

Chief Financial Officer's review

Cape delivered a robust financial performance in 2010 with a 13.8% increase in adjusted PBT⁽¹⁾ and a 13.6% increase in adjusted diluted EPS



Richard Bingham
Chief Financial Officer

For the 12 months ended 31 December

| Region | Revenue (£m) | | EBITA ⁽¹¹⁾ (£m) | | % change |
|-----------------------------------|--------------|--------------|----------------------------|-------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | |
| UK | 273.4 | 304.7 | 28.0 | 25.4 | 10.2% |
| Gulf/Middle East | 137.7 | 170.7 | 35.4 | 38.6 | (8.3)% |
| CIS, Mediterranean & North Africa | 51.0 | 48.4 | 7.8 | 6.1 | 27.9% |
| Far East/Pacific Rim | 188.0 | 131.3 | 14.8 | 7.9 | 87.3% |
| Total before central costs | 650.1 | 655.1 | 86.0 | 78.0 | 10.3% |
| Income from joint venture | – | – | (0.1) | 1.6 | |
| Central costs | – | – | (7.8) | (7.4) | |
| Total | 650.1 | 655.1 | 78.1 | 72.2 | 8.2% |

Total adjusted PBT⁽¹⁾ increased by 13.8% to £69.1 million (2009: £60.7 million) from revenues of £650.1 million (2009: £655.1 million). This improvement was driven by an 8.2% increase in EBITA⁽¹¹⁾ to £78.1 million (2009: £72.2 million) combined with a reduced finance charge.

Adjusted diluted earnings per share⁽³⁾ increased by 13.6% to 42.6p (2009: 37.5p). Basic earnings per share increased to 42.6p (2009: loss per share of 3.5p).

The profit after tax of £52.6 million compares with a loss of £1.5 million in 2009 reflecting the booking of the discounted, post tax, industrial disease provision of £50.8 million.

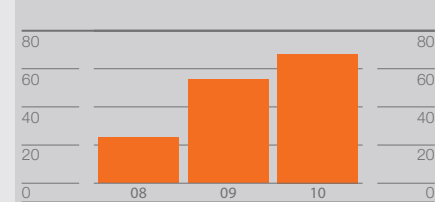
These headline results have again benefitted from favourable exchange movements and in particular the strength of the Australian dollar relative to sterling. The overall foreign exchange impact has been to increase revenues by £22.4 million or 3.6% and adjusted operating profits by £2.2 million, equivalent to 1.3p per share.

Operating and free cash flow

The Group's strong operating cash generation continued throughout the year with full year cash generated from operations of £98.5 million (2009: £84.4 million) representing an operating cash conversion rate⁽⁵⁾ of 103.1% (2009: 95.9%). After servicing

of debt, taxation and capital expenditure the Group's free cash flow⁽⁴⁾ was £68.0 million (2009: £57.9 million). See figure 1.

Figure 1. Free Cash Flow (£m)



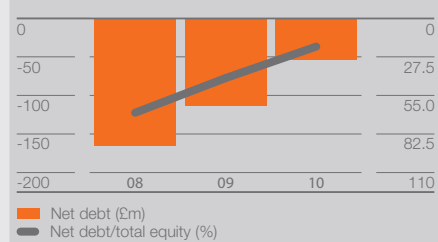
The net finance charge (excluding interest earned on the restricted IDC Scheme funds and the unwind of the discount relating to future asbestos provision) reduced to £9.0 million (2009: £11.5 million) with interest cover⁽¹⁵⁾ increasing to 8.6 times (2009: 5.7 times).

As expected, the seasonal working capital outflow in the first half reversed in the second half resulting in a full year working capital inflow of £1.8 million (2009: £7.3 million outflow). With little growth capex in the period, the Asset Replacement Ratio⁽¹⁶⁾ fell to 71.3% (2009: 73.4%) reflecting the level of maintenance capex requirements of the business.

Capital structure and new debt facility

The Group's year-end net debt⁽⁶⁾ excluding the ring fenced IDC Scheme funds reduced year on year by 54% to £52.9 million (2009: £113.6 million) including finance lease obligations of £10.3 million (2009: £14.6 million). Balance sheet gearing⁽¹²⁾ reduced to 14.3% (2009: 42.4%) and the ratio of net debt to adjusted EBITDA⁽⁸⁾ has fallen to 0.6 times (2009: 1.3 times). See figure 2.

Figure 2. Reduction in Net Debt



As announced on 6 January 2011, the Group successfully refinanced its banking facilities through to June 2015. The new unsecured £220 million syndicated credit facility with Lloyds Banking Group, Barclays Bank, National Australia Bank and HSBC, acting as joint mandated lead arrangers, provides Cape with a strong financial platform and the flexibility to support future growth.

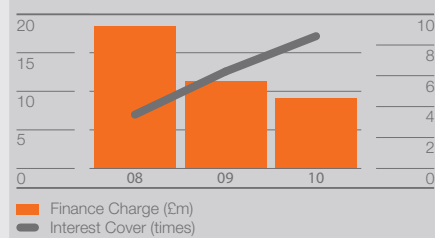
Return on Managed Assets (ROMA)⁽¹³⁾ increased to 33.6% (2009: 32.0%) and the Group's investment in receivables and work in progress increased to 100 days (2009: 96 days).

Finance charges

The net finance charges, before IDC, of £9.0 million (2009: £11.5 million) included finance lease interest of £1.0 million (2009: £1.7 million) and amortisation of loan issue costs of £0.8 million (2009: £0.7 million) in respect of commitment and ancillary fees under the Group's Senior debt facility. The Group's effective interest rate on borrowings reduced to 5.45% (2009: 6.09%) with interest cover⁽¹⁵⁾ increasing to 8.6 times (2009: 5.7 times). The decrease in effective interest rate was primarily due to an

increase in UK denominated debt not hedged and thus benefiting from the low UK LIBOR rates.

