

Company's Registered Number: 3337119

CAPE INDUSTRIAL SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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CAPE INDUSTRIAL SERVICES LIMITED

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CAPE INDUSTRIAL SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

V A George
S P Roberts
M Speakman
J S Connolly (resigned 21 March 2014)
J M Oatley
S Navarra (appointed 10 February 2014 and resigned 22 May 2014)

COMPANY SECRETARY

C F Judd (resigned 1 October 2013)
R F Allan (appointed 1 October 2013)

REGISTERED OFFICE

Drayton Hall
Church Road
West Drayton
Middlesex
UB7 7PS

BANKERS

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

INDEPENDENT AUDITORS

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1YE

CAPE INDUSTRIAL SERVICES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their Strategic Report for the year ended 31 December 2013.

Principal activities

The company provides a wide range of critical industrial services including access solutions, refractory linings, environmental services, insulation, specialist coating, fire protection and associated services focused on the energy and natural resource sectors.

Review of the business and future developments

The Company completed another successful year seeing third party turnover increase to £335,452,000 (2012: £327,053,000). Gross profit increased to £41,286,000 (2012: £25,358,000). Profit before tax has decreased to £2,406,000 million (2012: £2,941,000) which was predominantly impacted by an increase in the provision for industrial disease claims of £14,218,000.

Maintenance revenue continues to be the main revenue source with 77 percent (2012: 80 percent) of total revenue. Working capital as a percentage of sales reduced to 6.8 percent (2012: 8.3 percent). In the future directors anticipate moderate but stable revenue growth given the reliance on stable maintenance contracts in largely saturated markets. Operating profit is expected to normalise after being reduced by loss on the Arzew contract in 2012 and by the industrial disease claim provision in the current year.

Principal risks and uncertainties

The Board of Cape plc manages risks at a Group level and is committed to enhancing the Group's risk management capability. Risk is assessed formally at business segment level through risk workshops and via the maintenance of risk registers. The updating of the risk registers is a continuous process involving the identification, evaluation and management of risks by individual managers. This enables the early identification of key risks and the taking of action to mitigate the likelihood of loss.

The principal risks and uncertainties facing the Group are broadly grouped as: external, competitive, operational and financial. The risks and uncertainties facing Cape Industrial Services Limited are considered to be consistent with the Group. While these risks are summarised below, further details and the Group's mitigating actions can be found in Cape plc's Annual Report, which does not form part of these financial statements.

External

Cape's business is diverse and operations in certain locations may be affected by factors outside the Group's control. These include changes to political, economic and environmental conditions in existing and new territories.

Competitive

Cape operates mainly in the energy and natural resources sectors and the Group's earnings depend on a stable long-term demand for oil, gas and electricity. In addition, losing certain key clients with which the Group has several contracts could have an adverse effect on Cape's revenues.

Operational

Health and safety

Many of Cape's operating environments have associated health and safety risks and failure to maintain the highest safety standards on site could result in injury to our employees, damage to the environment and a loss of clients, as well as damage to Cape's reputation.

Contract and project performance

The terms and conditions of the Group's contracts, as well as the actual project performance by Cape subsidiaries, could expose Cape to cost overruns resulting in adverse financial performance.

CAPE INDUSTRIAL SERVICES LIMITED

STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

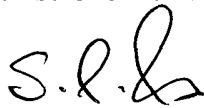
Financial

The Group has exposure to foreign exchange and interest rate risks which are monitored by experienced finance, tax and treasury teams at Group level.

Credit risk is managed by the company. Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the company's receivables from customers. The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The company has an established credit policy under which each new customer is analysed for credit worthiness before the company's standard payment and delivery terms and conditions are offered. The company's review includes external ratings, and in some cases bank references.

On behalf of the Board



S P Roberts
Director

26 June 2014

CAPE INDUSTRIAL SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report and the audited Financial Statements of the company for the year ended 31 December 2013.

Results and dividends

During the financial year a dividend of £nil at £nil per share (2012: £2,328,000 at £0.23 per share) was paid.

The profit for the year of £2,644,000 (2012: loss of £1,884,000) has been transferred to reserves.

Donations

During the financial year the company made charitable donations of £nil (2012: £20,000) towards various local and national causes. There were no political donations (2012: £nil).

Directors

The following persons served as directors during the year and up to the date of signing the Financial Statements, unless stated otherwise:

R J Skipp (appointed 8 March 2013 and resigned 3 December 2013)
R N Amey (resigned 8 March 2013)
V A George
S P Roberts
J S Connolly (resigned 21 March 2014)
M Speakman
J M Oatley
S Navarra (appointed 10 February 2014 and resigned 22 May 2014)

The directors had no beneficial interests in the shares of the company.

Going concern

The Company's business activities, together with the risks that are likely to affect its financial position are described in the Strategic Report on page 3.

The Company is part of a group that has strategic objectives focused on long term growth, has long term contracts with customers in a number of different geographic areas and has recently extended the term of its borrowing facilities to 2018. Consequently the directors believe that the group and Company are well placed to prosper in the coming years.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

CAPE INDUSTRIAL SERVICES LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

Qualifying third party indemnity provisions

As permitted by the Companies Act 2006, all directors are covered by indemnities from the ultimate parent undertaking. The directors are indemnified in respect of proceedings which may be brought by third parties and such indemnification was in place throughout the year and up to the date of approval of these Financial Statements. Neither these indemnifications nor insurance provides cover in the event that a director or officer is proved to have acted fraudulently or dishonestly.

