to adjusted EBITDA[3] has fallen from 4.0 times to 2.1 times.

Total equity at 31 December 2008 totalled £246.2 million (2007: £180.7 million).

### Debt financing costs
The finance charge amounted to £18.0 million (2007: £6.2 million) and included £15.5 million (2007: £5.5 million) of bank interest charges. The Group's effective average interest rate in 2008 was 8.1% (2007: 5.3%).

Interest rate risk exposure is managed through a balance of fixed and variable rate funding. At 31 December 2008 the Group had fixed 70.6% of its interest cost on borrowings over the following 12 months.

### Exceptionals and impairment
The Group recognised exceptional charges of £0.6 million in the second half of 2008 giving rise to a full year charge of £4.1 million (2007: £0.3 million). These charges relate to the restructuring and integration of the Australian acquisitions and relocation of the Group's head office from Wakefield to Stockley Park.

The Group completed a goodwill impairment test based on value in use calculations which estimate the recoverable amounts of the Group's Cash Generating Units (CGU). The test demonstrated that no impairment was necessary.

### Foreign exchange
The Group's results are impacted by the effect of retranslating foreign currency at different average rates from year to year. In 2008 the results benefited from the strengthening of the US dollar and the Australian dollar. The table below sets out the impact on 2008 operating profit before other items had 2007 exchange rates applied.

| | 2008-translated at actual average rates | | 2008-translated at 2007 average rates | |
|---|---|---|---|---|
| | Revenue £m | Operating profit before other items £m | Revenue £m | Operating profit before other items £m |
| UK | 309.0 | 27.0 | 309.0 | 27.0 |
| Gulf/Middle East | 112.0 | 23.1 | 103.5 | 21.4 |
| CIS, Med & NA | 54.4 | 5.8 | 50.4 | 5.4 |
| Far East/Pacific Rim | 147.3 | 16.1 | 134.6 | 14.5 |
| Central costs | – | (7.0) | – | (7.0) |
| Total | 622.7 | 65.0 | 597.5 | 61.3 |

The overall foreign exchange impact has been to increase revenues by £25.2 million or 4.2% and operating profits by £3.7 million or 6.0%.

**9.45am Ferrybridge, UK**
Heavy end industrial cleaning services involve cleaning of contaminated tanks, vessels, pipes, drains, heat exchangers and surfaces as well as waste handling and site support services.

**11.15am Eggborough, UK**
Cape is experienced at providing significant ongoing maintenance and capital programmes at large physical industrial plants to ensure efficient and reliable operations.

## Pensions

The Group's main pension arrangements are on a defined contribution basis. Although closed to new members in 2001, the Group continues to operate a UK defined benefit scheme which had 73 active members and 2,030 deferred or pensionable members as at 31 December 2008. The scheme had a surplus of £10.1 million (2007: £12.6 million) at the year end. However this has been restricted to £nil in accordance with IFRIC 14 (2007: restricted to £nil).

## IDC and Scheme costs

Scheme funds reduced by £1.6 million (2007: reduced by £1.0 million) to £37.5 million (2007: £39.1 million). During the year a total of £3.4 million (2007: £3.0 million) was paid to asbestos related claimants who are primarily former employees of Group companies. During the year the Scheme fund received interest income of £2.0 million (2007: £2.2 million).

Whilst Cape has a continuing obligation to top up the Scheme fund to the extent that the triennial actuarial assessments show that there is a shortfall in the Scheme funding requirement, the most recent review carried out in early 2008 showed that the Scheme was fully funded for 13 years from 31 December 2007. Consequently there is no requirement to top up the Scheme funds at this time.

The net charge to the income statement for industrial disease claims was £5.7 million (2007: £1.6 million) and reflects a number of factors including an increase in the standards applied following review by the Judicial Standards Board.

## Tax charge and effective tax rate

The tax charge for the year on continuing operations before other items was £12.2 million (2007: £8.4 million), with an underlying tax rate of 25.3% (2007: 24.9%). The tax charge again benefited in 2008 from a reduction in deferred tax liabilities of £3.3 million (2007: £2.8 million) arising from the rebasing of assets following the Australian acquisitions giving an effective tax rate for the Group of 15.6% (2007: 16.4%).

1. Group operating profit before other items comprises profit before interest and taxation of £52.5 million (2007: £35.8 million), adjusted for exceptional items of £4.1 million (2007: £0.3 million), IDC charge of £5.7 million (2007: £1.6 million) and amortisation of intangible assets of £2.7 million (2007: £1.0 million)
2. Operating cash flow, free cash flow and operating cash conversion are defined in note 30 to the Group financial statements
3. Adjusted EBITDA is defined as Group operating profit before other items of £65.0 million (2007: £38.7 million) adjusted for depreciation of £15.3 million (2007: £8.7 million)

# Health, safety and the environment

Our Health, Safety and Environmental (HSE) performance made substantial gains across our worldwide operations, as measured by a range of Key Performance Indicators (KPIs).

The primary international benchmark for safety is the measurement of Lost Time Incidents (LTI) per 100,000 hours worked and this key indicator has once again reduced significantly, by around 20%, from the levels demonstrated in 2007. We actively invest in the training of our employees to ensure they hold their own safety and the safety of others in the highest regard.

The 2008 LTI performance of 0.08 per 100,000 hours worked exceeded management's target and is world class within the sector. All Cape's staff continue to strive towards our ultimate goal of zero incidents or accidents and zero harm to the environment.

During 2008 Cape launched several new initiatives designed to help the Group continue to improve its health, safety and environmental performance. These included:

- **Eight Golden Rules:** introduced Group-wide to establish concise HSE principles, in order to protect the health and safety of our employees and others who could be affected by our operations. These rules are designed to set Group performance expectations and ensure that employees understand their obligations to uphold Cape's safety philosophy.

- **KPIs established:** HSE KPIs have been established for use across the Group to measure both leading and lagging indicators. These have been designed to encourage business areas to proactively manage performance and direction. Cape's goal is to be demonstrably and reputably the safest company within our industry sector.

- **MyOSH:** the Group-wide launch of a single internet-based global HSE reporting and analysis system. This system is designed to aid the accurate and expedient reporting of accidents and incidents and enable Cape's health and safety teams to improve working practices and procedures.

- A **Health and Safety Conference** was held in June as part of an initiative to integrate Cape's newly-acquired Australian companies into the Group's health and safety principles. The conference focused on the continuing improvement of Cape's performance and provided an opportunity for staff from across Cape locations to share best practice.

- capesafe Cape operates in over 28 countries worldwide. The diverse nature of our workforce is one of our great strengths but this also provides challenges when communicating the Group's expectations of health, safety and environmental performance. We have therefore introduced a specific safety brand – Capesafe – to spearhead Cape's HSE communications. This ensures that all safety information, instruction and training is presented under a common theme. Materials are reproduced in nine different languages to ensure clear and concise communication to all Cape workers.

- **Quality Management System:** A new quality management system has been developed to set the structural framework for Cape's worldwide operations. This follows the successful integration and consolidation of one common set of health, safety and environmental policies and procedures during 2008. The new system will be implemented in 2009.

- **Adoption of SA8000:** Social Accountability International's SA8000:2001 standard is perceived as the only recognised international standard designed to demonstrate appropriate minimum standards of

**Cape's accident frequency rate performance of 0.08 per 100,000 hours worked has exceeded management's target and is world class within the sector.**

# Safe and secure

The Group's investment in ensuring the safety of our people in 2008 increased significantly with the launch of the Golden Rules and CapeSafe programmes throughout the business.

Cape is committed to providing the safest work environment for our people and seeks to benefit the communities where we operate, through work and activities that provide local social benefits.

## 10.15am Fawley Refinery, UK

11am Eggborough, UK
Health and safety excellence is at the heart of our business. The nature of the industrial services operating environment requires exacting health and safety controls.

human rights. All our facilities are audited to ensure that they meet this standard as a minimum. This audit is particularly important in locations where Cape has to provide its own workers with accommodation, such as the Middle East and Far East. Employee welfare is vital to Cape and supports our goal to be seen as a responsible employer. This is a particularly important factor in markets where the requirement for staff outstrips local supply.

- **Measurement of Carbon Footprint:** To support our ongoing commitment to reduce environmental impact and our ultimate goal of zero environmental harm, we have, under the auspices of the Carbon Trust, audited our UK facilities to measure Cape's carbon footprint. Although our overall impact has been assessed as minimal, a number of initiatives have been established to reduce current levels. These initiatives will be progressively implemented over the next three years under a programme of rolling improvements.

### Recent awards and recognition

Cape's market-leading health, safety and environmental performance is demonstrated by several awards and certifications.

Cape has been awarded a Health and Safety 5 star Award from the British Safety Council (BSC), their highest recognition of superior performance. Representative country operations in the UK, the Far East and Middle East were selected for audit and assessment by the BSC.

Our worldwide operations hold accreditation against a number of international standards for health, safety and quality, resulting in the award of 23 certificates of conformity for ISO 9001 (Quality systems), 14001 (Environmental) and OSHAS 18001 (Health and Safety). In 2008 our external accreditation coverage for ISO 9001 and OSHAS 18001 was extended to cover our Kazakhstan operations.

In 2008 Cape actively developed a quality management system to encompass the new complement of inspection services that we offer. We expect this activity to be fully accredited to the appropriate ISO 17020 standard in 2009.

We have received various commendations and awards for our performance on a number of contracts including Technip in Abu Dhabi and Shell and its partners in Sakhalin.

### Training

Cape has continued to invest in its workforce by providing world class training facilities and courses to internationally recognised standards. We continually enhance and update our capabilities to ensure that we can provide combined competent services to our clients. Training recognition within the last 12 months includes:

- International Rope Access Training Association (IRATA) approval in the UK;
- Construction Industry Scaffolders' Record Scheme (CISRS) certification for scaffolders in the Philippines; and
- extensive training and recertification (to CISRS) of scaffolding workforce in the UK.

Cape's expertise in health, safety and technical capabilities is also recognised through regular requests to provide commercial training packages. Our Philippine operations have recently been awarded a prestigious contract to provide 'Safety Passport' training to all personnel working on Shell's facilities in the country.

In 2009 Cape plans to develop the existing training capacity in Australia, extend rope access capabilities to provide certified inspection services and expand our existing training portfolio within the Philippines.

# Risks and uncertainties

Risk is an unavoidable facet of any business activity. Cape faces a number of risks in undertaking its operations around the world. Cape has a risk register which is used to identify and review risks and assist with the planning of measures to mitigate known risks.

This review of the risks and uncertainties faced by the Group is not exhaustive and there may exist risks that have not been identified by the Directors. New risks may also emerge and the likelihood of known risks occurring and the impact they may have upon the Group may change from time to time.

| Potential impact | Mitigation |
|---|---|
| **Exposure to energy industry**<br>Cape's clients are either in, or are dependent upon, the energy and petrochemical sectors. Cape's earnings therefore depend on long-term energy demand particularly oil, gas and electricity.<br><br>Cyclical downturns could lead to declines in demand for Cape's services. | Cape is firmly positioned in the downstream energy infrastructure, power generation and later cycle production markets. These markets are less impacted by cyclical downturns than upstream, exploration segments.<br><br>Cape has a broad customer base and geographic footprint and has avoided high cost of production markets such as Canada.<br><br>Most contracts cover a multi-year engagement and are for work of a long-term nature. Cape therefore has limited exposure to fluctuations in the spot price of any one energy product, or its short-term demand.<br><br>Cape's wide range of essential services ensure it can serve customers' needs through the lifecycle of the asset, whether related to installation, maintenance or decommissioning. |
| **Competitive environment**<br>Losing certain key customers could have an adverse effect on Cape's revenues, particularly where these customers have several contracts with Cape.<br><br>In certain markets the Group has an estimated market share of 30% or more. In these markets, the Directors believe that competition law issues could restrict the Group from making material acquisitions. | Cape's top 20 customers accounted for 45% of Group revenues in 2008, with the largest customer accounting for 9% of Group revenues. Cape has a broad customer base and seeks to maintain a balanced customer concentration.<br><br>Cape has developed long standing relationships with customers based on service quality, reliability, reputation and safety. This supports revenue retention and growth through ongoing contract awards and renewals. |
| **Contracting risks**<br>The eventual value of contracts may be lower than expected. Many of Cape's contracts are term maintenance contracts and do not guarantee revenue levels.<br><br>Fixed price contracts expose Cape to potential cost overruns. | Cape operates a stringent contract review process with clear authority limits governing the acceptance of contracts.<br><br>Cape seeks to avoid large fixed price contracts with the majority of its contracts being cost reimburseable or scheduled rates. |
| **External factors**<br>Operating activities may be affected by factors outside our control. These include climatic conditions, industrial conditions, technical failures, labour disputes, unusual or unexpected geological features, environmental hazards, delays to government actions, delays in construction, availability of material or parts and shipping, and import or customs delays. | These external factors are normally likely to affect a specific location, customer relationship or a single contract. Cape's business is diverse by geography, number of clients, range of services and exposure to industries. This portfolio diversification reduces Cape's overall exposure to these risks. |

| Potential impact | Mitigation |
|---|---|
| **Geopolitical factors**<br>Changes in the political environment in certain regions may result in Cape, or its clients, losing control of operations, or loss of commercial or legal protections. | Cape maintains a broad geographic footprint and has sought to acquire businesses in safe and politically stable countries.<br><br>Cape's policy is to avoid markets/regions which it assesses as high risk.<br><br>Risk is mitigated by a strong senior management presence in each region and regions operate to strict guidelines set by Group.<br><br>Local legal counsel are regularly engaged to ensure compliance with local legislation and advise on any potential changes in legal or regulatory framework. |
| **Financial risk and controls**<br>Failure to achieve satisfactory returns on investments.<br><br>Inadequate financial controls leading to lack of integrity or loss of financial data.<br><br>Other financial risks including foreign exchange and interest rate exposure are fully documented in note 21 to the Group financial statements. | Cape carries out detailed assessments and review of investments including external legal and financial diligence where appropriate.<br><br>Cape has recruited high quality and experienced finance, internal audit, tax and treasury teams based at the Group's head office in Stockley Park and in the regions. |
| **Health, Safety, Environment and Quality**<br>A failure to maintain the highest Health, Safety and Environmental (HSE) standards could result in injury to our employees or others involved in our operations.<br><br>Customers require high levels of performance. Failure to deliver HSE excellence could result in a material loss of customers and/or damage to Cape's reputation and the environment. | Cape's investments in systems and resources with 400 people in full time HSE roles across the Group, has resulted in significant reductions in accidents, working days lost and environmental incidents.<br><br>Occupational health and safety performance continues to be in the upper quartile of comparable companies, with a Lost Time Incident (LTI) frequency rate of 0.08 per 100,000 hours worked, for the Group as a whole.<br><br>Cape introduced Eight Golden Rules in 2008, as concise HSE principles, to protect the health, safety and welfare of our employees and others who could be affected by our operations.<br><br>Cape introduced a new safety brand, CapeSafe, to ensure that all safety information was presented consistently to staff across the world, regardless of their local custom or language.<br><br>See pages 24 to 26 for further information on Cape's HSE initiatives. |

## Potential impact

**Risks relating to the Scheme of Arrangement and other asbestos-related matters**
A number of Cape's subsidiary companies used asbestos in their manufacturing activities until the 1970's and receive claims mainly from former employees who have contracted various diseases as a result of exposure to asbestos.

Employee claims were mostly insured from the mid 1970's and fully insured from 1981 onwards.

Asbestos-related unpaid claims are estimated and therefore inherently uncertain.

External factors (e.g. legislation changes, new types of claims) could result in a requirement for Cape to make an annual top-up payment. This could constrain Cape's ability to fund growth in the business.

**Senior management and staff**
The loss of key senior management or employees, may adversely affect Cape's business.

Cape's ability to successfully operate and grow the business is largely dependent on its ability to attract and retain high quality personnel. An inability to attract and retain well-qualified personnel could materially adversely affect Cape's business, operating results or financial condition.

## Mitigation

A Scheme of Arrangement was implemented in 2006 to provide both claimants and Cape and its shareholders greater certainty over the funding of future asbestos claims and related cash flows.

An independent actuary estimates the number and value of unpaid and future claims on a triennial basis. In addition, Cape closely monitors claims levels, which are currently as expected.

Any annual top up payment required is restricted to a proportion of Cape's free cash flow.

While the level of future claims is impossible to predict with certainty, the inherent uncertainty over actual claims levels should decrease over time as further information and data is available.

Cape's regionalised organisational structure provides considerable management autonomy and opportunity for senior personnel to develop within the business.

Annual performance appraisals are conducted to assess executives' performance and to discuss career goals and succession planning.

Senior executive remuneration is reviewed against market data provided by specialist remuneration consultants to ensure awards are competitive.

Long-term incentive plans are in place to encourage the retention of the key management group.

# The Board

From left to right:
David McManus, Martin May, David Robins,
Sean O'Connor and Richard Bingham

The Board consists of five directors in respect of whom brief biographies are set out below:

**Sean O'Connor (aged 60)**
Non-Executive Chairman
Sean O'Connor first joined the Board as a Non-Executive Director in 1996 and served until 2004. He rejoined in the same capacity in April 2007 and became Chairman in June 2008. Sean O'Connor also sits on the Remuneration Committee and is Chairman of the Nomination Committee. Sean O'Connor was a marketing and advertising executive until 1989 when he founded and chaired the Stoves Group PLC and later MediaKey plc, Applied Energy Holdings Limited and Babel Media Limited. He is currently Chairman of Premium Appliance Brands Limited and Springboard Urban Limited and a Non-Executive Director of Sportingbet plc, Graphite Enterprise Trust PLC, Crow TV Limited and Escape Studios Limited.

**Martin May (aged 55)**
Chief Executive
Martin May was appointed as interim Chief Executive Officer in June 2002 and became Executive Chairman of Cape plc in June 2003, a role that he relinquished on becoming Chief Executive Officer in 2006. Since July 2006 Martin May has worked with the senior management team to drive forward performance in different areas within the Cape Group and ensure that each region maximises the opportunities provided and consolidates its international footprint within the market. Martin May is a Fellow of the Institute of Chartered Management Accountants and a founder member and Fellow of the Institute for Turnaround Practioners.

**Richard Bingham (aged 46)**
Chief Financial Officer
Richard Bingham was appointed as Chief Financial Officer in June 2008, following a short period assisting with the initial integration of Cape's three Australian acquisitions. A specialist interim reorganisation and turnaround practitioner, he has acted as a Director of corporates and advisor to banks and investors over the past nine years. Richard Bingham is a Chartered Accountant with 16 years experience with both PricewaterhouseCoopers and subsequently Deloitte in their London based business reorganisation services divisions. Richard Bingham is also a Member of the Institute for Turnaround Practioners.

**David McManus (aged 55)**
Non-Executive Director
David McManus was appointed as a Non-Executive Director in 2004 and served as Non-Executive Chairman between 2006 and 2008. He is Chairman of the Remuneration Committee and is a member of the Audit and Nomination Committee. David McManus is currently Executive Vice President of Pioneer Natural Resources, a US listed oil and gas company, with responsibility for International Operations. Prior to Pioneer he was Executive Vice President with BG Group where he was responsible for developing technical and commercial capabilities within the company and directing assets in the Eastern Hemisphere. Previously David McManus was President of ARCO Europe until ARCO's merger with BP in 2000.

**David Robins (aged 56)**
Non-Executive Director
David Robins joined the Cape Board as a Non-Executive Director in 2006. He is the Board's senior Non-Executive Director and chairs the Audit Committee. He is also a member of the Nomination Committee and the Remuneration Committee. David Robins is a partner with City law firm, Berwin Leighton Paisner LLP, specialising in all aspects of corporate finance including acquisitions, mergers and funding issues. Before practising as a solicitor David Robins was a corporate finance executive with a leading investment bank. He is also a Non-Executive Director of Cybit Holdings plc, a telematics services provider, and was previously also a Director of Hornby plc, the toy and hobby business.

# Directors' report

The Directors have pleasure in submitting their report and audited financial statements of the Group and the Company for the year ended 31 December 2008.

### Principal activities

The Company and its subsidiaries form an international group primarily engaged in the supply of a wide range of services including multi-user work access systems, insulation, fire protection, abrasive blasting, refractory, asbestos removal, coatings, cleaning, training and other essential non-mechanical services to major industrial groups, principally in the energy and natural resources sectors. Details of the Company's principal and subsidiary undertakings are listed on page 91. The Group also has branches located in Azerbaijan, Kazakhstan, New Caledonia, Ireland, Trinidad, and Tunisia.

### Business review and Group results

The Directors present a Business Review as required by section 417 of the Companies Act 2006. This comprises:

- the Chairman's statement on pages 4 and 5 of the Annual Report;
- the Chief Executive's review on pages 12 and 13 of the Annual Report;
- the Operating and financial review on pages 14 to 23 of the Annual Report;
- the Five year financial summary on page 90 of the Annual Report; and
- the discussion of the Risks and uncertainties facing the Group set out on pages 27 to 29 of the Annual Report.

### Dividends

No interim dividend was paid for the year ended 31 December 2008 (2007: nil pence). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: nil pence).

### Property, plant and equipment

Details of the movements in property, plant and equipment are given in note 14 to the Group financial statements on page 58.

### Donations

During the year the Group made charitable donations of £40,037 (2007: £38,284) towards various local and national causes. There were no political donations (2007: £nil).

### Share listing

The Company's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange.

### Directors

The Directors of the Company during the year and at the date of this report were as follows:

Sean O'Connor
Martin May
Richard Bingham (appointed 1 June 2008)
David Robins
David McManus

Their biographical details can be found on page 30.

Michael Reynolds, who was a Director as at 1 January 2008, resigned on 31 May 2008.

The Company's Articles of Association provide that at each Annual General Meeting one third of the Directors shall retire from office and may, if eligible and willing to act, offer themselves for reappointment.

Martin May is the Director retiring by rotation under Article 100 and, being eligible, offers himself for re-election at the Annual General Meeting.

Richard Bingham, having been appointed by the Directors since the last Annual General Meeting, is required to retire at the end of the Annual General Meeting on 20 May 2009 and being eligible, is seeking election by the shareholders at that meeting.

Details of the interests of the Directors in the shares and share option schemes of the Company are shown on page 32.

