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The Capita Group Plc Annual Report and Accounts 2009

Redefining service

Reg No: 2081330.

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2009 report online

www.capitareport2009.co.uk

Directors' report

The Directors present the Annual Report for the year ended 31 December 2009 which includes the business review, governance and audited Group accounts for the year. Pages 1 to 84 of this Annual Report comprise a Report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where we refer in this report to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita information which may be of interest to the reader. Such additional materials do not form part of this Report.

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2009 awards

Throughout this report we have highlighted some of the 50 awards we have won or were shortlisted for in 2009.

Cautionary statement regarding forward-looking statements

This Annual Report has been prepared for the members of the Company and no one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. This Annual Report contains certain forward-looking statements with respect to the principal risks and uncertainties facing the Company. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

We are at the leading edge of redefining and transforming services



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NHS case study

NHS Choices, helping the NHS to improve the nation's health
Go to page 19 →



IMAGE
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HSE case study

Gas Safe Register, helping the Health and Safety Executive promote and improve gas safety
Go to page 29 →



IMAGE
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Nottingham BSF case study

Improving pupils' learning environments to help them fulfil their potential
Go to page 41 →

We create and reshape services that both answer the needs of our clients and deliver quality, responsive services to the public.

Our clients benefit from Capita’s expertise, innovation and extensive resources and infrastructure. When they transfer their administration and customer services to us we sign up to delivering an improved service, at a defined cost, over a long term contract.

We use customer insight and our ability to improve the management of people, processes and IT to achieve a more efficient alignment of resources and a better customer experience.

Our innovative service solutions and record of consistent operational delivery have helped to fuel our growth and position Capita as the leading provider of outsourced and professional support services in the UK and Ireland.



Southampton CC case study
Transforming services to improve customers’ experience while delivering savings across Southampton City Council
Go to page 55 →



Prudential case study
Delivering services to support Prudential’s aim to be ‘the leader in retirement’
Go to page 65 →

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We operate in growth markets

Capita focuses on and leads the Business Process Outsourcing (BPO) market in the UK where there are significant opportunities for growth. We have an active bid pipeline of new business opportunities driven by public and private sector organisations increasingly seeking to gain efficiencies, flexibility and improved service delivery.

Bid pipeline*

£3.7bn, 26 bids

2008 £31bn, 24 bids

Outsourced and potential UK BPO market†

Today £6bn

Potential £94.2bn

We work with clients across the public and private sectors in 9 chosen markets.

And we constantly explore new markets where we can add value. Go to page 44 →

Capita market split (% of turnover)

Public 50%

1 Local government	22%
2 Central government	10%
3 Education	12%
4 Health	3%
5 Transport	3%

Private 50%

6 Life and pensions	18%
7 Insurance	8%
8 Financial services	4%
9 Other corporates	20%

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*Where we have been shortlisted to the last

4 or fewer. All bids are capped at £500m

† Over 2008 and 2009

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Our scale and breadth of expertise positions us uniquely

Capita has grown steadily over the past 25 years, both organically and through acquisition, and we now have 36,800 people at over 250 business sites across the UK, Europe and India

We use our expertise, infrastructure and scale to drive down costs and add value to our clients' operations

Our extensive network of business centres – onshore, nearshore and offshore in India – allows us to offer our clients flexible service solutions that meet their customers' expectations and help them stay at the forefront of their markets

Our business centre network.

52 Onshore UK

5 Nearshore Ireland, Channel Islands, Europe

5 Offshore. India

Our clients are served by our 5 divisions

– Life & Pensions Services

– Integrated Services

– Insurance & Investor Services

– Professional Services

– ICT, Health & Business Services

Go to page 34 →

A consistent business model drives our growth

Our straightforward business model focuses on generating growth, both organically and through acquisitions

Organic growth is generated by a centralised major sales team alongside sales teams in each of our businesses. We seek to secure long term business relationships, adding value to our clients' operations while generating high quality recurring revenues and delivering a fair return for Capita

15 major contracts and extensions worth a total of £1bn were secured in 2009 (2008 17 contracts, total of £1.24bn)

Acquiring small to medium sized companies allows us to add further expertise or scale to our operations or helps us to enter new markets. We smoothly integrate the acquired business into our operation, generating synergies and additional value for the Group

Total spent on 12 acquisitions in 2009 £177.5m (2008 £147.4m spent on 12 acquisitions)

Go to page 12 →

We create value for all our stakeholders

We seek to build long term, mutually beneficial relationships capable of creating value for all our stakeholders – our shareholders, clients, employees, suppliers and the communities in which we work

With strong financial controls, careful risk management and effective governance, we work to a clear set of KPI targets to grow the Group at a rate at which we can consistently deliver what we promise and create a sustainable business

Our performance in 2009 illustrates the continued success of our consistent business model

Go to page 6 →

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During 2009, the effort made by our 36,800 employees has been outstanding and has contributed to another successful year for the Group

Our results

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Key points

- Steady organic growth. Major contract wins and renewals of £1bn (2008 £1.24bn)
- Bid pipeline stood at £3.7bn in February 2010 (Feb 2009 £3.1bn); increasingly active market
- Broadened our operational capability: £177.5m spent on 12 acquisitions
- Continued underlying operating margin progression: increased by 16 basis points to 13.31% (2008 13.15%)
- Strong underlying free cash flow up by 28% to £280m (2008 £219m)
- 17% dividend increase, maintaining our dividend cover of 2.3 times.

Our principal key performance indicators (KPIs)

Aim	Progress	
	2009	2008
Earnings per share Achieve long term steady growth in EPS	38.75p	33.26p
Operating margins Maintain and strengthen margins	13.31%	13.15%
Free cash flow Maintain strong free underlying cash flow	£280m	£219m
Return on capital employed (ROCE) Achieve ROCE which exceeds our cost of capital	20.6%	20.3%
Economic profit Achieve steadily increasing economic profit	£162m	£139m
Gearing – interest cover Maintain an efficient capital structure, with relatively low gearing	10.9x	7.4x
Capital expenditure Keep at or below 4% of revenue	2.5%	3.5%
Shareholder value Grow dividends at least in line with earnings – annual growth of total dividends	17%	20%
Retaining people Maintain high retention rates for senior managers (salaries exceeding £90k p.a.)	88%	88%
Maintain overall employee retention at or above industry average (2009 84.3%, 2008 82.7%) ¹	84%	82%
Controlling our environmental impacts Continue to measure and assess our carbon footprint (tonnes CO ₂)	79,212	73,057*

¹ CIPD 2008 and 2009

* Based on latest available greenhouse gas emissions factors from Defra we have reviewed our calculation methodology and to ensure accurate year on year comparisons our 2008 carbon footprint has been restated

Capita delivered a strong performance in 2009 Organic growth was steady with a number of new major contracts secured in the year and with businesses across the Group delivering robust results. Additional spend by existing clients was lower in 2009 but a focus on optimising our operational infrastructure and the growth of our offshore operation ensured that we continued to increase margins.

In the year ended 31 December 2009, turnover increased by 10% to £2,687m (2008 £2,441m). Underlying operating profit* rose by 11% to £357.7m (2008 £320.9m) and underlying profit before taxation* increased by 17% to £325.1m (2008 £277.2m). Underlying earnings per share* grew by 17% to 38.75p (2008 33.26p). Underlying free cash flow** increased by 28% to £280m (2008 £219m).

We have increased our total dividend for the year by 17% to 16.8p (2008 14.4p).

Building value for shareholders

We focus on a number of other key financial measures, alongside those reported above, to ensure we build value for shareholders on a consistent basis over the long term. These are operating margin, cash flow, capital expenditure, return on capital employed, gearing and economic profit. We also focus on maintaining a conservative and efficient capital structure. We have set out our aims and performance regarding these disciplines on pages 22 to 26.

Additional financial information

Businesses across the Group performed well in 2009. The majority of our businesses delivered good sales and operational performance, especially our businesses servicing the local authority and education markets.

Less than 10% of our Group revenues are generated by businesses that are potentially vulnerable to a weaker economy and the majority of these delivered to our 2009 business plan expectations, particularly our property consultancy, resourcing and share registration businesses.

Conversely, our collectives and investment trust administration business, Capita Financial Managers (CFM), which administers nearly 600 funds and has annual revenues of c. £50m, was adversely affected by the increased costs of IT and the sharply increasing obligations of regulatory compliance.

Arch cru funds – As previously reported, dealings in 2 open ended investment companies (OEICs), for which CFM is the authorised corporate director (ACD) and Arch Financial Products LLP (Arch) was the delegated investment manager, were suspended on 13 March 2009. Since the suspension, CFM has been working with specialist advisers to conduct a detailed review assessing how this matter should be resolved. This detailed work undertaken since March 2009 has resulted in significant costs. We have set aside estimated costs of £30m (both incurred and potentially to be incurred) in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for 2009.

* excludes intangible amortisation of £28.1m (2008 £18.6m), the non-cash impact of mark to market movement on financial instruments of £1.4m negative (2008 £3.2m negative), loss on disposal of business of £7.5m and an estimate for costs of £30m relating to the suspension of 2 OEIC investment funds for which Capita Financial Managers is the authorised corporate director.

** underlying cash flow excludes an exceptional additional pension contribution to the Group Final Salary Pension Scheme of £40m.

CFM predominately provides administration services to investment funds and, in some cases, additionally acts as ACD. In the light of the experience gained from the Arch cru situation, we have undertaken a strategic review of CFM and decided that the balance between risk and reward in some of the ACD business does not serve our shareholders well. Accordingly, we are now in active discussions to dispose of this higher risk part of this business. See note 25 on page 111.

Our marketplace

We remain the clear leader in the overall UK BPO market with 27.0%[†] market share (2008: 25.5%).

Independent analysts have estimated that the total 2009 market for BPO in the UK was £6bn, against market potential of £9.4bn a year[†]. The capacity for long term growth therefore remains substantial as organisations review their business models and acknowledge the benefits of outsourcing.

We remain focused on selecting opportunities where we believe we can meet clients' expectations and add value, fuelling controlled growth and achieving a reasonable return for the Group.

In 2009, our most active market was local government. We also saw increased activity in financial services and central government and ongoing interest from the life and pensions market. We have seen a steady flow of outsourcing opportunities across both public and private sectors in 2009. As a result, the sector split of revenues remained broadly in balance at 50% private/50% public (2008: 52%/48%). See pages 44 to 54.

Organic growth

Our markets continue to offer good opportunities and our new sales performance in 2009 was satisfactory. However, due to the prevailing economic conditions it was more difficult to secure additional revenues from existing clients.

Our central major sales team pursues complex, long term contracts which bring together a wide range of the Group's skills and generate high quality, recurring revenues. Securing and renewing major contracts is an important component of our growth.

Contracts In 2009, we secured and extended 15 major contracts with a total value of £1bn (2008: 17 contracts totalling £1.24bn) including with AXA Sun Life, Learning and Skills Council, Office for National Statistics, Department for Children, Schools and Families, BBC Audience Services, Becta and NHS BSA. 8 contracts and renewals worth between £10m and £50m were secured with an aggregate value of £159m.

To date in 2010, 9 new contracts and extensions worth between £10m and £50m with an aggregate value of £195m have been secured.

Bid pipeline Alongside these contract wins, our bid pipeline has been replenished and reflects the quality of business opportunities across our markets. In February 2010, the bid pipeline stood at £3.7bn (Feb 2009: £3.1bn). Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage.

Contract renewals We have no material rebids of our contracts (defined as having annual revenue in excess of 1% of 2009 turnover) in 2010 and 2011, 2 rebids in 2012 and none in the following 2 years. See pages 13 to 16.

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National Outsourcing Awards 2009

Our partnership with Prudential won the Financial Services Outsourcing Project of the Year. See case study page 65 →

[†] Ovum 2008 and 2009

Stimulating growth through acquisition

A key element of our growth is the acquisition of small to medium sized companies which widen our skills and knowledge, extend our presence in existing marketplaces or provide a foothold in a new market. We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations.

In 2009, we completed 12 acquisitions for a total consideration of £177.5m, including CHKS, NHS Membership Services, Hero Insurance Services, Capmark Services Europe, Carillion IT Services Ltd and Synetrix.

In 2010, our pipeline of potential acquisitions is healthy. To date, we have acquired 2 businesses for a total consideration of £16.8m: Inventures, a leading healthcare property consultancy and NB Real Estate Ltd, commercial property management specialists. See pages 16 to 18.

Optimising operational efficiency

We have built up an extensive operational infrastructure and a depth of capabilities which enable us to fully support our clients, provide flexible operating models and share economies of scale. Wherever possible, we will migrate and integrate systems, share resources and rationalise premises to optimise our infrastructure while maintaining and enhancing services. In 2009, we have taken significant steps forward in this ongoing process, particularly across our Life & Pensions business. See pages 34 to 35.

Group Board

After 9 years with Capita, Eric Walters decided to step down as Chairman with effect from 1 January 2010. We thank Eric for his considerable contribution and wish him well as he pursues other interests. We are delighted that Martin Bolland, who has been an active and valuable Non-Executive Director since March 2008, has assumed the role of Chairman. We also announced last year that Paddy Doyle would be moving to a part-time Executive Director role. He has now decided to reduce his business interests further and will continue on the Board as a Non-Executive Director from 1 March 2010. We welcome Paddy's continued valuable contribution to the Group. See pages 70 to 71.

Valuing our people

Capita owes its success to its people and the Board would like to take this opportunity to thank all the talented employees across our businesses who have played a key role in Capita's consistent growth. Against a backdrop of difficult market conditions during 2009, the effort made by our 36,800 employees has been outstanding and has contributed to another successful year for the Group. Whether joining us through direct recruitment, contracts or acquisitions, their hard work, commitment and enthusiasm play a vital role in helping us to meet client expectations and in sustaining our growth. See pages 36 to 37.

Future prospects

Capita is well placed to continue its growth and is experiencing a healthy flow of new business opportunities.

Our pipeline of sales prospects, strong forward visibility of revenues from our long term contracts and consistent operational performance position us well for further strong progress in 2010 and thereafter.

National Customer Service Awards 2009

Mark Wilson (Capita Life & Pensions – Craigforth) Contact Centre Professional of the Year

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Achieving our goal through a clear business strategy

Our straightforward goal is to continue developing Capita as a long term, sustainable business that consistently performs, delivering value to all our stakeholders – shareholders, clients, employees, suppliers and the communities in which we work

To achieve our goal our business strategy focuses on 5 core elements

1. Generating profitable growth

Pages 12 to 18

. both organically and through acquisition We secure long term, recurring revenues from new and existing clients and acquire small to medium sized businesses to expand our capability and take us into new areas

2. Controlling and measuring growth

Pages 22 to 28

...through strong leadership and business practices With strong financial controls, careful risk management and effective governance, we work to clear financial KPI targets within a robust management and operating structure

3. Delivering business responsibly

Pages 32 to 40

. to meet the needs of all our stakeholders We manage our business and resources with a clear set of non-financial KPIs, embedded policies and robust initiatives appropriate to the distinct needs of our stakeholders, alongside reducing our negative impacts on the environment and making a positive social impact.

4. Targeting growth markets

Pages 44 to 54

. .for BPO and professional support services in the UK and Ireland We seek opportunities across our 9 chosen public and private sector markets where we can both deliver value to clients and make a fair return for Capita

5. Maintaining performance across our divisions

Pages 58 to 68

by consistently delivering service excellence and sharing Group resources and scale benefits Each business is aligned with the Group's overall objectives and strategy, and is managed within a straightforward, pragmatic divisional structure.

1

2 Controlling and measuring growth

3 Delivering business responsibly

4 Targeting growth markets

5 Maintaining performance across our divisions

Generating profitable growth

We generate profitable growth in 2 ways – organically and through acquisition. As a result, we have grown consistently and operate strongly across both the public and private sectors.

1.1 Organic growth:

Aim: To identify and win business from new and existing customers in the UK and Ireland that provides long term recurring revenues

Progress: 15 major contracts worth a total of £1bn were secured or extended in 2009

1.2 Acquisitions:

Aim: To acquire small to medium sized businesses that broaden our skill base and extend our market reach

Progress: We spent £1775m on 12 acquisitions in 2009

Our consistent business model

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1.1

Organic growth – securing major contracts and highly recurring business

Our organic growth is created in 2 ways

The majority of our organic growth comes through securing high quality, recurring revenues from long term contracts delivering multiple, integrated administration and customer services. These contracts have been consistently increasing in length as clients seek longer lasting partnerships to deliver more complex service transformation. They currently average 9 years.

We also seek single service business that rolls over annually, has a high repeat rate or is secured under medium to long term contracts of 2 to 7 years.

The combination of long term contracts and recurrent business ensures highly visible future revenues.

In 2009 our sales performance was satisfactory. We secured and extended 15 major contracts with a total value of £1bn (2008: 17 contracts totalling £1.24bn).

Alongside these contract wins our pipeline is constantly replenished reflecting the quality of business opportunities across our markets. In February 2010, our bid pipeline was £3.7bn (Feb 2009: £3.1bn).

We report on the pipeline twice a year in our half year and full year results. It contains contracts of £10m or above, where we have been shortlisted to the last 4 or fewer. All bids are capped at £500m to prevent very large individual contracts distorting the total.

Setting our bid success rate against our bid pipeline provides a useful indicator of likely future sales growth. Historically we have maintained a win rate of 1 in 2, in 2009 this reduced slightly to 1 in 3 as we gained important insight and started to establish key new relationships in new markets, such as defence.

Identifying new business opportunities

Behind our bid pipeline is an active 'prospect list' of opportunities where the bidding process is underway but we have yet to reach a shortlist or final bidding stage. This prospect list is in turn supported by a list of 'suspects' – relationships which we are nurturing to generate future bid opportunities.

We constantly identify areas of opportunity and potential clients across all our chosen markets. We actively engage with potential clients to demonstrate the benefits and added value that outsourcing offers to their organisations and customers.

In the private sector we seek out opportunities through business intelligence and existing relationships; increasingly, we are also approached directly by organisations. The procurement process is determined by each individual client, often working with advisers.