The company has not made any qualifying indemnity provisions.

Employment policies

The company operates within broadly prescribed personnel and employment policies. Training, career development and promotion policies within the company provide equal opportunities for all employees.

Employment of disabled persons

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

Employee involvement

The company continues its practice of keeping all employees informed on matters affecting them, so that a common awareness amongst all employees is developed in relation to the financial and economic factors that affect the performance of the company. Where applicable, the company 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 operational level are kept informed. The ultimate parent company, Cape plc, 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.

Overseas branches

The company operates overseas branches in Algeria, Azerbaijan, Kazakhstan, Netherlands and New Caledonia.

Supplier payment policy

The supplier payment policy for the company 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 owed £6,096,000 (2012: £12,086,000) to trade creditors at the end of the year. Trade creditors at the year end represented 24 days (2012: 49 days) of purchases.

CAPE INDUSTRIAL SERVICES LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

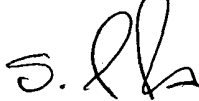
Disclosure of information to auditors

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.

Independent auditors

Following a competitive tender process initiated upon recommendation of the Audit Committee, the Board have appointed Ernst & Young LLP as auditor of the Company commencing with the 2013 financial year. The auditors Ernst & Young LLP have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board



S P Roberts
Director
26 June 2014

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CAPE INDUSTRIAL SERVICES LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2013

We have audited the financial statements of Cape Industrial Services Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPE INDUSTRIAL SERVICES LIMITED (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Kevin Harkin, Senior Statutory Auditor
For and on behalf of Ernst & Young LLP
Statutory Auditors
Reading

26 June 2014

CAPE INDUSTRIAL SERVICES LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £000	2012 £000
Turnover	3	335,452	327,053
Cost of sales		(294,232)	(301,695)
Gross profit		41,220	25,358
Administrative expenses		(23,096)	(12,042)
Other operating expenses	30	(14,218)	(8,028)
Profit on ordinary activities before investment income, interest and taxation	2	3,906	5,288
Income from other fixed asset investments		2,424	1,500
Interest receivable and similar income	6	172	168
Interest payable and similar charges	6	(4,096)	(4,015)
Profit on ordinary activities before taxation		2,406	2,941
Tax on profit on ordinary activities	7	238	(4,825)
Profit/(loss) on ordinary activities after taxation	20	2,644	(1,884)

All results relate to continuing operations.

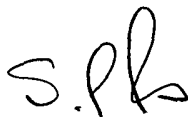
The notes and information on pages 13 to 38 form part of these Financial Statements.

CAPE INDUSTRIAL SERVICES LIMITED**BALANCE SHEET****AT 31 DECEMBER 2013**

	Notes	2013 £000	2012 Restated* £000
Fixed assets			
Tangible assets	9	21,608	21,847
Intangible assets	10	83	166
Investments	11	6,155	6,161
		27,846	28,174
Current assets			
Stocks	12	503	1,013
Debtors: Amounts falling due within one year	13	78,823	100,719
Debtors: Amounts falling due in more than one year	13	5,647	5,336
Cash at bank and in hand		37,783	22,444
		122,756	129,512
Current liabilities			
Creditors: Amounts falling due within one year	14	(42,320)	(60,925)
Net current assets		80,436	68,587
Total assets less current liabilities		108,282	96,761
Creditors: Amounts falling due after more than one year	15	-	(1,139)
Provisions for liabilities	17	(96,435)	(85,533)
Net assets excluding pension asset		11,847	10,089
Pension asset	26	66	77
Net assets including pension asset		11,913	10,166
Capital and reserves			
Called up share capital	19	10,000	10,000
Profit and loss account	20	1,913	166
Total shareholders' funds	21	11,913	10,166

* Debtor falling due with one year in 2012 included £2,974,000 insurance recoveries relating to industrial disease claims. The provision for such claims is held at the net amount of claims and insurance recoveries. Therefore, the 2012 balance sheet has been restated to charge those insurance recoveries to the industrial disease claims provision.

These Financial Statements on pages 10 to 38 were approved by the board of directors 26 June 2014 and signed on its behalf by:



S P Roberts
Director

The notes and information on pages 13 to 38 form part of these Financial Statements.

CAPE INDUSTRIAL SERVICES LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £000	2012 £000
Profit/(loss) for the financial year		2,644	(1,884)
Currency translation differences net of taxation on foreign currency net investments	20	(937)	(898)
Actuarial (loss) recognised in the pension scheme	26	(17)	(17)
Movement on deferred tax relating to pension asset	18	6	6
Total recognised gains/(losses) relating to the financial year		1,696	(2,793)

The notes and information on pages 13 to 38 form part of these Financial Statements.

CAPE INDUSTRIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Accounting policies

Basis of preparation

These Financial Statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain tangible fixed assets, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Consolidated financial statements

The Financial Statements contain information about Cape Industrial Services Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the Consolidated Financial Statements of its ultimate parent, Cape plc.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. Profits and losses of joint ventures and branches which have currencies of operation other than sterling are translated into sterling at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated at the year end exchange rate.

Exchange differences arising from the retranslation of the opening net assets of joint ventures and branches that have currencies of operation other than sterling, net of any matching exchange differences on related foreign currency loans taken out to hedge overseas investments, are taken to reserves, together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

Turnover

The policy for recognition of turnover in respect of short and long-term contracts is disclosed in the policy on stocks and amounts recoverable on contracts.