Save as disclosed in note 34 to the Group financial statements, no Director had any interests in any contract with the Company or its subsidiaries at any time during the year other than their service contracts and through the share option schemes. The Company has maintained insurance to cover Directors' and officers' liability as defined in section 233 of the Companies Act 2006.

## Directors' interests

### Shares

The beneficial interests of the Directors of the Company and their families in the ordinary shares of the Company are set out below:

| | 15 April 2009 Number | 31 December 2008 Number | 31 December 2007* Number |
|---|---|---|---|
| Current Directors (as at 31 December 2008) | | | |
| Sean O'Connor | 100,700 | 45,700 | – |
| Martin May | 550,000 | 500,000 | 125,000 |
| Richard Bingham | 26,500 | 26,500 | – |
| David Robins | 36,350 | 23,350 | 17,000 |
| David McManus | 35,000 | 35,000 | 35,000 |

* Or date of appointment if later.

None of the Directors had an interest in the shares of any other company in the Group.

### Share options

The following Directors held options in the Company's share option schemes during the year:

| Plan | Grant Date | At 31 Dec 2007 | During year Granted | During year Exercised | During year Lapsed | At 31 Dec 2008 | Option Price | Market Price at date of exercise | Date from which exercisable | Expiry Date |
|---|---|---|---|---|---|---|---|---|---|---|
| **Martin May** | | | | | | | | | | |
| EIP | 7 May 2004 | 400,000 | – | 400,000 | – | – | 60p | 255p | 7 May 2007 | N/A |
| EIP | 7 July 2006 | 400,000 | – | – | – | **400,000** | 176p | – | 7 July 2009 | 7 July 2016 |
| EIP | 22 March 2007 | 200,000 | – | – | – | **200,000** | 269p | – | 22 March 2010 | 22 March 2017 |
| PSP | 28 April 2008 | – | 190,122 | – | – | **190,122** | Nil | – | 28 April 2011 | 28 April 2013 |
| **Richard Bingham** | | | | | | | | | | |
| PSP | 28 April 2008 | – | 131,119 | – | – | **131,119** | Nil | – | 28 April 2011 | 28 April 2013 |
| **Michael Reynolds** | | | | | | | | | | |
| EIP | 7 May 2004 | 100,000 | – | 100,000 | – | – | 60p | 255p | 7 May 2007 | N/A |
| EIP | 24 October 2005 | 100,000 | – | 100,000 | – | – | 120p | 277p | 30 June 2008 | N/A |
| EIP | 7 July 2006 | 150,000 | – | 150,000 | – | – | 176p | 254p | 8 July 2008 | N/A |
| EIP | 22 March 2007 | 150,000 | – | – | 150,000 | – | 269p | – | 31 May 2008 | 30 June 2008 |
| Sharesave | 21 July 2006 | 11,925 | – | 4,131 | 7,794 | – | 135p | 273p | 1 July 2008 | N/A |

No other Directors have been granted share options in the shares of the Company or other Group entities. None of the terms and conditions of the share options were varied during the year. All options were granted in respect of qualifying services.

The Performance Share Plan (PSP) options were granted at nil cost to the Directors. Vesting of these shares is subject to Cape plc Earnings Per Share (EPS) meeting the specified performance criteria over a three year vesting period. The performance criteria is EPS growth of the Retail Price Index (RPI) plus 3% for the minimum of 30% of the shares awarded to vest, and EPS growth of RPI plus 10% for all of the shares awarded to vest.

The Employee Incentive Plan (EIP) options were granted at the option prices detailed above and are subject to the condition that they will not be exercisable unless the performance of the Company's adjusted EPS over a set three year period exceeds the growth in the Consumer Price Index over the same period by 3% per annum.

### Gains made by Directors on Share Options
On 3 April 2008, Martin May exercised options over 400,000 ordinary shares at an exercise price of 60 pence per share. The share price at the date of exercise was 255 pence. Of the 400,000 shares exercised, 100,000 shares were sold and the balance of 300,000 shares are included in the balance above. The gains made on exercise were £780,000.

On 3 April 2008, Michael Reynolds, who served as a Director in the period 1 January 2008 to 31 May 2008, exercised options over 100,000 ordinary shares at an exercise price of 60 pence per share. The share price at the date of exercise was 255 pence and the gains made on exercise were £195,000.

Following his resignation from the Board on 31 May 2008, Michael Reynolds exercised options over 100,000 ordinary shares at 120 pence per share, and 150,000 ordinary shares at 176 pence per share, both under the EIP. The option over 150,000 ordinary shares exercisable at 269 pence per share lapsed. Following his resignation, Michael Reynolds also exercised options over 4,131 ordinary shares at 135 pence per share under the Sharesave Scheme; the balance of 7,794 options under this Scheme has lapsed.

The middle market price of the shares on 31 December 2008 was 50 pence and the range during the 12 months ended 31 December 2008 was 23 pence to 289 pence.

### Directors' indemnities
The Company has provided qualifying third party indemnities to Andrew Gillespie, Claire Craigie and Benjamin Whitworth in their capacity as officers of two Group companies that were put into liquidation on 6 January 2006.

The Company did not provide any qualifying third party indemnities to any of its Directors in the year.

### Supplier payment policy
The supplier payment policy for Group companies is to agree terms and conditions for business transactions with suppliers. Payment is then made subject to these terms and conditions being met. The Company did not have any amounts owed to trade creditors at the end of the year (2007: nil). The Group had £43.4 million of trade payables at the end of the year (2007: £30.1 million) which represented 60 creditor days (2007: 59).

### Treasury policy
The Group's policy on treasury and financial risk (see note 21) is set by the Board and is subject to regular reporting and review. The main risks faced by the Group relate to foreign currency risk and liquidity risk.

A significant proportion of the Group's business is conducted overseas. The Group is therefore subject to exchange rate risk when translating the results and assets of its overseas subsidiaries into Sterling. Where significant transactional exchange rate risks are identified, then appropriate currency contracts are used to hedge these transactions.

The Group's committed facilities all carry interest rates based on LIBOR and therefore the Group is exposed to interest rate movements. As at 31 December 2008, 70.6% of the Group borrowings were hedged.

### Employment policies
The companies in the Group operate within broadly prescribed personnel and employment policies. Each company develops procedures which are most appropriate to the circumstances within which it operates. The Group's training, career development and promotion policies provide equal opportunities for all employees.

### Employment of disabled persons
It is Group policy to permit, wherever practicable, the employment of disabled persons and to provide appropriate opportunities for their training, career development and promotion. Where employees have become disabled in the service of the Group, every effort is made to rehabilitate them in their former occupation or in some suitable alternative.

### Employee involvement
The Group continues its practice of keeping all employees informed on matters affecting them and the Group, so that a common awareness amongst all employees is developed in relation to the financial and economic factors that affect the performance of the Group. Where applicable, the Group consults employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests.

Senior management is kept abreast of developments in financial, commercial and personnel matters and this enables it to ensure that employees at the operational level are kept informed. The Group operates pension schemes for the benefit of eligible employees in the UK and overseas. The funds of the pension schemes are administered by Trustees and they are held separately from Group funds.

In 2006, the Group reintroduced a Save As You Earn scheme (the Sharesave Plan) for eligible employees. The Directors believe that share ownership among employees encourages team effort and will contribute to the ultimate success of the Group.

### Health and safety
The Group has issued a policy statement on its commitment to a safe working environment for all employees. The Chief Executive is responsible for the implementation of the Group policy on health and safety within his area of responsibility. During the year, Group operations throughout the UK and the rest of the world, were subjected to internal and third party audits to monitor compliance with Company procedures and statutory requirements.

# Directors' report
continued

**Statement of Directors' responsibilities**
The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the Parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and Parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Group and Parent Company financial statements comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 30, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the risks and uncertainties that it faces, set out in the Risks and uncertainties review on pages 27 to 29.

**Statement of disclosure of information to auditors**
So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as information needed by the Company's auditors in connection with preparing their report. Each Director has taken all the steps (such as making enquiries of other Directors and the auditors and any other steps required by the Director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Substantial holdings**
The Directors have been advised that as at 1 April 2009 the following have interests of 3% or more in the issued ordinary share capital of the Company:

| Institution | No. of shares | % holding |
|---|---|---|
| M&G Investment Management | 16,083,581 | 13.99 |
| Schroder Investment Management | 11,246,062 | 9.78 |
| BlackRock Investment Management (UK) | 10,278,024 | 8.94 |
| Slater Investments | 10,259,023 | 8.92 |
| Deutsche Bank | 8,220,074 | 7.15 |
| Lehman Brothers Inc | 4,696,834 | 4.08 |
| Fidelity | 3,547,400 | 3.09 |

The Company has not received notification of any other interests held by persons acting together which at 1 April 2009 represented 3% or more of the issued ordinary share capital.

**Purchase of own shares**
At the Annual General Meeting held on 11 June 2008, shareholders approved a resolution to authorise the Company generally and unconditionally to make one or more market purchases of the issued Ordinary Shares of the Company up to a maximum aggregate nominal value of £2,858,730 (representing 10% of the Company's then issued ordinary share capital). This authority will expire at the 2009 Annual General Meeting, and a resolution will be proposed to renew this authority up to a maximum aggregate nominal value of £4,309,216 representing approximately 14.99% of the Company's issued ordinary share capital. No shares were purchased under this authority during the year.

**Annual General Meeting**
The Company proposes to convene the Annual General Meeting for 10am on 20 May 2009 at the offices of Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA. The notice of Annual General Meeting is contained in a circular to be sent to Shareholders at the same time as the 2008 Annual Report and Accounts.

**Independent auditors**
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

**By order of the Board**
Jeremy Gorman
Company Secretary
Cape plc
9 The Square
Stockley Park
Uxbridge
UB11 1FW
15 April 2009

# Corporate governance report

**Compliance with Combined Code**
Cape is committed to achieving high standards of business integrity, ethics and professionalism across its worldwide operations.

As a company whose shares are traded on AIM, the Company is not required to comply with the full requirements of the Combined Code on Corporate Governance published in June 2006. However, the Board continues to implement policies and procedures designed to comply with the Combined Code as far as reasonably practicable and appropriate for a public company of its size and complexity.

The Board is accountable to the Company's Shareholders for good governance and the statements set out below describe how the principles identified in the Combined Code are applied by the Group.

**The Board**
The Board has responsibility for the overall management and performance of the Group and is responsible for formulating, reviewing and approving the Company's long-term objectives, budgets and commercial strategy.

The Company has established properly constituted Audit, Remuneration and Nomination committees of the Board with formally delegated duties and responsibilities. Decisions concerning the direction and control of the business are made by the Board, and a formal schedule of matters specifically reserved for the Board is in place.

At 1 January 2008, the Board comprised an independent Non-Executive Chairman (David McManus), two Executive Directors (Martin May, Chief Executive, and Michael Reynolds, Group Finance Director) and two other Non-Executive Directors (David Robins and Sean O'Connor).

On 31 May 2008 Michael Reynolds resigned from the Board, and on 1 June 2008 Richard Bingham was appointed as an Executive Director and Chief Financial Officer. David McManus stepped down from the role of Chairman at the conclusion of the 2008 Annual General Meeting on 11 June 2008, remaining as a Non-Executive Director, and Sean O'Connor was appointed Non-Executive Chairman in his place.

An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice. Newly appointed Directors are made aware of their responsibilities through the Company Secretary. The Company does not make any provision for formal training of new Directors although a detailed induction process takes place which includes discussions with senior managers and familiarisation visits to the Company's operations.

No individual or group of Directors dominates the Board's decision making. Each of the Non-Executive Directors is independent of management and has no cross-directorships or other significant links which could materially interfere with the exercise of his independent judgement. Collectively, the Non-Executive Directors bring a valuable range of expertise in assisting the Company to achieve its strategic aims.

All Directors are subject to election by the shareholders at the first opportunity after their initial appointment to the Board and to re-election thereafter at intervals of not more than three years. (For biographical details of the Directors please see page 30.)

The Company has a separate Chairman and Chief Executive each with their own responsibilities. The Chairman is responsible for the effective running of the Board and the Chief Executive is ultimately responsible for all operational matters and the financial performance of the Company.

**Meetings with Non-Executive Directors**
The Chairman holds meetings as required with the Non-Executive Directors without the Executive Directors being present.

**Matters reserved for the Board**
The Board has a formal schedule of matters reserved for its decision which includes:

- Group strategy and policy;
- Group corporate and capital structure;
- financial reporting and controls;
- communication with shareholders;
- Board membership and other senior management appointments; and
- material transactions.

Other matters are delegated to Board Committees, individual Directors or senior management where appropriate. In addition, the Board receives reports and recommendations from time to time on any matter which it considers significant to the Group.

**Board meetings**
The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. This includes detailed monthly management accounts and an analysis of the Group's actual performance against budget and the previous year.

The Board usually meets formally not fewer than eight times a year. Informally, Board members meet more often.

**Individual attendance by Directors at full meetings of the Board and of other committees**

| | Board | | Audit | | Remuneration | | Nomination | |
|---|---|---|---|---|---|---|---|---|
| | No. of meetings | No. attended | No. of meetings | No. attended | No. of meetings | No. attended | No. of meetings | No. attended |
| Sean O'Connor | 10 | 9 | 2* | 2* | 2 | 2 | 4 | 4 |
| Martin May | 10 | 10 | 2* | 2* | – | – | – | – |
| Richard Bingham | 8 | 8 | 1* | 1* | – | – | – | – |
| David Robins | 10 | 10 | 2 | 2 | 2 | 2 | 4 | 4 |
| David McManus | 10 | 9 | 2 | 2 | 2 | 2 | 4 | 4 |
| Michael Reynolds | 2 | 1 | 1* | 1* | – | – | – | – |

* By invitation only.

## Board committees

The Board delegates certain powers to designated committees. The terms of reference for the principal Committees can be obtained by contacting the Group Company Secretary at the Company's registered office or viewed on the Company's website.

## Audit Committee

The Audit Committee has formal Terms of Reference which are approved by the Board. The Audit Committee is responsible for exercising the full powers and authority of the Board in accounting matters, financial reporting and internal controls.

Its primary responsibilities are to monitor the quality of internal controls and ensure that the financial performance of the Company is properly measured and reported on. It receives and reviews reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The Audit Committee meets at least twice a year and has unrestricted access to the Company's auditors.

The Committee consists solely of Non-Executive Directors, each of whom has financial experience in a large organisation. During the year, the Audit Committee comprised David Robins (Chairman), and David McManus. At the invitation of the Committee, the Chairman, the Chief Executive, Chief Financial Officer, Group Company Secretary, Group Financial Controller, Director of Internal Audit and the Company's external auditor may attend meetings.

## Remuneration Committee

The Remuneration Committee has formal Terms of Reference which are approved by the Board. Its principal responsibility is to determine the framework or broad policy for the remuneration of the Chairman and the Executive Directors, to consider and determine all elements of the remuneration of those Directors and to review Board performance. No Director takes part in any discussion concerning his own position. The Committee also determines and recommends the grant of share options under the Company's Performance Share Plan.

The Committee consists solely of Non-Executive Directors and, during the year, comprised David McManus (Chairman), David Robins and Sean O'Connor.

At the invitation of the Committee, the Chief Executive, Chief Financial Officer, Group HR Director, Group Company Secretary and external advisers may attend meetings.

## Nomination Committee

The Nomination Committee has formal Terms of Reference which are approved by the Board. It is responsible for monitoring and formally reviewing the performance, composition, balance and expertise of the Board as a whole and making an appraisal of the contribution of individual Directors, including a review of their time commitment and attendance records. The Committee also considers succession planning for the Board and Group senior management. When necessary the Committee prepares a description of the role to be filled and engages external consultants to administer a detailed search and the generation of a shortlist of suitable candidates. Any recommendations for appointments or replacements are brought before the Board and in exercising this role, the Directors have regard to the recommendations put forward in the Combined Code.

The Committee consists solely of Non-Executive Directors and, during the year, comprised Sean O'Connor (Chairman), David McManus and David Robins. At the invitation of the Committee, the Chief Executive, Chief Financial Officer, Group HR Director, Group Company Secretary and external advisers may attend meetings.

The Nomination Committee met specifically during the year to consider the appointment of a new Chief Financial Officer, Richard Bingham and to approve the appointment of Sean O'Connor as Chairman.

## Relations with shareholders

The Company values the views of all its shareholders and recognises their interests in the Company's strategy and performance. The Chief Executive has the responsibility for ensuring effective communication with shareholders and that the Board is fully aware of major shareholders' views and opinions. The Chief Executive, along with the Chairman and Chief Financial Officer are available to meet shareholders for this purpose.

The Annual and Interim Reports are mailed to all shareholders. These reports, together with regular trading updates, significant contract wins and health and safety achievements are published via the Regulatory Information Services and on the Company's website at capeplc.com.

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Chairman and Chief Executive give an account of the progress of the business over the year and provides an opportunity for shareholders to ask any questions they may have. The Board attends this meeting and is available to answer questions from those shareholders present.

**Audit, internal control and risk management**
The respective responsibilities of the Directors and the auditors in connection with the Annual Report and Accounts are explained on page 34.

Following the publication of guidance for Directors, Internal Control: Guidance for Directors on the Combined Code, the Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the Group. A formal process is now in place and is regularly reviewed by the Board in the light of the Turnbull Guidance and the subsequent Flint Report. The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Directors consider proper risk management to be crucial to the Group's ongoing success. They give a high priority to ensuring that adequate systems and structures are in place to measure, analyse and limit exposure to risk. The Directors have established key procedures to ensure that internal controls are effective and are commensurate with a group of this size. A key control procedure is the day to day supervision of the business by the Directors. Other internal control procedures and reviews for effectiveness by the Board continue to be developed.

The Director of Internal Audit reports directly to the Audit Committee and will meet regularly with the Audit Committee in the absence of management. In addition, a procedure has been introduced by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

**Audit and auditor independence**
An additional responsibility of the Audit Committee is to keep under review the scope and cost effectiveness of the external audit. This includes recommending to the Board the appointment of the external auditors and for reviewing the scope of the audit, approving the audit fee and, on an annual basis, satisfying the Committee that the auditors are independent.

PricewaterhouseCoopers LLP are retained to perform audit and audit-related work on the Group, the Company and the majority of Group companies.

Deloitte LLP are retained to provide all UK and overseas tax-related advice. It is now Group policy to keep audit and tax advice separate.

The Audit Committee monitors the nature and extent of non-audit work undertaken by the auditors. It is satisfied that there are adequate controls in place to ensure auditor independence and objectivity. The matter is kept under review and is a standing item on the agenda for the Audit Committee reports. Periodically, the Audit Committee monitors the cost of non-audit work undertaken by the auditors. The Audit Committee considers that it is in a position to take action if at any time it believes that there is a risk of the auditors' independence being undermined through the award of this work.

The split between audit and non-audit fees for the year under review appears in note 9 on page 55.

# Independent auditors' report to the members of Cape plc

We have audited the Group financial statements of Cape plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Cape plc for the year ended 31 December 2008. That report is modified by the inclusion of an emphasis of matter.

**Respective responsibilities of Directors and auditors**
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement, Chief Executive's review, Operating and financial review, Five year financial summary and Risks and uncertainties review cross referred from the Business review and Group results section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's statement, Chief Executive's review, Directors report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

**Opinion**
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the Group financial statements.

**Emphasis of matter – Contingent liability for industrial disease claims**
In forming our opinion on the Group financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 32 to the Group financial statements concerning the impact of, and accounting for, potential future claims for industrial disease compensation. An independent actuarial estimate of the range of certain potential liabilities has been performed. However, given the wide range of the estimates and significant degree of uncertainty surrounding them, it is not possible for the Directors to quantify, with sufficient reliability, the amount required to settle future claims and accordingly claims are generally accounted for on the basis of claims lodged or settlements reached and outstanding at the balance sheet date. However, if it were possible to assess reliably the present value of the amount required to settle future claims such that this was provided in the balance sheet, there would be a materially adverse effect on the Group's financial position.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Leeds
15 April 2009

## Consolidated income statement
for the year ended 31 December 2008

| | Notes | 2008 Before other items* £m | 2008 Other items* £m | 2008 Total £m | 2007 Before other items* £m | 2007 Other items* £m | 2007 Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Revenue** | 3 | 622.7 | – | 622.7 | 428.8 | – | 428.8 |
| Group operating profit before other items | 3 | 65.0 | – | 65.0 | 38.7 | – | 38.7 |
| Amortisation of intangible assets | | – | (2.7) | (2.7) | – | (1.0) | (1.0) |
| Industrial disease costs | | – | (5.7) | (5.7) | – | (1.6) | (1.6) |
| Exceptional items | 5 | – | (4.1) | (4.1) | – | (0.3) | (0.3) |
| **Group operating profit** | 4 | 65.0 | (12.5) | 52.5 | 38.7 | (2.9) | 35.8 |
| Finance income | 10 | 0.8 | 2.0 | 2.8 | 1.2 | 2.2 | 3.4 |
| Finance costs | 10 | (18.0) | – | (18.0) | (6.2) | – | (6.2) |
| Share of post tax profits from joint ventures | | 0.5 | – | 0.5 | – | – | – |
| **Profit before tax** | | 48.3 | (10.5) | 37.8 | 33.7 | (0.7) | 33.0 |
| Taxation | 11 | (12.2) | 6.3 | (5.9) | (8.4) | 3.0 | (5.4) |
| **Profit from continuing operations** | | 36.1 | (4.2) | 31.9 | 25.3 | 2.3 | 27.6 |
| **Discontinued operations** | | | | | | | |
| Operating loss | 3 | (0.2) | – | (0.2) | (0.7) | – | (0.7) |
| Taxation | | – | – | – | – | – | – |
| Loss attributable to discontinued operations | | (0.2) | – | (0.2) | (0.7) | – | (0.7) |
| **Profit for the year** | | 35.9 | (4.2) | 31.7 | 24.6 | 2.3 | 26.9 |
| Attributable to: | | | | | | | |
| Equity shareholders | | | | 30.6 | | | 26.9 |
| Minority interest | | | | 1.1 | | | – |
| | | | | 31.7 | | | 26.9 |
| Earnings per share for profit attributable to equity shareholders | | | | | | | |
| From continuing and discontinued operations | | | | | | | |
| – Basic | 12 | | | 26.7p | | | 26.0p |
| – Diluted | 12 | | | 26.3p | | | 25.5p |
| From continuing operations | | | | | | | |
| – Basic | 12 | | | 26.9p | | | 26.7p |
| – Diluted | 12 | | | 26.4p | | | 26.2p |

* Other items include: amortisation of intangible assets, industrial disease related income and expenses and exceptional items.