UK public sector contracts are subject to defined procurement processes. EU policy requires 'fair and open competition' and opportunities are formally advertised and notified. In addition, under EU competition law, public sector outsourcing contracts that are already in place must be offered for tender when the initial contract term is complete.

Maintaining selectivity

Procurement processes on major bids, particularly in the public sector, may take up to 2 years to complete. They can be costly in both time and resources. So we are highly selective and disciplined throughout the bid process, only bidding where we see realistic opportunity for a sensible working relationship that benefits both the client and the Group. We look for:

- clients with whom we can build a strong relationship and deliver real benefits
 - clients whose operations or services to be outsourced are primarily UK based
 - a defined bid process with clear decision criteria
 - fit with our core competencies in service transformation
 - a fair risk/reward balance
 - limited requirement for capital investment, unless there is a real value proposition for the Group
 - acceptable contractual obligations
- If at any stage we feel that conditions have shifted significantly or that any of these criteria are no longer met, we will, after detailed consultation, withdraw from the process. It is essential for us to pursue only those contracts that can both meet the client's expectations and generate reasonable returns for Capita.

1. Generating profitable growth

1.1 continued

Converting opportunities

We manage procurements either centrally or at business level, depending on the size and complexity of the opportunity. Our major sales team pursues complex, long term contracts. It can draw on the resources of the whole Group to tailor solutions to each client's requirements.

Sales teams in each business unit of each division pursue smaller or less complex contracts, usually focused on a single service. Where these are worth over £10m, the major sales team may provide extra support.

Retaining and expanding contracts

As well as securing new business from new clients, we work to renew or expand existing client relationships. We concentrate on generating client satisfaction by meeting expectations and delivering value.

We agree detailed service standards and key performance indicators to measure progress and improvements. On our largest contracts, strategic partnership boards help both parties understand each other's needs better. As a result, clients find that outsourcing gives them more control over support operations, not less.

By delivering operational excellence and adding value for our clients and their customers, we achieve high client retention rates. In our 26 years of operation we have only failed to renew 3 of our material contracts (defined as generating more than 1% of the previous year's revenue). The most recent of these contracts was the London congestion charging scheme, which ended in November 2009. We have no material contracts due for renewal in 2010 and 2011, 2 rebids in 2012 and none in the following 2 years.

We aim not just to keep our relationships, but also where possible to grow them through supporting further areas of our clients' operations.

Impending rebids of existing material contracts*

Year	Contract	Value per annum (£m)
2010	None	
2011	None	
2012	TV Licensing	50
	Criminal Records Bureau	40
2013	None	
2014	None	

National Strategies contract is due to end 31 March 2011 and will not be re-tendered.

*Defined as generating more than 1% of previous year's revenue. Revenues per annum as per original contract values.

Securing appropriate pricing and contract terms

Our major contracts are long term commitments. It is therefore essential to get our pricing and contract terms correct from the start, to deliver value to both the Group and our clients.

To ensure prudent pricing, we clearly separate responsibilities:

- sales teams: client relationships
- sales support teams: pricing and risk models
- Group Board: solution and pricing approval (major bids)

We undertake extensive due diligence to build detailed service, risk and pricing models. We often share these openly with our prospective clients to ensure that all our assumptions for delivering successfully on the project are robust and that the benefits generated to both parties are fully understood.

Our contract price is generally made up of a base cost that covers the transformation and normal running costs of the service. Where demand on the service infrastructure fluctuates, the pricing will include a variable volume-related element. All contracts include a related basket of indices that reflect the cost elements of the service (such as wage inflation and RPI).

Our track record in pricing contracts correctly enables us to offer clients sensible and realistic proposals while robustly managing and mitigating risk. Once agreed, the terms of our contracts are fixed. This means we have a good view of stable, long term contracted revenues.

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National Outsourcing Awards 2009

Contact Centre Provider of the year for our Pearl life and pensions operation in Glasgow

Major new contracts and extensions secured in 2009

Total value: £1bn, 15 contracts

2008 £1.24bn, 17 contracts

NEW

AXA Sun Life

Value: **£523m**
15 years

Service commencement: June 2009
Division: Life & Pensions Services

To administer 3.2 million mature life and pensions policies including customer servicing, policy administration, claims activity and related IT support

NEW

Breckland Council

Value: **£40m**
15 years

Service commencement: June 2009
Division: Integrated Services

To provide planning and building control services to the Council and create a new Capita Symonds' business unit based at the Council's offices

NEW

Learning and Skills Council (LSC)

Value: **£68m**
4 years

Contract commencement: May 2009
Division: Integrated Services

To administer a range of allowances to support learners, including the Education Maintenance Allowance and the Adult Learning Grant

NEW

Office for National Statistics (ONS)

Value: **£25m**
2.5 years

Service commencement: March 2009
Division: Integrated Services

To recruit, train and administer the pay of all temporary ONS workers who will work as field staff for the 2011 Census of Population and Housing in England and Wales

EXTENSION

Department for Children, Schools and Families (DCSF)

Value: **£64m**
1 year

Contract commencement: March 2010
Division: Professional Services

National Strategies contract extended from end of March 2010 to 31 March 2011. Following this, National Strategies is being discontinued by Government

NEW

BBC Audience Services

Value: **c £45m**
9 years

Contract commencement: August 2009
Division: Integrated Services

Awarded new contract to handle viewers' and listeners' complaints, comments and enquiries via phone calls, emails, SMS and letters. Also to provide action lines for issue-related programming, audience management and ticketing and daily feedback

NEW

NHS Business Services Authority (NHS BSA)

Value: **£100m**
7 years

Service commencement: July 2010
Division: ICT, Health & Business Services

To provide processing and payments of 40 million dental claims and a managed IT service to support the Authority, its current portfolio of activities and future growth

NEW

Becta (Home Access Programme)

Value: **£15.7m**
17 months

Service commencement: October 2009
Division: Integrated Services

To manage grant marketing and administration for the Government's Home Access programme, which provides computers and internet connectivity to low-income families to support learning

+8 contracts and renewals worth between £10m and £50m secured with an aggregate value of £159m

1. Generating profitable growth

1.1 continued

Maintaining a strong competitive position

Outsourcing has evolved rapidly from delivering cost driven, single service solutions to creating long term, multi-service partnerships focused on business transformation and added value. Many of our clients regard us as an integral part of their business. Cost efficiency remains an important reason for outsourcing, but it is equally important to consider how outsourcing can add more value to clients' operations and help them to increase effectiveness and maintain competitiveness.

We are the clear market leader in BPO in the UK, with an excellent track record of service delivery and a strong set of satisfied client referees. We have consistently led and helped shape the market by developing our outsourcing offering.

Our knowledge and skill base and extensive operational and technical infrastructure is unrivalled. As a UK based business serving an almost exclusively UK based clientele, we have a detailed knowledge of our market, and our management team is highly accessible and swift to respond to our clients' needs.

We maintain open and honest discussions with our clients, which allow us to develop a detailed understanding of their business and challenges. We respond to clients' specified requirements but always seek to propose alternative service models that deliver even greater benefits.

Our clients are highly selective. Increasingly, they seek outsourcing partners who have not just the expertise and capacity to support them but also the financial strength and stability essential to building a long term partnership. We, too, must be selective and we undertake detailed due diligence of potential clients.

Capita's strong balance sheet and cash flow reassure clients that their service is in the hands of a stable partner. Our proven record of strong governance and ethical, socially responsible behaviour is also a competitive strength. Together, these elements clearly differentiate us from competitors and are significant barriers to entry for new participants in all our markets.

1.2

Acquisitions – stimulating growth

Acquisitions have consistently played a key role in stimulating our growth. We continuously look to acquire niche businesses that will help us to enter new markets where we can grow organically, strengthen existing capabilities and market positions and build economies of scale, or access a new client base.

Adding value through acquisitions in 2009

In 2009, we spent £177.5m on 12 acquisitions. Our pipeline of potential acquisitions is healthy and in the first 2 months of 2010 we spent a further £16.8m on 2 acquisitions. We continue to be selective and remain disciplined when assessing opportunities.

IMAGE
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Organic growth

- Identify quality new business opportunities to expand and maintain a buoyant bid pipeline
- Continue addressing opportunities selectively
- Continue to explore new market segments where we can add value, such as health and defence
- Maintain bid process disciplines to secure appropriate pricing and contract terms
- Maintain focus on retaining and expanding existing contracts

Acquisitions in 2009

Total spent: £177.5m on 12 acquisitions

2008 £147.4m on 12 acquisitions

Trust administration

FMS

Value: £2m

£11m deferred consideration
Division: Insurance & Investor Services

Trust administration company based in the Netherlands

Health services

CHKS

Value: £11.6m

Division: ICT, Health & Business Services

Provides healthcare intelligence and quality improvement services to healthcare professionals
Over 90 NHS trusts as clients

Insurance services

Hero Insurance Services

Value: £15m

Division: Insurance & Investor Services

Acquired from LV= (formerly Liverpool Victoria). A personal lines broker offering insurance for cars, motorbikes, homes and commercial vehicles

Health services

NHS membership Services

Value: £2m

Division: ICT, Health & Business Services

Provides membership services and engagement programmes for over 50 NHS trusts

Property services

MMB

Value: £4.85m

Division: Integrated Services

A specialist in the development, implementation, operation and management of Intelligent Transport Systems on the UK motorway and trunk road network

Financial services

Capmark Services Europe

Value: £10m

Division: Insurance & Investor Services

Provides administration services for securitisations, commercial mortgages, commercial property loans and asset managers

Property services

Andrew Martin Associates

Value: £2.25m

£4m deferred consideration
Division: Integrated Services

Employs 40 chartered town planners, urban designers, landscape designers and environmental planners offering advice on a wide range of planning, development, regeneration and environmental matters

IT services

Carillion IT Services

Value: £36m

Division: ICT, Health & Business Services

The external IT services business of Carillion plc, Carillion IT Services, offers outsourcing, managed services and network infrastructure solutions

Life and pensions

Gissings Consultancy Services

Value: £9m

Division: Life & Pensions Services

Provides actuarial, advisory, investment and administration services for UK pension plans and is also a leading player in the advisory market for the buyout of pension liabilities

Trust administration

Fidei

Value: £5.3m

£5.7m deferred consideration
Division: Insurance & Investor Services

Trust administration company based in Luxembourg

Property services

Multi-Tech

Value: £4.4m

£4.75m deferred consideration
Division: Integrated Services

Engineering consultancy which specialises in engineering, design and project management services to the chemical, food, petrochemical, energy, recycling and pharmaceutical sectors

IT services

Synetrix

Value: £75m

Net of cash acquired
Division: ICT, Health & Business Services

Specialises in the design, development, integration and deployment of converged networks, hosted application solutions, managed security solutions and software platforms

1. Generating profitable growth

1.2 continued

Selecting appropriate acquisitions

We focus on acquiring small to medium sized businesses that bring complementary skills and services and strengthen our position in our target markets or expand our current reach. Expanding our presence through subsequent acquisitions and contract wins creates significant scale benefits.

To stimulate growth we generally seek target acquisitions that

- have operations and customers in the UK and/or Ireland
- fit with our strategy and core competencies
- generate sustainable, quality revenues

Rigorous selection criteria and pricing

Potential acquisitions are identified and brought to the Group by external consultants, people in our businesses, or direct approaches. We are highly selective and due diligence is undertaken at both Group and business level. All acquisitions are assessed, priced and agreed by the Group Board.

We tend to select acquisition targets that are

- privately owned
- too small to interest the private equity market
- not in an auction – we aim to acquire without competition
- attractively priced, with scope to add value for shareholders

This disciplined approach enables us to negotiate sensible purchase prices and terms, so generating good returns for the Group.

Smooth integration of acquisitions

We have substantial experience of successfully integrating acquired businesses and achieving synergies with our existing operations. Stringent due diligence, before and after acquisition, enables us to set clear targets for growth, integration benefits and profit. A dedicated project team manages the transition – bringing financial procedures, information and communications technology (ICT), HR, legal, compliance and marketing quickly into line with our standards. Acquiring only small to medium sized businesses enables us to integrate them into our existing business infrastructure efficiently and allows us to generate value faster.

IMAGE
REMOVED

Acquisitions

- Continue to encourage businesses to identify suitable acquisitions
- Select acquisitions that complement or grow our business offering
- Maintain rigorous criteria for selecting targets
- Maintain stringent disciplines regarding pricing
- Continue to enhance integration process

Case study 1

The NHS wanted to help citizens make informed choices more cost effectively

IMAGE
REMOVED

Now NHS Choices informs and empowers 7m citizens a month

IMAGE
REMOVED

NHS Choices is helping to improve the nation's health, enabling people to take care of themselves, giving them reliable information on conditions and treatments, allowing them to make informed choices about their care and engaging them in raising standards.

So what are we doing?

- Focusing on customers
- Bringing new creativity
- Providing a flow of high-quality new content
- Increasing NHS Choices' market share doubled in a year
- Partnering with NHS trusts, providing syndicated content for their local sites
- Providing content to Boots, Google, AOL, Yell and others to reach more people

In 2008, Capita took on NHS Choices, a health information website with big ambitions. Our 3 year mission: develop it into the health service's digital front door in England, while reducing costs.

Providing information is not an end in itself. The Department of Health wants the website to encourage and help people to take responsibility for their health, reducing the burdens on the NHS. So a primary goal is to attract more visitors, empowering them to make health decisions by providing them with content, interactive tools and videos in order to become better informed and take control of their health and wellbeing.

Our target of 7 million visits a month by 2011 looked stretching. But by ensuring we are delivering a robust service and expanding the website's usefulness imaginatively we achieved it 2 years early. Visits doubled within 12 months. In October 2009 the website attracted 9.5 million visitors and the 2009 average was 7.2 million. By 2011 we are now targeting at least 11.7 million and we have a programme of technology refresh and enhancement to ensure continuous improvement. Meanwhile, we are eliminating duplication of effort – and cost – elsewhere by providing syndicated content for NHS trusts' local websites.

NHS Choices is helping to transform the delivery of health and social care, making it more patient centred and accessible. And the flow is two-way: as well as providing authoritative information on conditions, treatments and services, it enables citizens to rate their experiences. Hospitals are making improvements in response to patient comments on the website, and we are seeing a similar impact on GP practices since the comment facility was extended to cover them in 2009. As well as giving patients choice, it's giving them a voice.

IMAGE
REMOVED

Anywhere, anytime,
Zoe Thomas now just
needs her laptop to...

- ...find out what others say about her local GP surgery
- ...check her symptoms
- ...find an NHS dentist
- ...monitor her pregnancy using online tools

1 Generating profitable growth

2

3 Delivering business responsibly

4 Targeting growth markets

5 Maintaining performance across our divisions

Controlling and measuring growth

Strong leadership and clear business practices are essential to creating a financially stable organisation capable of supporting sustained growth and delivering healthy investor returns. With a stable and experienced management team and robust business practices in place, we focus on securing and delivering profitable business to generate steady, controlled growth.

Our growth is underpinned by the following disciplines and these remain our priorities for 2010:

2.1 Maintaining strong structure and control through robust management and operating structures

2.2 Focusing on clear financial key performance indicators (KPIs) with strong financial controls and effective governance

2.3 Maintaining careful risk management consistently throughout the Group

Our principal financial KPIs

Aim	Progress	
	2009	2008
Earnings per share Achieve long term steady growth in EPS	38.75p	33.26p
Operating margins Maintain and strengthen margins	13.31%	13.15%
Free cash flow Maintain strong free underlying cash flow	£280m	£219m
Return on capital employed (ROCE) Achieve ROCE which exceeds our cost of capital	20.6%	20.3%
Economic profit Achieve steadily increasing economic profit	£162m	£139m
Gearing – interest cover Maintain an efficient capital structure, with relatively low gearing	10.9x	7.4x
Capital expenditure Keep at or below 4% of revenue	2.5%	3.5%

See pages 24 to 26 for more detail

2.1

Maintaining strong structure and control

Our management structure and business reporting process promote accountability and knowledge sharing across the Group, keeping management responsive to performance and trends in the business and the wider marketplace

In 2009, the Board comprised a Non-Executive Chairman, 3 Non-Executive Directors and 5 Executive Directors – Chief Executive, Group Finance Director, Chief Operating Officer, Business Development Director and a part-time Executive Director

From 1 March 2010, the Board comprises a Non-Executive Chairman, 3 Non-Executive Directors and 4 Executive Directors. We are actively seeking to recruit further Non-Executive Directors

The Board is responsible for establishing, maintaining and reviewing the Group's growth strategy, financial performance, systems of internal control and Group-wide policies. See pages 70 to 78

The Chief Operating Officer and the Divisional Directors are responsible for the development and performance of the divisional businesses. They communicate and monitor the application of Group-wide business objectives, policies, procedures and standards. They work with and delegate responsibility to their management teams. See pages 58 to 64

Each of our business units prepares a comprehensive annual business plan. This includes monthly revenue and cost forecasts for the year ahead, taking into account new service and product developments and changes in the competitive landscape. The business units' financial plans feed into the Group financial model.

Monthly operational business (MOB) reviews focus on the performance of each business unit in each division. Management teams assess each unit's performance against plan and discuss its ongoing development, determining how planned targets will be met. These are forums to share knowledge and identify challenges early, develop tactics, reallocate resources and refresh strategies. Board Executive Directors attend divisional MOB's, ensuring they have a detailed knowledge of the progress of the divisions and a monthly view of actual and anticipated performance against business plans.

Our management and governance structure

GRAPH
REMOVED

2. Controlling and measuring growth

2.2

Focusing on clear financial KPIs

We are a financially focused business. We monitor and challenge financial performance at all levels to probe the health and progress of our businesses and promote accountability. As well as profitability, we use a range of financial measures at Group level. Collectively they form an integral part of the way we build consistent, long term value for our shareholders.

We focus particularly on KPIs in 7 areas and these remain our priorities for 2010.

Earnings per share (EPS)

Aim to achieve long term growth in EPS

Long term growth in EPS is a fundamental driver to increasing shareholder value. Board Directors' long term incentive schemes have EPS targets to align their interests with those of our shareholders.

Progress In 2009, underlying earnings per share grew by 17% to 38.75p (2008: 33.26p).