Cost of sales

Operating expenses, to the extent that they are directly related to contracting activities, are recoverable against contracts and classified within cost of sales.

Investments in subsidiary undertakings and joint ventures

Investments are held at cost less provision for impairment. Investments are tested for impairment annually.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less any provision for impairment. Cost comprises purchase cost together with any incidental costs of acquisition. 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 following rates are applied:

Land and buildings – 2% per annum
Scaffold assets – 7% to 33% per annum
Plant and machinery – 10% to 33% per annum
Fixtures and fittings – 20% to 33% per annum
Motor Vehicles – 20% per annum

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets is dealt with in the profit and loss account in the year in which it arises.

Intangible fixed assets

Intangible fixed assets relate to software, are valued initially at cost and are amortised over their useful economic life, which is generally three years.

CAPE INDUSTRIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Accounting policies (continued)

Finance leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stocks and amounts recoverable on contracts

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks. Contracts are undertaken for customers either on a short or long-term basis.

Contracts are undertaken for customers either on a short or long-term basis. For short-term contracts revenue and profit are recognised according to work executed and for long-term contracts work is often carried out on a unit rate basis. Amounts recognised as revenue in respect of work done but not billed are included within amounts recoverable on contracts. Revenue and attributable profit on long-term contracts are 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. Costs incurred, including an appropriate allocation of overheads and attributable profits, in respect of long-term contracts are included in work in progress net of progress payments received and provisions for foreseeable losses. Provisions are 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.

Compensation for industrial disease

There is a history of claims being made against Cape Industrial Services Limited for compensation arising from alleged exposure to products previously manufactured which contained asbestos. Where the company has deemed that it is appropriate to do so, settlement has been made. Provision has been made for the costs which the company is expected to incur in respect of lodged and future industrial disease claims to the extent that such costs can be reliably estimated. The provision includes the cost of claims that are made under the Scheme of Arrangement (see note 28).

The provision has been reviewed as at 31 December 2013 based on advice from independent professional actuaries. The amount of the provision is based on historic patterns of claim numbers and monetary settlements as well as published tables of projected disease incidence. Key assumptions made in assessing the appropriate level of provision include the period over which future claims can be expected, the rate at which claims will be filed, the rate of successful resolution as well as future trends in both compensation payments and legal costs.

CAPE INDUSTRIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Accounting policies (continued)

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:

- review of carrying value of fixed asset investments;
- 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.

Current taxation

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted and are expected to apply to the accounting period.

Deferred 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 taxation 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 taxation 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.

Pensions

The company is a member of the Cape plc funded Group defined benefit pension arrangements. The company's contributions will be affected by surplus or deficits in the scheme. However, the company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. As such, the company accounts for the contributions to the scheme as if it were a defined contribution scheme. The pension costs for defined benefit schemes are charged against profits on a systematic basis.

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.

The company operates a separate smaller defined benefit pension scheme. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The latest full valuation of the defined benefit scheme was assessed by independent qualified actuaries as at 6 April 2010 using the projected unit method. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****1. Accounting policies (continued)****Investments in joint ventures**

The company holds investments in joint ventures at cost less provision for impairment.

Share based payments

The company's parent company operates three share based incentive schemes. 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.

Further details can be found in the Financial Statements of the ultimate parent company, details of which are provided in Note 25 to these Financial Statements.

In accordance with FRS 20, the expense of these schemes that is attributable to employees of Cape Industrial Services Limited has being recognised in the profit and loss account with a corresponding credit in retained earnings (treated as a capital contribution from the parent company).

2. Profit on ordinary activities before interest and taxation

	2013	2012
	£000	£000
Profit on ordinary activities before interest and taxation is stated after charging:		
Services provided by the company's auditors		
- Fees payable for audit of the company's Financial Statements	144	104
Depreciation on tangible fixed assets:		
- owned assets	5,080	3,410
- finance leases	303	508
Rental/hire of plant and machinery	8,325	12,239
Operating leases – other	974	1,259
Amortisation of intangible assets	83	83

Fees paid to the company auditors Ernst & Young LLP for non-audit services in the UK were £48,000 (2012: £nil) and £17,000 (2012: £nil) in Far East. Rental/hire of plant and machinery comprises short-term hire charges.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****3. Segmental analysis**

Geographical analysis by origin and destination	2013 £000	2012 £000
Turnover		
United Kingdom	294,257	278,460
CIS, Mediterranean and North Africa	36,418	40,612
Far East/Pacific Rim	4,777	7,981
	335,452	327,053
Profit on ordinary activities before investment income, interest and taxation		
United Kingdom	5,637	17,598
CIS, Mediterranean and North Africa	(3,610)	(15,012)
Far East/Pacific Rim	1,879	2,702
	3,906	5,288
Income from other fixed asset investments	2,424	1,500
Net interest payable	(3,924)	(3,847)
Profit on ordinary activities before taxation	2,406	2,941
	2013 £000	2012 £000
Net operating assets/(liabilities)		
United Kingdom	(55,050)	(52,289)
CIS, Mediterranean and North Africa	8,570	14,079
Far East/Pacific Rim	(19)	(956)
	(46,499)	(39,166)
Net funds	37,783	22,346
Net operating liabilities	(8,716)	(16,820)
Group funding	20,629	26,986
Net assets	11,913	10,166

Net operating assets/(liabilities) represent the net assets/(liabilities) of each geographical segment after adjusting for Group funding loans.