The notes and information on pages 44 to 81 form part of these accounts.

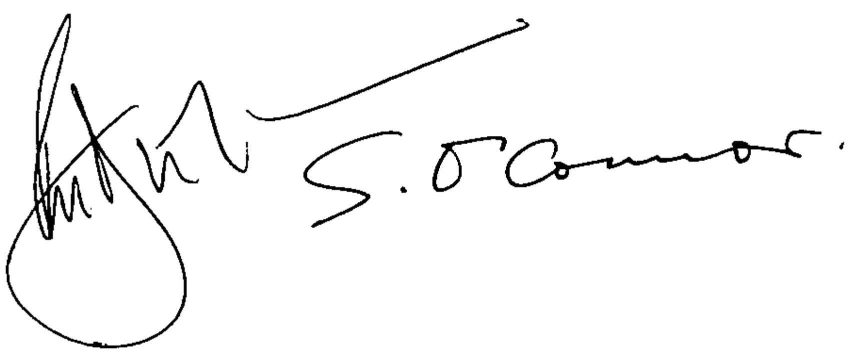
# Consolidated balance sheet
at 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| **Non current assets** | | | |
| Intangible assets | 13 | **188.0** | 165.6 |
| Property, plant and equipment | 14 | **152.3** | 127.0 |
| Investments accounted for using equity method | 15 | **0.6** | – |
| Retirement benefit asset | 24 | **0.1** | 0.1 |
| Deferred tax asset | 25 | **11.9** | 6.7 |
| | | **352.9** | 299.4 |
| **Current assets** | | | |
| Inventories | 16 | **17.2** | 15.8 |
| Trade and other receivables | 17 | **184.7** | 144.5 |
| Cash – Scheme funds (restricted) | 18 | **37.5** | 39.1 |
| Cash and cash equivalents | 19 | **33.3** | 20.1 |
| | | **272.7** | 219.5 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Financial liabilities | | | |
| – Borrowings | 20 | **(38.9)** | (45.5) |
| – Derivative financial instruments | 21 | **(6.9)** | (0.1) |
| Trade and other payables | 22 | **(133.0)** | (96.7) |
| Current tax liabilities | 23 | **(9.4)** | (6.6) |
| | | **(188.2)** | (148.9) |
| **Net current assets** | | **84.5** | 70.6 |
| **Non current liabilities** | | | |
| Financial liabilities | | | |
| – Borrowings | 20 | **(159.9)** | (163.8) |
| Retirement benefit liabilities | 24 | **(5.2)** | (3.1) |
| Deferred tax liabilities | 25 | **(11.7)** | (10.4) |
| Provisions | 26 | **(14.4)** | (12.0) |
| | | **(191.2)** | (189.3) |
| **Net assets** | | **246.2** | 180.7 |
| **Shareholders' equity** | | | |
| Called up share capital | 28 | **33.1** | 32.8 |
| Share premium | 29 | **8.4** | 7.5 |
| Special reserve | 29 | **1.0** | 1.0 |
| Other reserve | 29 | **39.4** | 5.5 |
| Retained earnings | 29 | **163.6** | 132.9 |
| **Total shareholders' equity** | | **245.5** | 179.7 |
| **Minority interests in equity** | 29 | **0.7** | 1.0 |
| **Total equity** | | **246.2** | 180.7 |

Approved by the Board of Directors on 15 April 2009.

**Sean O'Connor** Chairman
**Richard Bingham** Chief Financial Officer

The notes and information on pages 44 to 81 form part of these accounts.



# Consolidated cash flow statement
for the year ended 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operating activities | 30 | **70.9** | 17.8 |
| Interest received | | **2.6** | 3.4 |
| Interest received on restricted funds | | **(2.0)** | (2.2) |
| Net interest received | | **0.6** | 1.2 |
| Interest paid | | **(17.0)** | (6.2) |
| Issue costs of new bank loans | | **(1.5)** | (2.6) |
| Tax paid | | **(4.8)** | (3.3) |
| Net cash inflow from operating activities | | **48.2** | 6.9 |
| **Cash flows from investing activities** | | | |
| Purchase of businesses net of cash acquired | 31 | **(3.6)** | (185.2) |
| Purchase of businesses deferred consideration paid | | **(0.9)** | (1.1) |
| Proceeds from sale of property, plant and equipment | | **2.7** | 1.8 |
| Purchase of property, plant and equipment | | **(19.9)** | (25.3) |
| Dividend paid to minority interest | | **(0.4)** | – |
| Net cash used in investing activities | | **(22.1)** | (209.8) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary shares | | **1.2** | 68.3 |
| Proceeds from borrowings | | **8.6** | 169.6 |
| Finance lease principal payments | | **(6.1)** | (2.8) |
| Repayment of borrowings | | **(20.0)** | (26.0) |
| Net cash (used in)/received from financing activities | | **(16.3)** | 209.1 |
| Exchange gains/(losses) on cash, cash equivalents and bank overdrafts | | **5.5** | (0.1) |
| **Net increase in cash, cash equivalents and bank overdrafts** | | **15.3** | 6.1 |
| Cash, cash equivalents and bank overdrafts at beginning of year | | **15.2** | 9.1 |
| **Cash, cash equivalents and bank overdrafts at end of year** | 19 | **30.5** | 15.2 |

The notes and information on pages 44 to 81 form part of these accounts.

## Consolidated statement of recognised income and expense
for the year ended 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| Net exchange adjustments offset in reserves net of tax | 29 | **42.6** | 6.1 |
| Actuarial loss recognised in the pension scheme | 24 | **(3.3)** | (4.3) |
| Movement in restriction of retirement benefit asset in accordance with IAS 19 | 24 | **2.6** | (5.8) |
| Movement in deferred tax relating to pension asset | 25 | **–** | 2.5 |
| Cash flow hedges – fair value (losses)/gains | 29 | **(6.5)** | 1.6 |
| Net investment hedges – fair value losses | 29 | **(5.5)** | – |
| Deferred tax on hedges | 25 | **3.3** | – |
| Deferred tax on share option scheme | 25 | **(0.4)** | (0.2) |
| **Net income/(expense) recognised directly in equity** | | **32.8** | (0.1) |
| **Profit for the year** | | **31.7** | 26.9 |
| **Total recognised income for the year** | | **64.5** | 26.8 |
| Attributable to: | | | |
| Equity shareholders | | **63.4** | 26.8 |
| Minority interest | | **1.1** | – |

The notes and information on pages 44 to 81 form part of these accounts.

# Notes to the financial statements

## 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations as adopted by the European Union and in accordance with the provisions of the Companies Act 1985.

The accounts for the Parent Company, Cape plc, have been prepared in accordance with UK GAAP. The Company accounts are presented in separate financial statements on pages 83 to 89.

**Impact of new International Financial Reporting Standards – Adopted for 2008**

The following interpretations became mandatory for accounting periods beginning on or after 1 January 2008:

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements. The Company's accounting policy for share based compensation arrangements is already in compliance with the interpretation.

The following interpretation became mandatory for accounting periods beginning on or after 1 January 2008, but is not relevant to the Group's operations:

IFRIC 12, 'Service concession arrangements'.

The following interpretation was early adopted in the Annual Report and Accounts for the year ended 31 December 2007, and continues to be applied by the Group:

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

**Accounting standards, interpretations and amendments that are not yet effective and not yet adopted by the Group**

The following interpretations and amendments to existing standards published by the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group:

IAS 23 (Revised) 'Borrowing costs': Effective for accounting periods beginning on or after 1 January 2009. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39, 'Financial instruments: Recognition and measurement', eliminating the inconsistency between IAS 39 and IAS 23.

IAS 1 (Revised) 'Presentation of financial statements': Effective for accounting periods beginning on or after 1 January 2009. A revised presentation, which requires separate presentation of owner and non-owner changes in equity by introducing the statement of comprehensive income.

IFRS 3 (Revised) 'Business combinations': Applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009. The revised standard still requires the purchase method of accounting to be applied to business combinations but will introduce some changes to existing accounting treatment.

IAS 27 (Revised) 'Consolidation and separate financial statements': Effective for accounting periods beginning on or after 1 July 2009 and applied retrospectively, with certain exceptions. This requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Such transactions will no longer result in goodwill or gains and losses. When control is lost, any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss.

IFRS 2 (Amendments) 'Share based payment': Effective for accounting periods beginning on or after 1 January 2009. This provides a definition of vesting conditions and specifies the accounting treatment for non-vesting conditions.

IAS 32 (Amendments) 'Financial Instruments: Presentation' and IAS 1 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation': Effective for accounting periods beginning on or after 1 January 2009. This requires entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions.

IFRS 8 'Operating segments': Effective for accounting periods beginning on or after 1 January 2009. The new standard replaces IAS 14.

IAS 19 (Amendment) 'Employee benefits': Effective for accounting periods beginning on or after 1 January 2009. This amendment makes a number of changes to accounting for defined benefit schemes, including clarification of recognition of plan amendments, amendment to the definition of return on plan assets, distinction between long-term and short-term employee benefits, and to align the standard with IAS 37 'Provisions, contingent liabilities and contingent assets'.

IAS 39 (Amendment) 'Financial instruments: Recognition and measurement': Effective for accounting periods beginning on or after 1 January 2009. This amendment makes a number of changes to accounting for financial instruments, including clarification of movements into and out of the fair value through profit and loss category, amendments to definitions, clarifications to the effective interest rate to be used on cessation of fair value hedge accounting and to align the standard with IFRS 8 'Operating segments'.

IAS 1 (Amendment) 'Presentation of financial statements': Effective for accounting periods beginning on or after 1 January 2009. This amendment clarifies the disclosure of held-for-trading assets and liabilities between current and non-current assets and liabilities.

There are also a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008.

IFRIC 16 'Hedges of a net investment in a foreign operation': Effective for accounting periods beginning on or after 1 October 2008. This clarifies the accounting treatment in respect of net investment hedging, including the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group.

None are expected to have a material impact on the results or financial position of the Group.

**Accounting standards, interpretations and amendments that are not yet effective and not relevant to the Group**
The following interpretations and amendments to existing standards have been published by the IASB will become effective for future financial reporting periods but are not relevant for the Group's operations:

IFRS 1 (Amendment) 'First time adoption of IFRS'
IFRIC 13 'Customer loyalty programmes'
IFRIC 15 'Agreements for the construction of real estates'
IFRIC 17 'Transfers of non-cash assets from owners'
IFRIC 18 'Transfers of assets from customers'

## 2. Accounting policies

The Group's key accounting policies are set out below. These policies have been prepared on the basis of the recognition and measurement requirements of IFRS standards in effect that apply to accounting periods beginning on or after 1 January 2008.

**Basis of consolidation**
(a) A business combination is recognised where separate legal entities or businesses have been brought together within the Group.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. This is generally accompanying a shareholding of more than 50% of the voting rights, except in certain countries where legal restrictions over ownership of shares by non-domicile entities exist. In such situations management consolidate entities as subsidiaries where the Group has effective control over the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for business combinations made by the Group. The cost of a business combination is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination.

Contingent consideration is included in the cost of a business at the acquisition date only if the consideration is probable and can be reliably measured, and is discounted using an appropriate discount rate. If the future events upon which the contingent consideration is based do not occur or the estimate needs to be revised or if contingent consideration, which has not been initially included, does become probable and can be reliably measured, the cost of the business combination, and any associated goodwill, is adjusted accordingly.

Identifiable assets, liabilities and contingent liabilities acquired in the business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is credited to the income statement in the period of acquisition.

(b) The Group's interest in joint ventures is accounted for under the equity method. The consolidated financial statements include the Group's share of the profits or losses of joint ventures and the consolidated balance sheet includes the investments in joint ventures at cost, including attributable goodwill, plus the Group's share of post-acquisition reserves.

(c) Minority interests in subsidiaries consolidated by the Group are disclosed separately from the Group's equity and income. Losses attributable to a minority in excess of the minority's interest in net assets of the subsidiary are adjusted against the interest of the Group unless there is a binding obligation on the part of the minority to contribute additional investment in the subsidiary.

(d) Inter-company income, expenses, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

(e) All subsidiary undertakings prepare statutory accounts to 31 December except DBI Group Limited and its subsidiary undertakings which last prepared annual accounts to 30 September 2008 and Cape Industrial Services Group Limited which now prepares accounts to 31 March and last prepared annual accounts to 31 December 2007.

**Foreign currencies**
*(a) Functional and presentational currency*
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

*(b) Transactions and balances*
Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised as part of the fair value gain or loss.

## Notes to the financial statements continued

**2. Accounting policies** (continued)

*(c) Group companies*

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recognised in equity are recognised in the income statement as part of the gain or loss on sale.

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

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to the appropriate cash generating unit for the purpose of impairment testing. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

**Intangible assets**

Intangible assets are recognised if it is probable that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. The assets are amortised on a straight line basis over the period over which the Group expects to benefit from these assets, ranging from three to five years.

**Property, plant and equipment**

Property, plant and equipment is stated at cost net of accumulated depreciation and any provision for impairment. Cost comprises purchase cost together with any incidental costs of acquisition. Certain land and buildings are held at previous revalued amounts less accumulated depreciation as these amounts have been taken as their deemed cost at the date of transition to IFRS in accordance with the exemption under IFRS 1 'First-time Adoption of IFRS'.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives with the exception that no depreciation is provided on freehold land. The asset's residual values and useful economic lives are reviewed, and adjusted as appropriate, at each balance sheet date. The following rates are applied:

- freehold buildings – 2% per annum;
- leasehold land and buildings – the period of the lease;
- plant, machinery, fixtures and fittings – 6% to 33% per annum; and
- scaffolding equipment – 1% to 33% per annum.

Investment properties are stated at cost less any provision for impairment.

**Impairment of assets (excluding goodwill)**

The entity assesses at each reporting date whether an asset may be impaired. If any such indication exists, the Group makes an estimate of the assets recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

**Trade and other receivables**

Trade receivables are recognised and carried at original invoice amounts less an allowance for any amount estimated to be uncollectable.

**Leases**

*Finance leases*

Where assets are financed by leasing agreements that give rights approximating to ownership, the amount representing the outright purchase price is capitalised and the corresponding leasing commitments are shown as obligations to the lessor. The relevant assets are depreciated in accordance with the Group's depreciation policy or over the lease term if shorter. Net finance charges, calculated on the reducing balance method, are included in finance costs.

*Operating leases*

Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

**Critical accounting estimates and judgements**

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations are contained in individual accounting policies.

Key sources of estimation uncertainty that could cause an adjustment to be required to the carrying amount of asset or liabilities within the next accounting period are:

- review of residual lives, residual values, carrying values and impairment charges for intangible assets and property, plant and equipment;
- estimation of liabilities for pension and other post retirement costs;
- revenue recognition and assessment of construction contract performance;
- liabilities in relation to industrial disease claims; and
- recoverability of deferred tax assets.

The carrying value of goodwill has been considered fully in note 13.

**Compensation for industrial disease**
Provision is made for compensation for industrial disease where it is possible to estimate the liability with sufficient reliability. This is generally only currently possible in respect of claims lodged and outstanding at the period end. Where this is not possible, a contingent liability is noted. Benefit is recognised for insurance recoveries for claims provided when they are anticipated with virtual certainty.

**Provisions**
Provisions for liabilities, except for those for industrial disease, are made where the timing or amount of settlement is uncertain. A provision is recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation.

**Inventories**
Inventories which include raw materials and work in progress are stated at the lower of cost and net realisable value. Raw materials are valued based on first in first out method.

Net realisable value is the estimated selling price in the ordinary course of business less selling expenses. Allowance is made for obsolete and slow moving items based on annual usage.

**Revenue recognition**
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue recognition in relation to construction contracts is described in the accounting policy for construction contracts.

**Construction contracts**
Contracts are undertaken for customers either on a short or long-term basis. For short-term contracts, work done is substantially billed as performed and for long-term contracts, work is carried out on a substantially fixed or limited-price basis. For short-term contracts, revenue and profit are recognised according to work executed. Amounts taken to revenue in respect of work done not billed are included within amounts recoverable on contracts. Costs incurred, including an appropriate allocation of overheads, in respect of long-term contracts are included in work in progress net of progress payments received and provisions for foreseeable losses. Provision is made in full for any losses as soon as they can be foreseen. Any payments on account or provisions for foreseeable losses in excess of contract balances are included in trade and other payables. Revenue and attributable profit on long-term contracts is recognised according to the percentage of estimated total contract value completed or the achievement of contractual milestones provided that the outcome of the contract can be assessed with reasonable certainty.

**Deferred income taxation**
Deferred income tax is recognised, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

**Exceptional items**
Exceptional items represent income and expenses relating to non-recurring transactions that are significant, by virtue of their size or nature, and therefore relevant to understanding the Group's financial performance and are shown separately to provide a better indication of the underlying results of the business.

**Employee benefits**
The Group operates both defined benefit and defined contribution schemes.

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employment in the current or prior periods. The pension expense for defined contribution schemes represents contributions payable in the year.

**2. Accounting policies** (continued)
A defined benefit scheme is a pension scheme that is not a defined contribution scheme. The asset recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated tri-annually by independent actuaries using the projected unit method and this valuation is updated at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Current and past service costs, finance costs and expected returns on assets are charged to operating profit. Actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in full in the statement of recognised income and expense.

The pension schemes' deficits or surpluses, (to the extent that any surpluses are considered recoverable), are recognised in full and presented on the face of the balance sheet.

Under IFRIC 14 the recoverability of a surplus must be assessed against the minimum funding requirements of the pension scheme.

The Group operates gratuity schemes in certain overseas countries. These are accounted for in accordance with IAS 19 and accounting follows the same principles as for a defined benefit scheme.

**Accounting for derivative financial instruments and hedging activities**
The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market values of similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;

- net investment hedges when hedging the exposure to changes in the value of the Group's interests in the net assets of foreign operations; and

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of the hedging instruments in offsetting the exposure to changes in the fair value of the hedge or the cash flows attributable to the hedged risk. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

**Fair value hedges**
For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised at maturity. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

**Net investment hedges**
For net investment hedges, the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

**Cash flow hedges**
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**Borrowings**
Borrowings are recognised initially at the amount of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the income statement over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

Cumulative preference shares are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

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

**Cash and cash equivalents**
Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Restricted cash relating to the Scheme of Arrangement (see note 33) is excluded from cash and cash equivalents for the purpose of the Group cash flow statement.

**Share capital**
Ordinary shares and deferred shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Share based payments**
The Group issues equity settled share based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met.

Proceeds received on the exercise of share options are credited to share capital and share premium.

**Segmental reporting**
A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's primary reporting segment is geographical by country of destination. The Group has elected to change this from business segment as this reflects the way management review the businesses performance since the reorganisation into four regions.

**Financial risk factors**
The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

*(a) Foreign exchange risk*
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar and Australian Dollar.

The primary exposure to the Group in terms of foreign currency risk is translation of the subsidiary results. This risk is managed primarily through borrowings denominated in the relevant foreign currencies.

Foreign currency transaction exposure arising on normal trade flows is not hedged. The exposure of overseas operating subsidiaries to transaction risk is minimised by matching functional currency income with functional currency costs.

*(b) Cash flow and fair value interest rate risk*
The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to hedge between 66% and 100% of Group borrowings in order to cap the maximum interest rate payable.

The Group reviews its interest rate exposure, taking into consideration refinancing, renewal of existing positions and alternative financing and hedging.

Based on various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under interest rate swaps, the Group has entered into transactions to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

*(c) Credit risk*
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivables from customers and deposits with financial institutions.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has an established credit policy under which each new customer is analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, and in some cases bank references.

*(d) Liquidity risk*
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Group's reputation.

### 3. Segmental analysis

### (a) Primary reporting format – geographic segment

The Group's primary reporting segments are the regions in which the Group operates being the United Kingdom, Gulf/Middle East, CIS, Mediterranean & North Africa, and Far East/Pacific Rim. The home country of the operation is the United Kingdom.

| 2008 | United Kingdom £m | Gulf/Middle East £m | CIS, Med & NA £m | Far East/ Pacific Rim £m | Central Costs £m | Group £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Revenue | 309.0 | 112.0 | 54.4 | 147.3 | – | 622.7 |
| Operating profit/(loss) before other items | 27.0 | 23.1 | 5.8 | 16.1 | (7.0) | 65.0 |
| Amortisation of intangible assets | (0.5) | – | – | (2.2) | – | (2.7) |
| IDC costs | – | – | – | – | (5.7) | (5.7) |
| Exceptional items (note 5) | – | – | – | (2.7) | (1.4) | (4.1) |
| Operating profit/(loss) | 26.5 | 23.1 | 5.8 | 11.2 | (14.1) | 52.5 |
| Share of post tax profits of joint ventures | | | | | | 0.5 |
| Finance income | | | | | | 2.8 |
| Finance costs | | | | | | (18.0) |
| Profit before tax | | | | | | 37.8 |
| Taxation | | | | | | (5.9) |
| Profit from continuing operations | | | | | | 31.9 |
| **Discontinued operations** | | | | | | |
| Operating loss before exceptional items | | | | | | (0.2) |
| Exceptional items (note 5) | | | | | | – |
| Operating loss | | | | | | (0.2) |
| Taxation | | | | | | – |
| Loss attributable to discontinued operations | | | | | | (0.2) |
| **Profit for the year** | | | | | | **31.7** |

There are no significant inter-segment sales between geographic segments.

| 2007 | United Kingdom £m | Gulf/ Middle East £m | CIS, Med & NA £m | Far East/ Pacific Rim £m | Central Costs £m | Group £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Revenue | 270.1 | 66.1 | 47.1 | 45.5 | – | 428.8 |
| Operating profit/(loss) before other items | 21.5 | 12.4 | 4.8 | 3.4 | (3.4) | 38.7 |
| Amortisation of intangible assets | (0.5) | – | – | (0.5) | – | (1.0) |
| IDC costs | – | – | – | – | (1.6) | (1.6) |
| Exceptional items (note 5) | – | – | – | (0.3) | – | (0.3) |
| Operating profit/(loss) | 21.0 | 12.4 | 4.8 | 2.6 | (5.0) | 35.8 |
| Share of post tax profits of joint ventures | | | | | | – |
| Finance income | | | | | | 3.4 |
| Finance costs | | | | | | (6.2) |
| Profit before tax | | | | | | 33.0 |
| Taxation | | | | | | (5.4) |
| Profit from continuing operations | | | | | | 27.6 |
| **Discontinued operations** | | | | | | |
| Operating loss before exceptional items | | | | | | (0.1) |
| Exceptional items (note 5) | | | | | | (0.6) |
| Operating loss | | | | | | (0.7) |
| Taxation | | | | | | – |
| Loss attributable to discontinued operations | | | | | | (0.7) |
| **Profit for the year** | | | | | | 26.9 |

### 3. **Segmental analysis** (continued)

Other segment items included in the income statement are as follows:

| | 2008 | | | | | | 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | United Kingdom £m | Gulf/Middle East £m | CIS, Med & NA £m | Far East/ Pacific Rim £m | Central Costs £m | Group £m | United Kingdom £m | Gulf/Middle East £m | CIS, Med & NA £m | Far East/ Pacific Rim £m | Central Costs £m | Group £m |
| Depreciation (note 14) | **4.4** | **3.6** | **1.7** | **5.6** | **–** | **15.3** | 3.8 | 2.2 | 1.5 | 1.2 | – | 8.7 |
| Amortisation (note 13) | **0.5** | **–** | **–** | **2.2** | **–** | **2.7** | 0.5 | – | – | 0.5 | – | 1.0 |
| Exceptional items (note 5) | **–** | **–** | **–** | **2.7** | **1.4** | **4.1** | – | – | – | 0.3 | – | 0.3 |

Segment assets consist primarily of property, plant and equipment, investments, intangible assets, inventories, trade and other receivables. Unallocated assets comprise deferred taxation and financial assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings including related hedging transactions.

