

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 revised in June 2008. 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 recognises it is accountable to the Company's shareholders for good governance to facilitate efficient and effective management in order to deliver shareholder value over the long term, with appropriately established risk parameters. The statements set out below describe how the principles identified in the Combined Code are applied by the Group.

The role of the Board

The Board is responsible to shareholders for the overall management and performance of the Group. Its role includes the establishment, review and monitoring of the Company's strategic objectives, budgets and commercial strategy, approval of major acquisitions, disposals and capital expenditure and overseeing the Group's systems of internal control, governance and risk management. It also sets standards for monitoring environmental and health and safety performance.

A schedule of matters reserved for the Board's decision details key aspects of the Company's affairs that the Board does not delegate. The principal matters reserved to the Board include:

- authorisation of significant transactions;
- dividend policy;
- internal controls and risk management (via the Audit Committee);
- remuneration policy (via the Remuneration Committee);
- shareholder circulars and listing particulars;
- matters relating to share capital and buy back of shares;
- treasury policy and commitment to new material bank facility agreements, borrowings or bonds; and
- appointment/removal of Directors and the Company Secretary.

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

Throughout the year, the Board comprised an independent Non-Executive Chairman (Sean O'Connor), two Executive Directors (Martin K May, Chief Executive and Richard Bingham, Chief Financial Officer) and two independent Non-Executive Directors (David Robins and David McManus). The Board usually meets formally not less than eight times a year and, informally, on other occasions. Non-Executive Directors are also available throughout the year and are available to attend Board meetings on an ad hoc basis.

Tim Eggar was appointed Non-Executive Chairman on 1 May 2011 and Sean O'Connor retired as Non-Executive Chairman on 30 April 2011. Michael Merton was appointed as a Non-Executive Director on 10 January 2011 and David Robins retired as a Non-Executive Director on 2 March 2011.

Access to appropriate information

The Board is supplied with information in a form and quality to enable it to take informed decisions and to discharge its duties. Directors are provided with regular detailed briefings on the Group's business, financial performance, the markets in which it operates, the overall economic and competitive environment and an analysis of the Group's actual performance against budget and the previous year. All Directors are encouraged to challenge and make further enquiries of the Executive Directors or management, as they consider appropriate.

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters and for ensuring good information flows within the Board. All Directors have access to the advice and services of the Company Secretary, as well as access to external advice, if required, at the expense of the Group. An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice. No such external advice was sought by any Director during the year.

The minutes of the Audit, Remuneration and Nomination Committees are circulated to the Board. The Committee Chairmen also report to the Board on the outcome of Committee meetings at the subsequent Board meeting.

Information and professional development

Newly appointed Directors are made aware of their responsibilities and are provided with a formal and tailored induction by the Company Secretary. This includes the information pack recommended by the Institute of Chartered Secretaries and Administrators, site visits and meetings with senior management including all Board members, the Group Safety Director, the Group Human Resources Director, Director of Audit (Internal), the Company's auditors and Nominated Adviser (NOMAD).

Non-Executive Directors are encouraged to participate in site visits. In September 2010, the Board invited major shareholders, analysts and principal advisers to visit sites in Scotland, including Torness Nuclear Power Station, Govan Shipyard, Longannet Power Station and Fife Natural Gas and Liquids Plant. Presentations from key senior employees were also given in order for the Board, investors and advisers to gain a greater understanding of the Group's activities.

Board balance and independence

The roles of the Chairman and Chief Executive are separated, with clear written guidance to support the division of responsibility.

The Chairman is primarily responsible for the leadership of the Board, ensuring that all Directors are able to play a full part in its activities. The Chairman is also responsible for ensuring all Board members are aware of the views of major investors, and for ensuring that the training requirements of each Director are met.

The Chief Executive is responsible for all aspects of the operation and management of the Group and its business. His role includes developing, for Board approval, an appropriate business strategy and ensuring that the agreed strategy is implemented in a timely and effective manner.

The Board currently consists of the Chairman, two Executive Directors and two Non-Executive Directors. The Board regards each of the two Non-Executive Directors as being fully independent, notwithstanding that David McManus served as Non-Executive Chairman between 10 July 2006 and 11 June 2008. The Non-Executive Directors have no cross-directorships or other significant links which could materially interfere with the exercise of their independent judgement. The Chairman was independent at the time of his appointment to that position. The Board is satisfied that no individual or group of Directors has unfettered powers of discretion and that an appropriate balance exists between the Executive and Non-Executive members of the Board. During the year, the former Chairman held meetings with the Non-Executive Directors without the Executive Directors being present.