Inter-segment sales are not material and have therefore not been separately presented.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****4. Directors' emoluments**

	2013 £000	2012 £000
The emoluments of the directors of the company were:		
Aggregate emoluments	491	426
Contributions to defined contribution pension schemes (included in the above)	70	65

In 2013 six directors (2012: six) were remunerated by the company's ultimate parent company and received no emoluments in respect of their services to the company during the year.

No directors (2012: nil) accrued retirement benefits under the Group's defined benefit pension scheme during the year.

No directors (2012: three) exercised share options.

Highest paid director

	2013 £000	2012 £000
Aggregate emoluments	292	265
Contributions to defined contribution pension schemes (included in the above)	34	29

5. Employees

	2013 No.	2012 No.
The average monthly number of persons employed by the company (including directors) during the year was as follows:		
Industrial services	3,684	4,095
Management and administration	467	463
	4,151	4,558

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****5. Employees (continued)**

	2013	2012
	£000	£000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	174,058	163,803
Social security costs	21,866	19,920
Other pension costs	1,720	1,288
Share based payment costs	51	(66)
	197,707	184,945

6. Interest

	2013	2012
	£000	£000
Interest receivable and similar income		
Interest receivable from third parties	9	10
Interest receivable from Group companies	163	158
	172	168
Interest payable and similar charges		
Interest payable to third parties:		
- finance charges on hire purchase and finance leases	(2)	(14)
- other	(94)	(1)
Unwind of discount on IDC provision	(4,000)	(4,000)
	(4,096)	(4,015)

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****7. Tax on profit on ordinary activities**

	2013	2012
	£000	£000
Current tax:		
United Kingdom		
- Corporation tax at 23.25% (2012: 24.49%)	1,126	1,782
- Double tax relief	(665)	(1,782)
- Adjustment in respect of previous years	(393)	(13,177)
	(68)	(13,177)
Overseas tax		
- Corporation taxes	1,387	3,008
- Adjustment in respect of previous years	(126)	15
	1,261	3,023
Total current tax charge/(credit)	1,329	(10,154)
Deferred tax – United Kingdom		
- Origination and reversal of timing differences	(226)	-
- Adjustment in respect of previous years	(1,342)	14,979
Total deferred tax (credit)/charge	(1,567)	14,979
Tax (credit) / charge on profit on ordinary activities	(238)	4,825

The tax charge for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012: 24.49%). The differences are explained on the following page.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****7. Tax on profit on ordinary activities (continued)**

	2013	2012
	£000	£000
Profit on ordinary activities before tax	2,406	2,942
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.49%)	559	720
Effects of:		
Adjustment to tax in respect of previous years	(519)	(13,177)
Expenses not deductible for tax purposes	999	208
Excess foreign tax suffered	1,387	1,345
Accelerated capital allowances/other Short term timing differences	1,087	3,023
Double tax relief	(665)	(1,783)
Share scheme relief	(41)	(122)
Income not taxable	(563)	(368)
Group relief	(915)	-
	1,329	(10,154)

In his budget of 20 March 2013, the Chancellor of the Exchequer announced Budget tax changes, which have an effect on the company's future tax position. The UK corporation tax rate was reduced to 23% on 1 April 2013 will be reduced to 21 % from 1 April 2014. The Chancellor of the Exchequer also announced that the main rate of corporation tax will be further reduced from 21%, as previously announced, to 20% in April 2015. These proposed rate changes had been substantively enacted at the balance sheet date and as such, in accordance with accounting standards, these change has been reflected in the company's financial statements as at 31 December 2013. Any deferred tax balances expected to unwind in future periods have been measured at the 20% Corporation Tax rate.

8. Dividends

	2013	2012
	£000	£000
Dividends paid: £nil (2012: £0.23) per £1 share	-	2,328

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****9. Tangible assets**

	Land and buildings £000	Plant, machinery, fixtures and Fittings £000	Total £000
Cost or valuation:			
At 1 January 2013	7,941	46,277	54,218
Exchange adjustments	(1)	(524)	(525)
Additions at cost	187	6,621	6,808
Intra-Group transfers	-	(1,124)	(1,124)
Disposals	(386)	(7,649)	(8,035)
At 31 December 2013	7,741	43,601	51,342
Accumulated depreciation:			
At 1 January 2013	(514)	(31,857)	(32,371)
Exchange adjustments	1	389	390
Charged during the year	(208)	(5,175)	(5,383)
Intra-Group transfers	-	355	355
Disposals	231	7,045	7,276
At 31 December 2013	(490)	(29,243)	(29,733)
Net book values:			
At 31 December 2013	7,251	14,357	21,608
At 31 December 2012	7,427	14,420	21,847

Notes:

The net book value of land and buildings comprises:

	2013 £000	2012 £000
Freehold	6,240	6,374
Short leasehold	1,011	1,053
	7,251	7,427

The net book value of land and buildings includes £7,251,000 (2012: £7,427,000) of depreciable assets.

The cost of plant and machinery held under hire purchase agreements and finance leases is £1,867,000 (2012: £7,207,000) and the net book value is £999,000 (2012: £2,877,000). The depreciation charge in the year on plant and machinery was £303,000 (2012: £508,000).

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****10. Intangible assets**

	Total £000
Cost	
At 1 January 2013	477
At 31 December 2013	477
Amortisation	
At 1 January 2013	311
Charge for the year	83
At 31 December 2013	394
Net book value	
At 31 December 2013	83
At 31 December 2012	166

Intangible assets relate to software purchases.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****11. Fixed asset investments**

Shares in subsidiary undertakings	2013 £000	2012 £000
Cost	9,341	9,341
Aggregate amounts provided	(3,334)	(3,334)
Net book value	6,007	6,007

Fixed asset investments are held at cost less provision for impairment.