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

| | United Kingdom £m | Gulf/ Middle East £m | CIS, Med & NA £m | Far East/ Pacific Rim £m | Central Costs £m | Unallocated £m | Group £m |
|---|---|---|---|---|---|---|---|
| Assets – continuing | 104.4 | 96.1 | 26.3 | 293.8 | 57.7 | 45.2 | 623.5 |
| Assets – discontinued | 2.1 | – | – | – | – | – | 2.1 |
| **Total assets** | 106.5 | 96.1 | 26.3 | 293.8 | 57.7 | 45.2 | 625.6 |
| | | | | | | | |
| Liabilities – continuing | 54.6 | 42.7 | 7.5 | 29.7 | 17.2 | 226.8 | 378.5 |
| Liabilities – discontinued | 0.9 | – | – | – | – | – | 0.9 |
| **Total liabilities** | 55.5 | 42.7 | 7.5 | 29.7 | 17.2 | 226.8 | 379.4 |
| | | | | | | | |
| **Capital expenditure – property, plant & equipment (note 14)** | 7.7 | 10.2 | 2.2 | 6.1 | – | – | 26.2 |
| **Capital expenditure – intangible assets (note 13)** | – | – | – | – | – | – | – |

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

| | Assets £m | Liabilities £m |
|---|---|---|
| Segment assets/liabilities | 580.4 | 152.6 |
| Unallocated: | – | – |
| – Deferred tax | 11.9 | 11.7 |
| – Current tax | – | 9.4 |
| – Cash | 33.3 | – |
| – Current borrowings | – | 38.9 |
| – Non current borrowings | – | 159.9 |
| – Derivatives | – | 6.9 |
| **Total assets/liabilities** | **625.6** | **379.4** |

**3. Segmental analysis** (continued)
**(a) Primary reporting format – geographic segment** (continued)
The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

| | United Kingdom £m | Gulf/ Middle East £m | CIS, Med & NA £m | Far East/ Pacific Rim £m | Central Costs £m | Unallocated £m | Group £m |
|---|---|---|---|---|---|---|---|
| Assets – continuing | 129.6 | 40.4 | 11.7 | 265.3 | 42.9 | 26.8 | 516.7 |
| Assets – discontinued | 2.2 | – | – | – | – | – | 2.2 |
| **Total assets** | 131.8 | 40.4 | 11.7 | 265.3 | 42.9 | 26.8 | 518.9 |
| | | | | | | | |
| Liabilities – continuing | 40.2 | 20.6 | 6.1 | 24.6 | 18.3 | 226.4 | 336.2 |
| Liabilities – discontinued | 2.0 | – | – | – | – | – | 2.0 |
| **Total liabilities** | 42.2 | 20.6 | 6.1 | 24.6 | 18.3 | 226.4 | 338.2 |
| | | | | | | | |
| **Capital expenditure – property, plant & equipment (note 14)** | 15.2 | 9.8 | 2.9 | 3.8 | – | – | 31.7 |
| **Capital expenditure – intangible assets (note 13)** | 0.6 | – | – | 6.9 | – | – | 7.5 |

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

| | Assets £m | Liabilities £m |
|---|---|---|
| Segment assets/liabilities | 492.1 | 111.8 |
| Unallocated: | | |
| – Deferred tax | 6.7 | 10.4 |
| – Current tax | – | 6.6 |
| – Cash | 20.1 | – |
| – Current borrowings | – | 45.5 |
| – Non current borrowings | – | 163.8 |
| – Derivatives | – | 0.1 |
| **Total assets/liabilities** | **518.9** | **338.2** |

**(b) Secondary reporting format – business segment**
The Groups secondary reporting segments are business segments being the provision of industrial services, industrial disease related costs and balances and head office.

| 2008 | Industrial Services £m | Industrial Disease related £m | Head office £m | Group £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue | 622.7 | – | – | 622.7 |
| Operating profit/(loss) before other items | 72.0 | – | (7.0) | 65.0 |
| Amortisation of intangible assets | (2.7) | – | – | (2.7) |
| IDC costs | – | (5.7) | – | (5.7) |
| Exceptional items (note 5) | (2.7) | – | (1.4) | (4.1) |
| Operating profit/(loss) | 66.6 | (5.7) | (8.4) | 52.5 |
| Share of post tax profits of joint ventures | | | | 0.5 |
| Finance income | | | | 2.8 |
| Finance costs | | | | (18.0) |
| Profit before tax | | | | 37.8 |
| Taxation | | | | (5.9) |
| Profit from continuing operations | | | | 31.9 |
| | | | | |
| **Discontinued operations** | | | | |
| Operating loss before exceptional items | | | | (0.2) |
| Exceptional items (note 5) | | | | – |
| Operating loss | | | | (0.2) |
| Taxation | | | | – |
| Loss attributable to discontinued operations | | | | (0.2) |
| | | | | |
| **Profit for the year** | | | | **31.7** |

3. **Segmental analysis** (continued)
(b) **Secondary reporting format – business segment** (continued)

| 2007 | Industrial Services £m | Industrial Disease Related £m | Head office £m | Group £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue | 428.8 | – | – | 428.8 |
| Operating profit/(loss) before other items | 42.1 | – | (3.4) | 38.7 |
| Amortisation of intangible assets | (1.0) | – | – | (1.0) |
| IDC costs | – | (1.6) | – | (1.6) |
| Exceptional items (note 5) | (0.3) | – | – | (0.3) |
| Operating profit/(loss) | 40.8 | (1.6) | (3.4) | 35.8 |
| Share of post tax profits of joint ventures | | | | – |
| Finance income | | | | 3.4 |
| Finance costs | | | | (6.2) |
| Profit before tax | | | | 33.0 |
| Taxation | | | | (5.4) |
| Profit from continuing operations | | | | 27.6 |
| **Discontinued operations** | | | | |
| Operating loss before exceptional items | (0.1) | – | – | (0.1) |
| Exceptional items (note 5) | (0.6) | – | – | (0.6) |
| Operating loss | (0.7) | – | – | (0.7) |
| Taxation | | | – | |
| Loss attributable to discontinued operations | | | | (0.7) |
| **Profit for the year** | | | | 26.9 |

Revenue is allocated based on the country in which the customer is located and is all from the provision of industrial services.

Operating profit is allocated based on the country in which the operation was performed.

| Total assets | 2008 £m | 2007 £m |
|---|---|---|
| Industrial Services | **522.7** | 449.2 |
| Industrial Disease related | **39.7** | 40.2 |
| Head office | **18.0** | 2.7 |
| Unallocated assets | **45.2** | 26.8 |
| | **625.6** | 518.9 |

Total assets are allocated based on where the assets are located.

| Capital expenditure – property, plant & equipment | 2008 £m | 2007 £m |
|---|---|---|
| Industrial Services | **26.2** | 31.7 |
| Industrial Disease related | **–** | – |
| Head office | **–** | – |
| | **26.2** | 31.7 |
| **Capital expenditure – intangible assets** | | |
| Industrial Services | **–** | 7.5 |
| Industrial Disease related | **–** | – |
| Head office | **–** | – |
| | **–** | 7.5 |

Capital expenditure is allocated based on where the assets are located.

### 4. Group operating profit

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Before other items* £m** | **Other items* £m** | **Total £m** | Before other items* £m | Other items* £m | Total £m |
| **Analysis of Group operating profit** | | | | | | |
| **Continuing operations** | | | | | | |
| Revenue | **622.7** | **–** | **622.7** | 428.8 | – | 428.8 |
| Cost of sales | **(533.2)** | **–** | **(533.2)** | (373.5) | – | (373.5) |
| Gross profit | **89.5** | **–** | **89.5** | 55.3 | – | 55.3 |
| Net operating expenses | **(24.5)** | **–** | **(24.5)** | (16.6) | – | (16.6) |
| Operating profit before other items | **65.0** | **–** | **65.0** | 38.7 | – | 38.7 |
| Other items | **–** | **(12.5)** | **(12.5)** | – | (2.9) | (2.9) |
| Group operating profit | **65.0** | **(12.5)** | **52.5** | 38.7 | (2.9) | 35.8 |

* Other items include: amortisation of intangible assets, industrial disease related income and expenses and exceptional items

Within the continuing operations, acquisitions contributed £nil (2007: £27.8 million) of revenue with cost of sales of £nil (2007: £20.6 million) and administrative costs of £nil (2007: £5.6 million).

Net operating expenses comprise wholly of administrative costs.

### 5. Exceptional items

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Continuing:** | | |
| Reorganisation costs in relation to Australian acquisitions | **(2.9)** | (0.3) |
| Relocation of Head Office | **(1.2)** | – |
| **Total continuing** | **(4.1)** | (0.3) |
| **Discontinued:** | | |
| Additional costs relating to the disposal of the Calsil business | **–** | (1.0) |
| Additional profit on sale of Calsil property | **–** | 0.4 |
| **Total discontinued** | **–** | (0.6) |

The cash effect of the above exceptional items was an outflow of £4.1 million (2007: inflow of £0.4 million).

The tax effect of the exceptional item in continuing operations is a credit of £1.2 million (2007: credit of £0.1 million).

### 6. Net foreign exchange gains

Exchange adjustments credited to the income statement.

| | **2008 £m** | 2007 £m |
|---|---|---|
| Cost of sales | **2.5** | – |

### 7. Other losses – net

| | **2008 £m** | 2007 £m |
|---|---|---|
| Other financial assets at fair value through profit or loss: | | |
| – Foreign exchange forward contracts – net exchange losses | **(0.2)** | – |

### 8. Employee benefit expense

| | Notes | **2008 £m** | 2007 £m |
|---|---|---|---|
| Wages and salaries | | **293.5** | 202.1 |
| Social security costs | | **22.5** | 19.5 |
| Share options granted to directors and employees | 28, 29 | **1.2** | 0.8 |
| Pension costs – defined contribution plans | 24 | **2.7** | 1.7 |
| Pension costs – defined benefit plans | 24 | **0.7** | 0.7 |
| Other employee benefit costs | 24 | **1.2** | 0.7 |
| | | **321.8** | 225.5 |
| Average number of employees including Executive Directors | | **13,565** | 10,885 |

## 9. Auditor remuneration

### Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

| | 2008 £m | 2007 £m |
|---|---|---|
| Audit services | | |
| – Fees payable to the Company's auditors for the audit of the Company's annual accounts | **0.2** | 0.1 |
| Non-audit services | | |
| – Fees payable to the Company's auditors and its associates for other services: | | |
| – The audit of the Company's subsidiaries pursuant to legislation | **0.5** | 0.6 |
| – All other services | **0.1** | 0.1 |
| | **0.8** | 0.8 |

## 10. Finance income and costs

| | 2008 £m | 2007 £m |
|---|---|---|
| Interest income: | | |
| – Short-term bank deposits | **2.8** | 3.4 |
| Finance income | **2.8** | 3.4 |
| Interest expense: | | |
| – Bank borrowings | **(16.1)** | (5.2) |
| – Finance leases | **(1.7)** | (0.6) |
| – Other | **(0.2)** | (0.4) |
| Finance costs | **(18.0)** | (6.2) |
| **Net finance costs** | **(15.2)** | (2.8) |

## 11. Income tax expense

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| Current tax | | **7.1** | 6.8 |
| Deferred tax | 25 | **(1.2)** | (1.4) |
| | | **5.9** | 5.4 |

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the UK standard corporation tax rate applicable to profits of the consolidated entities as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| **Profit before tax** | **37.8** | 33.0 |
| Tax calculated at the standard rate of corporation tax in the UK of 28.5% (2007: 30%) | **10.8** | 9.9 |
| Adjustments to tax in respect of prior periods | **(1.4)** | (1.0) |
| Adjustment in respect of overseas tax rates | **(2.7)** | (1.9) |
| Tax losses not recognised | **2.5** | – |
| Expenses non-deductible | **0.1** | 0.2 |
| Unrelieved overseas tax | **(0.1)** | 0.2 |
| Deferred tax rate movement | **–** | 0.2 |
| Reduction in deferred tax liabilities arising from the rebasing of assets following the acquisition of Australian subsidiaries | **(3.3)** | (2.8) |
| Tax on cash flow hedges | **–** | 0.6 |
| Tax charge | **5.9** | 5.4 |

The effective tax rate applicable to the profits from continuing operations was 15.6% (2007: 16.4%).

### 12. Earnings per ordinary share

The basic earnings per share calculation for the year ended 31 December 2008 is based on the earnings after tax attributable to equity shareholders of £30.6 million (2007: £26.9 million) divided by the weighted average number of ordinary 25 pence shares of 114,537,257 (2007: 103,351,141).

The diluted earnings per share calculation for the year ended 31 December 2008 is based on the earnings after tax of £30.6 million (2007: £26.9 million) divided by the diluted weighted average number of ordinary 25 pence shares of 116,381,373 (2007: 105,449,927).

Share options are considered potentially dilutive as the average share price during the year was above the average exercise prices.

| | 2008 Shares | 2007 Shares |
|---|---|---|
| **Basic weighted average number of shares** | **114,537,257** | 103,351,141 |
| **Adjustments:** | | |
| Weighted average number of outstanding share options | **1,844,116** | 2,098,786 |
| Diluted weighted average number of shares | **116,381,373** | 105,449,927 |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Earnings £m | EPS pence | Earnings £m | EPS pence |
| **Basic earnings per share** | | | | |
| Continuing operations | **30.8** | **26.9** | 27.6 | 26.7 |
| Discontinued operations | **(0.2)** | **(0.2)** | (0.7) | (0.7) |
| Basic earnings per share | **30.6** | **26.7** | 26.9 | 26.0 |
| **Diluted earnings per share** | | | | |
| Continuing operations | **30.8** | **26.4** | 27.6 | 26.2 |
| Discontinued operations | **(0.2)** | **(0.1)** | (0.7) | (0.7) |
| Diluted earnings per share | **30.6** | **26.3** | 26.9 | 25.5 |
| **Adjusted basic earnings per share** | | | | |
| Earnings from continuing operations | **30.8** | **26.9** | 27.6 | 26.7 |
| Amortisation | **2.7** | **2.3** | 1.0 | 1.0 |
| Exceptional items | **4.1** | **3.6** | 0.3 | 0.3 |
| IDC related costs and interest income | **3.7** | **3.2** | (0.6) | (0.6) |
| Tax effect of adjusting items | **(3.0)** | **(2.6)** | (0.2) | (0.2) |
| Exceptional Australian tax credit | **(3.3)** | **(2.9)** | (2.8) | (2.7) |
| Adjusted basic earnings per share | **35.0** | **30.5** | 25.3 | 24.5 |
| **Adjusted diluted earnings per share** | | | | |
| Earnings from continuing operations | **30.8** | **26.4** | 27.6 | 26.2 |
| Amortisation | **2.7** | **2.3** | 1.0 | 1.0 |
| Exceptional items | **4.1** | **3.5** | 0.3 | 0.3 |
| IDC related costs and interest income | **3.7** | **3.2** | (0.6) | (0.6) |
| Tax effect of adjusting items | **(3.0)** | **(2.6)** | (0.2) | (0.2) |
| Exceptional Australian tax credit | **(3.3)** | **(2.8)** | (2.8) | (2.6) |
| Adjusted diluted earnings per share | **35.0** | **30.0** | 25.3 | 24.1 |

The adjusted earnings per share calculations have been calculated after excluding the impact of amortisation, exceptional items, IDC related costs and interest income, the tax impact of these items and an exceptional tax credit received in the year on the consolidation of PCH in Australia which was acquired during 2007.

Options are dilutive at the profit from continuing operations level and so, in accordance with IAS 33, have been treated as dilutive for the purpose of diluted earnings per share. Diluted loss per share is lower than basic loss per share in respect of discontinued operations because of the effect of losses on discontinued operations.

## 13. Intangible assets

| | Note | Total £m | Goodwill £m | Other £m |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2007 | | 15.5 | 14.3 | 1.2 |
| Acquisitions | | 148.1 | 140.6 | 7.5 |
| Adjustment relating to deferred consideration of previous acquisition | | (0.8) | (0.8) | – |
| Exchange adjustments | | 3.9 | 3.5 | 0.4 |
| At 31 December 2007 | | 166.7 | 157.6 | 9.1 |
| Adjustments to fair values | 31 | 7.0 | 7.5 | (0.5) |
| Adjustment relating to deferred consideration of previous acquisition | | (0.6) | (0.6) | – |
| Acquisition of remaining shares of PCH and additional direct costs relating to the acquisitions of PCH and Concept Hire | 31 | 3.8 | 3.8 | – |
| Exchange adjustments | | 14.9 | 14.2 | 0.7 |
| **At 31 December 2008** | | **191.8** | **182.5** | **9.3** |
| **Amortisation** | | | | |
| At 1 January 2007 | | 0.1 | – | 0.1 |
| Amortisation charge | | 1.0 | – | 1.0 |
| At 31 December 2007 | | 1.1 | – | 1.1 |
| Amortisation charge | | 2.7 | – | 2.7 |
| **At 31 December 2008** | | **3.8** | **–** | **3.8** |
| **Net book value:** | | | | |
| **At 31 December 2008** | | **188.0** | **182.5** | **5.5** |
| At 31 December 2007 | | 165.6 | 157.6 | 8.0 |
| At 1 January 2007 | | 15.4 | 14.3 | 1.1 |

Other intangibles include customer relationships and contracts, technological assets and amounts relating to favourable contracts. The useful economic lives of the intangible assets range from three to five years.

Amortisation charges of £2.7 million (2007: £1.0 million) have been charged to cost of sales in the income statement.

There are three individually significant intangible assets. There are two customer relationships and contracts which have carrying values of £1.3 million and £1.6 million and will be fully amortised to £nil over the next two years, and a favourable lease contract which has a carrying value of £1.3 million and will be amortised to £nil over the next four years.

**Impairment tests for goodwill**
Goodwill is allocated to the Group's Cash-Generating Units (CGU) identified according to country of operation. All goodwill relates to Industrial Services.

The aggregate carrying amounts of goodwill allocated by geographical area is as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| UK | **16.2** | 16.7 |
| Gulf/Middle East | **0.7** | 0.7 |
| Far East/Pacific Rim | **165.6** | 140.2 |
| | **182.5** | 157.6 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

**13. Intangible assets** (continued)
The key assumptions used for value-in-use calculations are:

| | United Kingdom | Gulf/Middle East | Far East/ Pacific Rim |
|---|---|---|---|
| Growth rate | 3.0% | 3.0% | 3.3% |
| Discount rate | 7.9% | 7.4% | 10.5% |

These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross and net margin based on past performance and its expectations of market development for each CGU, the net margins achievable depend on the services being performed. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

**Sensitivity analysis**
A sensitivity analysis has been performed on the base case assumptions used for assessing the goodwill. The directors have concluded that in the case of both the UK and Middle East goodwill there are no reasonably possible changes in key assumptions which would cause the carrying value of goodwill to exceed its value in use. In the case of Cape Australia, it is reasonably possible that a change in key assumptions could occur which would lead the carrying value to exceed the value in use. The recoverable amount exceeds carrying value by £24.6 million. If the discount rate or growth rate assumptions used in the model were changed to 11.3% or 2.7% respectively then carrying amount and value in use would be equal.

**14. Property, plant and equipment**

| | Total £m | Land and buildings £m | Plant, machinery, fixtures and fittings £m |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2007 | 69.0 | 8.7 | 60.3 |
| Exchange adjustments | 1.9 | 0.1 | 1.8 |
| Additions | 31.7 | 2.4 | 29.3 |
| Acquisitions | 71.6 | 5.7 | 65.9 |
| Disposals | (5.3) | (0.4) | (4.9) |
| At 31 December 2007 | 168.9 | 16.5 | 152.4 |
| Exchange adjustments | 29.9 | 1.5 | 28.4 |
| Additions | 26.2 | 2.6 | 23.6 |
| Disposals | (10.5) | (0.3) | (10.2) |
| **At 31 December 2008** | **214.5** | **20.3** | **194.2** |
| **Depreciation:** | | | |
| At 1 January 2007 | 37.0 | 1.4 | 35.6 |
| Exchange adjustments | 0.2 | – | 0.2 |
| Charge for the year | 8.7 | 0.4 | 8.3 |
| Disposals | (4.0) | (0.3) | (3.7) |
| At 31 December 2007 | 41.9 | 1.5 | 40.4 |
| Exchange adjustments | 11.3 | 0.3 | 11.0 |
| Charge for the year | 15.3 | 0.8 | 14.5 |
| Disposals | (6.3) | – | (6.3) |
| **At 31 December 2008** | **62.2** | **2.6** | **59.6** |
| **Net book amount:** | | | |
| **At 31 December 2008** | **152.3** | **17.7** | **134.6** |
| At 31 December 2007 | 127.0 | 15.0 | 112.0 |
| At 1 January 2007 | 32.0 | 7.3 | 24.7 |

Depreciation expense of £15.3 million (2007: £8.7 million) has been charged to cost of sales in the income statement.