Operating margin

Aim to maintain and strengthen margin

We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective.

Progress In 2009, we continued our long term trend of steadily improving underlying operating margin with an annual increase of 16 basis points (bpts) to 13.31% (2008: 13.15%).

GRAPH
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Cash flow

Aim to maintain strong operating and free cash flow. We generate a predictable and consistent cash flow.

Progress In 2009, we generated excellent cash flow with £437m generated by operations, representing an operating profit to cash conversion rate of 122% (2008: 122%). Our underlying free cash flow, defined as operating cash flow less capital expenditure, interest and taxation, increased by 28% to £280m (2008: £219m).

Our success reflects the strength of our business model and management approach, including securing timely payment terms, focusing on cash generation, providing valued services and maintaining an efficient finance function.

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Economic profit

Aim achieve steadily increasing Group economic profit. We are focused on delivering value for our shareholders.

An effective way of measuring this is to assess whether our after tax returns are sufficient to cover the returns required from all our capital providers (Weighted Average Cost of Capital – WACC). Group economic profit allows us to assess whether the return generated on the average capital base is sufficient to meet the base return requirements of our investors (debt and equity). Positive economic profit therefore means that we have created value above this base level.

Progress In 2009, we achieved positive economic profit of £162m (2008: £139m).

GRAPH
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Return on capital employed (ROCE)

Aim steadily increasing ROCE which exceeds our cost of capital.

This ensures that we add shareholder value over the long term. In recent years we have successfully widened the margin between the cost of our capital and the returns we generate by investing it.

In the chart on the right the weighted average cost of capital (WACC) indicates the return that could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and

equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our WACC assuming a risk free rate of 3.97%, an equity risk premium of 6.95% and a Beta of 0.69.

Progress During 2009, our post tax return on average capital employed improved to 20.6% (2008: 20.3%). This compares to our estimated WACC which is 7.9%.

GRAPH
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2. Controlling and measuring growth

2.2 continued

Gearing

Aim maintain a conservative and efficient capital structure, with a relatively low level of gearing

It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf and even more so during the current volatile economic conditions

The Group has substantial headroom to take on further debt if necessary, as indicated by the interest cover ratio and net debt to earnings before interest, tax, depreciation and amortisation and Arch cru costs (underlying EBITDA). However, we would be unlikely to incur borrowings which would reduce interest cover below 7 times

Progress Group interest cover for the year ended 31 December 2009 was 10.9 times

Balance sheet gearing

	2009	2008
Net debt		
Bond debt (£m)**	582	679
Bank facilities drawn/(deposit) (£m)	(182)	(87)
Loan notes (£m)	3	4
Bank term loan (£m)	200	–
Other	2	–
Total net debt (£m)	605	596
Interest cover	10.9x	7.4x
Net debt to EBITDA	1.5	1.6

**Underlying net debt after impact of currency and interest swaps

Debt profile We have substantial headroom to take advantage of opportunities to add value to shareholders as they arise. Following repayment of £100m in June 2009, we have £579m of private placement debt which matures between 2012 and 2018. Alongside this we have raised a £200m bank term loan maturing in July 2011 and have an unused revolving credit facility of £245m maturing in December 2011. See note 23 on pages 109 to 110, and note 26 on pages 111 to 112.

Capital expenditure

Aim keep capital expenditure (capex) at or below 4% of revenue

This helps us to focus investment on the opportunities that generate greatest shareholder value and avoid tying up too much capital in long term projects

Progress In 2009, we met this objective, with net capex at 2.5% of annual revenue. We believe capex at or below 4% is sustainable for the foreseeable future. There are currently no indications of significant capex requirements in our business forecasts or bid pipeline. But we would not rule out the possibility of exceeding 4% if we saw an exceptional opportunity to use our financial strength as a competitive advantage.

GRAPH
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2.3

Maintaining careful risk management

Systems and procedures are in place across the Group to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy. Monitoring our exposure to risk is an integral part of the MOB process, described on page 23.

Across a number of our businesses, including all the regulated businesses, the MOB process is supplemented by formally constituted risk committees and a “Black Hat” process to monitor and seek Board approval regarding acquisitions and major bids.

At Group level, risk management is independently facilitated and challenged by the Group Risk and Business Assurance function, which reports to the Group Finance Director and independently to the Audit Committee. See page 23.

GRAPH
REMOVED

2. Controlling and measuring growth

2.3 continued

Risk management

Risk category	Risk mitigation	
Financial	- Financial performance of each business unit is monitored each month and actual progress against plan is challenged by the Executive Directors - Capital expenditure is subject to rigorous budgetary controls and spending above specified levels requires Group sign-off	Treasury management: the Group's financial instruments for fundraising are bonds, term debt, unsecured loan notes, finance leases and overdrafts. The Group has various other financial instruments such as trade creditors and debtors that arise directly from its operations. Where appropriate, the Group may also use derivatives to hedge its exposure to fluctuations in interest rate and foreign exchange rates. It is the Group's policy that no speculative trading in financial instruments will be undertaken
Delegates/Counterparties	Ongoing risk-based oversight and performance monitoring of all key operational delegates/suppliers and other key counterparties	Rigorous risk-based due diligence processes for the selection of key delegates and wider counterparties, and significant re-assessment exercise conducted in current economic environment
Operational risk	- Escalated via the MOB process and risk committees to Divisional Directors and the Board as appropriate - Operating performance indicators in place across all businesses/contracts - Key Group forums in place providing operational risk support in the areas of - Information Security - Business Continuity - Payment Card Industry Compliance	- Continuous cycle of learning and improvement actions across the business - Risk-based independent assurance programmes focused on key areas of operational risk
New contracts	- Rigorous, risk-based due diligence process - Fit with strategy and pricing is subject to consideration and approval by the Board - Aligned with core competencies and financial targets	- Secure appropriate pricing and contract terms to ensure fair risk/reward profile - Transition process to ensure maximisation of continuity of service and retention of staff
Acquisitions	- Aligned with core competencies and financial targets - Rigorous, risk-based due diligence process - Fit with strategy and pricing is subject to consideration and approval by the Board	- Integration process to ensure adoption of Group policies and procedures - Continuous improvement approach to the take-on and integration of new businesses
Fraud	Mitigating policies and procedures are published by the Group Risk and Business Assurance function in conjunction with Group Compliance	- Zero tolerance to fraud and financial crime - Computer based anti-fraud and fraud management training deployed across operations
Financial services regulation	- Monitoring by the Group Compliance function to ensure that regulatory risks are identified, assessed, monitored, managed and controlled - Reporting to senior management, subsidiary boards and Risk Committees	- Ensuring the business has appropriate policies and procedures in place - Risk based monitoring and reporting of findings continues to be undertaken in accordance with entity level compliance plans approved by senior management - Independent reporting to the Audit Committee
Reputation	Robust process for handling and escalating enquiries/complaints from all stakeholders at both a business/contract and Group level – primarily clients, media, public and suppliers	Centralised proactive and reactive PR team to promote Group and business units and manage communications regarding issues
Procurement	Group Procurement prepares and manages the generic procurement risk register which is produced annually and owned by the Group Procurement Director. This Risk Register identifies the key supply chain risks across Group contracts and suppliers, and identifies actions to prevent occurrences	Individual contract or category Risk Registers are produced by procurement managers for all high value or high-risk (Group) contracts, and when assessing or reviewing Tier 1 suppliers.
Attracting and retaining staff	- Investment in training and development - Competitive, appropriate incentive schemes	- Succession planning is a key element of MOB process - Continual development of our screening and reference process for all employees

Case study 2

The HSE wants to stop cowboy gas fitters

IMAGE
REMOVED

Now there are more registered engineers than ever before

IMAGE
REMOVED

A 2006 review by the Health and Safety Executive identified 'a case for change' to the CORGI scheme that had been registering gas installers since 1991. In competitive tender, Capita was appointed to overhaul the scheme and operate it for 10 years from April 2009.

So what have we achieved?

- Created and promoted an award-winning new brand
- Introduced new web IT to manage registration
- Reduced costs for engineers
- Set up new online and helpline support for consumers and engineers
- Sharpened the inspection regime
- Attracted a record number of registrations

Unsafe gas work and appliances can seriously injure and kill. Last year alone, 310 people were injured in gas related incidents – through fires, explosions, gas leaks and carbon monoxide – and 18 died. In its 2006 review of gas safety, the Health and Safety Executive (HSE) found that 45% of people were not fully aware of these risks. This prompted the HSE to overhaul the gas registration scheme, appointing Capita to run a new register for gas engineers.

The register went live in April 2009. The trade welcomed the lower registration fees, free promotional materials and strong technical support including a free helpline. By the year-end close to 61,000 firms and 126,000 engineers had signed-up – the highest levels ever achieved.

Building recognition of Gas Safe Register as the replacement for the long-established CORGI scheme was a major challenge. But strong promotion, clear branding and award-winning design ensured that within 6 months of launch Gas Safe was close to its target of 40% unprompted brand recognition. Consumers welcomed the new Freephone service and website that helped them find local engineers – and check their qualifications and photos.

The HSE has praised our more rigorous inspection regime – which carries out more inspections, using a risk-weighted approach rather than letting engineers nominate their own work for inspection. And reputable firms appreciate the way Capita has positioned Gas Safe Register as a campaigning brand that supports registered engineers and promotes gas safety. As a recent ad campaign says "Gas and cowboys don't mix".

IMAGE
REMOVED

Philip Orrow
is one of 126,000
gas engineers who
now...

...pays lower fees (with more reductions to come)
...can register and renew online at any time
...can be found through the Gas Safe website
...has access to a free technical helpline

1 Generating profitable growth

2 Controlling and measuring growth

3

4 Targeting growth markets

5 Maintaining performance across our divisions

Delivering business responsibly

We are committed to growing the business in a transparent and socially responsible way that is sustainable for all stakeholders over the long term. We focus on 6 main areas that reflect our stakeholders' interests and these remain our priorities for 2010:

3.1 Shareholders: Consistently delivering value to our shareholders

3.2 Clients: Building appropriate scale and capacity and optimising our infrastructure to support our clients' needs

3.3 Employees: Managing resources well by actively attracting and building a quality workforce of motivated and supported people

3.4 Suppliers: Creating successful supplier relationships to ensure quality, responsible and cost effective partnerships across the Group

3.5 Environment: Controlling and minimising our environmental impacts

3.6 Communities: Supporting the communities in which we work.

Our principal non-financial KPIs

Aim	Progress	
	2009	2008
Shareholder value Grow dividends at least in line with earnings – annual growth of total dividends	17%	20%
Client resources building scale & capacity Continue to grow our infrastructure of business centres to meet the needs of our growing business	62 business centres	62 business centres
Employee resources retaining people Maintain high retention rates for senior managers (salaries exceeding £90k p.a.)	88%	88%
Maintain overall employee retention at or above industry average (2009: 84.3%, 2008: 82.7%) ¹	84%	82%
Create successful supplier relationships Annually audit all tier 1 suppliers against Capita's standards of business	100%	100%
Controlling our environmental impacts Continue to measure and assess our carbon footprint (tonnes CO ₂)	79,212	73,057*
Supporting our communities Continue to measure and grow our total community investment annually, using London Benchmarking Group (LBC) methodology	£1.4m	£1.2m

¹ CIPD 2008 and 2009

* Based on latest available greenhouse gas emissions factors from Defra. We have reviewed our calculation methodology and, to ensure accurate year on year comparisons, our 2008 carbon footprint has been restated.

3.1

Delivering shareholder value

Aim to create sustainable growth and deliver healthy investor returns. We maintain a strong structure and controls, focus on clear financial KPIs and apply consistent thorough risk management. See pages 22 to 28

After investing in the business, we use surplus cash to deliver further shareholder value in 3 main ways through acquisitions, dividends and share buybacks

Progress Including the proposed 2009 final dividend, £929m has been returned to shareholders in respect of the last 5 years – £367m in ordinary dividends, £155m in special dividends and £407m through share buybacks

I Funding acquisitions to add value

In 2009, we spent £1775m on 12 acquisitions. There is a good volume of opportunities valued at attractive levels and we expect this to continue through 2010. We will continue to be selective and disciplined when assessing opportunities. See pages 16 to 18

II. Distribution to shareholders through dividends

The Group dividend strategy is to return surplus cash to shareholders through a combination of progressive dividends and, when appropriate, capital returns

A key element in the creation of shareholder value is a progressive dividend policy. Over the 5 years to 31 December 2009 we grew our dividend at a compound annual rate of 25%. Dividend cover for 2009 remains at 2.31 times (2008 2.31 times)

III Share buybacks

Opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In 2009, the Group did not buy back any shares as we have focused our capital on the flow of attractive acquisition opportunities. We will however continue to buy back shares if opportunities arise and market conditions allow

Dividend per share	2009	2008	2007	2006	2005	2004
Interim dividend (p)	5.60	4.80	4.00	2.70	2.10	1.75
Final dividend (p)	11.20	9.60	8.00	6.30	4.90	3.60
Total ordinary dividend (p)	16.80	14.40	12.00	9.00	7.00	5.35
Special dividend (p)	–	–	25.00	–	–	–
Total dividend (p)	16.80	14.40	37.00	9.00	7.00	5.35
Dividend cover (excluding special dividend)	2.31x	2.31x	2.34x	2.57x	2.66x	2.85x

Totals	2009	2008	2007	2006	2005	2004
Interim dividend (£m)	34	29	25	17	14	12
Final dividend (£m)	69	59	49	39	32	24
Total ordinary dividend (£m)	103	88	74	56	46	35
Special dividend (£m)	–	–	155	–	–	–
Total dividend paid (£m)	103	88	229	56	46	35

Share buybacks	2009	2008	2007	2006	2005	2004
% of share capital authorised to repurchase	10	10	10	10	10	10
% of share capital repurchased	–	17	11	79	19	13
Issued share capital at year end (m)	617	611	609	617	671	671
No. of shares repurchased (m)	–	10.4	6.6	52.9	13.3	8.9
Average price (p)	–	659	665	465	375	315
Total cost (£m)	–	68	44	245	50	28

Shareholder returns	2009	2008	2007	2006	2005	2004
Total return to shareholders (£m)	103	156	273	301	96	63

3. Delivering business responsibly

3.2

Building scale and capacity and optimising our infrastructure

Aim to have the right resources in place, both in terms of infrastructure and people, to satisfy clients that we have the operational scale and capability to deliver our promises

Progress We have built up an extensive operational infrastructure and a depth of capabilities which enable us to fully support our clients, provide flexible operating models and share economies of scale

We continuously assess the needs of each business unit to ensure that we have the necessary people, infrastructure and resources for current and future development. Each month we review comprehensive operational management information through the MOB review process (see page 23). This enables us to manage our resources in a way that meets the needs of our clients and delivers our key financial targets.

Wherever possible, we will migrate and integrate systems, share resources and rationalise premises to optimise our infrastructure while maintaining and enhancing services. In 2009, we have taken significant steps forward in this ongoing process, particularly across our Life & Pensions business.

Sharing scale benefits

Our substantial scale and broad capability enables us to put forward compelling propositions to clients and underpin the winning of major integrated service transformation contracts.

The delivery of progressively larger contracts, with common processes and substantial numbers of transferring employees, fuels the growth of our operations and resources. As we increase scale, we are able to deliver more services and contracts through shared ICT platforms and operating structures, providing greater benefits to clients. They benefit not only from cost efficiencies but also from greater access to specialist skills and flexible service delivery models.

Our business centres, where we are able to run a broad range of shared services, form a central part of our service delivery infrastructure. They are also excellent reference sites, allowing potential clients to see operations first hand and to speak with employees who have transferred to Capita from client organisations. At the end of 2009, we had 62 business centres onshore in the UK, nearshore in Ireland, the Channel Islands and Europe, and offshore in India.

Blended service delivery

Our infrastructure allows us to offer clients an onshore/offshore delivery model structured to meet their individual needs. By combining onshore and offshore resources we can deliver maximum service flexibility, quality and cost effectiveness. Our comprehensive security and quality assurance systems ensure consistent service quality across the entire infrastructure.

Offshore operations

We established our offshore operations in India in 2004 and they play an increasingly important role in our business and long term growth strategy. Capita India is fully integrated into the Group and operates like any other Capita business with the same values, technical infrastructure and operating model. It continues to develop strongly both in scale and scope of services and is a compelling proposition when offered as part of many of our bids. It also plays an increasing role in supporting Group businesses and Group support functions.

We now have 3 sites in Mumbai, 1 site in Pune and a new operation in Bangalore. These sites are specialist centres, delivering services to multiple clients or providing multiple services to a single client.

The sites share a combined management team to ensure they all benefit from their collective skills. We proactively recruit from the highly skilled graduate workforce that is available in these locations. Their skills, knowledge and excellent work ethic help us meet our objectives of delivering a first class service to our clients. Capita is widely regarded in India as a first class employer who will encourage and help employees grow and develop their careers. We therefore benefit from being able to attract and retain a highly skilled and professional workforce.

At the end of 2009, our Indian operations represented approximately 10% of our overall headcount and delivered significant growth in profits.

Adding value and protecting our clients

Alongside helping our clients to function more efficiently and cost effectively, we are continuously looking to enhance operations to ensure that their customers receive appropriate and flexible services. We do this through improving business processes, increasing customer choice and accessibility and looking for opportunities to apply innovation. The wider benefits of our efforts for our clients extend to the public and local communities where we operate.

By responsibly managing our clients' services we ensure that we adhere to any legal requirements regarding data protection and information security. We have robust policies and procedures governing data security, which include policies, user guidance, online training and incident procedures. It is mandatory for all Capita employees to complete information security, data protection and fraud awareness training every year. Our employee vetting policy applies to all our employees, including contractors and temporary employees. Where our clients have any particular risks in their business we work with them to address their requirements.