Fixed asset investment in joint ventures	2013 £000	2012 £000
Cost	154	-
Additions	30	154
Aggregate amounts provided	(36)	-
Net book value	148	154

The company's principal investments are:

Subsidiary/associate/joint venture	Nature of the business	Country of registration
Endecon Limited (100%)	Industrial Services	United Kingdom
YL Holdings Limited (100%)	Industrial Services	United Kingdom
Cape Caspian (50%)	Industrial Services	Kazakhstan
Ship Support Services Limited (50%)	Industrial Services	United Kingdom
Socar Cape LLC (49%)	Industrial Services	Azerbaijan
Cape International Holdings Pte Limited (10%)	Holding company	Singapore

The shareholdings in the subsidiary undertakings are in ordinary shares and are held directly by the company. The shareholdings in the subsidiary undertakings are indicated in brackets after the company name above.

In respect of the subsidiary companies in which the company holds shares or has advanced loans, in the opinion of the directors the fair value of the total net assets of these companies is not less than the net amount at which they are stated in its balance sheet.

The company operates overseas branches in Algeria, Azerbaijan, Kazakhstan, Netherlands and New Caledonia.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****12. Stocks**

	2013	2012
	£000	£000
Raw materials and consumables	503	1,013

13. Debtors

Amounts falling due within one year	2013	2012
	£000	Restated* £000
Trade debtors	28,552	42,277
Amounts recoverable on contracts	20,663	20,933
Amounts owed by Group undertakings	21,669	32,026
Other debtors	5,881	3,980
Prepayments	1,310	1,503
Overseas tax receivables	748	-
	78,823	100,719

* Other debtor in 2012 included £2,974,000 insurance recoveries relating to industrial disease claims. The provision for such claims is held at the net amount of claims and insurance recoveries. Therefore, the 2012 balance sheet has been restated to charge those insurance recoveries to the industrial disease claims provision.

The amounts owed by Group undertakings are unsecured and will be repaid as and when agreed between the applicable parties.

Amounts falling due after more than one year	2013	2012
	£000	£000
Amounts owed by Group undertakings	-	1,262
Deferred tax (note 18)	5,647	4,074
	5,647	5,336

The amounts owed by Group undertakings are unsecured. Interest is paid on the balance based on the average UK LIBOR interest rate for the year plus a margin.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****14. Creditors: Amounts falling due within one year**

	2013	2012
	£000	£000
Trade creditors	6,096	12,086
Amounts owed to Group undertakings	1,039	5,197
UK corporation tax payable	1,533	1,465
Overseas tax payable	-	1,036
Taxation and social security costs	11,660	14,255
Obligations under finance leases (note 16)	39	63
Payments received on account	10,402	13,343
Other creditors	-	1,212
Accruals and deferred income	11,551	12,268
	42,320	60,925

The amounts owed to Group undertakings are unsecured and will be repaid as and when agreed between the applicable parties.

15. Creditors: Amounts falling due after more than one year

	2013	2012
	£000	£000
Obligations under finance leases (note 16)	-	35
Amounts owed to Group undertakings	-	1,104
	-	1,139

The amounts owed to Group undertakings are unsecured. Interest is paid on the balance based on the average UK LIBOR interest rate for the year plus a margin.

16. Finance Leases

Net obligations under finance leases and hire purchase contracts are analysed as follows:

	2013	2012
	£000	£000
Within one year	39	63
Between one and two years	-	31
Between two and five	-	4
	39	98

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****17. Provisions for liabilities**

	At 1 January 2013 Restated* £000	Provisions Charged £000	Unwind of provision discount £000	Provision Utilised £000	Provision Released £000	At 31 December 2013 £000
Industrial disease claims provision	79,874	14,218	4,000	(3,811)	-	94,281
Arzew provision	5,430	-	-	(3,319)	-	2,111
Other provisions	229	-	-	-	(186)	43
	85,533	14,218	4,000	(7,130)	(186)	96,435

* Other debtor in 2012 included £2,974,000 of insurance recoveries relating to industrial disease claims. The provision for such claims is held at the net amount of claims and insurance recoveries. Therefore, the 2012 balance sheet has been restated to charge those insurance recoveries to the industrial disease claims provision.

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

Industrial disease claims provision

There is a history of asbestos claims being lodged against the Cape Group. Where the Group has deemed that it is appropriate to do so, settlement has been made. In order to provide for the long-term financing of future asbestos related claims likely to be made successfully against the Group, in 2006 Cape plc put in place a Scheme of Arrangement, details of which are set out in Note 28 'The Scheme of Arrangement'. As part of this Scheme of Arrangement the Company holds a provision for all future claims covered by the Scheme of Arrangement that are likely to be made successfully against the Cape Group.

The most recent actuarial review was performed to 31 December 2013 and the next review is scheduled to be completed as at 31 December 2016. Following the review the provision was increased by £14,218,000. Management monitor claims received on an ongoing basis and consider any factors which may require change to the key assumptions or trigger a full valuation before the date of the next scheduled valuation.

Due to the nature of this provision there remains uncertainty over the number, nature, timing and validity of future claims which could occur over a period of more than 40 years and the provision will be updated should any material change occur. However, the Directors anticipate that, assuming no material deterioration in the Group's trading performance, the Group will be able to ensure that (i) its subsidiary Cape Claims Services Limited 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 of the Scheme. The provision in respect for industrial disease claims is discounted at 3.75% (2012: 5%).