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. Michael Merton was appointed to the Board on 10 January 2011, and Tim Eggar was appointed as Chairman on 1 May 2011.

David McManus is the Director retiring by rotation under Article 100.1. Tim Eggar, Michael Merton and David McManus are engaged under Letters of Appointment which are terminable on one month's notice.

Further information concerning the re-election of Directors is set out on page 40.

Biographical details of the roles, backgrounds and other commitments of the Directors are shown in the Directors' biographies on page 28.

Senior Independent Director

During the year, David Robins was Cape's Senior Independent Director. The Senior Independent Director is available to shareholders to assist in resolving concerns which contact through the normal channels of Chairman, Chief Executive or Chief Financial Officer have failed to resolve, or for which such contact is inappropriate. The Senior Independent Director is also required to lead the discussion relating to assessing the effectiveness of the Chairman's performance, and act as a sounding board to the other Non-Executive Directors. David Robins retired from the Board on 2 March 2011. David McManus was appointed as Senior Independent Director on 4 May 2011.

Conflicts of interest

The Chairman and Non-Executive Directors may serve on the boards of other companies provided they are able to demonstrate satisfactory time commitment to their role as a Director of Cape plc. Directors are required to declare their directorships or other appointments to companies which are not part of the Cape Group and which could give rise to conflicts or potential conflicts of interest, as well as other situations which could give rise to a potential conflict of

interest. During the year no occasion arose when a Director's appointment or situation gave rise to a conflict of interest. The Board is satisfied that, throughout the year, the former Chairman and Non-Executive Directors had the necessary time available to devote to the proper performance of their duties.

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 is responsible for preparing an investor relations programme. Analysts and the Company's major shareholders are offered meetings with the Chairman, Chief Executive and Chief Financial Officer on a regular basis to develop their understanding of the Company and to enable them to raise any concerns or issues. The Chairman is responsible for ensuring that all Board members are aware of the views of major investors.

In September 2010, the Board invited major shareholders and analysts to visit the sites in Scotland on which Cape works. This provided an update on the business and a greater understanding of the Group's activities, and also gave them the opportunity to meet management below executive level.

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 www.capeplc.com/investors.

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 provide 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.

Internal control

The respective responsibilities of the Directors in connection with the Annual Report and Accounts are explained on page 39.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This system is designed to reduce rather than eliminate the risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that this system, which has been designed to comply with the 2005 Turnbull guidance, has been in place for the year under review and up to the date of approval of the Annual Report and financial statements.

The key features of our system of internal control include:

1. Strategic and business planning – the Group produces and agrees objectives and budgets each year, against which the performance of the business is regularly monitored.
2. Investment appraisal – major contracts and capital purchases are reviewed in advance by senior management and, when appropriate, approved by the Board.

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3. Financial monitoring – profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a monthly basis, including explanations of variances between actual and budgeted performance.
4. Systems of control procedures and delegated authorities – there are clearly defined approval limits for key business decisions – acquisitions, disposals, contract approvals, large transactions, capital purchases and operating expenditures.

In addition, the integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by Executive Management, the Audit Committee and the Board.

Risk management process

An awareness of operational and financial risk is embedded throughout the organisation. The principal tools used to assess and manage risk are:

- Risk registers – every six months a formal reappraisal of business risk takes place in both the regions and the centre to identify, evaluate and record significant business risks faced by the Group. Each risk in the registers is rated in terms of probability of occurrence and potential impact on the business. Where possible, management identifies mitigating controls, their likely effectiveness and risk ownership. Material changes to the risk registers are reported to the Audit Committee on a regular basis.

- Risk appraisal – when major business decisions are taken the related risks are assessed in advance. When risks change or materialise, senior management and the Board are alerted to ensure that the Company's response is both prompt and appropriate.
- Internal audit – the internal audit team is responsible for reviewing and testing key business processes and controls, including following up the implementation of management plans and actions and reporting any overdue actions to the Audit Committee. The Director of Internal Audit reports to the Chairman of the Audit Committee. The internal audit function operates a risk-based audit approach. The Audit Committee reviews the effectiveness of internal audit activities including the scope of work, authority and resources of the internal audit function.
- Key controls – Regional Financial Controllers certify monthly that within their business, defined key financial controls and other laid down procedures are operating effectively.
- Whistleblowing – a confidential whistleblowing procedure has been introduced through which employees may raise concerns about possible improprieties in operational or financial conduct.

Our approach to internal controls and risk management is supported by an oversight structure, which includes both the Audit Committee and the Board.