Figure 3. Interest Cover (times)



During October, the Group's GBP denominated interest rate swap reduced by £7.5 million so at year-end it had a £52.5 million (2009: £60.0 million) swap in place that converted the interest rate on its GBP denominated debt from a floating LIBOR rate to a fixed interest rate of 5.145%. In addition, the Group had a swap in place converting the interest rate on \$30.0 million of its US dollar denominated debt from a floating USD LIBOR rate to a fixed interest rate of 3.23%; this expired in January 2011.

Provision for estimated future asbestos related liabilities and Scheme funds

The provision for future asbestos related IDC claims is a discounted pre-tax provision using a discount rate of 5%, consistent with prior reviews.

The deferred tax asset related to this provision is shown within the deferred tax balance. The unwinding of the discount applied to the future asbestos related provision is included under finance costs in the income statement.

The triennial independent actuarial assessment of the Group's unpaid and uninsured UK asbestos related claims was completed in January 2011. This is the third such review undertaken by the Scheme actuaries, the previous assessments having been undertaken in both 2004 and 2007. The provision held continues to reflect the central estimate of the total future discounted liabilities, net of insurance recoveries, out to 2080.

Illustrated below is the undiscounted, discounted and post-tax information of the provision held, net of insurance recoveries:

| | At 31 December 2010 £m |
|-------------------------------|------------------------------|
| Undiscounted provision | 191.1 |
| Discount | (109.4) |
| Discounted pre tax provision | 81.7 |
| Deferred tax | (22.1) |
| Discounted post-tax provision | 59.6 |

The ring-fenced Asbestos Scheme funds reduced by £2.2 million (2009: £3.7 million) to £31.6 million (2009: £33.8 million) comprising entirely of settlements and costs paid to claimants. Whilst accrued interest of £1.0 million (2009: £0.8 million) was earned on Scheme Funds, the longer fixed term deposits resulted in no cash interest being received in the period.

Based on the actuarial assessment Scheme funds would be sufficient to cover the cost of claims for at least the next 9 years.

Tax charge and effective tax rate

The Group's tax charge in 2010 for the continuing operations (excluding JV's) increased to £14.6 million (2009: £13.9 million) with an underlying effective tax rate⁽¹⁷⁾ of 21.1% (2009: 23.5%). This decrease predominantly relates to a change in the mix of source of profit generation and the reduction in tax rates of overseas jurisdictions (e.g. Qatar and Sakhalin). Tax paid in the period increased to £11.5 million (2009: £7.6 million) due to many jurisdictions making payments on account for estimated profits during 2010.

The Group's total tax charge for the year is £10.8 million (2009: credit £14.1 million), comprising a current tax charge of £12.6 million (2009: £9.9 million) and a deferred tax credit of £1.8 million (2009: credit £24.0 million).

Balance sheet

Shareholders' funds at 31 December 2010 increased by £99.5 million to £364.2 million (2009: £264.7 million) and reflect both the retained profits for the year of £52.6 million and the impact of foreign exchange.

Chief Financial Officer's review continued

The translation reserve increased by £50.9 million to £115.1 million (2009: £64.2 million) driven by the continued strengthening of the Australian dollar relative to sterling with a closing exchange rate of AUD 1.53 (2009: AUD 1.80). The translation reserve reflects the 34% appreciation in the Australian dollar against sterling since the acquisitions in Australia were completed in 2007 at an exchange rate of AUD 2.32.

The Group's intangible assets, which had a year-end book value of £241.5 million (2009: £210.5 million), comprises acquired goodwill that arose on acquisitions, in particular the three strategic acquisitions in Australia in 2007. The increase in the value of intangible assets during the year was entirely due to the movement in foreign exchange rates.

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. The test demonstrated that no impairment was necessary.

The Group had a year-end Property, Plant and Equipment balance of £154.3 million (2009: £142.9 million). Additions of £12.4 million (2009: £11.6 million) were made during the year and the depreciation charge for the year was £17.4 million (2009: £15.8 million). The most significant proportion, some £129.5 million (2009: £117.5 million), relates to access and scaffolding equipment. The Group's real property assets totalled £19.3 million (2009: £17.0 million) and include £2.0 million in respect of 130 acres of land adjacent to the M25 in Uxbridge.

Current trade and other receivables increased by £14.1 million to £170.1 million (2009: £156.0 million). At the year-end trade receivables represented 60.9 days (2009: 62.7 days) of invoicing.

Non-current provisions of £87.0 million (2009: £85.6 million) primarily relate to industrial disease liabilities comprising £10.7 million (2009: £9.7 million) in respect of the estimated costs of settling notified claims and £71.0 million (2009: £70.5 million) in respect of the additional provision raised for the estimated future liability.

Pensions

The Defined Benefit Pension Scheme had a net surplus of £13.2 million as at 31 December 2010 (2009: £10.7 million), this continues to be restricted to nil in the accounts under IFRIC 14.

Dividend

The Board is recommending a Final Dividend of 8 pence per Ordinary share (2009: nil) to give a total dividend of 12 pence in respect of the year ended 31 December 2010 (2009: nil) reflecting our continued confidence in the longer term prospects for the Group. Subject to approval by shareholders at the General Meeting of the Company which has been convened for 25 May 2011, the Final Dividend of 8 pence per Ordinary share will be paid on 3 June 2011 to shareholders on the register at the record date of 13 May 2011.



Richard Bingham

Chief Financial Officer
16 May 2011