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****18. Deferred tax**

	2013	2012
	£000	£000
Provided		
Accelerated capital allowances	5,570	3,113
Other timing differences	77	961
	5,647	4,074
Deferred tax asset	5,664	4,097
Deferred tax liability on pension asset	(17)	(23)
Net deferred tax asset	5,647	4,074
	2013	2012
	£000	£000
Net deferred taxation asset		
At 1 January	4,074	19,047
Amount (charged)/credited to profit and loss account	1,567	(14,979)
Amount credited to statement of total recognised gains and losses	6	6
At 31 December	5,647	4,074

Any deferred tax balances expected to unwind in the future periods have been measured at the 20% corporation tax rate.

At 31 December 2013 the company had unused tax losses amounting to £3.2 million (£3.2 million) for which no deferred tax asset has been recognised. These tax losses are not expected to expire.

19. Called up share capital

	2013	2012
	£000	£000
Allotted and fully paid:		
10,000,000 (2012: 10,000,000) ordinary shares of £1 each	10,000	10,000

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****20. Profit and loss account**

	2013	2012
	£000	£000
At 1 January	166	5,353
Profit/(loss) for the financial year	2,644	(1,884)
Currency translation losses net of taxation on foreign currency net investments	(937)	(898)
Actuarial (loss) recognised in the pension Scheme	(17)	(17)
Movement on deferred tax relating to pension asset	6	6
Share option charge	51	(66)
Dividends paid	-	(2,328)
At 31 December	1,913	166
Pension asset	(66)	(77)
Reserves excluding pension asset	1,847	89

21. Reconciliation of Movements in Shareholders' Funds

	Notes	2013	2012
		£000	£000
Profit/(loss) for the financial year		2,644	(1,884)
Currency translation losses net of taxation on foreign currency net investments		(937)	(898)
Actuarial (loss) recognised in the pension scheme	26	(17)	(17)
Movement on deferred tax relating to pension asset	18	6	6
Share option charge	25	51	(66)
Dividends paid	8	-	(2,328)
Net Increase/(decrease) in shareholders' funds		1,747	(5,187)
Shareholders' funds at 1 January		10,166	15,353
Shareholders' funds at 31 December		11,913	10,166

22. Cash flow statement

Since the company is a wholly owned subsidiary and the cash flows of the company are included in the publicly available Consolidated Financial Statements of Cape plc, the company is exempt under the terms of FRS 1 (Revised 1996) 'Cash Flow Statements' from publishing a cash flow statement.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****23. Related party transactions**

The company has taken advantage of the exemption under paragraph 3 (c) from the provisions of FRS8, 'Related Party Disclosures', to not disclose transactions with other wholly owned members of the Group, on the grounds that it is a wholly owned subsidiary of a Group headed by Cape plc whose Financial Statements are publicly available.

As at the year-end there was a balance of £2,069,000 (2012: £1,134,000) owed by joint ventures. These amounts are unsecured, have no fixed date of repayment and are repayable on demand. Amounts owed by joint ventures are assessed for recoverability and, where necessary, provided for in line with normal commercial transactions. Revenue with joint ventures in 2013 was £19,934,000 (2012: £13,022,000).

24. Capital and financial commitments

	2013 £000	2012 £000
Capital expenditure authorised but not provided for in these Financial Statements against which orders have been placed	686	35

	2013 £000	2012 £000
<u>Commitments under operating leases</u>		
<u>Land and buildings:</u>		
Annual costs for commitments under operating leases expiring:		
Within one year	461	106
Between one year and five years	806	108
After five years	229	92
	1,496	306

	2013 £000	2012 £000
<u>Commitments under operating leases</u>		
<u>Other:</u>		
Annual costs for commitments under operating leases expiring:		
Within one year	835	184
Between one year and five years	891	607
	1,726	791

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****25. Share based payments**

The total charge for the year is £51,000 (2012: credit of £66,000) all of which relates to equity settled transactions.

The company has a savings related share option scheme ('Sharesave plan') which entitles employees to buy shares in the ultimate parent company, Cape plc. 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. No options have been granted under the Sharesave plan scheme since 2007.

The Employee Incentive Plan (EIP) allows the ultimate parent, Cape plc, to grant options to directors and senior employees. The EIP 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. No options have been granted under the EIP scheme since 2008.

Options issued under the EIP and the Sharesave plan 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	5-year Sharesave plan
Weighted average fair value at measurement date	80.9p	110.0p
Share price at grant date	269.0p	266.0p
Exercise price	269.0p	230.0p
Vesting period	3 years	5 years
Expected option life	3.95 years	5.25 years
Risk free interest rate	2.18%	2.18%
Expected share price volatility	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 Performance Share Plan (PSP) is the conditional award of share options in Ordinary Shares in Cape plc at no cost to the participant employees, made upon the terms set out in the plan and such other additional terms as the Board of Directors of Cape plc shall determine. Vesting of these awards is subject to Cape plc adjusted diluted Earnings Per Share (EPS) meeting the specified performance criteria over a three-year vesting period.

The performance criteria for awards until 2012 were adjusted diluted 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, calculated on an annually compounded basis.

For the 2013 award specific EPS targets for the final year of the vesting period were set to 29 pence for the minimum of 30% of the shares awarded to vest and 36 pence for all of the shares awarded to vest. The contractual life of the award is three years and is subjected to continued employment.