Included within Land and buildings is an investment property with a value of £2.0 million (2007: £2.0 million). No rent is received from the investment property. The fair value of the investment property has not been estimated as the property is the residual land left over from the sale of the Calsil businesses.

The Group leases plant and machinery under finance lease agreements. The leased equipment secures lease obligations (see note 20). At 31 December 2008 the net carrying amount of leased plant and machinery was £26.3 million (2007: £22.9 million).

There have been no changes in the year to residual values or depreciation policies.

## 15. Investment in joint ventures

| | 2008 £m | 2007 £m |
|---|---|---|
| **Interest in joint ventures** | | |
| Continuing operations – Share of gross assets | **0.6** | – |

The Group's share of operating profit of joint ventures is £0.5m (2007: £nil) and dividends received from joint ventures are £nil (2007: £nil).

The Group has a 51% interest in the Cape Perlite Systems joint venture incorporated in the United Kingdom for the manufacture of Perlite insulation products.

The Group has a 51% interest in Cape C.I.S.L. joint venture incorporated in Trinidad for the provision of insulation services.

The Group has a 50% interest in Orascom Cape joint venture incorporated in Egypt for the provision of insulation and scaffolding services.

The Group has a 50% interest in Orascom Cape WLL, a joint venture incorporated in Bahrain for the provision of insulation services.

The Group has a 50% interest in Cape Risa, a joint venture incorporated in Spain for the provision of scaffolding, rope access and insulation services.

The Group's share of net liabilities of joint ventures is included within other creditors (see note 22).

The Group accounts for the investments in Cape Perlite Systems and Cape C.I.S.L. as joint ventures as the Group does not have control over the financial and operating policies of these entities.

## 16. Inventories

| | 2008 £m | 2007 £m |
|---|---|---|
| Materials | **8.2** | 8.3 |
| Contract work in progress | **5.3** | 4.3 |
| Finished goods | **3.7** | 3.2 |
| | **17.2** | 15.8 |

The cost of inventories recognised as an expense and has been charged to cost of sales in the income statement amounted to £49.8 million (2007: £27.0 million).

Payments received on account in excess of the value of the work performed on the related contract are included within trade and other payables (see note 22).

## 17. Trade and other receivables

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Trade receivables | | **128.8** | 112.6 |
| Less: provision for impairment of trade receivables | | **(3.5)** | (4.1) |
| Trade receivables – net | | **125.3** | 108.5 |
| Amounts recoverable on contracts | | **32.7** | 14.5 |
| Receivables from related parties | 34 | **0.2** | 0.2 |
| Other debtors | | **18.4** | 11.3 |
| Prepayments and accrued income | | **8.1** | 10.0 |
| | | **184.7** | 144.5 |

Trade receivables include retentions of £10.5 million (2007: £4.1 million).

**17. Trade and other receivables** (continued)
The fair values of trade and other receivables equals their carrying amount, as the impact of discounting is not material.

As of 31 December 2008, trade receivables of £6.0 million (2007: £4.8 million) were impaired. The amount of the provision was £3.5 million (2007: £4.1 million). The individually impaired receivables mainly relate to contracts within the UK and Australia. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Less than 3 months | **2.5** | 0.2 |
| 3 to 6 months | **1.3** | 1.0 |
| 7 to 12 months | **1.2** | 2.0 |
| Over 12 months | **1.0** | 1.6 |
| | **6.0** | 4.8 |

As of 31 December 2008, trade receivables of £59.6 million (2007: £77.9 million) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Less than 3 months | **54.7** | 68.7 |
| 3 to 6 months | **3.1** | 5.8 |
| 7 to 12 months | **0.6** | 3.0 |
| Over 12 months | **1.2** | 0.4 |
| | **59.6** | 77.9 |

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | 2008 £m | 2007 £m |
|---|---|---|
| Euro | **1.4** | 1.8 |
| UK Sterling | **77.7** | 68.5 |
| UAE Dirham | **8.2** | 6.7 |
| Omani Rials | **2.0** | 1.0 |
| Bahraini Dinar | **4.0** | 1.1 |
| Saudi Arabian Riyal | **25.5** | 6.8 |
| United States Dollar | **24.8** | 17.3 |
| Singapore Dollar | **6.2** | 2.2 |
| Thai Baht | **1.7** | 0.4 |
| Kuwaiti Dinar | **1.7** | 0.2 |
| Philippine Peso | **0.8** | 1.4 |
| Qatar Riyal | **6.8** | 5.8 |
| Indian Rupee | **0.1** | – |
| Maltese Lira | **–** | 0.9 |
| Australian Dollar | **23.7** | 30.3 |
| Other currencies | **0.1** | 0.1 |
| | **184.7** | 144.5 |

## 17. Trade and other receivables (continued)

Provision for impairment of trade receivables:

| | 2008 £m | 2007 £m |
|---|---|---|
| At 1 January | **4.1** | 0.8 |
| Provision on acquisition | **–** | 1.4 |
| Provision for receivables impairment | **2.5** | 2.2 |
| Receivables written off during the year as uncollectable | **(0.3)** | (0.1) |
| Write back of receivables previously written off | **0.9** | – |
| Unused amounts reversed | **(3.7)** | (0.2) |
| At 31 December | **3.5** | 4.1 |

The creation and release of provision for impaired receivables have been included in cost of sales in the income statement. Amounts charged to the bad debt provision account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 18. Cash Scheme funds – restricted

| | 2008 £m | 2007 £m |
|---|---|---|
| Cash – restricted | **37.5** | 39.1 |

Cape Claims Services Limited ('CCS') is the Scheme company in which asbestos-related liabilities and the associated Scheme funding is accounted for (note 33). Under the terms of the Scheme, there is a funding agreement between Cape plc and CCS under which Cape plc has provided CCS with initial funding of £40 million. The fund held by CCS of £37.5 million (2007: £39.1 million) is restricted for use primarily in settling the Group's UK asbestos-related liabilities.

## 19. Cash, cash equivalents and bank overdrafts

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Cash at bank and in hand | | **33.3** | 20.1 |
| Bank overdrafts | 20 | **(2.8)** | (4.9) |
| Cash, cash equivalents and bank overdrafts in the statement of cash flows | | **30.5** | 15.2 |

There were no restrictions over cash at the year end (2007: £0.1m).

## 20. Borrowings

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Non current | | | |
| Finance leases | | **12.1** | 14.3 |
| Bank loans | | **147.5** | 149.2 |
| Redeemable preference shares | | **0.3** | 0.3 |
| | | **159.9** | 163.8 |
| Current | | | |
| Finance leases | | **8.6** | 5.3 |
| Loan notes | | **3.7** | – |
| Bank loans | | **23.8** | 35.3 |
| Bank overdrafts | 19 | **2.8** | 4.9 |
| | | **38.9** | 45.5 |
| **Total borrowings** | | **198.8** | 209.3 |

**Loan notes**

The loans notes outstanding relate to deferred consideration payable for the acquisition of the DBI Group which took place during 2006. These loan notes were settled during January 2009.

## 20. Borrowings (continued)

### Bank borrowings

The bank loans and overdrafts of £174.1 million (2007: £189.4 million) are secured by fixed and floating charges over the assets of the Group. Bank loans are stated net of unamortised issue costs of £2.8 million (2007: £3.5 million). The Group incurred issue costs of £3.9 million in respect of the five year facility entered into in September 2007 (amended December 2007 and July 2008) under which amounts were drawn down to part fund the acquisitions in Australia. These issue costs together with the interest expense are allocated to the income statement over the five year term of the facility at a constant rate on the carrying amount.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| 6 months or less | **66.9** | 190.7 |
| 6 to 12 months | **8.6** | 5.3 |
| 1 to 5 years | **123.0** | 13.0 |
| Over 5 years | **0.3** | 0.3 |
| | **198.8** | 209.3 |

The carrying amounts and fair value of the non current borrowings are as follows:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Finance lease obligations | **12.1** | 14.3 | **10.1** | 11.7 |
| Bank loans | **147.5** | 149.2 | **116.2** | 111.9 |
| Redeemable preference shares | **0.3** | 0.3 | **0.2** | 0.2 |
| | **159.9** | 163.8 | **126.5** | 123.8 |

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 8% (2007: 7%).

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2008 £m | 2007 £m |
|---|---|---|
| Australian Dollar | **47.9** | 36.2 |
| United States Dollar | **20.9** | – |
| United Kingdom Sterling | **130.0** | 173.1 |
| | **198.8** | 209.3 |

The Group has the following undrawn borrowing facilities:

| | 2008 £m | 2007 £m |
|---|---|---|
| Floating rate: | | |
| – Expiring beyond 1 year | **2.8** | 35.3 |

### 3.5% cumulative preference shares

The Company has in issue 250,000 cumulative preference shares of £1 with a fixed cumulative preferential dividend of 3.5% per annum, payable half yearly in arrears on 31 March and 30 September over the last five years. The dividends have been deferred and the shares have no redemption entitlement.

### Finance lease liabilities

Finance lease liabilities are payable as follows:

| | Future minimum lease payments 2008 £m | Interest 2008 £m | Present value of minimum lease payments 2008 £m | Future minimum lease payments 2007 £m | Interest 2007 £m | Present value of minimum lease payments 2007 £m |
|---|---|---|---|---|---|---|
| Less than 1 year | **10.4** | **1.8** | **8.6** | 6.8 | 1.5 | 5.3 |
| Between 1 and 5 years | **13.5** | **1.4** | **12.1** | 16.1 | 1.8 | 14.3 |
| | **23.9** | **3.2** | **20.7** | 22.9 | 3.3 | 19.6 |

## 21. Financial instruments

Disclosures in respect of the Group's financial risks are set out below. Numerical disclosures in respect of financial instruments are set out below and on page 61 in note 20 'Borrowings'.

### Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### (a) Market risk

*Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Australian Dollar.

The primary exposure to the Group in terms of foreign currency risk is translation of the subsidiary results. This risk is managed primarily through borrowings denominated in the relevant foreign currencies. No sensitivity analysis has been performed for the purposes of these accounts as under IFRS 7 translation related risk is not taken into account.

Foreign currency transaction exposure arising on normal trade flows is not hedged. The exposure of overseas operating subsidiaries to transaction risk is minimised by matching functional currency income with functional currency costs. Group management has completed a sensitivity analysis on the exposure of the Group to reasonable movements in the main functional currencies used by the subsidiaries and conclude that the impact on profit and equity is minimal.

*Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to hedge between 66% and 100% of Group borrowings in order to cap the maximum interest rate payable.

As at 31 December 2008, the Group's debt was denominated in Sterling, US Dollar and Australian Dollar and was all at a floating rate. In January 2008 the Group put in place interest rate swaps for both the US Dollar denominated debt and a proportion of the Sterling debt.

The Group reviews its interest rate exposure, taking into consideration refinancing, renewal of existing positions and alternative financing and hedging.

Based on various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under interest rate swaps, the Group has entered into transactions to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

Management has performed a sensitivity analysis on the impact of reasonable movements in interest rates on Group profit and equity and consider that the impact is negligible.

### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivables from customers and deposits with financial institutions.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has an established credit policy under which each new customer is analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, and in some cases bank references.

### (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Group's reputation.

### (d) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**21. Financial instruments** (continued)

**(e) Accounting for derivative financial instruments and hedging activities**

On inception derivatives are accounted and measured at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement is taken to the income statement except where the derivative is a designated hedging instrument when it is recognised in equity. The accounting treatment of derivatives classified as hedges depends on their designations, which occurs on the date that the derivative contract is committed to. The Group designates derivatives as:

- a hedge of the income/cost of a highly probable forecasted transaction or commitment ('cash flow hedge');
- a hedge of the net investment in a foreign entity ('net investment hedge'); and
- a hedge of the fair value of an asset or liability ('fair value hedge').

In order to qualify for hedge accounting, the Group documents in advance the relationship between the item being hedged and the hedging instrument and demonstrates the relationship between the hedged item and the hedging instrument, to show that the hedge will be effective on an on-going basis. Testing the effectiveness of the hedging instrument is performed bi-annually.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, the gains or losses previously recognised in equity are reclassified to the income statement in the same period as the asset or liability affects income or expenditure. Where the forecasted transaction or commitment results in a non-financial asset or a liability, then any gains or losses previously deferred in equity are included in the cost of the related asset or liability. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IAS 39, any change in assets or liabilities is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the income statement when the committed or forecasted transaction is recognised in the income statement. However, where the Group applied cash flow hedge accounting for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity is transferred to the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

Where the Group hedges net investments in foreign entities through currency borrowings that are regarded as highly effective, the gains or losses on the translation of the borrowings are recognised in equity. If the Group uses derivatives as the hedging instrument, the effective portion of the hedge is recognised in equity with any ineffective portion recognised in the income statement. On disposal of the foreign operation gains and losses accumulated in equity are transferred to the Income Statement.

The Group has not entered into any fair value hedges.

The fair values of short-term deposits, loans and other borrowings with a maturity of less than one year are assumed to approximate to their book values. In the case of the bank loans and other borrowings due in more than one year, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Interest rate swaps – cash flow hedges | – | (6.3) | – | (0.1) |
| Forward foreign exchange contracts – cash flow hedges | – | (0.6) | – | – |
| Total | – | (6.9) | – | (0.1) |

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedge item is less than 12 months.

There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

*(i) Interest rate swaps*

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2008 were £109.5 million (2007: £13.0 million).

At 31 December 2008 the main floating rates were GBP LIBOR, USD LIBOR and Australian inter bank rate. Interest rate swaps were in place which swapped floating LIBOR amounts for fixed rates. UK LIBOR was swapped for a fixed rate of 5.145% on £90 million of the sterling debt and US LIBOR was swapped for a fixed rate of 3.23% on $30 million of USD denominated debt. On 22 December 2008 the Group entered into a basis swap for a period of six months whereby the end result is that the Group pays a fixed rate of 4.945% (5.145% less 20bps) on the GBP hedged portion of the debt.

## 21. Financial instruments (continued)

### *(ii) Forward foreign exchange contracts*

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 were £4.8m (2007: £nil).

Gains and losses recognised in other reserves in equity (note 29) on forward foreign exchange contracts as of 31 December 2008 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement, which is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial recognition of a financial asset in which case recognition is over the lifetime of the asset.

## 22. Trade and other payables

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Payments received on account | 16 | **7.3** | 4.1 |
| Trade payables | | **43.4** | 30.1 |
| Social security and other taxes | | **25.6** | 18.3 |
| Other creditors | | **29.4** | 19.8 |
| Accrued expenses | | **27.3** | 24.4 |
| | | **133.0** | 96.7 |

Other creditors include £0.1 million (2007: £0.1 million) in respect of the Group's share of the liabilities of its joint venture undertakings and £1.2 million (2007: £6.3 million) in respect of deferred consideration.

## 23. Current tax liabilities

| | 2008 £m | 2007 £m |
|---|---|---|
| UK taxation | **3.8** | 4.0 |
| Overseas taxation | **5.6** | 2.6 |
| | **9.4** | 6.6 |

## 24. Retirement benefit obligations

The Group operates a defined benefit scheme and a defined contribution scheme for employees within the UK and provides pensions for employees of overseas companies in accordance with local requirements and practices. The assets of both the defined benefit and defined contribution schemes are held in trustee administered funds. The latest valuation of the defined benefit scheme was assessed by independent qualified actuaries as at 6 April 2007 using the projected unit method. The valuation showed that the assets of the defined benefit scheme had a market value of £132.4 million and was 100% funded. Included within the assets balance is an amount of £65.6 million in respect of insurance policies covering pensioner liabilities.

Some of the Group's overseas subsidiary undertakings operate leaving indemnity schemes as required by local laws and regulations. These schemes are unfunded. The provision for leaving indemnities is based on the number of years service and the current salary of the employee.

The pension expense in the period for the defined contribution pension scheme of £2.7 million (2007: £1.7 million) equalled the Group contributions to the scheme.

The defined benefit scheme disclosures of the Group in this note also include figures relating to a small scheme held by a subsidiary undertaking.

| | 2008 £m | 2007 £m |
|---|---|---|
| **Balance sheet assets/(obligations) for:** | | |
| Pension benefit assets | **0.1** | 0.1 |
| Pension benefit liabilities | **(0.4)** | (0.4) |
| | **(0.3)** | (0.3) |
| Leaving indemnities | **(4.8)** | (2.7) |
| | **(5.1)** | (3.0) |
| **Income statement charge/(credit) for:** | | |
| Pension benefits | **–** | (0.9) |
| Leaving indemnities | **1.2** | 0.7 |
| | **1.2** | (0.2) |

| | 2008 £m | 2007 £m |
|---|---|---|
| Actuarial loss recognised in the SORIE in the period (before tax) | **3.3** | 4.3 |
| Cumulative actuarial losses recognised in the SORIE (before tax) | **52.2** | 48.9 |

# Notes to the financial statements
continued

**24. Retirement benefit obligations** (continued)
**Pension benefits**
The amounts recognised in the balance sheet are determined as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Present value of funded obligations | **(104.8)** | (109.5) |
| Fair value of plan assets | **114.8** | 122.1 |
| | **10.0** | 12.6 |
| Restriction of surplus | **(10.3)** | (12.9) |
| **Net liability in the balance sheet** | **(0.3)** | (0.3) |

In accordance with IFRIC 14, the Group must consider the minimum funding requirements of the pension scheme. This has resulted in the recognised surplus on the main scheme being reduced to £nil at 31 December 2008 (2007: £nil).

The amounts recognised in the income statement are as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Current service cost | **0.7** | 0.7 |
| Interest cost | **6.2** | 5.1 |
| Expected return on plan assets | **(6.6)** | (6.7) |
| Settlements and curtailments | **(0.3)** | – |
| **Total** | **–** | (0.9) |

Of the total charge/ (credit) a credit of £0.4 million (2007: £1.3 million) was included in the 'net operating expenses' and a charge of £0.4 million (2007: £0.4 million) was included in 'cost of sales'.

The actual return on plan assets was £3.3 million (2007: £8.6 million).

The movement in the fair value of plan assets over the year is as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Beginning of year | **122.1** | 117.9 |
| Expected return on plan assets | **6.6** | 6.7 |
| Actuarial (losses)/gains | **(9.8)** | 1.9 |
| Employer contributions | **0.7** | 0.8 |
| Employee contributions | **0.2** | 0.2 |
| Benefits paid | **(5.0)** | (5.4) |
| Settlements | **–** | – |
| **End of year** | **114.8** | 122.1 |

The movement in the defined benefit obligation over the year is as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Beginning of year | **109.5** | 102.7 |
| Current service cost | **0.7** | 0.7 |
| Interest cost | **6.2** | 5.1 |
| Contributions by plan participants | **0.2** | 0.2 |
| Actuarial gains/(losses) | **(6.5)** | 6.2 |
| Benefits paid | **(5.0)** | (5.4) |
| Settlements and curtailments | **(0.3)** | – |
| **End of year** | **104.8** | 109.5 |

The principal actuarial assumptions used were as follows:

| | 2008 | 2007 |
|---|---|---|
| Discount rate | **6.25%** | 5.80% |
| Expected return on plan assets | **5.99%** | 5.43% |
| Future salary increases | **4.10%** | 4.45% |
| Future pension increases | **3.00%** | 3.25% |
| Inflation rate | **3.10%** | 3.45% |

## 24. Retirement benefit obligations (continued)

### Mortality rate

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and scheme experience.