Attendance at meetings – 2010

| | 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 | 8 | 8 | 3* | 3* | 6 | 6 | 2 | 2 |
| Martin K May | 8 | 8 | 3* | 3* | – | – | – | – |
| Richard Bingham | 8 | 8 | 3* | 3* | – | – | – | – |
| David Robins | 8 | 8 | 3 | 3 | 6 | 6 | 2 | 2 |
| David McManus | 8 | 8 | 3 | 3 | 6 | 6 | 2 | 2 |

* By invitation only.

Board committees

The Board delegates certain powers to designated committees. Information on the work of the Remuneration, Audit and Nomination Committees is set out below.

The terms of reference for the principal Board committees can be obtained by contacting the Company Secretary at the Company's registered office address or viewed on the Company's website at www.capeplc.com.

Audit Committee

During the year under review, the Audit Committee comprised David Robins (Chairman) and David McManus. David Robins retired as Chairman and a member of the Committee on 28 February 2011. Michael Merton was appointed as a member of the Committee on 1 February 2011, and Chairman of the Committee on 28 February 2011.

The remit of the Audit Committee is set out in its Terms of Reference and includes responsibility for internal control and risk management, financial reporting, internal audit and external audit including auditor independence. The Committee met three times during the year. At the invitation of the Committee, other Group Board Directors, the Company Secretary, Group Financial Controller, Director of Internal Audit and the Company's external auditors PricewaterhouseCoopers LLP (PwC) were invited to attend meetings. The Committee also met separately with the external and internal auditors.

The Committee undertook the following activities during the year as part of its normal duties:

- reviewed the interim and annual results and considered any matters raised by management and the external auditors;
- reviewed and approved the audit plans for the external and internal auditors;
- monitored the scope, effectiveness, independence and objectivity of the external audit;
- discussed the results of internal audit reviews, significant findings and management action plans; and
- reviewed reports on the Group's risk management measures and actions.

The Company has a policy in place to monitor and maintain the objectivity and independence of the external auditors. The policy requires prior approval of the Audit Committee for non-audit work above a threshold level of £50,000. In addition to the audit related services, PwC provided the following services during the year:

- tax compliance and advisory services; and
- support of the Company's application to be admitted to the full list of the London Stock Exchange.

Details of the amounts paid to PwC are set out in note 8 to the financial statements. The external auditors have confirmed to the Committee that they remain independent and maintain internal safeguards to ensure their objectivity.

Remuneration Committee

The Remuneration Committee determines the remuneration and conditions of employment of the Executive Directors and the work of that Committee is described in detail in the Directors' remuneration report set out on pages 29 to 33.

Nomination Committee

During the year under review, the Committee comprised Sean O'Connor (Chairman), David McManus and David Robins. Martin K May was appointed as a member of the Committee on 24 November 2010. David Robins retired as a member of the Committee on 2 March 2011. Michael Merton was appointed as a member of the Committee on 1 February 2011. Tim Eggar was appointed as Chairman and a member of the Committee on 1 May 2011. Sean O'Connor retired as Chairman and a member of the Committee on 30 April 2011.

The Committee is responsible for monitoring and formally reviewing the performance, composition, balance and expertise of the Board as a whole and appraising the contribution of individual Directors, including a review of their time commitment and attendance records. The Committee concluded that all the Non-Executive Directors demonstrate a high level of time commitment and effectiveness during the year under review. Where a Non-Executive Director has served on the Board for more than six years, the Committee conducts a particularly rigorous review of his performance before recommending his reappointment to the Board.

During the year, the Committee was involved in the succession planning of the Board and in particular with the search for a new Non-Executive Chairman and Non-Executive Director.

With the support of specialist recruitment consultants, Committee members were involved in the assessment and interview of potential candidates for the positions of both a new Non-Executive Director and new Non-Executive Chairman. This process identified Michael Merton, who the Committee recommended for appointment to the Board as a Non-Executive Director with effect 10 January 2011. The Committee has since recommended Michael Merton to be appointed as a member of the Audit, Remuneration and Nomination Committees with effect 1 February 2011 and also as Chairman of the Audit Committee with effect 28 February 2011.

In addition, on 2 March 2011, the Company announced that Tim Eggar would take up the appointment as Non-Executive Chairman of the Board with effect from 1 May 2011, in place of Sean O'Connor who would step down from the Board at that time. Following a recommendation from the Committee, the Board appointed Tim Eggar as a member of the Remuneration Committee and as Chairman and a member of the Nomination Committee, with effect 1 May 2011.

Biographies of all of the Directors can be found on page 28 or the Company's website www.capeplc.com.

The Committee's written terms of reference are available on the Company's website www.capeplc.com.