The shares issued under the PSP have an exercise price of £nil and are deemed to have a fair value equivalent to the share price on the day of grant less an expected amount for the dividends not received during the vesting period. Therefore, the shares granted in March 2013 have a fair value of 269.0 pence.

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****25. Share based payments (continued)**

The number and weighted average exercise price of the share options under the EIP and Sharesave plan and the share awards under the PSP are as follows:

Employee Incentive Plan	Weighted average exercise price 2013 (pence)	Number of share options 2013	Weighted average exercise price 2012 (pence)	Number of share options 2012
Outstanding at 1 January	-	40,000	-	40,000
Forfeited	-	(40,000)	-	-
Outstanding at 31 December	-	-	-	40,000

Out of the nil outstanding options (2012: 40,000 options), nil options (2012: 40,000) were exercisable. Nil options were exercised in 2013 (2012: nil).

Sharesave plan	Weighted average exercise price 2013 (pence)	Number of share options 2013	Weighted average exercise price 2012 (pence)	Number of share options 2012
Outstanding at 1 January	-	156,145	-	187,791
Exercised	230.0	(27,810)	203.0	(9,899)
Forfeited	-	(128,335)	-	(21,747)
Outstanding at 31 December	-	-	-	156,145

There were no outstanding exercisable options at the year end (2012: 156,145). In 2013 27,810 options were exercised at £2.30 per share (2012: 7,073 options at £2.30 per share and 2,862 at £1.35 per share).

	Number of share options 2013	Number of share options 2012
Performance Share Plan		
Outstanding at 1 January	503,838	629,577
Awarded	245,384	106,072
Exercised	(79,113)	(223,622)
Lapsed	(157,990)	-
Transferred out	(84,182)	-
Forfeited	(95,505)	(8,189)
Outstanding at 31 December	332,432	503,838

There were 13,182 outstanding exercisable options at the year end (2012: 74,795).

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****26. Pensions**

The company is a member of the Cape plc funded Group pension arrangements. Cape plc operates both defined benefit and defined contribution schemes. The assets of the defined benefit scheme are held in trustee administered funds. The fund is valued every three years by an independent qualified actuary, the rates of contribution payable being determined by the actuary. In intervening years, the actuary reviews the continuing appropriateness of the rates. The defined benefit scheme is closed to new members. As a result, under the projected unit method of valuation, the current service cost will increase as the members of the scheme approach retirement.

The company is unable to identify its share of the underlying assets and liabilities in the defined benefit scheme on a consistent and reasonable basis. Therefore the company accounts for contributions to the scheme as if it were a defined contribution scheme. As at 31 December 2013, the Cape plc defined benefit scheme had a surplus on an IAS 19 basis of £16.0 million (2012: £15.3m) which was restricted to its recoverable amount of £nil (2012: £nil).

The total pension cost for the company was £1,720,000 (2012: £1,288,000).

The company operates a separate smaller defined benefit pension scheme. The assets of the scheme are invested in a Deferred Annuity Policy issued by Scottish Amicable. The market value of the assets represents the amount available if the scheme surrendered its policies in accordance with the terms available on surrender. The actuarial assessment of the surrender value at 31 December 2013 was £1,209,000 (2012: £1,195,000). In addition the scheme holds an asset in respect of annuities in payment that have been fully secured with an insurance policy. The value of assets in respect of these policies is taken as equal to the value of the liabilities, which at 31 December 2013 was £200,000 (2012: £210,000). The scheme closed to new members in 1988.

The company continues to fully adopt the arrangements of FRS 17. The latest actuarial valuation was completed as at 31 December 2013 and the following assumptions were used:

As at 31 December	2013	2012	2011
Rate of increase in deferred pensions	3.50%	2.90%	3.00%
Rate of increase in pensions in payment	3.20%	2.55%	2.65%
Discount rate	4.40%	4.20%	4.80%
Inflation assumption	3.50%	2.90%	3.00%

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****26. Pensions (continued)****Funded status and expected return on assets**

The assets in the scheme and the expected annual rate of return (net of investment management expenses) as at 31 December were as follows:

	% p.a.	2013 £000	% p.a.	2012 £000	% p.a.	2011 £000
Equities	6.45	423	5.32	424	5.50	413
Fixed interest and cash	4.18	661	3.70	635	4.30	589
Property	6.45	125	5.32	136	5.50	118
Annuities	4.40	200	4.20	210	4.80	205
Total market value of assets		1,409		1,405		1,325
Present value of scheme liabilities		(1,257)		(1,221)		(1,073)
Surplus in the scheme		152		184		252
Unrecoverable surplus		(69)		(84)		(135)
Recoverable surplus		83		100		117
Related deferred tax liability (note 18)		(17)		(23)		(29)
Net pension asset		66		77		88

Analysis of amount charged to operating profit

Year to 31 December	2013 £000	2012 £000
Current service cost	20	18
Total operating charge	20	18

Analysis of amount credited to other finance income

Year to 31 December	2013 £000	2012 £000
Expected return on pension scheme assets	61	63
Interest on pension scheme liabilities	(51)	(51)
Adjustments due to FRS17.67c	10	-
Net return	20	12

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****26. Pensions (continued)****Analysis of amount in statement of total recognised gains and losses**

	2013	2012
	£000	£000
Actual return less expected return on pension scheme		
Assets	(30)	50
Experience loss arising on the scheme liabilities	8	(112)
Changes in assumptions underlying the present value of scheme liabilities	5	45
Actuarial loss in statement of total recognised gains and losses	(17)	(17)