The average remaining life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

| | 2008 | 2007 |
|---|---|---|
| Male | **23.4** | 23.0 |
| Female | **26.0** | 25.5 |

The average remaining life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

| | 2008 | 2007 |
|---|---|---|
| Male | **25.6** | 24.3 |
| Female | **28.0** | 26.6 |

### Pension benefits

Plan assets are comprised as follows:

| | 2008 £m | Expected return | 2007 £m | Expected return |
|---|---|---|---|---|
| Equity | **19.2** | **7.25%** | 24.0 | 8.05% |
| Bonds | **91.8** | **6.25%** | 78.6 | 4.55% |
| Property | **3.2** | **7.25%** | 4.4 | 6.80% |
| Cash | **0.6** | **2.0%** | 15.1 | 5.50% |
| | **114.8** | | 122.1 | |

The expected return on plan assets is determined by considering the expected returns on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to defined benefit schemes for the year ended 31 December 2009 are £0.7 million.

| | 2008 £m | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|---|
| Fair value of plan assets | **114.8** | 122.1 | 117.9 | 115.7 | 104.5 |
| Fair value of plan liabilities | **104.8** | 109.5 | 102.7 | 108.2 | 99.3 |
| Surplus | **10.0** | 12.6 | 15.2 | 7.5 | 5.2 |
| Experience adjustments on plan assets | **(9.7)** | 1.9 | 2.2 | 8.9 | 4.1 |
| Experience adjustments on plan liabilities | **(3.4)** | (4.8) | 0.3 | (0.1) | 0.5 |

## 25. Deferred income tax

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| **Deferred tax assets:** | | |
| – Deferred tax asset to be recovered within 12 months | **8.2** | 0.5 |
| – Deferred tax asset to be recovered after more than 12 months | **3.7** | 6.2 |
| | **11.9** | 6.7 |
| **Deferred tax liabilities:** | | |
| – Deferred tax liability to be recovered within 12 months | **(9.0)** | (1.6) |
| – Deferred tax liability to be recovered after more than 12 months | **(2.7)** | (8.8) |
| | **(11.7)** | (10.4) |
| **Net deferred tax assets/(liabilities)** | **0.2** | (3.7) |

**25. Deferred income tax** (continued)

The gross movement on the deferred income tax account is as follows:

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| Beginning of the year | | **(3.7)** | 2.1 |
| Exchange adjustments | | **(0.2)** | 0.2 |
| Acquisition of subsidiary | 31 | – | (9.7) |
| Income statement credit | 11 | **1.2** | 1.4 |
| Tax credited directly to equity | 29 | **2.9** | 2.3 |
| **End of year** | | **0.2** | (3.7) |

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| Deferred tax liabilities | Note | Income recognition/ deferred expenditure £m | Accelerated tax depreciation £m | Retirement benefits £m | Intangibles £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2007 | | – | – | 2.4 | 0.3 | 2.7 |
| (Charged)/credited to the income statement | | 0.5 | (2.2) | 0.1 | (0.4) | (2.0) |
| Charged directly to equity | 29 | – | – | (2.5) | – | (2.5) |
| Acquisition of subsidiary | | – | 10.0 | – | 2.2 | 12.2 |
| At 31 December 2007 | | 0.5 | 7.8 | – | 2.1 | 10.4 |
| (Charged)/credited to the income statement | | (0.5) | 1.2 | – | (0.3) | 0.4 |
| Exchange differences | | – | 0.9 | – | – | 0.9 |
| **At 31 December 2008** | | **–** | **9.9** | **–** | **1.8** | **11.7** |

| Deferred tax assets | Note | Provisions and accruals £m | Accelerated tax depreciation £m | Cash flow and net investment hedges £m | Share based payments £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2007 | | 1.2 | 3.0 | – | 0.6 | 4.8 |
| (Charged)/credited to the income statement | | 1.2 | (1.8) | – | – | (0.6) |
| Charged directly to equity | | – | – | – | (0.2) | (0.2) |
| Acquisition of subsidiary | | 2.5 | – | – | – | 2.5 |
| Exchange differences | | 0.2 | – | – | – | 0.2 |
| At 31 December 2007 | | 5.1 | 1.2 | – | 0.4 | 6.7 |
| (Charged)/credited to the income statement | | 2.6 | (1.0) | – | – | 1.6 |
| (Charged)/credited directly to equity | 29 | – | – | 3.3 | (0.4) | 2.9 |
| Exchange differences | | 0.7 | – | – | – | 0.7 |
| **At 31 December 2008** | | **8.4** | **0.2** | **3.3** | **–** | **11.9** |

The deferred income tax (charged)/credited to equity during the year is as follows:

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Share based payments | 29 | **(0.4)** | (0.2) |
| Retirement benefits | 29 | **–** | 2.5 |
| Hedging | 29 | **3.3** | – |
| | | **2.9** | 2.3 |

Deferred taxation has not been provided in the event of the distribution of the unappropriated profits or reserves of certain overseas subsidiary undertakings as the Group does not currently intend to make such distributions.

At the balance sheet date, the Group has unused tax losses of £15.9 million (2007: £6.4 million) available for offset against future profits, subject to agreement with the tax authorities. The losses carried forward are in certain entities and can only be utilised against future profits of those entities. No deferred tax asset has been recognised in respect of these losses as there is uncertainty in respect of its future recoverability. In particular, £10.4 million of the balance relates to losses arising in the Australian consolidated group which are subject to strict recognition rules. The Group is still determining whether the losses can be recognised and if so, the extent to which they can be recognised.

Advance corporation tax written off to date amounts to £1.7 million (2007: £1.7 million) and is available for offset against future United Kingdom corporation tax liabilities subject to certain conditions being met. The future benefit of advance corporation tax has not been accounted for in the provision of deferred taxation as its recoverability is uncertain.

## 26. Provisions for other liabilities and charges

| | Total £m | Compensation for industrial disease (i) £m | Other provisions (ii) £m |
|---|---|---|---|
| At 1 January 2008 | 12.0 | 7.1 | 4.9 |
| Charged/(credited) to the income statement: | | | |
| – Additional provisions | 5.9 | 5.7 | 0.2 |
| – Unused amounts reversed | (0.5) | (0.5) | – |
| Utilised during year | (3.0) | (2.6) | (0.4) |
| **At 31 December 2008** | **14.4** | **9.7** | **4.7** |

Due to the inherent uncertainty regarding the timing of settlement all provisions have been classed as non current.

(i) The provision for industrial disease represents the expected costs of settling notified claims. It is anticipated that most of these claims will be paid within the next two years. The charge to profit for the compensation for industrial disease in the year net of insurance recoveries is £5.2 million (2007: £1.2 million). The provision charge is recognised within net operating expenses. Insurance recoveries of £2.2 million (2007: £1.1 million) are receivable against certain of these claims and are included in other debtors within 'trade and other receivables' in the Consolidated balance sheet. The basis for the provision and the contingent liability in respect of future settlements is described in note 32 (i).

(ii) Other provisions relate to the decision made in 2002 to sell and close the Calsil business and provisions for property dilapidations and national insurance on share options.

## 27. Commitments

### (a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred:

| | 2008 £m | 2007 £m |
|---|---|---|
| Property, plant and equipment | **1.5** | 1.7 |

These commitments are expected to be settled in the following financial year.

### (b) Operating lease commitments

The Group leases various properties, plant and machinery under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year was £1.8 million (2007: £1.3 million) property leases, and £14.7 million (2007: £11.6 million) plant and equipment leases.

The future aggregate minimum lease payments under non-cancellable operating leases are due:

| | Property 2008 £m | Plant and equipment 2008 £m | Property 2007 £m | Plant and equipment 2007 £m |
|---|---|---|---|---|
| Within 1 year | **1.9** | 1.2 | 1.4 | 0.5 |
| Later than 1 year and less than 5 years | **4.2** | 2.4 | 3.3 | 0.5 |
| After 5 years | **1.1** | – | 1.4 | – |
| | 7.2 | 3.6 | 6.1 | 1.0 |

## 28. Share capital

| (a) Authorised | 2008 £m | 2007 £m |
|---|---|---|
| 153,600,000 ordinary shares of 25p each (2007: 153,600,000 ordinary shares of 25p) | **38.4** | 38.4 |
| 431,906,031 deferred shares of 1p each (2007: 431,906,031) | **4.3** | 4.3 |
| 1 plc scheme share (2007: 1) | **–** | – |
| | **42.7** | 42.7 |

| (b) Issued and fully paid | 2008 Shares | 2008 £m | 2007 Shares | 2007 £m |
|---|---|---|---|---|
| Ordinary shares of 25p each | | | | |
| At 1 January | **113,837,618** | 28.5 | 83,523,010 | 20.9 |
| Issue for cash | **–** | – | 26,923,077 | 6.7 |
| Issue of shares on acquisition of subsidiary undertaking | **–** | – | 2,761,287 | 0.7 |
| Exercise of share options | **1,151,469** | 0.3 | 630,244 | 0.2 |
| At 31 December | **114,989,087** | 28.8 | 113,837,618 | 28.5 |
| Deferred shares of 1p each | | | | |
| At 1 January and 31 December | **431,906,031** | 4.3 | 431,906,031 | 4.3 |
| plc Scheme share | | | | |
| At 1 January and 31 December | **1** | – | 1 | – |
| | | 33.1 | | 32.8 |

### (c) Deferred shares
The holders have no dividend rights, redemption entitlement or voting rights. On a winding up the holders are entitled to repayment of capital only after ordinary shareholders have received £100 for each ordinary share.

### (d) plc Scheme Share
The plc Scheme Share is held by the Law Debenture Trust Corporation plc on behalf of the Scheme creditors.

The rights attaching to the share are designed to ensure that Scheme assets are only used to settle Scheme claims and ancillary costs and do not confer any right to receive a distribution or return of surplus capital save that the holder will have the right to require the Company to redeem the share at par value on or at any time after the termination of the Scheme.

The share carries two votes for every vote which the holders of the other classes of shares in issue are entitled to exercise on any resolution proposed during the life of the Scheme to engage in certain activities specified in the Company's Articles of Association.

The Company will not be permitted to engage in certain activities specified in the Company's Articles of Association without the prior consent of the holder of the share.

**28. Share capital (continued)**

*Share based payments*

The Group has a savings related share option scheme ('Sharesave plan') which entitles employees of the Group to buy shares in the Company. Grants of share options under this scheme are offered to employees periodically and the options are usually awarded at a 20% discount to the market price at the date the options are offered to employees. These options must be exercised within six months of the vesting date.

The Employee Incentive Plan allows the Group to grant options to Directors and senior employees. The Employee Incentive Plan carries a non-market based performance criteria. The contractual life of the options is 10 years. The options become exercisable on the third anniversary of the date of grant, subject to a growth in earnings per share over that period exceeding an average 3% compounded annually above the growth in the consumer price index over the same period. Exercise of an option is subject to continued employment.

The Performance Share Plan is the award of Ordinary Shares at no cost to the participant and the grant of nominal value options to selected employees or Executive Directors of the Group. Awards are made upon the terms set out in the plan and such other additional terms as the Board shall determine. Vesting of these shares is subject to Cape plc Earnings Per Share ('EPS') meeting the specified performance criteria over a three year vesting period. The performance criteria is EPS growth of the Retail Price Index (RPI) plus 3% for the minimum of 30% of the shares awarded to vest, and EPS growth of RPI plus 10% for all of the shares awarded to vest. The contractual life of the options is five years and is subject to continued employment.

Options are valued using the Black-Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation for the current and preceding year are as follows:

| | **Employee Incentive Plan** | | **3 year Sharesave plan** | | **5 year Sharesave plan** | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Weighted average fair value at measurement date | **80.9p** | 80.9p | **87.5p** | 87.5p | **110.0p** | 110.0p |
| Share price at grant date | **269.0p** | 269.0p | **266.0p** | 266.0p | **266.0p** | 266.0p |
| Exercise price | **269.0p** | 269.0p | **230.0p** | 230.0p | **230.0p** | 230.0p |
| Vesting period | **3 years** | 3 years | **3 years** | 3 years | **5 years** | 5 years |
| Expected option life | **3.95 years** | 3.95 years | **3.25 years** | 3.25 years | **5.25 years** | 5.25 years |
| Risk free interest rate | **4.97%** | 4.97% | **4.89%** | 4.89% | **4.89%** | 4.89% |
| Expected share price volatility | **28%** | 28% | **27%** | 27% | **28%** | 28% |

The expected share price volatility is based on historic volatility. The expected option life is the average expected period to exercise. The risk free rate of return is the yield on a five year zero coupon UK Government bond. The assumed dividend yield is zero.

The shares issued under the Performance Share Plan, which have no exercise price, are deemed to have a fair value equivalent to the share price on the day of grant. Therefore the shares granted in April and September 2008 have fair values of 242.5 pence and 229.5 pence respectively.

The number and weighted average exercise price of the share options under the Employee Incentive Plan and Sharesave plan and the shares under the Performance Share Plan are as follows:

| **Employee Incentive Plan** | **Weighted average exercise price 2008 pence** | **Number of options 2008** | Weighted average exercise price 2007 pence | Number of options 2007 |
|---|---|---|---|---|
| Outstanding at 1 January | **195.3** | **3,980,000** | 119.5 | 2,925,000 |
| Granted | **269.0** | **100,000** | 269.0 | 1,905,000 |
| Exercised | **110.1** | **(1,120,000)** | 61.0 | (630,000) |
| Forfeited | **249.5** | **(777,500)** | 209.6 | (220,000) |
| **Outstanding at 31 December** | **223.1** | **2,182,500** | 195.3 | 3,980,000 |

Out of the 2,182,500 outstanding options (2007: 3,980,000 options), 125,000 options (2007: 550,000) were exercisable. Options exercised in 2008 resulted in 505,000 shares (2007: 620,000 shares) being issued at £0.60 each, 280,000 shares (2007: 10,000 shares) being issued at £1.20 each, 330,000 shares (2007: nil) being issued at £1.76 each and 5,000 shares (2007: nil) being issued at £2.69 each. The options were exercised on a regular basis during the year. The average share price in 2008 was £2.03 (2007: £2.72).

# Notes to the financial statements
continued

## 28. Share capital (continued)
*Share based payments (continued)*

| Sharesave plan | Weighted average exercise price 2008 pence | Number of options 2008 | Weighted average exercise price 2007 pence | Number of options 2007 |
|---|---|---|---|---|
| Outstanding at 1 January | **173.0** | **1,823,112** | 135.0 | 1,262,653 |
| Granted | **–** | **–** | 230.0 | 725,507 |
| Exercised | **138.8** | **(31,469)** | 135.0 | (244) |
| Lapsed | **174.4** | **(439,620)** | 135.0 | (164,804) |
| Outstanding at 31 December | **173.4** | **1,352,023** | 173.0 | 1,823,112 |

Out of the 1,352,023 outstanding options (2007: 1,823,112 options), no options (2007: nil) were exercisable. Options exercised in 2008 resulted in 30,209 shares (2007: 244 shares) being issued at £1.35 each and 1,260 shares (2007: nil) being issued at £2.30.

| Performance Share Plan | Weighted average exercise price 2008 pence | Number of options 2008 | Weighted average exercise price 2007 pence | Number of options 2007 |
|---|---|---|---|---|
| Granted | **–** | **900,201** | – | – |
| Outstanding at 31 December | **–** | **900,201** | – | – |

Out of the 900,201 outstanding options (2007: nil options), no options (2007: nil) were exercisable and none were exercised during 2008 (2007: nil).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Employee Incentive Plan | Exercise price per share pence | Number of shares 2008 | 2007 |
|---|---|---|---|
| 7 May 2014 | **60.0** | **35,000** | 550,000 |
| 24 October 2015 | **120.0** | **170,000** | 465,000 |
| 7 July 2016 | **176.0** | **720,000** | 1,172,500 |
| 1 April 2017 | **269.0** | **1,157,500** | 1,792,500 |
| 8 January 2018 | **269.0** | **100,000** | – |
| | | **2,182,500** | 3,980,000 |

| Sharesave plan | Exercise price per share pence | Number of shares 2008 | 2007 |
|---|---|---|---|
| 21 July 2009 | **135.0** | **207,279** | 318,905 |
| 22 October 2010 | **230.0** | **210,538** | 285,559 |
| 21 July 2011 | **135.0** | **606,943** | 784,042 |
| 22 October 2012 | **230.0** | **327,263** | 434,606 |
| | | **1,352,023** | 1,823,112 |

| Performance Share Plan | Exercise price per share pence | Number of shares 2008 | 2007 |
|---|---|---|---|
| 28 April 2013 | **–** | **696,026** | – |
| 23 September 2013 | **–** | **204,175** | – |
| | **–** | **900,201** | – |

On 8 January 2008, options over 100,000 shares were granted to Directors and employees under the Employee Incentive Plan with an exercise price set at the market price of the Company as at 20 March 2007 of 269 pence (expiry date 8 January 2018). The exercise of these share options is subject to performance conditions.

On 28 April 2008 and 23 September 2008, 696,026 shares and 204,175 shares respectively were awarded to Directors and employees under the Performance Share Plan which vest after three years subject to performance criteria being met. If the criteria are met, the awards maybe exercised at no cost to the employees and Directors prior the expiry date of 28 April 2013 and 23 September 2013 respectively.

The total charge for the year relating to employee share based payment plans was £1.2 million (2007: £0.8 million), all of which related to equity settled share based payment transactions.

## 29. Other reserves

| Group | Share capital £m | Share premium £m | Special reserve £m | Retained earnings £m | Other reserve £m | Total £m | Minority interest £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | 25.2 | 25.0 | – | 27.2 | (2.2) | 75.2 | – | 75.2 |
| Exchange adjustments net of tax | – | – | – | – | 6.1 | 6.1 | – | 6.1 |
| Issue of share capital | 7.4 | 70.7 | – | – | – | 78.1 | – | 78.1 |
| Issue expenses | – | (2.1) | – | – | – | (2.1) | – | (2.1) |
| Capital reduction | – | (86.3) | 1.0 | 85.3 | – | – | – | – |
| Cash flow hedges – fair value gains in period | – | – | – | – | 1.6 | 1.6 | – | 1.6 |
| Net profit | – | – | – | 26.9 | – | 26.9 | – | 26.9 |
| Actuarial loss recognised in the pension scheme | – | – | – | (4.3) | – | (4.3) | – | (4.3) |
| Minority interests arising in business combinations | – | – | – | – | – | – | 1.0 | 1.0 |
| Movement in restriction of retirement benefit asset in accordance with IAS 19 | – | – | – | (5.8) | – | (5.8) | – | (5.8) |
| Deferred tax on actuarial loss | – | – | – | 2.5 | – | 2.5 | – | 2.5 |
| Share options | | | | | | | | |
| – proceeds from shares issued | 0.2 | 0.2 | – | – | – | 0.4 | – | 0.4 |
| – value of employee services | – | – | – | 0.8 | – | 0.8 | – | 0.8 |
| – deferred tax on share options | – | – | – | (0.2) | – | (0.2) | – | (0.2) |
| – issued as part of deferred consideration | – | – | – | 0.5 | – | 0.5 | – | 0.5 |
| At 31 December 2007 | 32.8 | 7.5 | 1.0 | 132.9 | 5.5 | 179.7 | 1.0 | 180.7 |
| **At 1 January 2008** | **32.8** | **7.5** | **1.0** | **132.9** | **5.5** | **179.7** | **1.0** | **180.7** |
| Exchange adjustments net of tax | – | – | – | – | **42.6** | **42.6** | – | **42.6** |
| Cash flow hedges – fair value losses in period | – | – | – | – | **(6.5)** | **(6.5)** | – | **(6.5)** |
| Acquisition of minority interest | – | – | – | – | – | – | **(1.0)** | **(1.0)** |
| Net investment hedges – fair value losses in the period | – | – | – | – | **(5.5)** | **(5.5)** | – | **(5.5)** |
| Deferred tax on hedges | – | – | – | – | **3.3** | **3.3** | – | **3.3** |
| Net profit attributable to equity shareholders | – | – | – | **30.6** | – | **30.6** | – | **30.6** |
| Net profit attributable to minority interest | – | – | – | – | – | – | **1.1** | **1.1** |
| Actuarial loss recognised in the pension scheme | – | – | – | **(3.3)** | – | **(3.3)** | – | **(3.3)** |
| Reduction in minority interest | – | – | – | – | – | – | **(0.4)** | **(0.4)** |
| Movement in restriction of retirement benefit asset in accordance with IAS 19 | – | – | – | **2.6** | – | **2.6** | – | **2.6** |
| Share options | | | | | | | | |
| – proceeds from shares issued | **0.3** | **0.9** | – | – | – | **1.2** | – | **1.2** |
| – value of employee services | – | – | – | **1.2** | – | **1.2** | – | **1.2** |
| – deferred tax on share options | – | – | – | **(0.4)** | – | **(0.4)** | – | **(0.4)** |
| **At 31 December 2008** | **33.1** | **8.4** | **1.0** | **163.6** | **39.4** | **245.5** | **0.7** | **246.2** |

# Notes to the financial statements
continued

### 30. Cash generated from operations
### (a) Reconciliation of Group operating profit to net operating cash flow from operating activities

| | 2008 £m | 2007 £m |
|---|---|---|
| **Continuing operations** | | |
| Group operating profit | **52.5** | 35.8 |
| Depreciation | **15.3** | 8.7 |
| Amortisation | **2.7** | 1.0 |
| Share option charge | **1.2** | 0.3 |
| Profit on sale of property, plant and equipment | **(0.8)** | (0.1) |
| Difference between pension charge and cash contributions | **(0.5)** | – |
| Changes in working capital (excluding effects of acquisitions and exchange adjustments on consolidation) | | |
| Decrease/(increase) in inventories | **1.4** | (4.0) |
| Increase in trade and other receivables | **(21.6)** | (29.7) |
| Increase in trade and other payables | **15.7** | 8.2 |
| Increase/(decrease) in provisions (excluding deferred tax) | **2.4** | (3.9) |
| Industrial disease costs paid | **3.6** | 3.2 |
| **Cash generated from continuing operations** | **71.9** | 19.5 |
| **Discontinued operations** | | |
| Loss before income tax | **(0.2)** | (0.7) |
| Profit on sale of property | **–** | (0.5) |
| Increase in trade and other receivables | **(0.1)** | (0.1) |
| Decrease in trade and other payables | **(0.7)** | (1.4) |
| Increase in provisions (excluding deferred tax) | **–** | 1.0 |
| **Cash outflow from discontinued operations** | **(1.0)** | (1.7) |
| **Cash generated from operations before Scheme funding** | **70.9** | 17.8 |
| Transfer to restricted cash – Scheme funding | **–** | – |
| **Total net cash generated from operations after Scheme funding** | **70.9** | 17.8 |

### 30. Cash generated from operations (continued)
### (b) Analysis of cash flows relating to restricted funds

| | 2008 £m | 2007 £m |
|---|---|---|
| At 1 January 2008 | **39.1** | 40.1 |
| Payment of scheme creditors | **(3.4)** | (3.0) |
| Operating costs | **(0.2)** | (0.2) |
| Interest received | **2.0** | 2.2 |
| **At 31 December 2008** | **37.5** | 39.1 |

**Proceeds from sale of property, plant and equipment comprise:**

| | | |
|---|---|---|
| Net book amount | **1.9** | 1.2 |
| Profit on disposal of property, plant and equipment | **0.8** | 0.6 |
| Proceeds from disposal of property, plant and equipment | **2.7** | 1.8 |

Reconciliation of free cash flow to cash flow from operating activities as defined by IFRS 1

| | 2008 £m | 2007 £m |
|---|---|---|
| **Total net cash generated from operations after Scheme funding** | **70.9** | 17.8 |
| Increase in Industrial disease related provision | **(2.4)** | 2.9 |
| Industrial disease costs paid | **(3.6)** | (3.2) |
| Industrial disease income statement charge | **5.7** | 1.6 |
| Exceptional charge | **4.1** | 0.3 |
| **Operating cash flow**[1] | 74.7 | 19.4 |
| Interest paid | **(17.0)** | (6.2) |
| Bank fee paid | **(1.5)** | (2.6) |
| Amortisation of bank fee | **(0.7)** | (0.1) |
| Interest received (non scheme) | **0.6** | 1.2 |
| Tax | **(4.8)** | (3.3) |
| Capital expenditure – cash | **(19.9)** | (25.3) |
| Capital expenditure – finance leases | **(6.3)** | (6.3) |
| Cash received from sale of fixed assets | **2.7** | 1.8 |
| Exceptional costs paid | **(4.1)** | (0.3) |
| **Free cash flow**[2] | **23.7** | (21.7) |

**Group operating profit before other items**

| | | |
|---|---|---|
| From continuing operating activities | **65.0** | 38.7 |
| From discontinued operations | **(0.2)** | (0.7) |
| Group operating profit before other items | **64.8** | 38.0 |
| **Operating cash conversion**[3] | **115.3.%** | 51.1% |

1 Operating cash flow is defined as Group operating profit before other items adjusted for depreciation and working capital movements (excluding Scheme related working capital)
2 Free cash flow is defined as operating cash flow after interest, tax, net capital expenditure and exceptional items paid
3 Operating cash conversion is defined as operating cash flow divided by Group operating profit before other items

## 31. Business combinations

The Group made no acquisitions during 2008 except to acquire the remaining 3.06% of the share capital of PCH Group which took place on 17 January 2008.