Business centre network

Onshore UK	Nearshore: Ireland, Channel Islands, Europe	Offshore India
Core client marketplace	Additional tax jurisdictions to support clients' products	Quality, cost effective offshore service delivery
52 business centres	5 business centres	5 business centres
Back office administration	Customer services	Data validation and entry
Customer services	Life and pensions administration	Claims and policy administration
Life and pensions	Financial services	Fund management administration
IT and software	Corporate registrars	Accounting and finance processing
Resourcing and training	Loan administration	Payroll processing and HR Services
Share registration		Property consultancy
Property consultancy		
Electronic document processing		
Claims and policy administration		
HR administration		

3. Delivering business responsibly

3.3

Motivating and supporting our people

Aim to attract, develop and retain a talented, ambitious workforce with the right skills and capacity to meet the needs of our business as it grows

Progress Our 36,800 employees are primarily based in the UK, Ireland, the Channel Islands and India. We have created a workplace that is supportive, rewarding, diverse, safe and inspiring and have therefore become an employer of choice and well positioned to attract the best talent

Leadership development

Our company culture is one of strong leadership. Investing in skills and developing our people is critical to our future prosperity. In 2009, we enhanced our approach to training and introduced the Capita Academy, which provides all employees with training opportunities, and the Capita Managers Academy, providing specific courses to ensure that managers are well equipped to help deliver our business strategy, respond to clients' needs and direct and support our people effectively. In order to promote knowledge sharing across the Group and provide career progression and variety, we actively reassign managers to new business areas.

Engaging our people

We rely on our people to drive forward the business and therefore effective engagement with our employees is vital. As 70% of our employees transfer to Capita from other organisations, maintaining a positive Group-wide culture is important to us. Our relatively flat management structure allows fast decision making, team-working and support across the Group. We use a range of communication tools and encourage open, two-way communication. An annual employee survey helps us to identify and track where our policies and initiatives are working well and similarly which areas need improvement.

Employee integration

Successfully managing large scale employee integration is one of Capita's greatest strengths, giving our clients confidence when making the decision to transfer their employees to us. The key to this is robust transfer procedures coupled with good communication. We consult with the potential transferees throughout the whole process, providing support and information and explaining the benefits of the transfer, as well as introducing them to our company culture and values.

Developing our people

Training is firmly embedded in all our businesses. This encourages and supports personal and career development, which in turn helps our employees achieve greater job satisfaction.

Our managers develop individually tailored career paths for our employees. We focus on 3 main types of training – specific job related skills, personal development and vocational and professional qualifications. In 2009, we invested £11.9m in employee training, providing 4,100 training days for our employees. Our Vocational Learning programme, introduced in 2007, has helped over 1,000 employees gain vocational qualifications.

GRAPH
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Rewarding performance and recognising success

We recognise and reward the individual performance of our employees, both financially and through our People Awards programme. Remuneration packages across the Group are set at levels that keep us competitive in each part of the business. For our senior people, responsible for the overall direction and performance of the Group or its component parts, a significant element of their financial reward is linked to the financial success of the Group.

We also offer our employees the opportunity to benefit from Capita's success through our sharesave and ownership schemes. In 2009, the scheme had 11,042 participants, with 32% of our eligible employees taking part.

Diversity, inclusion and human rights

As a large employer operating in a number of countries, we believe that our success is a direct result of the experience and quality of our employees. We believe this is best achieved by developing our employees' talents, whilst recognising their differences and benefiting from their unique skills. Where possible we ensure that our workforce reflects the composition of the local community.

Our equality and diversity policy sets out the behaviour we expect from our employees – to provide a workplace where people are treated fairly and equally, and are free from all forms of discrimination. We encourage all our employees to complete an online diversity training course. Compulsory completion of this training is required in all our businesses regulated by the Financial Services Authority.

Our HR policies meet UK, European and Indian employment law as well as international human rights legislation, including International Labour Organisation standards.

Employee wellbeing

We encourage our employees to have a good work-life balance and offer them the flexibility to allow this. Where possible we support part-time working, job sharing and flexible working hours. We are committed to the health, safety and wellbeing of our employees and contractors. More than 3,500 managers and Health and Safety advisers have attended the Group's Health and Safety management courses over the last 3 years, and specific training has been provided for any employees facing safety risks.

3.4

Creating successful supplier relationships

Aim to ensure that we select, procure and manage our supply chain effectively to serve the needs of our business and our clients well, and to safeguard our values and reputation.

Progress We have established robust procedures to carefully select and manage our supply chain and ensure good procurement practices across the Group. Our supplier relationships are managed at Group level and at a local level by procurement specialists in our businesses. We also manage some of our clients' supplier relationships.

In 2009, our Group Procurement team revised our procurement policy and framework, allowing us to consolidate our expenditure, maximise our purchasing power and ensure that we adhere to preferential terms and conditions across the Group. The policy states that when our employees are purchasing goods and services they act in compliance with our ethical standards and Corporate Responsibility (CR) objectives.

3. Delivering business responsibly

3.4 continued

Assessing and supporting our suppliers and subcontractors

Capita has in excess of 15,000 suppliers, classified into one of 3 clearly defined categories based on whether they provide products or services to the whole Group, individual businesses or contracts. 25 strategic suppliers provide services worth £130m across the whole Group and their contracts are negotiated centrally by the Group Procurement team.

All our suppliers are required to undergo our supplier assessment process. We also evaluate their supply chains. Our rigorous selection and continuous review process ensures their business and the products and services they provide are compliant with all relevant policies and guidelines and enables us to choose suppliers who reflect our values and standards.

We provide all suppliers the opportunity to work with us and are committed to removing any barriers to entry for SME's and minority owned companies in trading with us.

When we work with subcontractors they are also required to meet our stringent criteria. We have a subcontracting policy and a dedicated resource within our Group Procurement team who checks that they work within our framework.

3.5

Controlling our environmental impacts

Aim as a service business our direct environmental impacts are not broad, but due to the scale of our business our impacts need to be managed well.

We have identified our main Group-wide environmental impacts as

- energy use and business travel
- resource use and waste management
- our supply chain

Progress We have an environmental management system in place based on the ISO14001 standard which allows us to monitor and manage our impacts and continually improve our performance in these areas. Our environmental policy sets out our commitment to complying with relevant environmental legislation and outlines Board level responsibilities.

Energy use and business travel

We are committed to playing our part in tackling carbon emissions. We have published our carbon footprint annually since 2005. In 2009, our total footprint was 79,212 tonnes, an increase of 8.4% over 2008 (73,057 tonnes), while our Group revenues increased by 10%. In particular, emissions from business travel and use of electricity have increased across our fast growing operations in India.

We commenced an energy reduction programme in 2006 and committed to use 12% less energy at our largest sites by the end of 2008, a target we exceeded. In 2009, we made a further 11.9% saving and a 28% saving in total since the programme began, a CO₂ emissions reduction of 4,400 tonnes. We have continued to increase the energy efficiency of our operations, expanding our energy reduction plan across a further 80 sites.

Despite a greater focus on controlling business travel, our business travel emissions grew by 10% compared to the previous year, even though we increased the use of conference calls. In 2010, we will launch a targeted campaign to reduce our business travel emissions through further raising employee awareness.

3.6

Through the work we have completed we are positioned well to respond to the introduction of the new Carbon Reduction Commitment (CRC) regulations, operational from April 2010. We have achieved the Carbon Trust Standard for 2 of our divisions assuring us a good ranking in the league table in the first phase of the CRC. We are also installing automatic meter reading (AMR) over the next 2 years to track performance against the AMR metric of CRC.

Resources and waste management

As a largely office based business our focus is primarily to use resources efficiently and reduce our waste and, secondly, to focus on re-using and recycling materials. The reduction of our paper use is key to this so we focus on designing and implementing services which reduce the need to produce printed materials. Where waste must be disposed of we ensure that this is done safely, and in compliance with all legislation. We work with our suppliers to help us reduce our impacts through the introduction of environmentally responsible products. We also focus on the logistics of delivering goods, both to reduce costs and emissions.

IMAGE
REMOVED

Supporting the communities in which we work

Aim to support the communities in which we operate. As a responsible business we engage with our local communities, allowing us to maximise the benefits and understand and manage any negative impacts of our business operations.

Progress We use the London Benchmarking Group (LBG) methodology to capture and value as much of our community investment data as possible. However, with such a diverse and constantly growing business the extent of data capture is limited. In 2009, we estimate that our total community investment was £1.4m (2008: £1.2m).

Community investment

Our community investment programme aims to tackle exclusion of all kinds. We donate our time, skills and money to local community initiatives, supporting projects that directly benefit the communities in which we work.

In 2009, we reviewed our community investment programme, streamlining our approach to align with our CR and business strategy and allowing us to direct our efforts more effectively. We introduced a framework basing our activities around 3 themes, education, social exclusion and health. Our programme is applied at 2 levels,

through initiatives led by the Group or individual businesses. The Group funds and organises a central volunteering programme facilitating volunteering that is appropriate to each local community's needs.

We also support the development of young people in our local communities by being involved in projects such as the Work Inspiration campaign and Backing Young Britain.

Charitable support

We support the efforts of our employees in raising funds for numerous charities by providing a central payroll giving service, a matched funding scheme and promotion of their initiatives across the Group via our employee intranet. In 2009, our corporate donations totalled £0.5m.

We support one Group charity partner to benefit from Group-wide fundraising activities. In 2008, our employees chose to support Macmillan Cancer Support. In 2009, our employees raised £440,000 for Macmillan, taking our total to £800,000 towards our target of raising £1 million. We helped to generate a further £152,000 for Macmillan through fully sponsoring the charity's Winter Ball.

Our people's efforts are recognised and celebrated through our employee recognition awards, which include an award for charitable support and community engagement.

Community Hub Award – Winner

Catalyst Lend Lease, Burnley Campus, Lancashire. Capita Symonds was lead consultant and delivered multiple services on this project.

3. Delivering business responsibly

CR priorities	Aim	Progress	
		2009	2008
Environment	Continue to measure and manage our carbon footprint (tonnes CO ₂) annually	79,212*	73,057
	CO ₂ emissions rose by 8.4% against increases in Group turnover of 10%		
	Raise awareness of environmental issues and Group initiatives across the business	Enhanced CR section on new intranet	Introduced CR section on intranet
	Undertake environmental site audits twice a year	Audits completed	Audits completed
	Achieve reductions in energy used across the Group. Set target of 12% reduction at our largest sites by end of 2008. Target exceeded and focus on further reductions across the largest sites and rolling out our energy programme across the Group	28%	18.3%
	Continue switching fleet vehicles to diesel engines	98.4%	98.4%
	Achieve further ISO 14001 accreditations at our higher impact sites	45**	47
	Further promote BT conference call facility	116,000 conference calls	78,000 conference calls
Communities	Continue to measure and grow our total community investment annually, using London Benchmarking Group (LBG) methodology	£1.4m	£1.2m
	Corporate donations to support our charity partner, employee fundraising and disaster appeals	£0.5m	£0.6m
	Raise meaningful sums for our corporate charity. In April 2008 we set a target to raise £1m over 2 years for our corporate charity, Macmillan Cancer Support. In 2009 we raised £440k, taking our total to £800k towards our target of £1m	raised £440k	raised £360k
Health and safety	Ensure we provide safe and productive working environment for all our employees (accident frequency rate per 1,000 employees (RIDDOR))	1.65***	1.57
	Undertake health and safety audits twice a year	Audits completed	Audits completed
Senior management retention	Attract and retain the appropriate level of senior management to drive the strategic direction of the Group (salaries exceeding £90k p.a.)	88%	88%
Overall employee retention	Attract and retain the right people to deliver the Group strategy, maintaining employee retention at industry average (2009: 84.3%, 2008: 82.7%) ¹	84%	82%
Employees by location	Have at least 10% of our workforce in India by end of 2009	10%	9%
Employee diversity	Reflect the communities in which we work:		
	Male/female split	52% male/48% female	52% male/48% female
	Male/female split for management (salaries £50k – 89k p.a.)	74% male/26% female	74% male/26% female
	Male/female split for management (salaries exceeding £90k p.a.)	88% male/12% female	88% male/12% female
	Ethnic diversity (employees from ethnic minority groups)	17.5%	15.5%
Part-time working	Provide flexible working hours while ensuring maximum flexibility in Group resources	15%	15.50%
Creating successful supplier relationships	Annually audit all tier 1 suppliers against Capita's standards of business	100%	100%
	Consistently increase the number of supplier audits across all our Group suppliers	50% audited	41% audited

Full details of our CR priorities, initiatives and progress are set out on our corporate website at www.capita.co.uk/corporate-responsibility

*Based on latest available greenhouse gas emission factors from Defra. We have reviewed our calculation methods, and to ensure year on year comparisons our 2008 carbon footprint has been restated.

** Reduction due to contracts ending at 2 accredited sites.

*** Slight increase as a direct result of the expansion of our field operations.

¹ CIPD 2008 and 2009.

Case study 3

Nottingham wants to make its schools safe, inspiring – and fun

IMAGE
REMOVED

Big Wood's students and teachers can't believe it's the same place

IMAGE
REMOVED

Capita Symonds, our property consultancy business, is part of the inspiredspaces consortium that is playing a key role in Nottingham City Council's Building Schools for the Future (BSF) programme.

In the first wave of this £208m programme in Nottingham, we are helping to create 8 inspiring new schools through a combination of new build, refurbishment and remodelling.

So what did we do?

- Strategic advice
- Educational consultancy
- Building design
- Architectural services
- Engineering services
- Project management

How can you help school students truly reach their potential? Try improving their learning environment. The Government's Building Schools for the Future (BSF) programme aims to improve the life chances of 3.3 million children by making school buildings more effective places in which to learn – and teach.

In Nottingham, for example, we are using our expertise in architecture to change the way education is delivered. At Big Wood School we have created 4 'learning clusters' for the principal subject areas. They share a central courtyard and amphitheatre, and each also has its own outdoor learning space – including an area of natural habitat for science and humanities.

In place of cellular classrooms linked by corridors, a flexible suite of rooms and breakout spaces adapts to make formal or informal study areas for 1, 5, 10, 30, 60 or 90 students. There are standard-sized classrooms too – with sliding dividers so they can be combined.

These 'diverse and agile spaces' result from consultations with managers, teachers and pupils. They are allowing teachers to take a more imaginative approach to timetabling, bringing departments together and developing collaborative learning that explores the overlaps between different subjects. Teachers are enjoying the chance to rethink what they do, and to vary the pattern of teaching in 60-minute blocks.

It's a journey they've only just begun. But already they are reporting improved behaviours and higher aspirations among their pupils. Which is exactly what BSF set out to achieve.

IMAGE
REMOVED

Our architects
call it a 'diverse
spatial experience'.
The students
say it's...

...bright and modern
...open and safe
...grown up – not too young or old
...got lots of space
...given us different areas to work in
...a place we like

-
- 1 Generating profitable growth
 - 2 Controlling and measuring growth
 - 3 Delivering business responsibly
-

4

-
- 5 Maintaining performance across our divisions
-

Targeting growth markets

We lead the UK market in business process outsourcing – the long term contracting-out of business processes to help lower costs and improve service delivery.

We focus on the UK and Ireland, where there are significant opportunities for growth.

Competitor rankings UK BPO market*

	2009 %	2008 %
Capita	27.0	25.5
Xchanging	7.0	6.4
Accenture	5.0	6.8
HP Enterprise Services**	5.0	5.5
BT Global Services	4.0	4.1

** HP Enterprise Services was formerly EDS

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GRAPH
REMOVED

A growing market

Independent analysts have estimated that the total market for BPO in the UK in 2009 was £6bn, against market potential of £94.2bn a year*. The capacity for long term growth therefore remains substantial as organisations review their business models and acknowledge the benefits of outsourcing.

We remain the clear leader in the overall UK BPO market, with 27.0% market share (2008: 25.5%)*.

In 2009 we gained business across both the public and private sectors. As a result, the sector split of revenues remained broadly in balance at 50% private/50% public (2008: 52%/48%).

Our most active market in 2009 was local government. We also saw increased activity in financial services and central government and ongoing interest from the life and pensions market. All these markets are expected to offer a further steady flow of opportunities.

Competitive advantage

Our scale, flexible infrastructure and expertise position us well in our 9 chosen markets. Our clients benefit from reduced costs, improved business processes and better services to offer their own customers. Our reputation allows us to compete strongly in our marketplace.

Increasingly, clients are also seeking outsourcing partners with the financial stability to deliver a complex range of services under a long term contract. Capita meets all these requirements and our clients have the benefit of working with one partner responsible for a spectrum of services rather than having to manage multiple service providers.

The long term contracts we secure, and our high contract renewal rate, evidence the strength of our partnerships and our clients' satisfaction; in turn, this helps us secure further business.

Our focus on the UK and Ireland has allowed us to develop a detailed understanding of our chosen markets and the key drivers for outsourcing in each sector. This market knowledge gives us further competitive advantage.

9 diverse and growing markets

We currently operate in 9 distinct markets across the public and private sectors where the drivers for outsourcing are strong. We are number one in most of our markets. We remain focused on selecting opportunities where we believe we can clearly meet clients' expectations and add value, fuelling controlled growth and achieving a reasonable return for the Group.

Public sector We provide outsourcing and support services to both local authorities and central government. We have built particular expertise in education, transport and health – and have a growing interest in defence.

We expect fiscal pressure on public spending to heighten the focus on outsourcing in the public sector in 2010. Irrespective of which party wins the UK General Election, further cost efficiencies will need to be achieved without compromising the availability or quality of frontline public services.

A combination of reduced revenues and increased demand for services is likely to add pressure on budgets both locally and centrally. With our solid track record of delivering public sector contracts, we are well placed to help organisations to introduce new, more sustainable and streamlined ways of working to meet public needs.

Private sector The 3 main private sector markets we focus on are life and pensions, insurance, and financial services. We also support an increasing number of organisations in other markets and we have a growing interest in the banking and utilities sectors.

In the current economic climate there is increased pressure on commercial organisations to drive down operational costs without compromising customer service or their competitiveness in their marketplace. As they strive to do this, and to bring new products to market faster, we expect them to consider the higher productivity and enhanced operational and advisory capabilities that an experienced outsourcing service provider can bring them.

We remain encouraged by the level of opportunities across our chosen markets. With our scale, expertise and financial stability, we believe we are strongly placed to help existing and potential clients create more flexible, lower cost operating models while improving service quality.