Movement in surplus during the year

	2013	2012
	£000	£000
Surplus in the scheme at the beginning of the year	100	117
Movement in the year:		
Service cost	20	18
Other finance income	(20)	(18)
Actuarial losses	(17)	(17)
Surplus in the scheme at the end of the year	83	100

History of experience gains and losses

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Fair value of plan assets	1,409	1,405	1,325	1,211	1,153
Present value of defined benefit obligations	(1,257)	(1,221)	(1,073)	(927)	(935)
Surplus	152	184	252	284	218
Experience adjustment on plan assets	(30)	50	80	28	(28)
Experience adjustment on plan liabilities	8	(112)	(107)	38	(96)

CAPE INDUSTRIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

27. Contingent liabilities

The company has undertaken together with certain other UK undertakings within the Cape Group to give joint and several banking guarantees in respect of any amounts due to the bank from the company and other Group undertakings. At 31 December 2013 the contingent liability in respect of these borrowings amounted to £130,729,000 (2012: £137,028,000). No loss is expected to arise.

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.

28. The Scheme of Arrangement

On 14 June 2006, the Scheme became effective and binding upon the following 13 companies:

Cape Intermediate Holdings plc (formerly Cape plc)
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 Intermediate Holdings plc ("CIH"), Cape plc and Cape Claims Services Limited ("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 payable over at least 8 years from 1 January 2006. The use of these funds is restricted to the payment of established Scheme claims and Scheme creditor costs;
- (c) The sum of £40 million was not calculated by reference to an estimate of the likely amount of Scheme claims. It simply represented the aggregate of the amount that Cape was able to raise from its shareholders and the level of debt which Cape could reasonably maintain for the purposes of the Scheme. Of fundamental importance to the Scheme are the provisions as to topping up of that sum described below;
- (d) Every three years an assessment of the projected Scheme claims against Scheme companies payable by CCS over the following nine years is undertaken, by reference to which there will be established the Funding Requirement;

CAPE INDUSTRIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

28. The Scheme of Arrangement (continued)

- (e) In the event that an assessment reveals a shortfall between the Scheme assets and the Funding Requirement, Cape will top up CCS's funding over the following three years provided that sufficient cash is available, Cape's obligation being limited to 70 per cent of the Cape 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). During 2013 an advance top up of £6 million was made to the Scheme;
- (f) Should Cape 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 will be 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 per cent, 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 per cent;
- (i) Cape plc 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 per cent, (ii) the Directors of Cape plc certify that they anticipate that the Scheme Funding Percentage for the current and following financial year will be not less than 110 per cent and (iii) the Payment Percentage has not at any time within the previous 40 business days been below 100 per cent. Any distribution which Cape plc proposes to make to its shareholders may not, without the consent of the Scheme Shareholder, exceed the greater of (i) 50 per cent of the consolidated operating profits of the Cape 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 Cape plc may pay in any one year;
- (j) There have been established special voting shares (the "Scheme Shares") in CCS, CIH and Cape plc 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;
- (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 per cent but above 50 per cent and the Scheme creditor has not been paid in full after 12 months or (ii) the Payment Percentage is reduced to 50 per cent 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;

CAPE INDUSTRIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2013****28. The Scheme of Arrangement (continued)**

- (m) The restriction described in sub paragraph (a) above will not apply to proceedings to enforce the right to conferred 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 plc respectively in any insolvency of Cape plc or any of the other Scheme companies.
- (o) In support of the above, on 6 May 2011 CIH, Cape plc and CCS entered into a new Guarantee and Funding Agreement whereby Cape plc agreed to make certain additional funding available to CIH in connection with CIH's commitments under the Funding Agreement, as well as to guarantee all present and future payment obligations of Cape plc and CCS under the Funding Agreement. In addition, a Scheme Share in Cape plc (referred to in paragraph (j) above) was issued to the Scheme Shareholder which has similar rights to the Scheme Shares in CIH and CCS and which will afford the Scheme Shareholder substantially the same rights to those provided by the Scheme Shares in CIH and CCS.

29. Ultimate parent undertaking

The immediate parent undertaking is Cape Intermediate Holdings plc, a company registered in England and Wales. The ultimate parent undertaking and controlling party is Cape plc, a company registered in Jersey, which represents both the smallest and largest Group in which the results of the company are consolidated. Copies of the Annual Financial Statements of Cape plc are available from The Company Secretary, Cape plc, 47 Esplanade, St Helier, Jersey JE1 0BD.

30. Other operating expenses

	2013 £000	2012 £000
Increase of IDC provision	14,218	-
Assessment of value of scaffold assets	-	5,250
Expensing certain project initiation investments	-	2,778
Other operating expenses included in profit from ordinary activities	14,218	8,028

31. Post balance sheet events

On February 11, 2014 Cape plc has signed a new £295m revolving credit facility and a £50m accordion for the Group. This new facility replaces the Group's existing £200m and AUD\$30m facilities which are due to expire in July 2015. The facility has been arranged with a group of 8 banks, comprising existing syndicate members of Barclays Bank plc, Lloyds Bank plc and HSBC Bank plc and a number of new lenders, Abbey National Treasury Services PLC, AIB Group (UK) P.L.C., DNB Bank ASA, ICBC (London) PLC, and National Westminster Bank PLC. The company has undertaken together with certain other UK undertakings within the Cape Group to give joint and several banking guarantees in respect of any amounts due to the bank from the company and other Group undertakings under that new facility agreement.