During 2008 the Group took the opportunity to revisit the provisional fair values assigned to the assets of the five businesses acquired during 2007. No changes were made relating to the two UK acquisitions but the alteration of the fair values and the additional purchase consideration in the Australian acquisitions are set out below. As a result of the fair value adjustments the final goodwill arising on the Australian acquisitions was £148.0m.

### PCH Group Limited

Details of the net assets acquired and goodwill are as follows:

| | Original fair value £m | Adjustments £m | Final fair value £m |
|---|---|---|---|
| Purchase consideration: | | | |
| Cash paid | 106.0 | 3.6 | 109.6 |
| Direct costs relating to the acquisition | 2.5 | 0.1 | 2.6 |
| Total purchase consideration | 108.5 | 3.7 | 112.2 |
| Fair value of net assets acquired | 30.1 | (6.0) | 24.1 |
| **Goodwill** | **78.4** | **9.7** | **88.1** |

The assets and liabilities as of 26 November 2007 arising from the acquisition, together with the adjustments to the provisional fair values, are as follows:

| | Original fair value £m | Adjustments £m | Final fair value £m |
|---|---|---|---|
| Cash and cash equivalents | 0.6 | – | 0.6 |
| Property, plant and equipment | 47.1 | (4.8) | 42.3 |
| Customer relationships | 2.2 | – | 2.2 |
| Inventories | 1.7 | – | 1.7 |
| Trade and other receivables | 12.7 | (0.5) | 12.2 |
| Current tax | 0.5 | – | 0.5 |
| Trade and other payables | (7.2) | (1.7) | (8.9) |
| Bank overdrafts | (2.9) | – | (2.9) |
| Borrowings | (17.6) | – | (17.6) |
| Deferred tax | (6.0) | – | (6.0) |
| **Net assets** | 31.1 | (7.0) | 24.1 |
| Minority interests (3.06%) | (1.0) | 1.0 | – |
| **Net assets acquired** | 30.1 | (6.0) | 24.1 |
| | | | |
| Purchase consideration settled in cash | 108.5 | 3.7 | 112.2 |
| Cash, cash equivalents and bank overdraft in subsidiary acquired | 2.3 | – | 2.3 |
| **Cash outflow on acquisition** | 110.8 | 3.7 | 114.5 |

The 3.06% minority interest was acquired for cash of £3.6 million on 17 January 2008. This gave rise to goodwill of £2.6 million and eliminated the minority interest of £1.0 million.

The goodwill and other net assets of PCH Group Limited have been adjusted as a result of finalising their attributable fair values; as a result goodwill has increased by £6.0 million. The changes made to the balance sheet are shown above, the most significant fair value adjustment being the write down of scaffold equipment in overseas locations following a full stock take carried out post acquisition.

## 31. Business combinations (continued)

### TCC Group

Details of the net assets acquired and goodwill are as follows:

| | Original fair value £m | Adjustments £m | Final fair value £m |
|---|---|---|---|
| Purchase consideration: | | | |
| Cash paid | 25.3 | – | 25.3 |
| Direct costs relating to the acquisition | 0.7 | – | 0.7 |
| Fair value of shares issued | 8.1 | – | 8.1 |
| Deferred consideration | 0.8 | – | 0.8 |
| Total purchase consideration | 34.9 | – | 34.9 |
| Fair value of net assets acquired | 10.7 | (0.6) | 10.1 |
| **Goodwill** | **24.2** | **0.6** | **24.8** |

The assets and liabilities as of 31 August 2007 arising from the acquisition, together with the adjustments to the provisional fair values, are as follows:

| | Original fair value £m | Adjustments £m | Final fair value £m |
|---|---|---|---|
| Cash and cash equivalents | 1.2 | – | 1.2 |
| Property, plant and equipment | 3.9 | – | 3.9 |
| Customer relationships | 1.9 | – | 1.9 |
| Other favourable contracts | 2.0 | (0.5) | 1.5 |
| Inventories | 0.4 | – | 0.4 |
| Trade and other receivables | 12.1 | (0.1) | 12.0 |
| Current tax | (0.5) | – | (0.5) |
| Trade and other payables | (7.3) | – | (7.3) |
| Borrowings | (2.3) | – | (2.3) |
| Deferred tax | (0.7) | – | (0.7) |
| Net assets acquired | 10.7 | (0.6) | 10.1 |
| | | | |
| Purchase consideration settle in cash | 26.0 | – | 26.0 |
| Cash, cash equivalents and bank overdraft in subsidiary acquired | (1.2) | – | (1.2) |
| Cash outflow on acquisition | 24.8 | – | 24.8 |

The goodwill and other net assets of TCC Group Limited have been adjusted as a result of finalising their attributable fair values; as a result goodwill has increased by £0.6 million.

### 31. **Business combinations** (continued)
**Concept Hire**

Details of the net assets acquired and goodwill are as follows:

| | Original fair value £m | Adjustments £m | Final fair value £m |
|---|---|---|---|
| Purchase consideration: | | | |
| Cash paid | 44.9 | – | 44.9 |
| Direct costs relating to the acquisition | 1.3 | 0.1 | 1.4 |
| Total purchase consideration | 46.2 | 0.1 | 46.3 |
| Fair value of net assets acquired | 12.1 | (0.9) | 11.2 |
| **Goodwill** | **34.1** | **1.0** | **35.1** |

The assets and liabilities as of 16 October 2007 arising from the acquisition, together with the adjustments to the provisional fair values, are as follows:

| | Original fair value £m | Adjustments £m | Final fair value £m |
|---|---|---|---|
| Property, plant and equipment | 20.2 | (0.4) | 19.8 |
| Customer relationships | 0.5 | – | 0.5 |
| Technological assets | 0.3 | – | 0.3 |
| Inventories | 1.3 | – | 1.3 |
| Trade and other receivables | 8.5 | (0.5) | 8.0 |
| Current tax | 0.7 | – | 0.7 |
| Trade and other payables | (5.7) | – | (5.7) |
| Overdrafts | (0.5) | – | (0.5) |
| Borrowings | (10.3) | – | (10.3) |
| Deferred tax | (2.9) | – | (2.9) |
| Net assets acquired | 12.1 | (0.9) | 11.2 |
| | | | |
| Purchase consideration settle in cash | 46.2 | 0.1 | 46.3 |
| Cash, cash equivalents and bank overdraft in subsidiary acquired | 0.5 | – | 0.5 |
| Cash outflow on acquisition | 46.7 | 0.1 | 46.8 |

The goodwill and other net assets of Concept Hire have been adjusted as a result of finalising their attributable fair values; as a result goodwill has increased by £0.9 million.

## 32. Contingencies

(i) There is a history of industrial disease claims being lodged against the Group for a number of years. Where the Group has determined that it is appropriate to do so, settlement has been made. Based on this experience, it is likely that similar claims will continue to be received for the foreseeable future. However, there is significant uncertainty over the number, nature, timing and validity of such future claims. This is as a result of, inter alia, uncertainties concerning the population that may have been exposed to asbestos and that may develop asbestos-related diseases, the nature and timing of the diseases that may develop, the impact of other factors which might have contributed to the claimant's condition, changes in the legal environment and to the typical cost of settlement. These factors affect considerations of liability and the quantum of settlements. Experience to date is that some of these claims will be at least partially covered by insurance policies but the amount of cover will not be known until the details of the claims are available.

In order to provide for the long-term financing of a great majority of all future asbestos-related claims likely to be made successfully against the Group, Cape plc has put in place the Scheme details of which are set out in note 33. The Scheme became effective in relation to Cape plc and 12 of its wholly-owned subsidiaries on 14 June 2006. The Scheme companies are listed in note 33.

In accordance with the terms of the Scheme, the Directors have commissioned independent actuaries to review and provide an estimate of certain of the Group's unpaid and uninsured UK asbestos-related claims as at 31 December 2007. Estimates of unpaid asbestos-related claims are inherently uncertain. Although the review did not take account of all potential claims against the Group, it covers, in the opinion of the Directors, the overwhelming majority of all UK asbestos-related claims likely to be made against the Group. The actuaries' central estimate of the aggregate projected discounted value, net of insurance recoveries, of the unpaid UK asbestos-related claims they reviewed is £74.0 million (2007: £74.0 million). This estimate is contained within a range of low and high estimates of £48.0 million (2007: £48.0 million) and £203.0 million (2007: £203.0 million) respectively, although there can be no certainty that the total cost of such claims will fall within the range of such estimates. The discount rate applied is 5%. Claims not covered by the review include, inter alia, overseas claims and certain potential claims for reimbursement from insurers and others.

Given the wide range of the estimates and the significant degree of uncertainty surrounding them, the Directors take the view that the amount of the Group's overall obligation cannot be measured with sufficient reliability. Accordingly, the Group provides in the income statement each period for the estimated liability in respect of industrial disease claims lodged and outstanding at the period end. The accounting treatment of claims lodged and outstanding has not been changed as a result of the implementation of the Scheme. Upon consolidation, the potential liability shown in the Group balance sheet remains unchanged as a result of the implementation of the Scheme. However, the effect of the Scheme is to protect the Group to a significant extent from the risks of insolvency of the Scheme companies if there is a significant increase in either the number of claims or the quantum of damages or costs the Group has to settle or a material deterioration in the Group's trading performance which would otherwise have caused the Group to be unable to settle Scheme claims payable by it in full. Nevertheless, if it were possible to assess reliably the present value of amounts that might be paid in future settlements such that this was to be provided in the balance sheet, there would be a materially adverse effect on the Group's financial position. There is great uncertainty over the net present value of the future claim settlements. These could occur over a period of more than 40 years. However, in aggregate they are unlikely to exceed the amount of the net assets included in the current Group balance sheet. Based on the recent history of settlements, the Directors anticipate that, assuming there is no material deterioration in the Group's trading performance nor a significant increase in either the number of asbestos-related claims or the quantum of damages or costs the Group has to settle, nor any significant shortfall in the recoveries that the Directors expect the Group to make from its insurers and under third party indemnities and the Scheme fund achieves investment returns in line with current expectations, the Group will be able to ensure that (i) its newly formed subsidiary Cape Claims Services Limited ('CCS') will be sufficiently funded to satisfy all Scheme claims and (ii) the Group will be sufficiently funded to satisfy any UK asbestos-related claims falling outside the Scheme. Should the future pattern as regards timing and quantum of claims prove to be materially and adversely different from the historic trend, there could be a material adverse effect on the Group's financial position.

(ii) The Company was the defendant in proceedings brought by some 7,500 South African residents who claimed that they suffered injury as the result of mining activities in South Africa undertaken by former subsidiaries of Cape plc. The Company entered into an agreement on 13 March 2003 with the claimants in the group action and new claimants who had come forward in 2002.

It is possible that claims could arise in the future from claimants who were not included in the group action, or who claim they have developed an asbestos-related disease since the date of the settlement and as a result of the Group's former mining activities in South Africa. There is a significant uncertainty as to whether such future claims will be made and as to the number, nature, timing and validity of such claims. However, no such claims have been received to date.

(iii) Certain companies in the Group continue to be named, along with several asbestos fibre and asbestos product suppliers, as defendants in a number of legal actions in North America. The plaintiffs in such actions are claiming substantial damages as a result of the use of these products. The Company has received legal advice in the UK that default judgments obtained in North America against Companies within the Group which are not present in North America, would not be enforceable in the UK. Consequently the Directors believe that the above-mentioned matters are unlikely to have a material effect on the Group's financial position.

# Notes to the financial statements continued

(iv) The Company's subsidiary, Cape Industrial Services Limited, together with other companies involved in offshore contracting work, is a defendant in proceedings before the Employment Tribunal under the Working Time Regulations 1998 brought by a small number of employees claiming that their paid annual leave should be taken from scheduled working time. If successful, the claimants (and other affected employees who are not party to the proceedings) could be entitled to compensation. Under the terms of certain of its contracts, Cape Industrial Services Limited would be entitled to additional payment from its clients. There is significant uncertainty as to whether the claimants will succeed and, if they do, as to the number of affected employees, the amount of any compensation that would be awarded and the extent to which it could be recovered under relevant contracts.

(v) There are a number of leasehold properties in respect of which the Group is liable for dilapidations, and rent in the event of default by its sub-tenants. Given the nature of these arrangements it is difficult to assess the potential liability with certainty and as a consequence contingent liabilities may exist. The Directors believe that any such contingent amounts would not have a material effect on the Group's financial position.

(vi) The Group has contingent liabilities in respect of guarantees and bonds entered into in the normal course of business, in respect of which no loss is expected.

**33. The Scheme of arrangement**

On 14 June 2006, the Scheme became effective and binding upon Cape plc and the following 12 of its wholly-owned subsidiaries:

Cape Building Products Limited
Cape Calsil Systems Limited
Cape Contracts International Limited
Cape Durasteel Limited
Cape East Limited
Cape Industrial Services Limited
Cape Industries Limited
Cape Insulation Limited
Cape Specialist Coatings Limited
Predart Limited
Somewatch Limited
Somewin Limited

The detailed terms of the Scheme are set out in the Scheme itself, a copy of which has been filed with the Registrar of Companies, the Articles of Association of Cape and CCS and a number of other ancillary agreements. The effect of the Scheme as a whole can be summarised as follows:

(a) While Scheme creditors retain their rights against Scheme companies, and may bring proceedings against Scheme companies for declaratory relief to determine whether they have a claim and, if so, of what amount, their rights, subject as provided in sub paragraphs (k) and (m) below are only enforceable against CCS under the terms of the Scheme guarantee;

(b) CCS was funded in the first instance with a sum of £40 million which represented what was considered to be a sufficient sum to discharge CCS's liabilities to Scheme creditors which became payable over at least eight years from 1 January 2006;

(c) Every three years there is an assessment of the projected Scheme claims against Scheme companies payable by CCS over the following nine years, by reference to which the Funding Requirement, is established;

(d) The use of Scheme funds is restricted to the payment of established Scheme claims and Scheme creditor costs;

(e) In the event that an assessment reveals a shortfall between the Scheme assets and the Funding Requirement, the Company will top up CCS's funding over the following three years provided that sufficient cash is available, Cape's obligation being limited to 70% of the Group's consolidated adjusted operational cash flow (including, for example, adjustments to take account of acquisitions, an element of capital expenditure and repayment of borrowing facilities);

(f) Should the Company not be able to meet its top up obligation in any one year, it will be required to make good the shortfall in the next year, again subject to sufficient cash being available;

(g) Alongside the Funding Requirement there is the Scheme Funding Requirement which is assessed every year by reference to projected Scheme claims against Scheme companies payable by CCS over the next six years;

(h) If at any time the ratio of the Scheme assets to the Scheme Funding Requirement (the Scheme Funding Percentage) falls below 60%, CCS will have the ability to reduce the percentage (the Payment Percentage) of each established claim which it pays to Scheme creditors until such time as the Scheme Funding Percentage is restored to 60%;

(i) Cape is permitted to pay dividends provided that at the time of payment (i) the Scheme Funding Percentage in relation to the last preceding financial year was certified to be not less than 110%, (ii) the Directors of Cape certify that they anticipate that the Scheme Funding Percentage for the current and following financial year will be not less than 110% and (iii) the Payment Percentage has not at any time within the previous 40 business days been below 100%. Any distribution which Cape proposes to make to its shareholders may not, without the consent of the Scheme Shareholder, exceed the greater of (i) 50% of the consolidated operating profits of the Group for the last preceding Financial Year and (ii) the aggregate of any permitted dividends made in the preceding financial year. This restriction therefore places a cap on the amount of dividends that the Company may pay in any one year;

(j) There have been established special voting shares (the Scheme Shares) in CCS and Cape which are held by an independent third party (the Scheme Shareholder) on trust for Scheme creditors. The Scheme Shares have special rights which are designed to enable the Scheme Shareholder to protect the interests of Scheme creditors;

**33. The Scheme of arrangement** (continued)

(k) In the case of certain Scheme creditors (Recourse Scheme Creditors), who are those Scheme creditors whose claims are in whole or in part the subject of a contract of insurance (Recourse Scheme Claims) their rights to enforce their Recourse Scheme Claims against a relevant Scheme company will revive in certain circumstances. These circumstances are where the relevant Scheme company is insolvent or where there has been a specified reduction in the Payment Percentage and if the Scheme creditor was able to bring about the insolvency of the relevant Scheme company he would be able to recover greater compensation from the FSCS ('Financial Services Compensation Scheme') or, in certain circumstances, from a solvent insurer than is available from CCS at that time under the Scheme. There will be a specified reduction if either (i) the Payment Percentage has been reduced below 100% but above 50% and the Scheme creditor has not been paid in full after 12 months or (ii) the Payment Percentage is reduced to 50% or below;

(l) Each Scheme company will agree to hold on trust for any Scheme creditor concerned the proceeds of any policy of insurance (or any compensation received from the FSCS) referable to that Scheme claim;

(m) The restriction described in sub-paragraph (a) above will not apply to proceedings to enforce the right to confer under sub-paragraph (l) above; and

(n) There are provisions contained in two reimbursement agreements which preserve certain rights of proof by CCS and Cape respectively in any insolvency of Cape or any of the other Scheme companies.

**34. Related party transactions**

The Company has taken advantage of the exemption available under IAS 24 not to disclose any transactions or balances between Group entities that have been eliminated on consolidation.

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **(a) Key management compensation** | | |
| Salaries and other short-term employee benefit | **2,021** | 1,405 |
| Post-employment benefits | **149** | 78 |
| Share based payments | **295** | 259 |
| | **2,465** | 1,742 |
| **(b) Directors** | | |
| Aggregate emoluments | **1,512** | 1,246 |
| Company contributions to defined benefit pension scheme | **11** | 27 |
| Company contributions to defined contribution pension scheme | **91** | 51 |
| | **1,614** | 1,324 |
| **Highest paid director** | | |
| Aggregate emoluments | **933** | 735 |
| Defined contribution pension scheme: | | |
| Contributions in year | **65** | 51 |

The key management of the Group are considered to be the Group Directors and the members of the senior Group management team.

Retirement benefits are accruing to one (2007: one) Director under the Group's defined benefit pension scheme.

During the year, a termination payment of £0.4m (2007: £nil) was paid to one Director for compensation for loss of office.

**(c) Other related party transactions**

There have been no material transactions with related parties during the year. As at the year end there was a balance of £0.2 million balance (2007: £0.2 million) owed by Cape Perlite Systems for a transaction which occurred in 2006.

**35. Post balance sheet event**

There have not been any significant events after the year end.

# Independent auditors' report to the members of Cape plc

We have audited the Parent Company financial statements of Cape plc for the year ended 31 December 2008 which comprise the Balance Sheet and the related notes. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Cape plc for the year ended 31 December 2008. That report is modified by the inclusion of an emphasis of matter.

**Respective responsibilities of Directors and auditors**
The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Parent Company financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement, Chief Executive's review, Operating and financial review, Five year financial summary and Risks and uncertainties review cross referred from the Business review and Group results section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the Chairman's statement, Chief Executive's review, Directors report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

**Opinion**
In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;

- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the Parent Company financial statements.

**Emphasis of matter – Contingent liability for industrial disease claims**
In forming our opinion on the Parent Company financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 12 to the Parent Company financial statements concerning the impact of, and accounting for, potential future claims for industrial disease compensation. An independent actuarial estimate of the range of certain potential liabilities has been performed. However, given the wide range of the estimates and significant degree of uncertainty surrounding them, it is not possible for the directors to quantify, with sufficient reliability, the amount required to settle future claims and accordingly claims are generally accounted for on the basis of claims lodged or settlements reached and outstanding at the balance sheet date. However, if it were possible to assess reliably the present value of the amount required to settle future claims such that this was provided in the balance sheet, there would be a materially adverse effect on the Company's financial position.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Leeds
15 April 2009

# Parent Company balance sheet (UK GAAP)
at 31 December 2008

| | Notes | 2008 £m | 2007 restated £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **31.3** | 31.3 |
| | | **31.3** | 31.3 |
| **Current assets** | | | |
| Debtors | 5 | **137.9** | 180.3 |
| Cash at bank and in hand | | **0.4** | 5.6 |
| | | **138.3** | 185.9 |
| **Creditors: amounts falling due within one year** | | | |
| Short-term borrowings | 7 | **(32.1)** | (20.0) |
| Other creditors | 7 | **(1.5)** | (4.0) |
| Derivative financial liabilities | 7 | **(6.9)** | – |
| | | **(40.5)** | (24.0) |
| **Net current assets** | | **97.8** | 161.9 |
| **Total assets less current liabilities** | | **129.1** | 193.2 |
| **Creditors: amounts falling due after more than one year** | 8 | **(114.5)** | (148.7) |
| **Provisions for liabilities and charges** | 9 | **(8.5)** | (7.6) |
| **Net assets excluding pension liability** | | **6.1** | 36.9 |
| Pension liability | | **(0.3)** | (0.3) |
| **Net assets including pension liability** | | **5.8** | 36.6 |
| **Capital and reserves** | | | |
| Called up share capital | 10 | **33.1** | 32.8 |
| Share premium | 11 | **8.4** | 7.5 |
| Special reserve | 11 | **1.0** | 1.0 |
| Retained deficit | 11 | **(36.7)** | (4.7) |
| **Total shareholders' funds** | | **5.8** | 36.6 |

These accounts were approved by the Board of Directors on 15 April 2009 and were signed on its behalf by:

**Sean O'Connor** Chairman
**Richard Bingham** Chief Financial Officer

The notes and information on pages 84 to 89 form part of these accounts.