*Ovum 2008 and 2009

4. Targeting growth markets

Public sector

1

Local government

Excellent joint working on the Business Transformation Projects... The Council is particularly pleased with how Capita has responded to its requirements; taken ownership and given commitment to deliver the required outcomes; resourced the work speedily and flexibly; aligned itself behind the delivery of our priorities. Any risks or issues have been resolved with a pragmatic approach across both parties.

Barry Mellor
Transformation Manager,
Sheffield City Council

Market position

Local government currently accounts for 22% of Group revenues

Capita has worked with local government for over 25 years and is a leader in helping local authorities to deliver efficient, flexible public services for citizens and communities. Our breadth of expertise helps them respond to increased demand for quality, individually tailored services while ensuring that these are delivered cost effectively.

Size of opportunity

Of the 468 UK local authorities, only 30 have entered into major outsourcing partnerships. Capita delivers services and support to the majority of local authorities, we have created wide-ranging strategic partnerships with 10 of them and there is a steady flow of opportunities to create more.

Encouraged by central government initiatives, there are also growing opportunities to establish shared service infrastructures capable of bringing together public services in a more co-ordinated approach to match each community's needs.

The trend for outsourcing looks set to continue as local authorities have been under fiscal pressure for some time and will remain so, regardless of which party is in power after the 2010 UK General Election.

Drivers for outsourcing

- Pressure to deliver value for money services against a backdrop of increased service demand and reduced revenues
- Local revenues reduced by falling incomes from local tax collections and fewer planning applications and parking fees
- Constraints on funding from central government
- Pressure for personalisation and regard for individual needs as service delivery becomes more sophisticated, without reducing efficiency
- Changing roles – local authorities have mainly been deliverers of services, now they are increasingly commissioners of services to meet current and future demands

Local Government IT Excellence Awards 2009

Service Transformation Award for Cheshire West and Chester Council for its Revenues and Benefits systems convergence project delivered in partnership with Capita

IMAGE
REMOVED

2

Central government

In 2008, service delivery of our learner support programme became unacceptable and this led to the LSC terminating its arrangement with the previous contractor. Capita was brought in at very short notice and responded quickly and professionally in retrieving the situation through short term fixes. Capita had been the reserve in the original procurement so we appointed them for the remainder of the 6-year contract. Already they have introduced new systems that have worked very effectively in their first year of operation and we continue to work constructively and collaboratively together on further enhancements to the programme

Trevor Fellowes
Director of Learner Support,
Learning & Skills Council (LSC)

Market position

Central government currently accounts for 10% of Group revenues

Capita is the leading service provider in central government, with contracts spanning recruitment and employment checking, accreditation and records management as well as administration of public sector pensions and public grant programmes

Size of opportunity

Against a background of the Government facing increased pressure to reduce the public finance deficit and manage down debt, and with an estimated annual spend of £6bn and over 250,000 staff in administrative operations, central government presents a significant opportunity for outsourcing. There is scope to help increase the efficiency of the administrative operations supporting frontline government services, particularly in areas such as welfare, revenue collection, defence, justice and transport

Beyond outsourcing IT and facilities management, few central government departments have outsourced wider services such as customer handling, HR or financial administration services. We expect this to change as fiscal pressure and public demand prompt them to explore outsourcing as a sustainable and effective solution to delivering more for less

Outsourcing key administration and customer services will enable Government to adopt new ways of working and access expertise and resources for transforming public services to meet citizens' individual needs

Drivers for outsourcing

- Regardless of the outcome of the 2010 UK General Election, there will be increased pressure on central government departments to deliver frontline services at similar or reduced levels of funding over the next spending review period which takes effect from April 2011
- Further use of benchmarking of routine front and back office services will add pressure on departments to drive out efficiencies and achieve value for money
- Evidence from other sectors, including local authorities, that BPO and new models of public service delivery can achieve more for less
- Access to skills and technology investment that can guarantee savings up front
- Continuing requirement to make public infrastructure fit for current and future needs – e.g. transport and Building Schools for the Future

4. Targeting growth markets

Public sector

3

Education

Capita Children's Services was the only company to offer us a system that reflected the standards we wanted to achieve in terms of caring for the 130,000 children in our area.

Roger Green
Head of Service, Information
Sharing and OneVision,
Cambridgeshire County Council

The information we hold in SIMS helps us not only to monitor and provide appropriate support for the children, but also to engage with parents in a more detailed and meaningful way.

Harry Weightman
Headteacher, Easington Colliery
Primary School

Market position

Education currently accounts for 12% of Group revenues

We have built a strong presence across the market, delivering a wide range of services. Capita has over 20 years' experience of helping schools and local authorities increase efficiency and improve performance through expert resources and support, ICT, specialist software and information management systems and property consultancy.

Our aim is to help raise efficiency and reduce the administration burden so educationalists can concentrate on improving the quality of education.

Size of opportunity

The market continues to evolve rapidly, driven by constant technological, economic and political change. Across central government, local authorities, schools and further education establishments, we aim to maintain our position as a reliable, knowledgeable and innovative partner. Most establishments use one or more of our services and we deliver core administration services to the Department for Children, Schools and Families (DCSF).

There is considerable opportunity to continue strengthening and broadening our relationships.

Following the end of the National Strategies programme in 2011, the Government intends to develop an 'assured suppliers' market for improvement support to schools. Under this scheme, selected suppliers will be quality assured and accredited by the DCSF. Capita is in a good position to develop a strong presence in this market.

Drivers for outsourcing

- Considerable pressure on many local authorities and education establishments to improve their business processes and introduce efficiencies
- Continual requirement to respond quickly and adequately to changing legislation and Government initiatives
- Need to deliver effectively against the wider Children's Services agenda
- Need to track and support shared learning across multiple education establishments
- The Building Schools for the Future programme, designed to create an improved, inspiring and more flexible learning environment
- Need to exploit technology for effective administration and learning
- Need to reduce bureaucracy, enhance assessment, improve financial management and improve outcomes for all learners

**IMAGE
REMOVED**

The eGovernment National Awards 2009

National Strategies web area awarded
Highly Commended in Learning &
Skills category

4

Health

Capita put in a very good proposal. They gave us a project that was very good value for money and, crucially, they were committed to keeping on good people so there was strong continuity. But at the same time they brought something fresh to the equation.

Bob Gann
Strategy and Engagement Lead,
NHS Choices

Market position

Health currently accounts for 3% of Group revenues

After building experience in the sector for some time we have accelerated our growth over the past 2 years. We are now a leading provider of information services to both patients and health professionals, and are at the forefront of helping the NHS to improve patient experience while achieving efficiencies.

We provide outsourced IT and back office services to the NHS, as well as governance, survey and research services for NHS organisations and pharmaceutical companies. Two thirds of some 455 organisations in the NHS are now Capita clients receiving at least one of our services.

Outsourcing core administration and customer (patient) management services is still at an early stage so there remains plenty of scope to develop our relationships across this market.

Size of opportunity

There are approximately 430 Health Service organisations in England and a further 25 in Wales, Scotland and Northern Ireland. Health expenditure in England alone was £113bn in 2009, rising to £118bn in 2010/11. Of this, addressable spend on the type of outsourced services that we deliver is estimated to exceed £13bn.

The NHS has not yet embarked widely on outsourcing non-core activities but, as a result of the dual pressures to both achieve significant savings and improve patient experience, we are confident that there is considerable scope to help both the Department of Health and health organisations achieve this.

Drivers for outsourcing

- Pressure on NHS funding: after March 2011 it is expected that the continually growing demand for NHS services and resources will have to be managed within existing budgets.
- Pressure to improve service quality, in particular the 'patient experience'.
- A requirement to streamline clinical administration while meeting demand for greater patient choice.
- Need for innovative ways of educating patients and end users to be more self-sufficient, relieving the burden on health providers.
- Continued pressure to improve work environment and patient care by engaging technology better, rationalising and modernising existing properties and investing in new property.

4. Targeting growth markets

Public sector

5

Transport

Over the past year Capita Symonds has been assisting us on a range of projects and throughout they have provided us with the necessary expertise, knowledge and professionalism to ensure success in delivery.

Paul Helsop
Project Manager,
Infrastructure, Goodman

I enjoyed a good working relationship with Capita who were very supportive throughout and provided good technical advice.

David Cowell
ITS Research Group Manager,
Highways Agency

Market position

Transport currently accounts for 3% of Group revenues

Our property and infrastructure consultancy, Capita Symonds, is one of the UK's leading transport and infrastructure specialists, providing expertise and innovative solutions to both the public and private sectors. It has an established track record of successfully delivering a wide variety of projects in the sector, ranging from the heavy civil engineering of immersed tube tunnels to rail engineering, transport planning and Intelligent Transport Systems (ITS).

Size of opportunity

The Highways Agency's business plan for 2009/10 highlights a range of attractive projects in its Managed Motorways programme. These include £185m of resources for major improvements to the network, £85m assigned for technology improvements, £101m for smaller local schemes and R&D, and £829m for maintenance. While the business plan and budget for 2010/11 have not yet been set, we expect a further healthy flow of opportunities that fit well with our core competencies.

The move towards integrating ITS across both the strategic and local authority networks should present additional opportunities for growth. In the rail sector we have already tendered successfully for work on London's Crossrail project and will continue to look for other opportunities within this major infrastructure project.

Drivers for outsourcing

- Increased fiscal pressure and reduced revenues, driving local authorities to explore outsourcing to help meet local transport requirements
- Continued requirement to reduce urban congestion and improve transport's environmental impacts, particularly on climate change
- Heightened focus on national infrastructure by agencies delivering national security and resilience
- Re-evaluation of business models in the private sector, where the current economic climate has tightened infrastructure budgets, resulting in changed relationships across the industry

Private sector

6

Life and pensions

I was delighted with the transition to Capita in both the UK and India. In particular, there was no disruption to service for AXA's customers. Since the transfer the service improvement delivered by Capita has been more rapid than we expected.

Robin Smith
Managing Director,
Traditional Business, AXA Life

Market position

Life and pensions currently accounts for 18% of Group revenues

Capita is the leading provider of outsourced life and pensions administration in the UK and, according to industry analysts Ovum (June 2009), globally. The 25 million policies that we administer represent around 22% of the total UK market. Our scale, focus on customer service, continued investment in specialist technology and our ability to offer a mixed onshore/offshore delivery model, make us a compelling choice as an outsourcing partner.

Size of opportunity

While outsourcing in the life and pensions market has grown rapidly in the last few years, there are still plenty of opportunities for growth. We estimate that there are some 113 million life and pensions policies in force in the UK, of which 69-74 million have not yet been outsourced. In addition, first generation outsourcing contracts struck in the early 2000s are now coming up for re-tender. Life and pensions companies remain under competitive pressure and opportunities are expected to emerge as financial organisations continue to restructure to focus on core activities and consolidators resume their activity in the market.

Drivers for outsourcing

- Wide recognition of the benefits of outsourcing in the industry, encouraging providers to readdress their business models
- Declining new business in policies in the current economic climate, increasing the pressure on providers to increase effectiveness and cut operating costs
- Regulatory changes such as those associated with the Retail Distribution Review, driving demand for administrative systems that can respond swiftly and cost effectively
- More challenging market conditions, which put a premium on the ability to introduce and distribute new products faster
- A renewed phase of consolidation in the industry, creating further outsourcing opportunities

IMAGE
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**Customer Contact
Association (CCA) of UK**
Capita India voice operations
receives accreditation

4. Targeting growth markets

Private sector

7

Insurance

We are very pleased to have established this partnership with Capita and are confident it will be beneficial to both our clients and our staff. In particular, it will transform the way in which we do business, supporting our commitment to providing a customer experience that's truly world class. It will also give our staff increased opportunities for career development.

Martin South
CEO, Marsh UK

Market position

Insurance currently accounts for 8% of Group revenues

Having grown our presence in the insurance market since 1999, through acquisitions and organic growth, we are now acknowledged as the leading provider of outsourced services in the UK. In the general insurance market we provide outsourced back office processing through to frontline customer services across commercial, reinsurance and personal lines insurance. The scale of our support ranges from complete end to end solutions for large insurers and brokers to bespoke services focused on specific needs.

Many major insurers have been slow to embrace the cost and flexibility benefits that outsourcing can offer. Today's competitive and regulatory pressures are expected to change this, and Capita is well placed to benefit.

Size of opportunity

The UK insurance industry is the largest in Europe and the third largest globally, accounting for some 11% of worldwide premium income. Over 75% of UK households buy motor and home insurance, and there has been a steady increase in claim payouts over the past decade.

This presents significant opportunities for Capita to provide administrative services, deliver cost savings and improve customer services to help insurers respond to demand. We have renewed our focus on this sector and are confident of further growth.

Drivers for outsourcing

- Need to provide claims processing and comprehensive, quality customer service at lower operational cost
- Importance of bringing new products to market faster
- Regulatory demands, such as the strengthened EU-wide requirements on capital adequacy and risk management by 2012, prompting insurers to address cost bases and back office efficiency
- A marked consumer shift towards 'virtual' insurance companies driven by affinity groups targeting specific customer segments. These 'virtual' organisations are often supported by outsourced back office infrastructure as well as online sales
- Need to improve management of claims costs, particularly by preventing fraud and leakage

8

Financial services

Capita Financial Group has provided high quality fund administration services to 7IM for the past 6 years, during which 7IM has expanded significantly with the support of Capita. During this time we have been pleased to extend the scope of the services provided by Capita to encompass our Irish and UK fund ranges. I am also pleased to confirm that we have recently extended our working relationship with Capita for a further 5 years.

Charles Sparrow,
Chief Financial Officer, 7IM

Market position

Financial services currently accounts for 4% of Group revenues

Financial services companies continue to face uncertainty, increasing regulation and some restructuring. Capita has built a strong position in a number of market segments, particularly trust services, loan administration and fund administration for both open and closed end structures. Our scale enables us to deliver cost effective administration solutions across different tax jurisdictions (onshore, nearshore and offshore) and help to bring products to market swiftly.

Size of opportunity

The financial markets are gradually recovering from the economic downturn and looking at ways to address their cost bases and adapt their operating models to compete effectively. Financial institutions have generally been slow to embrace outsourcing but there is a growing interest in exploring how it can provide a more cost effective, quality service offering by providing shared technology, administration processing, customer service and compliance support.

Drivers for outsourcing

- Need to adapt operating models to focus on core services
- Need to drive down costs whilst ensuring a quality and compliant service
- Need to meet the challenge of ensuring full compliance and managing the associated costs in a stricter, regulatory environment, where compliance is monitored ever more stringently
- Need to ensure the capability to meet constant changes in legislation which may act as a catalyst for new products, requiring speed of introduction to the market
- Need for leading edge systems to cope with increased competition and legislative and regulatory change

IMAGE
REMOVED

IMAGE
REMOVED

ECCS European Steel Design Award
Wimbledon Centre Court, London
Capita Symonds – Structural engineer

4. Targeting growth markets

Private sector

9

Other corporates

Capita provides a flexible, efficient and cost effective managed service to assist eircom in the delivery of a top-class sales and service experience for its customers. The relationship with Capita has grown over the past 5 years and delivery and execution continues to improve.

Gerry Culligan
Director of Consumer
Markets, eircom

Market position

Excluding financial services institutions, life and pensions companies and insurance organisations, other corporate clients currently account for 20% of Group revenues

Corporates benefit from our full range of back office administration and frontline customer services, focused on enhancing customer services and reducing costs through higher productivity, streamlined processes and best use of technology

Applying customer insight and intelligence, we align and optimise service design and resources to meet the needs of both clients and their customers

Size of opportunity

This market opportunity is difficult to size as we offer multiple specialist services from across the Group to a wide range of organisations with different outsourcing needs and appetites. Our strengths lie in providing advisory and outsourced services to support the entire spectrum of an organisation's business model financial, registrar and corporate services, HR, administration processes, ICT, marketing and customer services. Our focus is on delivering efficiencies and service enhancements that help to keep our clients at the forefront of their marketplaces

Drivers for outsourcing

- Need to balance the costs of product and service design with those of customer attraction and retention
- Increasing pressure to reduce headcount while maintaining productivity and improving service levels
- Need for more flexible cost infrastructure and resources in more turbulent market conditions
- Pressure on investment and research budgets, despite undiminished requirement for development to remain competitive
- Drive to optimise organisations' own corporate services
- Desire to improve productivity through better management of employee sickness and absenteeism
- Increased regulatory and legislative requirements

Case study 4

Southampton wanted to cut costs and improve service

IMAGE
REMOVED

Costs are already down £16.5m, service and satisfaction show marked improvement

IMAGE
REMOVED

In October 2007 Capita began a 10-year contract with Southampton City Council to deliver its customer services, IT, property, revenues and benefits, HR, payroll and procurement activities. The contract required reductions in overall costs and investment in infrastructure across the Council while meeting greatly enhanced performance standards.

So what have we done?

- Transferred 650 posts
- Transformed IT, with new systems and technology
- Realised £16.5m of savings already
- Reorganised HR, introducing CRM and employee and management self-service
- Transformed procurement including e-tendering and e-solutions
- Begun developing a new building to replace 3 existing sites
- Won ROSPA Gold Award for health and safety

Southampton City Council's decision to outsource its back office and frontline customer services to Capita in 2007 was a bold one. It had a clear vision for designing its customer services more effectively around the customer, but wanted an experienced transformation partner to help turn this into reality. The Council had little previous outsourcing experience, and employees and unions were apprehensive. There was citizen pressure to cut costs – without reducing services. But was this the way to achieve it?

2 years on, the answer is clear. We took on 650 posts from the Council – their satisfaction is evident in exceptionally low attrition and sickness rates of under 3% and 1.7% respectively. Headcount has actually increased as new services were introduced into the scope of our contract. And positive union relationships reflect our open management style and approach to people development.

Through transforming its back office, including the procurement function, we are delivering the promised cost savings, which have already reached £16.5m measured over the 10-year period with a similar amount likely by next year.

