

Risk and uncertainties

Risk is an unavoidable facet of any business activity. Cape faces a number of risks in undertaking its operations around the world. We are alive to the issue of risk, work hard to identify and evaluate risks associated with our business and set up controls to mitigate known risks. Identified significant risks and agreed mitigation are appropriately recorded in an active risks register. We continue to develop our risk management systems and processes to ensure that our response remains appropriate to the range of risks that we face.

No such review of risks and uncertainties can be exhaustive and risks might exist which have not been identified by the Directors. New risks might also emerge, the likelihood of known risks occurring and the impact they might have upon the Group may change from time to time.

Potential impact

External

Operating activities may be affected by factors outside our control. These include climatic conditions, unusual or unexpected geological occurrences, environmental hazards, industrial conditions, technical failures, labour disputes, government actions or inactions, delays in construction, availability of materials or parts and shipping, import or customs delays.

Changes in the political or security environment in existing and new territories may result in Cape, or its clients, losing commercial or legal protections, facing security threats or being less able to control their operations.

Mitigation

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 or sectors. This portfolio diversification reduces the impact of Cape's overall exposure to individual risks.

Cape's policy is to avoid a concentration of activity in markets/regions which it assesses as high risk. Cape maintains a broad geographic footprint and has sought to acquire businesses in safe and politically stable countries.

Risk is mitigated by a strong senior management presence in each region and, particularly where risks are identified, regions operate in close communication with central management.

Local legal counsel is regularly engaged to ensure compliance with local legislation and to advise managers on actual or potential changes in legal or regulatory framework.

We monitor carefully any changes in political regimes that might impact on our business. We are appointing a Group Head of Security, who will be responsible for focusing our approach to higher risk territories and we have expanded our use of specialist consultancies to advise us and, when appropriate, provide protection.

As detailed on page 36 in the Corporate Governance report we have established policies and procedures to address these risks.

Potential impact

Competition

Losing certain key customers could have an adverse effect on Cape's revenues, particularly where these customers have several contracts with Cape.

The majority of Cape's customers are either in, or are dependent upon, the energy and natural resources sectors. Cape's earnings therefore depend on long-term energy demand particularly for oil, gas and electricity.

Cyclical downturns could lead to declines in demand for Cape's services.

Mitigation

Cape's top 10 customers accounted for 35% of Group revenues in 2010 (2009: 31%), with the largest customer accounting for 9% of Group revenues (2009: 8%). Cape has a broad customer base and seeks to maintain a balanced customer profile.

Cape has developed long-standing relationships and a reputation for dependability with customers, based on service quality, reliability and safety. These relationships are at a variety of levels from sites to senior management. Strong relationships support revenue retention and growth through ongoing contract award and renewal.

In most existing markets Cape has a relatively small market share.

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.

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.

Cape's wide range of essential services ensures it can serve customers' needs through the lifecycle of the production asset, whether related to installation, maintenance or decommissioning.

Potential impact

Operational

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. Failure to deliver HSE excellence could result in a material loss of customers and/or damage to Cape's reputation and the environment.

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 and skilled personnel could materially adversely affect Cape's business, operating results or financial condition.

Mitigation

Cape values its excellent reputation for safety and HSE related matters around the world. Cape's investments in systems and resources, with around 425 people in full-time HSE roles across the Group, continue to deliver significant reductions in accidents, working days lost and environmental incidents.

Occupational health and safety performance continues to be in the upper quartile of comparable companies, with a LTI frequency rate of 0.032 per 100,000 hours worked for the Group as a whole.

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

The 'future leaders' programme has been introduced for managers who are identified through a succession planning process, with the skills needed to rapidly progress in the organisation. Annual performance appraisals are conducted to assess executives' performance and to discuss career goals.

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

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

Potential impact

Financial

Failure to achieve satisfactory returns on investments.

Inadequate financial controls leading to loss of assets, loss of financial data or loss of the integrity of data.

Other financial risks including foreign exchange and interest rate exposure are described further in note 23 to the Group financial statements.

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.

Lump sum contracts expose Cape to potential cost overruns.

Mitigation

Cape carries out detailed assessments and reviews of existing and potential investments including external legal and financial diligence where appropriate.

Cape has high quality and experienced finance, internal audit, tax and treasury teams that operate at the Head Office and across the regions.

Cape operates a stringent contract review process with clear authority limits governing the acceptance of contracts. Contract values are often significantly different from initial estimates or from prior year amounts. However across many contracts, increases and reductions tend to offset.

Cape seeks to avoid lump sum price contracts, with the majority of its contracts being cost reimbursable or at scheduled rates.