## 1. Accounting policies

### (a) Basis of preparation

The financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom and are therefore being presented separately from the consolidated financial statements of Cape plc, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. In accordance with FRS 1 (revised 1996) and FRS 8 the Company has taken advantage of the exemptions not to prepare a cash flow statement and not to disclose transactions with related parties. FRS 29 'Financial instruments: Disclosures' became effective from 1 January 2008. As the consolidated financial statements have been prepared in accordance with IFRS 7, the Company is exempt from the disclosure requirements of FRS 29. Other new accounting standards issued by the Accounting Standards Board and effective from 1 January 2008 have had no impact on the accounts of the Company.

### (b) Fixed asset investments

During 2008 the accounting policy whereby investments were previously revalued each year has been changed and as such investments are now held at cost less impairment. Due to the material nature of the affect of the change in policy the 2007 results have been restated. Details of the prior year adjustment are included in note 4 to these accounts.

### (c) Use of estimates and assumptions

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in individual accounting policies.

Key sources of estimation uncertainty that could cause an adjustment to be required to the carrying amount of asset or liabilities within the next accounting period are:

- estimation of liabilities for pension and other post retirement costs;
- liabilities in relation to industrial disease claims;
- liabilities in relation to central provisions; and
- recoverability of deferred tax assets.

### (d) Compensation for industrial disease

Provision is made for compensation for industrial disease where it is possible to estimate the liability with sufficient reliability. This is generally only currently possible in respect of claims lodged and outstanding at the period end. Where this is not possible, a contingent liability is noted. Benefit is recognised for insurance recoveries for claims provided when they are anticipated with virtual certainty.

### (e) Provisions

Provisions for liabilities, except for those for industrial disease, are made where the timing or amount of settlement is uncertain. A provision is recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

### (f) Deferred income taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax in the future. Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted, or where there are deferred tax liabilities against which the assets can be recovered. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### (g) Borrowings

Borrowings are recognised initially at the amount of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

Cumulative preference shares are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (h) Cash at bank and in hand

Cash at bank and in hand include cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**(i) Share capital**
Ordinary shares and deferred shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(j) Share based payments**
The Company issues equity settled share based payments to certain employees which must be measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards subject to the Company's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met.

Proceeds received on the exercise of share options are credited to share capital and share premium.

**(k) Pensions**
The Group operates two major pension schemes in the UK, one is a defined benefit scheme and the other is a defined contribution scheme. The assets of the plan are held separately from those of the Company in an independently administered fund.

**Defined benefit plan**
The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by FRS 17, accounts for the plan as if it were a defined contribution plan. The consolidated financial statements include full disclosures of the UK defined benefit plan in accordance with IAS 19 which is similar to FRS 17 (note 24).

**Defined contribution plan**
Payments to the defined contribution plan are charged as an expense as they fall due.

## 2. Loss of the Company
The retained loss for the financial year attributable to the Company was £24.0 million (2007: £12.3 million).

Auditor remuneration is disclosed in note 9 to the Group accounts.

## 3. Employee and Directors
Details of Directors' emoluments are shown in note 34 to the Group accounts.

**(a) Average number of employees (including Executive Directors)**

| | 2008 | 2007 |
|---|---|---|
| Number of employees | **21** | 24 |

**(b) Employment costs, including Directors' emoluments**

| | 2008 £m | 2007 £m |
|---|---|---|
| Wages and salaries | **3.9** | 2.1 |
| Social security | **0.6** | 0.2 |
| Other pension costs | **0.2** | 0.2 |
| Cost of employee share scheme | **0.7** | 0.3 |
| | **5.4** | 2.8 |

Details of share based payments are disclosed in note 28 to the Group accounts.

## 4. Fixed asset investments

| | 2008 £m | 2007 restated £m | 2007 £m |
|---|---|---|---|
| Cost (valuation in 2007) | **66.6** | 66.6 | 98.1 |
| Aggregate amounts provided | **(35.3)** | (35.3) | 0.5 |
| Unrealised gain on revaluation | **–** | – | 39.7 |
| Net book value | **31.3** | 31.3 | 138.3 |

The principal subsidiary undertakings at 31 December 2008, which are all included in the Group consolidated financial statements, are shown on page 91.

## Parent Company
## Notes to the financial statements (UK GAAP) continued

### 4. Fixed asset investments (continued)

In prior years the Company followed a policy whereby investments were revalued each year to the net asset value of the Company's subsidiaries with changes above and below cost dealt with through the revaluation reserve and profit and loss account accordingly. In 2008 the Company Directors made the decision to change this policy to instead hold the investments at cost less provision for impairment. As a result comparative figures have been restated with the impact of reducing net assets of the Company by £103.2m. There is no impact on the profit and loss account.

The Directors made the decision to change the accounting policy as they believe that the new policy results in the accounts more accurately reflecting the true position of the business.

The change in accounting policy resulted in the following restatement to the 2007 balances:

| | 2007 £m |
|---|---|
| Gross valuation of investments | 170.3 |
| Provision for impairment | (32.0) |
| Carrying value in 2007 before restatement | 138.3 |
| Reversal of unrealised revaluation gain – shares | (99.9) |
| Reversal of unrealised revaluation gain – loans | (3.8) |
| Prior period investment impairment | (3.3) |
| Restated 2007 carrying value | 31.3 |

### 5. Debtors

| | Note | 2008 £m | 2007 restated £m | 2007 £m |
|---|---|---|---|---|
| Amounts owed by Group undertakings | | **128.6** | 176.5 | 172.7 |
| Other debtors | | **1.5** | 0.5 | 0.5 |
| UK taxation | | **3.6** | 2.0 | 2.0 |
| Prepayments and accrued income | | **–** | 0.5 | 0.5 |
| Deferred tax | 6 | **4.2** | 0.8 | 0.8 |
| | | **137.9** | 180.3 | 176.5 |

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 6. Deferred taxation

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Deferred taxation asset comprises: | | | |
| Short-term timing differences | | **4.2** | 0.8 |
| | | **4.2** | 0.8 |
| Net deferred taxation asset | | | |
| At 1 January | | **0.8** | (2.7) |
| Amount credited/(debited) to profit and loss account | | **0.1** | (1.1) |
| Amount credited to reserves | 11 | **3.3** | 4.6 |
| **At 31 December** | | **4.2** | 0.8 |

### 7. Creditors: amounts falling due within one year

| | 2008 £m | 2007 £m |
|---|---|---|
| Bank loans | **15.0** | 20.0 |
| Bank overdrafts | **17.1** | – |
| Short-term borrowings | **32.1** | 20.0 |
| Payroll and other taxes, including social security | **0.4** | 0.1 |
| Other creditors | **0.3** | 1.0 |
| Accruals and deferred income | **0.8** | 2.9 |
| | **1.5** | 4.0 |
| Derivative financial liabilities | **6.9** | – |
| **Total amounts falling due within one year** | **40.5** | 24.0 |

Details of the derivative financial liabilities are disclosed in note 21 to the Group accounts.

## 8. Creditors: amounts falling due after more than one year

| | 2008 £m | 2007 £m |
|---|---|---|
| Bank loans | **114.2** | 148.4 |
| Cumulative preference shares | **0.3** | 0.3 |
| **Total amounts falling due after more than one year** | **114.5** | 148.7 |

The bank loans and overdrafts are secured by fixed and floating charges over the assets of the Group.

### 3.5% cumulative preference shares

The Company has in issue 250,000 cumulative preference shares of £1 each with a fixed cumulative preferential dividend of 3.5% per annum, payable half yearly in arrears on 31 March and 30 September. Over the last five years the dividends have been deferred and the shares have no redemption entitlement.

## 9. Provisions for liabilities and charges

| | Total £m | Compensation for industrial disease (i) £m | Other provisions (ii) £m |
|---|---|---|---|
| At 1 January 2008 | 7.6 | 3.6 | 4.0 |
| Charged/(credited) to the income statement: | | | |
| – Additional provisions | 3.3 | 3.1 | 0.2 |
| Utilised during year | (2.4) | (2.0) | (0.4) |
| **At 31 December 2008** | **8.5** | **4.7** | **3.8** |

Due to the inherent uncertainty regarding the timing of settlement all provisions have been classed as non current.

(i) The provision for industrial disease represents the expected costs of settling notified claims. It is anticipated that most of these claims will be paid within the next two years. The charge to profit for the compensation for industrial disease in the year net of insurance recoveries is £3.3 million (2007: £0.5 million). The provision charge is recognised within net operating expenses. Insurance recoveries of £0.7 million (2007: £0.3 million) are receivable against certain of these claims and are included in other debtors in the Parent Company balance sheet. The basis for the provision and the contingent liability in respect of future settlements is described in note 32 (i) to the Group accounts.

(ii) Other provisions relate to the decision made in 2002 to sell and close the Calsil business and provisions for property dilapidations and national insurance on share options.

## 10. Share capital

| (a) Authorised | 2008 £m | 2007 £m |
|---|---|---|
| 153,600,000 ordinary shares of 25p each (2007: 153,600,000 ordinary shares of 25p) | **38.4** | 38.4 |
| 431,906,031 deferred shares of 1p each (2007: 431,906,031) | **4.3** | 4.3 |
| 1 plc scheme share (2007: 1) | – | – |
| | **42.7** | 42.7 |

| (b) Called up, fully paid and allotted | 2008 £m | 2007 £m |
|---|---|---|
| 114,989,087 ordinary shares of 25p each (2007: 113,837,618 ordinary shares of 25p) | **28.8** | 28.5 |
| 431,906,031 deferred shares of 1p each (2007: 431,906,031) | **4.3** | 4.3 |
| 1 plc scheme share (2007: 1) | – | – |
| | **33.1** | 32.8 |

For details of the rights of each class of the Company's shares and the Company's employee share option schemes refer to note 28 to the Group accounts.

## Parent Company
## Notes to the financial statements (UK GAAP) continued

### 11. Capital and reserves

| | Total £m | Share capital £m | Share premium £m | Revaluation reserve £m | Special reserve £m | Retained deficit £m |
|---|---|---|---|---|---|---|
| At 1 January 2007 | 40.7 | 25.2 | 25.0 | 60.2 | – | (69.7) |
| Unrealised gain on revaluation of investments | 39.7 | – | – | 39.7 | – | – |
| Issue of share capital | 78.1 | 7.4 | 70.7 | – | – | – |
| Issue expenses | (2.1) | – | (2.1) | | – | – |
| Removal of pension scheme asset | (6.8) | – | – | – | – | (6.8) |
| Capital reduction | – | – | (86.3) | – | 1.0 | 85.3 |
| Exchange gain | 1.8 | – | – | – | – | 1.8 |
| Loss for the year | (12.3) | – | – | – | – | (12.3) |
| Share options | | | | | | |
| – proceeds from shares issued | 0.4 | 0.2 | 0.2 | – | – | – |
| – value of employee services | 0.3 | – | – | – | – | 0.3 |
| At 31 December 2007 | 139.8 | 32.8 | 7.5 | 99.9 | 1.0 | (1.4) |
| | | | | | | |
| At 1 January 2007 | 40.7 | 25.2 | 25.0 | 60.2 | – | (69.7) |
| Unrealised gain on revaluation of investments | 39.7 | – | – | 39.7 | – | – |
| Change to revaluation policy | (103.2) | – | – | (99.9) | – | (3.3) |
| Issue of share capital | 78.3 | 7.6 | 70.7 | – | – | – |
| Issue expenses | (2.1) | – | (2.1) | | – | – |
| Removal of pension scheme asset | (6.8) | – | – | – | – | (6.8) |
| Capital reduction | – | – | (86.3) | – | 1.0 | 85.3 |
| Exchange gain | 1.8 | – | – | – | – | 1.8 |
| Loss for the year | (12.3) | – | – | – | – | (12.3) |
| Share options | | | | | | |
| – proceeds from shares issued | 0.2 | – | 0.2 | – | – | – |
| – value of employee services | 0.3 | – | – | – | – | 0.3 |
| At 31 December 2007 (restated) | 36.6 | 32.8 | 7.5 | – | 1.0 | (4.7) |
| | | | | | | |
| At 1 January 2008 (restated) | **36.6** | **32.8** | **7.5** | – | **1.0** | **(4.7)** |
| Cash flow hedges – fair value losses in the period | **(6.5)** | – | – | – | – | **(6.5)** |
| Net investment hedges | | | | | | |
| – fair value losses in the period | **(5.5)** | – | – | – | – | **(5.5)** |
| Deferred tax on hedges | **3.3** | – | – | – | – | **3.3** |
| Loss for the year | **(24.0)** | – | – | – | – | **(24.0)** |
| Share options | | | | | | |
| – proceeds from shares issued | **1.2** | **0.3** | **0.9** | – | – | – |
| – value of employee services | **0.7** | – | – | – | – | **0.7** |
| **At 31 December 2008** | **5.8** | **33.1** | **8.4** | – | **1.0** | **(36.7)** |

The opening balances for 2007 have been restated to reflect the change in accounting policy regarding the revaluation of investments. Further details are disclosed in note 4.

## 12. Contingencies

(i) Full disclosure in respect of the contingent liability for industrial disease claims is detailed in note 32 to the Group accounts.

(ii) The Company was the defendant in proceedings brought by some 7,500 South African residents who claimed that they suffered injury as the result of mining activities in South Africa undertaken by former subsidiaries of Cape plc. The Company entered into an agreement on 13 March 2003 with the claimants in the group action and new claimants who had come forward in 2002.

It is possible that claims could arise in the future from claimants who were not included in the group action, or who claim they have developed an asbestos-related disease since the date of the settlement and as a result of the Group's former mining activities in South Africa. There is a significant uncertainty as to whether such future claims will be made and as to the number, nature, timing and validity of such claims. However, no such claims have been received to date.

(iii) The Company continues to be named, along with several asbestos fibre and asbestos product suppliers, as defendants in a number of legal actions in North America. The plaintiffs in such actions are claiming substantial damages as a result of the use of these products. The Company has received legal advice in the UK that default judgments obtained in North America against Companies within the Group which are not present in North America, would not be enforceable in the UK. Consequently the Directors believe that the above-mentioned matters are unlikely to have a material effect on the Company's financial position.

(iv) The Company's subsidiary, Cape Industrial Services Limited, together with other companies involved in offshore contracting work, is a defendant in proceedings before the Employment Tribunal under the Working Time Regulations 1998 brought by a small number of employees claiming that their paid annual leave should be taken from scheduled working time. If successful, the claimants (and other affected employees who are not party to the proceedings) could be entitled to compensation. Under the terms of certain of its contracts, Cape Industrial Services Limited would be entitled to additional payment from its clients. There is significant uncertainty as to whether the claimants will succeed and, if they do, as to the number of affected employees, the amount of any compensation that would be awarded and the extent to which it could be recovered under relevant contracts.

(v) There are a number of leasehold properties in respect of which the Company is liable for dilapidations, and rent in the event of default by its sub-tenants. Given the nature of these arrangements it is difficult to assess the potential liability with certainty and as a consequence contingent liabilities may exist. The Directors believe that any such contingent amounts would not have a material effect on the Company's financial position.

(vi) The Company has contingent liabilities in respect of guarantees and bonds entered into in the normal course of business, in respect of which no loss is expected.

# Five year financial summary

In accordance with current reporting practice a five year record is provided of the performance of the Group.

| | IFRS Year ended 31 December 2008 £m | IFRS Year ended 31 December 2007 £m | IFRS Year ended 31 December 2006 £m | UK GAAP Year ended 31 December 2005 £m | UK GAAP Year ended 31 December 2004 £m |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| **Continuing operations** | | | | | |
| Revenue | **622.7** | 428.8 | 274.0 | 229.8 | 238.9 |
| Group operating profit before other items | **65.0** | 38.7 | 18.3 | 12.4 | 9.5 |
| Amortisation of intangibles | **(2.7)** | (1.0) | (0.1) | – | – |
| Industrial disease costs | **(5.7)** | (1.6) | (3.4) | (4.6) | (3.7) |
| Exceptional items | **(4.1)** | (0.3) | 1.0 | (9.7) | (1.1) |
| Group operating profit/(loss) | **52.5** | 35.8 | 15.8 | (1.9) | 4.7 |
| Profit/(loss) before tax | **37.8** | 33.0 | 15.6 | (1.0) | 5.8 |
| **Profit/(loss) from continuing operations** | **31.9** | 27.6 | 13.6 | (0.3) | 5.3 |
| **Discontinued operations** | **(0.2)** | (0.7) | 1.1 | 0.3 | 0.5 |
| **Profit for the year** | **31.7** | 26.9 | 14.7 | – | 5.8 |
| Attributable to: | | | | | |
| Equity shareholders | **30.6** | 26.9 | 14.7 | – | 5.8 |
| Minority interest | **1.1** | – | – | – | – |
| **Balance Sheet** | | | | | |
| Non current assets | **352.9** | 299.4 | 60.4 | 35.5 | 27.5 |
| Net current assets | **84.5** | 70.6 | 58.0 | 49.6 | 25.0 |
| Non current liabilities | **(191.2)** | (189.3) | (43.2) | (20.9) | (21.6) |
| **Net assets** | **246.2** | 180.7 | 75.2 | 64.2 | 30.9 |
| Earnings per share | | | | | |
| – Basic | **26.7p** | 26.0p | 17.6p | – | 10.7p |
| – Diluted | **26.3p** | 25.5p | 17.3p | – | 10.6p |

The amounts disclosed for 2005 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS.

| | 2008 £m | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|---|
| **Key performance indicators (KPIs)** | | | | | |
| Adjusted operating profit margin (%) | **10.4** | 9.0 | 6.6 | 5.4 | 4.0 |
| Return on managed assets (%) | **31.6** | 32.0 | 34.8 | 25.1 | 21.2 |
| Operating cash conversion (%)* | **115.3** | 51.5 | N/A | N/A | N/A |
| Lost Time Incidents (per 100,000 hours) | **0.08** | 0.10 | 0.08 | 0.07 | 0.16 |

**KPIs: definitions and analysis**

**Adjusted operating profit margin**

Defined as Group operating profit before other items expressed as a percentage of revenue. The continued improvement in the margin over the last five years represents the change in operations, including the exit from the manufacturing activities and increased international operations.

**Return on managed assets**

Defined as Group operating profit before other items expressed as a percentage of average managed assets**. The 2008 return is indicative of the significant investment in the business over the last 18 months, including in Australia with the 50,000 tonnes of equipment acquired through the acquisition of PCH and Concept Group.

**Operating cash conversion**

This is defined as operating cash flow divided by Group operating profit before other items (see note 30 to the Group financial statements). Operating cash conversion has been used by the Directors as a key measure to monitor the Group performance over the last 12 months and will be closely monitored going forward. The conversion rate in 2008 demonstrates the effectiveness of the Group in turning profit into cash.

**Lost Time Incidents (LTI)**

Number of incidents per 100,000 man hours worked. Cape considers safety as a key part of the Group strategy and the improvement in the safety record demonstrates the achievements in this area.

* Cash conversion has only been considered as a KPI for the last 12 months

** Managed assets are property plant and equipment, inventories, trade and other receivables and trade and other payables.

# Principal subsidiary undertakings
## As at 31 December 2008

The Group's principal subsidiaries and joint ventures are detailed below:

| Name of subsidiary or joint venture | Country of incorporation or registration | Ownership interest % | Principal activity |
|---|---|---|---|
| **UK** | | | |
| Cape Industrial Services Limited | UK | 100 | Industrial Services excluding industrial cleaning |
| DBI Industrial Services Limited | UK | 100 | Specialist industrial cleaning |
| Cape Claims Services Limited | UK | 100 | Holding Company |
| Cape Property Holdco Limited | UK | 100 | Holding Company |
| **Gulf/Middle East** | | | |
| Cape East (UK) AlBahrain Holding SPC | Bahrain | 100 | Holding Company |
| R B Hilton Limited | Bahrain | 100 | Industrial Services |
| Cape East General Contracting Company | Kuwait | 49 | Industrial Services |
| Cape East & Partners LLC | Oman | 65 | Industrial Services |
| Cape East WLL | Qatar | 49 | Industrial Services |
| Cape Industrial Company Ltd | Saudi Arabia | 100 | Industrial Services |
| R B Hilton Saudi Arabia Limited | Saudi Arabia | 100 | Industrial Services |
| Cape East Limited WLL | UAE | 49 | Industrial Services |
| **CIS, Mediterranean & North Africa** | | | |
| Cape Export Sales Limited | Malta | 100 | Industrial Services |
| Cape Industrial Services (Sakhalin) LLC | Russia | 100 | Industrial Services |
| **Far East/Pacific Rim** | | | |
| Cape East Philippines Inc | Philippines | 100 | Industrial Services |
| Cape East Pte Ltd | Singapore | 100 | Industrial Services |
| Cape East (Thailand) Limited | Thailand | 100 | Industrial Services |
| Cape Australia Holdings Pty Limited | Australia | 100 | Industrial Services |
| Cape Australia Investments Limited | Australia | 100 | Industrial Services |
| Total Corrosion Control Pty Ltd | Australia | 100 | Industrial Services |
| PCH Group Limited | Australia | 100 | Industrial Services |
| Concept Hire Limited | Australia | 100 | Industrial Services |

Industrial Services can include multi-user work access systems, insulation, fire protection, abrasive blasting, refractory, asbestos removal, coatings, cleaning, training and other essential non-mechanical services.

Notes:
1. The principal subsidiary undertakings listed are those whose results, in the opinion of the Directors, principally affected the revenue or assets of the Group. The subsidiary undertakings operate principally in the countries in which they are incorporated.
2. There are no subsidiary undertakings that have been excluded from the consolidation.

# Directors, officers and advisers

**Sean O'Connor**[1,3,4]
Non-Executive Chairman

**Martin May**
Chief Executive

**Richard Bingham**
Chief Financial Officer

**David Robins**[1,2,3,4,5]
Non-Executive Director

**David McManus**[1,2,3,4]
Non-Executive Director

**Jeremy Gorman**
Group Company Secretary

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1 Non-Executive
2 Audit Committee
3 Remuneration Committee
4 Nomination Committee
5 Senior Independent Non-Executive Director

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