Most importantly, Southampton's citizens are noticing the difference in improved services. The Council set a demanding range of KPIs – well above the standards previously achieved – and already Capita is meeting over 98% of them. Consumer satisfaction with the Council's principal contact points has improved. The proportion of one-stop shop customers seen within 10 minutes has more than doubled to 84%, and the proportion of callers waiting over 30 seconds for a reply has dropped from nearly half to under a fifth.



IMAGE
REMOVED

Athar Jaffry
is one of 1.6m callers
a year who just need
a phone to...

...pay their council tax
...renew their library books
...find out about local schools and arrange
learning support for their child
...apply for planning permission

-
-
-
-
- 1 Generating profitable growth
 - 2 Controlling and measuring growth
 - 3 Delivering business responsibly
 - 4 Targeting growth markets
-

5

Maintaining performance across our divisions

Each of our 5 operating divisions consists of a number of businesses and major contracts.

The common aim is to deliver service excellence and generate profitable growth through:

5.1 Aligning each business with the Group's overall strategy and objectives

5.2 Investing in service and product development and appropriate sales and marketing activities

5.3 Maintaining a simple, pragmatic divisional structure to share resources and economies of scale

Our divisions

1 Life & Pensions Services

- Life and pensions services
- Corporate pensions
- Capita India

2 Integrated Services

- Integrated HR services
- Call centre & specialist services
- BBC contracts
- Criminal Records Bureau contract
- Gas registration and ancillary services
- Central government services
- Capita Symonds

3 Insurance & Investor Services

- Shareholder services
- Financial administration services
- Trust services
- Treasury services
- Insurance services

4 Professional Services

- Software services
- Children's services
- Local government
- Local government services
- Local government strategic partners
- Strategic children's services
- Assurance and testing
- Communications
- Scanning and storage

5 ICT, Health & Business Services

- IT services
- Health services
- Business travel and conferences
- Service Birmingham
- Consulting

5.1

Alignment with Group strategy

We maintain a straightforward, pragmatic divisional structure that delivers our Group strategy

The operating divisions and the businesses within them are aligned with the Group's overall objectives and strategy. They all follow the Group strategy of securing strong, sustainable growth, both organically and by acquiring complementary businesses which allow them to strengthen their position in their respective marketplaces or add new and complementary skills to their current operations.

The divisional structure supports a robust, individual focus for each business while providing ready access to the Group's wider resources, expertise and economies of scale.

Each business produces its own annual business plan outlining specific strategies and considerations and setting performance targets for the following year. The business units' financial plans feed into the Group financial model.

The MOB review process ensures regular monitoring and reporting of performance against targets and is an effective forum for planning ahead, solving issues and sharing expertise and support. See page 23.

5.2

An individual business focus

With an objective of achieving continuous growth and strong performance, each business undertakes appropriate strategies to achieve or maintain market leading positions.

Research and development initiatives underpin the constant development of products and services to meet the current and future needs of clients. Businesses adopt the most appropriate marketing and sales activities to address the characteristics of their individual marketplaces. Each business also maintains strict disciplines on cost control and seeks to streamline processes where appropriate.

The success of our business and service focus is acknowledged through the breadth and number of industry awards and accreditations we attain. We have also helped many of our clients win awards through our role in delivering improvements in operations and services. Examples of these awards are set out throughout this report.

5.3

A flexible divisional operating structure

We have created a pragmatic, flexible structure which is regularly refreshed as the Group develops. We move businesses, contracts and managers across the divisions to ensure the best match of leadership and resources as the Group grows. The businesses benefit from the powerful combination of individual focus and the ability to reach out across the Group to share operational skills and resources, benefit from economies of scale, create and deploy innovation, and harness the best of ICT and business processes.

Many of our contracts draw on expertise and resources from across a number of Group businesses. We have established robust models of collaborative working with clear lines of responsibility, consistent communication and reporting to offer a seamless approach to our clients.

We are currently organised into 5 operating divisions, plus a Group sales and marketing division. Each operating division brings together activities with similar operating models or client bases. Each major contract is managed within the division which best meets its operational, regulatory and management requirements. To provide greater transparency we report financial progress for 8 business segments, splitting Insurance & Investor Services into 2 segments and Integrated Services into 3 segments.

Group-wide support services, such as finance, legal and commercial, property management, procurement, health and safety and environment and HR, report directly to Board Executive Directors to ensure robust control, consistent standards and shared benefits across the Group.

5. Maintaining performance across our divisions

1

Life & Pensions Services

	2009 £m	2008 £m
Turnover	520.7	454.0
Underlying operating profit	62.1	53.9
Underlying operating margin	11.9%	11.9%
Capex	28.8	34.9

Comprises all our life and pensions outsourced administration operations, including open and closed books of individual life and pensions policies and occupational pension schemes. Our operations in India are also managed within this division as they play a key role in securing and delivering life and pensions contracts.

We are the leading life and pensions outsourcing provider with a resource of 9,000 people across our operations. As our business continues to grow, we are introducing further efficiencies, developing our blended onshore/offshore delivery and introducing common IT platforms (such as Elixir and HartLink), frameworks and methodologies in order to provide further scale benefits and excellent customer service to our clients. The market is highly active and continues to offer strong new contract opportunities.

2009 performance

AXA Contract signed in May to administer 3.2 million policies comprising both a closed traditional book and growing portfolio of direct business. Since the service started in June with the transfer of 1,150 employees in the UK, and the transfer of a further 550 people in India in September, we have delivered a step change in service levels.

Abbey Life We commenced delivery of this contract in March with the successful transfer of operations and 370 employees in Bournemouth.

Prudential We continue to make excellent progress and are on track to complete our contact centre and back office transformation programmes in 2010. Our delivery of a consistently high quality of service for Prudential is now being recognised through major industry awards. See pages 65 to 68.

Zurich We have continued to sustain and indeed improve upon high levels of customer service that have helped the Zurich and Sterling brands gain the highest 'Five Star' industry ratings from the adviser community in each of the 4 years that the service has been outsourced to Capita. In addition, we have further developed new retention initiatives within the Client Option Teams which has ensured that both brands retain their valuable client bases.

Pearl Service quality is at its highest levels. As part of the introduction of integrated onshore/offshore operations we have moved c. 250 roles to India and plan to transfer further work there in 2010.

Co-operative Financial Services We successfully completed our first platform migration in 2009 and the second in the first quarter of 2010, achieving this step change while improving operational efficiency and reaching service levels not previously attained.

Capita Hartshead Maintained our leadership in pension-scheme administration and actuarial and pensions consulting. Further enhanced our actuarial and pensions consultancy offering with the acquisition and smooth integration of Gissings.

Offshore Capita India has continued to expand and is now our largest multi-client operation – servicing 17 different clients from 5 sites. The fifth office of over 32,000 sqft was opened in Bangalore in September. We continue to expand the service capability in India, including additional knowledge based processes and the introduction of property consultancy services in the year.

2010 priorities

- Continue progress towards our utility model and the transformation of service delivery by
- Consolidating sites and rationalising operations
- Creating centres of service excellence to serve multiple clients
- Migrating IT systems to our strategic platforms
- Transferring selected operations to our sites in India
- Focus on developing our relationships further with existing clients and continue to win work from new clients
- Seek niche acquisitions to develop further our portfolio of services
- Continue building the knowledge-based processes capability within Capita India

2

Integrated Services

Integrated Services (excluding HR solutions and property consultancy)

	2009 £m	2008 £m
Turnover	340.0	339.5
Underlying operating profit	55.0	54.4
Underlying operating margin	16.2%	16%
Capex	6.8	8.9

HR solutions

	2009 £m	2008 £m
Turnover	280.6	258.2
Underlying operating profit	26.2	24.2
Underlying operating margin	9.3%	9.4%
Capex	1.4	2.0

Property consultancy – Capita Symonds

	2009 £m	2008 £m
Turnover	258.1	262.2
Underlying operating profit	23.1	22.8
Underlying operating margin	9.0%	8.7%
Capex	2.1	2.7

Comprises all our major central government contracts, our property consultancy, contact centres, our portfolio of HR services, our resourcing businesses, integrated HR solutions, HR and payroll administration, learning & development and outplacement services

2009 performance

TV Licensing and CRB contracts We have continued to maintain high levels of service, meeting and exceeding our KPIs and delivering effective frontline solutions. Our back office systems continue to robustly support the correct processing of applications, payment and enquiries.

BBC Audience Services We were successful in being re-awarded the contract to deliver audience services for BBC. From January 2010 we will move to one site in Belfast with a satellite office in Glasgow.

Leamer Support Programme Since assuming responsibility for administering this scheme in November 2008, the contract is progressing well. We currently process and pay over 600,000 learners per week, on behalf of 4,000 learning provider institutions, and deal with approximately 2 million calls.

Home Access Grant Administration This contract to administer and market the grant on behalf of Becta has started well, with a controlled launch and take up of the scheme. We have developed interfaces with multiple equipment suppliers to process grant payments which will total £136m over the period of the contract.

Call Centre and Specialist Services Our partnership with eircom, which commenced in 2005, was further strengthened with a contract extension and a new contract for customer retention activity.

Resourcing businesses Despite difficult market conditions, our businesses generally performed well. Most of our clients are in the public sector where we have placed over 1,500 roles at a senior level. Our contract with the Office of National Statistics for the 2011 Census is well underway, with the first rehearsal successfully completed in October. We are also working with BBC for the recruitment of over 1,500 staff for the new BBC media centre based in Salford.

Veredus Delivering senior executive search and interim management solutions, performed well in 2009, recruiting over 230 board level appointments including 27 CEOs, placing over 280 interim managers and undertaking 120 psychological assessments.

Integrated HR Solutions We are playing a key role in our partnership with Sheffield CC delivering HR and payroll services for the Council and the surrounding schools. Over 100 HR and payroll staff transferred to Capita

Learning & development businesses Secured a number of new contracts including with the VW Group to deliver all commercial training to their network of car dealerships. We also broadened our relationship with BAA with the award of the managed service for all external training spend over the next 3 years. For DWP Job Centre Plus, we assessed over 21,000 people in a 7 month period, our largest ever assessment contract.

Capita Symonds Has performed well in difficult market conditions winning a number of significant assignments. A multidisciplinary team is working on 2 of the 4 portals on the London's Crossrail project, awarded via Crossrail's Design Consultant Framework.

We have provided lead consultant, strategic partnering, educational, building design and architectural services on several Building Schools for the Future (BSF) programmes, 4 of which have been award winning.

We are providing a number of services on the £11bn Defence Training Review (DTR) project at RAF St Athan in South Wales. The new academy is the result of the Government's major initiative to reorganise the entire training programme for the Armed Forces.

2010 priorities

- To maintain and exceed current levels of service across our major contracts
- To complete the transition and transformation programme for BBC Audience Services on time and integrate new and revised services
- To assist Becta meet their strategic aim to provide some 270,000 grants for personal computers and internet connectivity to low-income families to support learning
- Continue to penetrate the Local Government sector offering our portfolio of HR services: learning & development, payroll and HR administration and resourcing
- Continue to make investment in bringing together a number of our HR operations in more efficient operating units underpinned with a shared CRM technology platform
- Across Capita Symonds continue to build major programme management capability and niche capability in growth sectors such as renewable energy, waste management and transport technology through acquisition and recruitment
- Continue to tender our services across the BSF framework

5. Maintaining performance across our divisions

3

Insurance & Investor Services

Insurance services

	2009 £m	2008 £m
Turnover	246.8	246.2
Underlying operating profit	28.4	31.1
Underlying operating margin	11.5%	12.6%
Capex	2.4	8.0

Investor services

	2009 £m	2008 £m
Turnover	174.5	173.9
Underlying operating profit	35.1	39.6
Underlying operating margin	20.1%	22.8%
Capex	12.8	18.3

Comprises our businesses delivering financial services propositions to the business and consumer markets – insurance, shareholder, financial and trust administration and treasury services businesses. Key services to the corporate market are share registration, fund administration and insurance policy and claims administration. We also deliver financial consulting and advisory services to local authorities and housing associations. For consumers, we provide broker services for motor, household and pet insurance products, as well as trust administration services.

Many of these businesses are operating in challenging environments, however their focus on providing efficient, quality advisory, administration and customer services, has enabled the majority of them to continue trading steadily.

2009 performance

Our insurance businesses have made steady progress in a challenging year for the insurance industry. Our bespoke services are positioned well with Capita Commercial Insurance Services now operating as a London market service provider working for 7 out of the top 10 Lloyd's of London managing agents.

Capita Insurance Distribution In the year we integrated BDML, Lancaster Insurance Services and Hero Insurance Services. The business is now ranked 5th in the Insurance Age 2009 poll of Top 50 Brokers ranked by brokerage income. In particular, we are now administering 35 Pet Schemes for Affinity Partners insuring approximately 300,000 dogs and cats in the UK. During the year we were awarded contracts with Igo4, Castle Cover, Aviva and Assurant.

Marsh Our comprehensive transformation programme is delivering enhanced service to Marsh and its clients alongside reductions in operational transaction costs. We have further developed our onshore/offshore blended service delivery model, creating a centre of excellence for insurance outsourcing services based in Marsh's existing Norwich premises and successfully transferred outsourced services in Pune, India from a previous provider.

Shareholder services We secured 20 new contracts, a record number, from other suppliers – including contracts with Stagecoach Group plc, Northern Foods Plc and most notably Standard Life Plc which has in excess of 1.5 million shareholders.

Capita Financial Group The business was affected by the drop in valuation of funds under administration, the introduction of a new, market leading IT platform and the increased cost of regulation. The resolution of the suspension of the Arch cru funds is requiring considerable management attention and resources. With improved processes and the completion of the IT migration this year, the business is better placed for further growth. See pages 8 and 9.

Acquisitions The acquisitions of FMS (Netherlands) BV, Capmark and Fidei Fiduciaire S a r l have increased the capabilities and expertise of our Fiduciary and Trust Services businesses and are already delivering positive results for the Group.

Disposals At the end of the year we disposed of some of our loss adjusting and associated advisory services.

2010 priorities

- Refocus our sales activities to grow further our position in the insurance outsourcing market and expand our services to the broker market.
- Continue enhancing our offshore capability in order to offer clients a flexible onshore/offshore service solution.
- Use our scale and reputation for compliant delivery to provide clients with an effective way of addressing the tighter regulation that we are seeing across the financial services market.
- Continue controlled growth in multi-jurisdictions for delivery of trust and asset management services via organic growth and acquisitions.
- Build on 2009 successes in investor services to secure additional large scale share plan and registration clients, in particular FTSE 100 organisations.
- Recommence sales lead generation in our CFG business and complete migration of all businesses onto the FAR platform.

4

Professional Services

	2009 £m	2008 £m
Turnover	358.7	325.2
Underlying operating profit	69.4	57.8
Underlying operating margin	19.3%	17.8%
Capex	4.4	6.0

Comprises our operations focused on supporting local authorities (including strategic partnerships), and children's services, through strategic advice and interim support, outsourced administration services, ICT and software solutions and support

We continue to develop and deliver new and innovative solutions and products to support effective administration and joined up services to meet the needs of our clients and the public. The local government and education markets are constantly facing change and there is increased pressure to achieve efficiencies. We therefore focus on continuously seeking to deliver innovative but practical service solutions and leveraging our expertise and scale to better service our clients and add value.

2009 performance

Local Government Strategic Partnerships We have continued to deliver improved services, process and cost efficiencies and ICT solutions across our partnerships.

Sheffield We have continued to deliver transformation plans, including transformation of IT services with a large scale Data Centre Migration.

Southampton The new Gateway and Customer Services Centre has received excellent customer satisfaction ratings. We have implemented further IT infrastructure to underpin enhanced council services.

Harrow Working in partnership with the Council to deliver further savings beyond the set target which has been met. The Council and the public are benefiting from major transformational improvements and the introduction of new services including customer contact, mobile working, Access Harrow and Waste Management.

Swindon Continuing to deliver enhanced services, benefits and value to the Council. Call centre gained a national CCA award.

Capita Software Services – software services for local government and the housing market.

- **Revenues and benefits** maintained our leading position securing new business with a number of councils, including bringing 3 separate systems into a single solution for new unitary, Cheshire West and Chester Council. Migrated several authorities on to our platform in readiness for shared services partnerships.
- **Housing management** Strengthened our portfolio with the addition of IBS's housing business. 7 new contracts were secured with clients including Falkirk and Southway Housing Trusts. New product launched into the Supported Housing market, with 6 contracts secured.
- **Payment management** Business performed well with 3 new unitary authorities (Cornwall, Northumberland and Central Bedfordshire) and a number of councils including Sheffield CC and Hammersmith & Fulham selecting our solutions.

Capita Children's Services We continued to develop and implement innovative software and service solutions across education and children's services. In 2009 around 2 schools a week chose to move to SIMs, including a contract to supply all North Yorkshire CC's primary schools. The success of One,

our local authority solution, in achieving efficiency savings is widely recognised as evidenced by the adoption of the transport module by Cardiff CC. By making transport routes for children with special needs more efficient, journeys were reduced by 1,200 miles per day benefiting pupils and reducing CO₂ emissions significantly.

Capita Total Document Solutions Rolled out an innovative business process platform to support Capita's life and pensions contracts and Capita Financial Group's registrations and settlements departments. New clients for Swordfish, our electronic document management system included Lloyd's underwriter Novae Group PLC, the Gentoo Group and RCT Homes and a number of Capita businesses.

Capita Local Government Services Performed well in the year and won several new contracts, including a contract worth £40m over 15 years with Breckland Council. Continued to support and help grow our strategic partnerships. Handled over 1 million face to face contacts and 2.2 million calls. Processed over £900m of council taxes and collected £2bn of business rates.

National Strategies We continue to deliver a strong and innovative service and that has had a real impact on teaching and learning. The contract has been extended for 1 year until the Government ends the programme in 2011.

Capita Assurance and Testing Continues to grow strongly serving external and Capita clients and has established a fast growing offshore testing practice in India.

2010 priorities

- Maintain market share in local government and education software as we assist clients to respond to change quickly and efficiently.
- Continue to explore opportunities to work with local councils through strategic partnerships and joint ventures as they aim to deliver quality services at a lower cost.
- Support local authorities in their shared services initiatives.
- Grow Capita Assurance and Testing further through both our onshore and offshore capabilities.
- Focus both on external sales opportunities and opportunities to deliver value to other Capita businesses and contracts.

5. Maintaining performance across our divisions

5

ICT, Health & Business Services

	2009 £m	2008 £m
Turnover	507.4	382.2
Underlying operating profit	58.4	37.1
Underlying operating margin	11.5%	9.7%
Capex	9.7	10.1

Comprises our ICT business, health business, our Service Birmingham partnership, business travel administration, conferences and consulting businesses

The businesses within this division have traded well both through the strengthening of existing client relationships as well as forming new ones, such as those in the health market. Our ICT business, which supports external clients and the Group's contracts and operations, has also expanded through a combination of contract wins and acquisitions. Our prospects for growth remain positive in the various markets served by this division

2009 performance

Capita Health Services Our health business has continued to grow and perform well, securing a number of significant contracts and acquisitions. Important milestones have included

- successful transfer and delivery of NHS Choices, achieving average growth in traffic volumes to the website of 7 million per month. See pages 19 to 21
- successful launch of another new Department of Health service called The Information Standard
- in December, we signed a contract with NHS BSA to administer the processing and payment of circa 40 million dental claims and provide a managed IT service. The service will be delivered by our health and IT services businesses

Capita IT Services we have focused on extending our capabilities through selective acquisitions and growing organically

- while continuing to support Capita businesses and their clients, our IT Services business has had increasing success in winning IT outsourcing (ITO) contracts from external clients across both the private and public sectors – including a contract to provide a tailored ICT service to NHS Hounslow and participating in the BSF programme, including a contract in Rochdale
- Computerland has been fully integrated into our IT Services business and Canllion IT Services is currently being integrated, bringing valuable additional capabilities and accreditations. The enlarged business now has over 2,000 technical resources

Service Birmingham We continue to drive efficiency and deliver core ICT service and solutions to support the Council's ambitious business transformation programme. New developments include

- delivery of a more robust and reliable external Council website on a new, scalable and resilient infrastructure, named by Sitemorse as the fastest improving local authority website in the UK
- implementation of a new performance development review and HR payroll systems to help the Council make best use of its people resources, improve performance and become an employer of choice

Capita Business Travel & Conferences

Alongside operational consolidation, the business traded well in challenging market conditions. We secured a significant number of new clients and a place on the OGC framework for public sector travel procurement. Our conferences business delivered over 200 conferences in highly diversified fields. We have implemented sophisticated Customer Management systems in both our travel and conferences businesses, enabling us to increase marketing efficiency and respond to our clients more effectively.

Capita Consulting focusing on local and central government, health and the private sector, the business has progressed well winning new business with clients including Stockport MBC, Buckingham CC, Sellafield and Royal Pharmaceutical Society

2010 priorities

- Continue to implement key components of Birmingham CC's Customer First programme, enabling simpler access to services for citizens. Focus on driving through business benefits across all Service Birmingham programmes to address the increased funding pressures faced by local authorities
- Continue to grow IT Services through securing further external clients and providing broader services to other Capita business units and their clients
- Maintain the growth of our presence in the health sector by further integrating sales across our health businesses and developing additional outsourcing opportunities
- Make further enhancements to our travel and conference services in order to continue to deliver high standards of service to our clients
- Enhance capabilities and increase market reach through selective acquisitions

Case study 5

Prudential aims to be 'the leader in retirement'

IMAGE
REMOVED

Already, 10,000 independent advisers say it's better than ever

IMAGE
REMOVED

In April 2008 we began a 15-year, £722m contract to manage and transform the administration of Prudential's life and pensions operations, involving some 7 million policies. Our task is to reduce operating costs while increasing customer satisfaction and loyalty by stepping-up service efficiency, quality and flexibility

So what are we doing?

We're transforming

- Back office processes
- Frontline customer contact
- HR, training and development
- IT infrastructure and support

In 2007, Prudential outlined its strategy of selectively competing in the UK retirement savings and income markets. While focusing on maximising value from the opportunities provided by the need for innovative retirement solutions, Prudential also looked to reduce its administration costs while continuing to enhance service to customers and financial advisers. To help achieve this, its customer and adviser service operation was outsourced to Capita in 2008 – transferring 3,000 front office, back office and IT employees in the UK and Mumbai.

At Capita our 5-year transformation programme is introducing, among other things, a new approach to management development, focused on boosting commercial awareness and leadership. We brought in new training for contact centre employees to enhance their skills, confidence and knowledge to handle enquiries and complaints more effectively and to meet the Financial Services Authority's mandate of treating customers fairly.

In October 2008 the financial crisis triggered a huge upsurge in calls and mail from anxious customers. Our team took it in their stride, providing the support and reassurance policyholders needed in a way that fully reflected Prudential's brand values.

And in the 2009 Financial Adviser Service Awards over 10,000 advisers gave their verdict. For the first time in a decade, Prudential won five star ratings in 2 categories: Investments and Life and Pensions. This brings more than kudos – many key advisers will only recommend providers that attain the highest service levels.

IMAGE
REMOVED

Keith Phillips,
Key Accounts
Director Prudential
UK and Europe,
notes partnership
benefits...

...an improved service proposition that meets
intermediaries' needs
...a responsive and knowledgeable contact centre
...more satisfied customers and advisers
...attaining five star rating

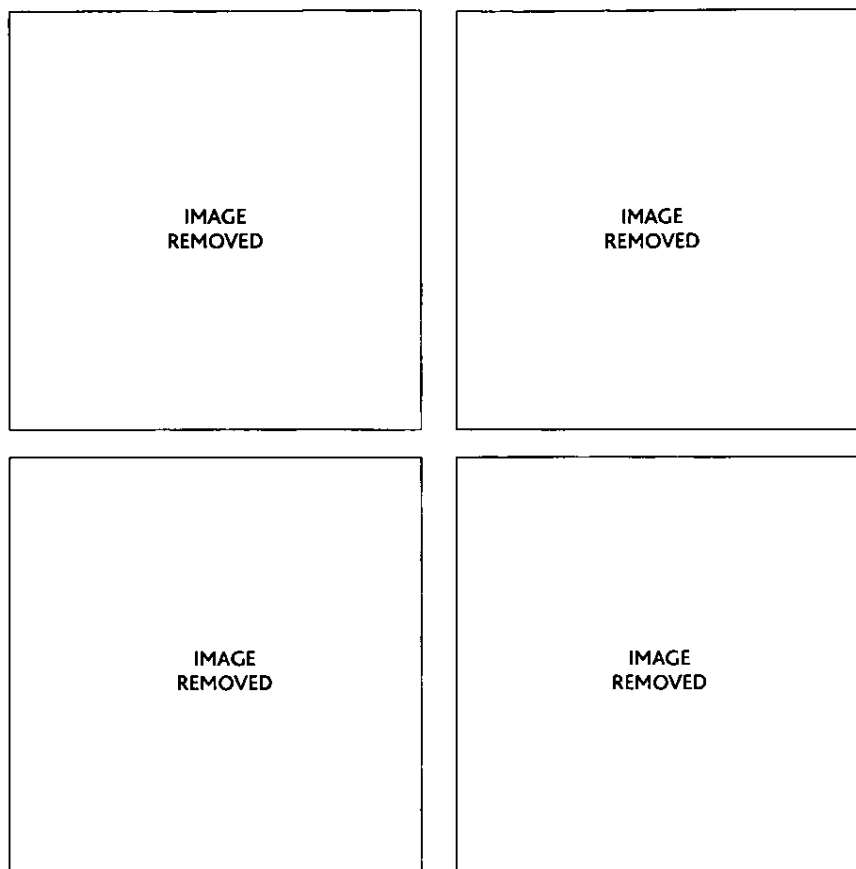
The way our working relationship with Capita has evolved is making a tangible difference to our customers and advisers. In Capita, we have a long term partner who delivers on service and continually works with us to find flexible solutions to our business needs. Capita's commitment to the partnership continues to enhance our overall proposition.

Tulsi Naidu
Operations Director,
Prudential UK and Europe

Governance

70	Board members
72	Corporate governance
79	Directors' remuneration report

Board members



The Board of Directors

The Board of Directors has continued to review the Board composition during 2009 and has made some changes for 2010. After 9 years with Capita, Eric Walters decided to step down as Chairman with effect from the beginning of 2010 and Martin Bolland took over this role from 1 January 2010. We also announced last year that Paddy Doyle would be moving to a part-time Executive Director role. He has now decided to reduce his business interests further and will continue on the Board as a Non-Executive Director from 1 March 2010. The Board has also considered the number of Independent Non-Executive Directors, specifically with relevant financial experience, and will be recruiting to add further Non-Executives to the Board. Whilst this process is taking place, Martin will continue as Chairman of the Audit Committee and Senior Independent Director until an appropriate replacement is appointed.

Martin Bolland

Non-Executive Chairman and Senior Independent Director, Age 53. Joined the Board in March 2008 and became Senior Independent Director on 30 September 2008. Became Chairman on 1 January 2010, following the retirement of Eric Walters from the role. A Chartered Accountant, Martin previously held a number of senior positions within the Lonrho Group and was also a founder and partner of Alchemy Partners and continues to be a member of Alchemy's Investment Committee and the Monitoring Board. He is currently Chairman of QHotels.

Committee memberships:
Nomination Committee
(Chairman from 1 January 2010)
Audit Committee (Chairman)
Remuneration Committee

Paul Pindar

Chief Executive, Age 50. Joined Capita in 1987 from 3i, after advising Capita on its management buy-out, and became Chief Executive in 1999. A Chartered Accountant, Paul is responsible for managing and developing Capita's operations to achieve the Company's strategic objectives, and has overall responsibility for our charitable approach. Paul is also Chair of the Great Ormond Street Hospital's Corporate Partnership's Board and Senior Independent Non-Executive Director of Debenhams Plc.

Gordon Hurst

Group Finance Director, Age 48. Joined Capita in 1988 and was first appointed to the Board as Commercial Director in February 1995 and then as Group Finance Director in 1996. A Chartered Accountant, he is also Company Secretary. He has Board responsibility for our overall corporate responsibility policy and specific responsibility for our environment, health and safety approach and supplier relationships.

Simon Pilling

Chief Operating Officer, Age 47. Joined Capita in 1999 and was appointed to the Board in August 2006 serving as Joint Chief Operating Officer alongside Paddy Doyle. In August 2008 he became Chief Operating Officer and has overall responsibility for the management of the Company's operations. He also has Board responsibility for client service quality and for our employee and human resources policies.

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Governance

Maggi Bell

Business Development Director, Age 54
Joined Capita in January 1999 and was appointed to the Board in August 2008. Maggi has held various positions across Capita, including running our recruitment businesses and leading the Business Services and Corporate Services Divisions, and has been head of the Group Sales & Marketing Division since January 2005. She is responsible for driving forward business development across the Company, including managing our Major Sales Team, and has Board responsibility for community engagement.

Paddy Doyle

Non-Executive Director, Age 59
Joined Capita in 1992 and was appointed to the Board in 1994. As Group Operations Director he was responsible for the ongoing operational management of the Group's business units. From August 2006 to the end of August 2008 he was Joint Chief Operating Officer alongside Simon Pilling. In 2009 he moved to a part-time Executive position on the Board, continuing client facing activities. He has decided to reduce his business interests further and will continue on the Board as a Non-Executive Director from 1 March 2010.

Committee memberships
Nomination Committee
(from 1 March 2010)

Martina King

Non-Executive Director, Age 48
Joined the Board in January 2005. Martina previously held a number of senior positions in marketing and online media, including her position as Yahoo! Managing Director for Europe and Managing Director of Capital Radio. Martina is also a Non-Executive Director of Johnston Press plc, IMD PLC and Debenhams Plc.

Committee memberships
Remuneration Committee (Chairperson)
Audit Committee
Nomination Committee

Bill Grimsey

Non-Executive Director, Age 58
Joined the Board in October 2006. Bill has held a number of senior positions across the retail sector over the past 20 years, including Chief Executive of The Big Food Group and Wickes Plc. Bill is currently Chief Executive of Focus DIY Limited. He does not hold any other Non-Executive positions.

Committee memberships
Audit Committee
Remuneration Committee
Nomination Committee

Eric Walters

Joined the Board in 2001 and became Chairman in 2006. He has held senior positions with Alchemy Partners LLP, Englefield Capital, Schroder Ventures, Grand Metropolitan plc and Lex Service plc. After 9 years service, he stepped down from the Board on 1 January 2010 and we wish him well as he pursues other interests.

Committee memberships
Nomination Committee
(Chairman until 31 December 2009)

Corporate governance

The Capita Group Plc and its subsidiaries (the Group) continue to be committed to the principles of corporate governance contained in the Financial Reporting Council's Combined Code on Corporate Governance June 2008 (the Combined Code) for which the Board is accountable

The Group has complied throughout the year with the provisions of Section 1 of the Code, except in respect of the composition of the Board

Composition of the Board (A.3.2) – This is shown in the table below

Period	Balance of Board	Directors
1 January – 31 December 2009	Non-Executive Chairman 5 Executive Directors 3 Independent Non-Executive Directors	Eric Walters Paul Pindar, Gordon Hurst, Simon Pilling, Maggi Bell and Paddy Doyle Martin Bolland, Martina King and Bill Grimsey
From 1 January – 28 February 2010	Non-Executive Chairman 5 Executive Directors 2 Independent Non-Executive Directors	Martin Bolland Paul Pindar, Gordon Hurst, Simon Pilling, Maggi Bell and Paddy Doyle Martina King and Bill Grimsey
From 1 March 2010	Non-Executive Chairman 4 Executive Directors 2 Independent Non-Executive Directors 1 Non-Executive Director	Martin Bolland Paul Pindar, Gordon Hurst, Simon Pilling and Maggi Bell Martina King and Bill Grimsey Paddy Doyle

The Board continues to believe that the Board and its committees consist of directors with an appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively

Board changes in the year

There were no changes to the Board during the year as all changes described below became effective after the year-end

Eric Walters stood down from the Board from 1 January 2010 and the Board appointed Martin Bolland as Non-Executive Chairman. Paddy Doyle is moving to a non-executive position from 1 March 2010. Following these changes the Board are actively recruiting further Independent Non-Executive Directors and once these have been appointed the relevant announcements will be made. Martin Bolland will continue as Senior Independent Director for the time being.

These changes were part of the Board's orderly succession planning and arrangements.

Martin Bolland, Martina King and Bill Grimsey are regarded as independent and free from any business or other relationship that could materially interfere with their judgement. The Board accepts that Paddy Doyle is not independent, but his experience of the Company means the Board feel the contribution he continues to make is valuable.

For each appointment the Board undertook a formal appointment process, led by the Nomination Committee and, where appropriate, with the assistance of independent external search consultants.

Board composition

The Directors acknowledge the need to segregate the responsibility for operating the Board from the management of the underlying business. Consequently, the roles of Non-Executive Chairman (Eric Walters for the period under review and Martin Bolland from 1 January 2010) and Chief Executive (Paul Pindar) are separate.

Martin Bolland was appointed Non-Executive Chairman from 1 January 2010 and whilst a recruitment process is undertaken for new independent directors Martin has continued in his role of Senior Independent Director and Chairman of the Audit Committee. He is available as Non-Executive Chairman and Senior Independent Director, as necessary, to lead meetings of the Non-Executive Directors without the Executive Directors being present and is available to meet with shareholders to understand any concerns. Biographies of the Directors can be found on pages 70 to 71.

Board responsibilities and effectiveness

The Board is collectively responsible to shareholders for setting the direction of the business and monitoring the Group's ongoing affairs. It is also responsible for ensuring an effective internal control environment that identifies and manages appropriately the risks associated with the business as set out on pages 27 to 28.

The Board demonstrates its commitment to the strategic direction and control of the Group by scheduling a series of meetings in the year. It can meet as necessary outside of this schedule to consider any urgent matters that may arise. It sets the strategic objectives of the Group, ensuring sufficient financial and human resources are in place to meet those aims. The Board sets the Group's values and standards and ensures that its obligations to clients, employees, suppliers, shareholders, the community and other key stakeholders are understood and met.

The Board has a formal schedule of matters that can only be decided by the Board. This schedule has been reviewed during the year and the key matters reserved to the Board include:

- The Group's business strategy
- Annual financial and operating plans
- Financial reporting
- Dividend policy
- Internal controls and risk management (via the Audit Committee)
- Remuneration policy (via the Remuneration Committee)
- Treasury policy and significant fundraising
- Appointment/removal of Directors and Company Secretary

The Board also considers regular reports from the Chief Executive, Group Finance Director, Chief Operating Officer and Business Development Director. The Board is provided with complete, timely and relevant information to ensure that informed judgements are made in pursuit of the Group's objectives.

The Board also reviews the performance of management in meeting business objectives, plans the succession of key executives, and determines appropriate remuneration levels through the Remuneration Committee, a committee of the Board.

Paul Pindar, as Chief Executive, is responsible for all aspects of the operation and management of the Group.

The Non-Executive Directors have a particular responsibility to challenge, independently and constructively, the business development plans that are proposed by executive management and monitor the performance of the management teams in the delivery of agreed business objectives and targets. The Non-Executive Chairman encourages and engages in an open dialogue with Non-Executive Directors who are at liberty to meet with him as a group or individually as they feel fit, without the presence of Executive Directors. The Non-Executive Directors meet at least once a year without the Executive Directors present.

Directors and officer's liability insurance is maintained.

Director induction and professional development

On joining the Board, all Directors participate in an induction programme involving appropriate documentation, meetings and visits to Capita businesses with other Directors, attendance at monthly operational business (MOB) review meetings and discussions with advisers and senior management from across the Group.

During the year, the Directors received appropriate ongoing briefings and information, including updates on governance and regulatory issues, to enable them to perform their roles. They also attended external courses where appropriate. Specific briefings were given to the Executive Directors on the Combined Code, Companies Act 2006 and Disclosure and Transparency Rules during the year.

An induction was also given to Martin Bolland on his appointment as Non-Executive Chairman.

All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board, at the Group's expense. The Company Secretary, Gordon Hurst, who is also Group Finance Director, is available to all Directors and he is responsible for ensuring that all Board procedures are complied with. As with all Board positions and responsibilities this combined role is regularly reviewed.

The Board appointed a Deputy Company Secretary in 2008 to deal with the increase in size and diversity of this area. The duties of the Deputy Company Secretary include coordinating and managing the provision of company secretarial services to the Group on behalf of Gordon Hurst, the Group Finance Director and Company Secretary, and acting as Secretary to the Audit, Remuneration and Nomination Committees. The Deputy Company Secretary has direct access and responsibility to the Chairman and the Chairs of all the standing committees and open access to all the Directors. The Board continues to keep this under review and currently feel that this combination works best for the business as a whole.

Board performance evaluation

An evaluation of Board and committee effectiveness was conducted in 2009. The evaluation took the form of discussions and meetings with the Directors in relation to the Board and any committee of which they were a member at the time of the evaluation. The evaluation was continuous to ensure a full review was undertaken at points across the year. One area that was raised was the potential effects of changing legislation with the full implementation of the Companies Act 2006. In response to this feedback, additional briefings were offered on this area and undertaken in November 2009. The Board concluded that the Board and its committees continue to operate effectively in accordance with the Companies Act 2006 and good corporate governance.

The performance of individual Executive Directors is appraised annually by the Chief Executive, to whom they report. The performance of the Non-Executive Chairman, Eric Walters in 2009, was reviewed by the Non-Executive Directors, led by Martin Bolland, taking into account the views of the Executive Directors for the period ending December 2009.

The performance review of the Chief Executive is conducted by the Non-Executive Chairman, taking into account the views of other Directors. Non-Executive Directors' performance is reviewed by the Non-Executive Chairman, taking into account the views of other Directors.

The Board considered, as it had in previous years, the merit of using an external body to manage the performance evaluation process. It concluded that it remained appropriate for the Deputy Company Secretary to manage the performance evaluation process and act in accordance with the feedback received. This ensures that actions could be undertaken in line with the requirements of the business without incurring additional costs.

Appointment, re-appointment and removal of Directors

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act.

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than 3 years in accordance with the Combined Code and the Company's Articles of Association.

No person, other than a Director retiring at the meeting, shall be appointed or re-appointed a Director of the Company at any general meeting unless he/she is recommended by the Directors.

No person, other than a Director retiring at a general meeting as set out above, shall be appointed or re-appointed unless between 7 and 35 days' notice, executed by a member qualified to vote on the appointment or re-appointment, has been given to the Company of the intention to propose that person for appointment or re-appointment, together with notice executed by that person of his/her willingness to be appointed or re-appointed.

The Non-Executive Chairman and, where appropriate, the Non-Executive Directors have, following the evaluation process described above, considered the performance of Paul Pindar, Simon Pilling and Bill Grimsey, who are subject to re-election at the 2010 Annual General Meeting and are satisfied that they continue to be effective and demonstrate a clear commitment to the role.

Membership of the committees

Membership of the Company's standing committees during the year is shown below:

	Eric Walters	Martin Bolland	Martina King	Bill Grimsey
Nomination	(C)✓	✓	✓	✓
Remuneration		✓	(C)✓	✓
Audit		(C)✓	✓	✓

(C) Chairman

Following changes to the Board on 1 January 2010 the committees are as follows:

	Martin Bolland	Martina King	Bill Grimsey
Nomination	(C)✓	✓	✓
Remuneration	✓	(C)✓	✓
Audit	(C)✓	✓	✓

(C) Chairman

Martin Bolland will stand down from both the Remuneration Committee and the Audit Committee once appropriate replacements are recruited to the Board. Paddy Doyle is not independent and therefore will only be appointed to the Nomination Committee, but will be available to the Audit and Remuneration Committee as required.

Nomination Committee

The Nomination Committee in 2009 comprised Eric Walters (Committee Chairman), Martin Bolland, Martina King and Bill Grimsey. The Committee reports to the Board and its role is to seek suitably skilled and experienced candidates to be Directors and ensure plans are in place for orderly succession of appointments to the Board.

When considering the constitution of the Board, the Nomination Committee carries out a rigorous review, taking into account the need for a progressive refresh of the Board. Core competencies and attributes required to fill the roles are set out and independent external search consultants engaged, where appropriate, to identify potential candidates. The Chairman of the Company never takes part in any discussions regarding the consideration of the appointment of a new chairman.

During the year the Nomination Committee has considered the succession planning of the Board. Paddy Doyle was considering reducing further his business commitments, however the Committee felt that his experience continued to be of value to the Board going forward and therefore proposed to the Board that Paddy became a Non-Executive Director from 1 March 2010. Eric Walters decided in November 2009 that he wanted

Corporate governance

to stand down from the Board. Martin Bolland chaired the Nomination Committee regarding initial discussions concerning Eric Walters' succession. As Martin Bolland was proposed as a potential candidate for the role of Non-Executive Chairman, it was decided that the appointment of the Non-Executive Chairman should be discussed by the Board as a whole. Therefore the decision to appoint Martin Bolland as Non-Executive Chairman was taken by the Board. Martin Bolland and Eric Walters did not take part in this decision.

Audit Committee

The Audit Committee comprised the Non-Executive Directors throughout 2009. Martin Bolland was and remains Chairman of the Audit Committee and he has significant recent and relevant financial experience, including being a qualified Chartered Accountant. The other members of the Audit Committee are Martina King and Bill Grimsey. Audit Committee meetings are attended, by invitation, by the Non-Executive Chairman, Chief Executive, Group Finance Director, Director Group Compliance, Director Group Risk and Business Assurance and by representatives of the external Auditors.

The Committee met 4 times during the period. Meetings are planned around the financial calendar for the Company and the meeting held in May is specifically to focus on the risk, internal control and compliance agendas.

The Chairman of the Committee is directly available to and holds regular meetings with the Director Group Compliance, Deputy Company Secretary, Director Group Risk and Business Assurance and external Auditors.

During the year, the Committee reviewed its terms of reference and ensured that these remained in line with the guidance given by the Financial Reporting Council and the Code. There were no proposed changes and this was presented to the meeting held in November 2009. The terms of reference include the approval of the appointment of the Director Group Risk and Business Assurance.

The Committee is also responsible for the policies on whistleblowing and the provision of the non-audit services by the external Auditors. Both policies are published on the Company's employee intranet.

In accordance with the terms of reference the Committee met separately with the Auditors independently of the Executive Directors and also with the Director Group Risk and Business Assurance.

The Committee reviewed a wide range of financial reporting and related matters during the year, including the half year and annual accounts prior to their submission to the Board. The Committee focused in particular on critical accounting policies and practices adopted by the Group and any significant areas of judgement that materially impact on reported results.

It also monitored the internal controls that are operated by management to ensure the integrity of information reported to shareholders.

The Committee reviewed and approved the Representation Letter required by the Auditors.

The Committee provides a forum for reporting by the Group's Auditors, and it advises the Board on the appointment, independence and objectivity of the Auditors and on the remuneration for both statutory audit and non-audit work. It also discussed the nature, scope and timing of the statutory audit with the Auditors. The Audit Committee annually performs an independent assessment of the suitability and performance of the Auditors in making its recommendation to the Board for their re-appointment.

The Committee met with the Group Finance Director to discuss the re-appointment of the Auditors and their performance over the preceding 12 months. This discussion also included the scope of the audit that was required. This process meant the Committee could discuss in detail the re-appointment and recommend the re-appointment of the Auditors to the Board, which it did.

At the meeting to review the 2009 Annual Report and Accounts, the Committee considered the level of non-audit services being provided by the Group's Auditors in order to satisfy itself that the objectivity and independence of the Auditors were safeguarded. Details of audit and non-audit fees are given in note 8 on page 101. The lead audit partner is rotated at least on a 5-yearly basis.

The Committee has responsibility for reviewing the annual business assurance programme and for ensuring that the Group Risk and Business Assurance function is adequately sponsored and resourced. The Committee is kept apprised of all key issues across the Group and the potential risks to the business. It also monitored the resourcing levels and performance of the Group's Compliance function. In November 2009 the Committee reviewed and approved these business plans.

Martin Bolland will continue to be Chairman of the Audit Committee until a new Independent Non-Executive Director with relevant financial experience is appointed. Although this is not compliant with the Combined Code, Martin Bolland does have the relevant financial experience and the other Non-Executive Directors at this time do not. It was therefore decided that the current arrangements were in the best interests of both the shareholders and the Company.

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 79 to 84.

The terms of reference of the Nomination, Remuneration and Audit Committees were reviewed during the year. The terms of reference are displayed in the investor centre at www.capita.co.uk/investors.

Board and committee members, frequency of meetings and attendance

During 2009 the Board met 9 times, excluding ad hoc meetings, solely to deal with procedural matters. The Nomination Committee and the Remuneration Committee met once and 3 times during the year, respectively. The Audit Committee met 4 times during the year. Attendance is recorded in the table below.

	Board meetings	Nomination Committee meetings	Remuneration Committee meetings	Audit Committee meetings
Scheduled meetings	9	1	3	4
Eric Walters	9	1	–	–
Paul Pindar	9	–	–	–
Gordon Hurst	8	–	–	–
Paddy Doyle	9	–	–	–
Simon Pilling	7	–	–	–
Maggie Bell	9	–	–	–
Martina King	8	1	3	4
Bill Grimsey	8	1	3	4
Martin Bolland	9	1	3	4

Any Directors' non-attendance at Board meetings or meetings of the Audit, Remuneration or Nomination Committees was due to illness or an absence previously agreed with the Chairman of the Board, the Chief Executive or the Chairman of the relevant committee.

Dialogue with institutional shareholders

The Board encourages and seeks to build a mutual understanding of objectives between the Group and its institutional shareholders. As part of this process the Executive Directors make regular presentations and meet with institutional shareholders to discuss any issues of concern, to obtain feedback and to consider Corporate Governance issues. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Non-Executive Chairman is personally available to the significant shareholders in the Group.

The Corporate Communications team has effective day-to-day responsibility for managing shareholder communications and always acts in close consultation with the Board. A Disclosure Committee consisting of the Corporate Communications Director, Chief Executive and Group Finance Director ensures all appropriate communications are made to the London Stock Exchange and shareholders. Shareholders can also access up-to-date information through the investor centre section of the Group's website at www.capita.co.uk/investors. A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

All members of the Board, including the Non-Executive Directors, receive a report on any significant discussions with shareholders and feedback that follows the annual and half-yearly presentations to investment analysts and shareholders. All brokers' reports and analysts' briefings concerning Capita are circulated to the Directors.

The Board encourages shareholders to attend its Annual General Meeting. Directors, including the chairpersons of the various committees, are present to answer any questions. The Group encourages communication with and the participation of private investors at the Annual General Meeting.

Social and environmental responsibility

Details of how the Group manages its social and environmental responsibilities can be found on pages 32 to 40 and at www.capita.co.uk/corporate-responsibility.

Internal control

The Board is responsible for the Group's system of internal control and for regularly reviewing its effectiveness. Procedures have been designed for, inter alia, the safeguarding of assets against unauthorised use or disposition, maintaining proper accounting records and the reliability of financial information used within the business or for publication. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud. There is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the year under review and up to the date of approval of the 2009 Annual Report and Accounts. This process is regularly reviewed by the Board. The Group's key internal control procedures include the following:

- The Board has responsibility to set, communicate and monitor the application of policies, procedures and standards in areas including operations, finance, legal, commercial and regulatory compliance, human resources and health and safety, information security and property management and corporate social responsibility and the environment and these policies are cascaded to the businesses via the MOB review process.
- Authority to operate the individual businesses comprising the Divisions that make up the Group is delegated to their respective Managing Directors, within limits set by the Group including the recruitment of the underlying management teams. The Board establishes key operational, functional and financial reporting standards for application across the whole Group and this is cascaded through the MOB review process. These are supplemented by operating standards set by local management teams, as required for the type of business and geographical location of each subsidiary and business unit.
- Comprehensive annual financial plans are prepared at the individual business unit level and summarised at a Divisional and Group level. Financial plans are reviewed and approved by the Board following challenge within the MOB review process. Capital expenditure is subject to rigorous budgetary control beyond specified levels and detailed written proposals have to be submitted to the Board. Expenditure on acquisitions is the subject of appropriate consideration, review and approval by the Board.
- Results are monitored routinely by means of comprehensive management accounts and actual progress against plan is challenged directly by Executive Directors of the Board on a Group-wide basis and at the business unit level each month.

– A framework is in place to identify, assess and mitigate the major business risks, including credit, liquidity, operations, reputation, information security, regulatory and fraud. The framework also includes specific provision for risk-based due diligence in respect of business acquisitions and new customer contracts. Exposure to business risk is monitored as an integral part of the MOB review process and by the Audit Committee.

– The Group risk framework is supplemented in certain of the Group's businesses, including all financial services related business streams, by a number of formally constituted local boards, which in turn are underpinned by dedicated risk committees. These committees provide an appropriate means to routinely monitor the risk profile of these businesses, including regulatory risks, and for proposed mitigating actions to be challenged and tracked.

– The Group risk management framework is monitored and developed as required by the Group Risk and Business Assurance function, in conjunction with the Group Compliance function, to ensure that it remains appropriate to business requirements and consistent with best practice.

– The Group Risk and Business Assurance function reports to the Group Finance Director and independently to the Audit Committee. In addition to independently facilitating the Group's risk management framework, it delivers a risk-based internal audit programme, to provide assurance on the effectiveness of the internal control structures operating across the business. The annual audit programme is focused on areas of greatest risk to the Group, as determined by the Group risk framework, and the independent view of those risks is taken by the Group Risk and Business Assurance function.

– In addition, regulatory risks and compliance matters are overseen by the Group Compliance function reporting through the Group Finance Director and independently to the Audit Committee. The Group Compliance team, in conjunction with dedicated compliance teams within the relevant businesses, independently monitor regulatory compliance by way of risk-based work programmes and support operations in identifying and mitigating regulatory risks as an integral part of the Group risk framework.

– Both the Group Compliance function and the Group Risk and Business Assurance function routinely appraise the Group's senior management and the Audit Committee of their work programmes and findings.

The Board keeps under review the effectiveness of this system of internal control. The key mechanisms used by the Board to achieve this include regular MOB review reports, periodic updates from the Audit Committee based on its review of risk management, business assurance and compliance reports by the relevant Group functions, discussions with and reports from the external Auditors and other advisers, and periodic reports from relevant regulators.

Based on the above, the Board has concluded that it is satisfied with the process of monitoring the effectiveness of internal controls and complies with the Internal Control Guidance for Directors in the Combined Code issued by the Institute of Chartered Accountants in England and Wales and in the revised Turnbull Guidance (2005). The Board and the Audit Committee have performed a Group-wide review of the effectiveness of the internal control system, including financial, operational and compliance controls and risk management in accordance with the Combined Code for the period from 1 January 2009 to the date of approval of this Annual Report and Accounts.

The implications of the Arch cru situation are still being evaluated as explained in note 4 on page 97 and note 25 on page 111. Subject to this evaluation, no significant failings or weaknesses have been identified in the Group-wide review. Notwithstanding this, the controls within Capita Financial Managers have been reviewed and enhanced.

Risk management and governance is also referred to on pages 22 to 23 and 27 to 28 in this report.

Corporate governance

Group activities

The Group is a leading UK provider of business process outsourcing solutions and professional support services to organisations across the public and private sectors. The Group's 9 chosen markets are in the public sector: central government, local government, education, health and transport, and in the private sector: life and pensions, insurance, financial services and other corporates.

On behalf of its clients, the Group aims to improve service quality, reduce costs of delivery and enable them to transform the way that they deliver services to their customers. The services that the Group provides are essential to the smooth running and success of its clients' operations. The Group designs, successfully implements and manages tailored service solutions, ranging across administration, information technology, financial, human resources, property and customer service functions. The Group maintains leading positions in the majority of its markets due to its scale and ability to draw on its wide base of professional services, detailed market knowledge and extensive business process transformation and change management skills.

During the period under review, the Group's business divisions were reorganised. The Board decided the reorganisation was necessary to manage the continued growth in the business and to enhance service provisions across the Group. The Group's principal activities are now managed through 5 operating divisions comprising: Insurance & Investor Services, ICT, Health & Business Services, Life & Pensions, Professional Services and Integrated Services. Group support services report direct to Group Executive Directors.

A review of the development of the Group and its business activities during the year is contained in the Business Review on pages 1 to 40. Our divisional operations and financial performance are detailed on pages 58 to 64.

Profits and dividends

The Group underlying profit before taxation amounted to £325.1m (2008 £277.2m). The Directors recommend a final dividend of 11.2p per share (2008 9.6p per share) to be paid on 24 May 2010 to ordinary shareholders on the Register on 16 April 2010. This gives a total dividend for the year of 16.8p per share (2008 14.4p per share).

The Employee Benefit Trust has waived its right to receive a dividend on the shares being held within the Trust.

Directors

The Directors of the Company currently in office are listed on pages 70 to 71. Paul Pindar, Simon Pilling and Bill Grimsey will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. No Director has a service contract exceeding 1 year.

Conflicts policy

Under the Companies Act 2006, directors are under an obligation to avoid situations in which their interests can or do conflict, or may possibly conflict, with those of the Company. In response to the conflicts of interest provisions, a comprehensive project was undertaken in 2008 to identify and disclose any conflicts of interest that have arisen or may arise across the Group. Procedures were implemented for evaluating and managing conflicts that have been identified in a way that ensures that decisions are not compromised by a conflicted director. In addition, the Company's Articles of Association give the Board the power to authorise matters that give rise to actual or potential conflicts. The Board reports annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed. A policy for ongoing identification and disclosure of conflicts is in place and is kept under regular review.

The Board has authorised the conflict of Gordon Hurst being a trustee of both the Capita Pension and Life Assurance Scheme and the Capita Group Money Purchase Scheme, and gave specific guidance on this conflict going forward. Gordon Hurst did not participate in the discussion or vote on the guidance given. No other conflicts of interest declared were material to the Board. All conflicts of interest are reviewed on an annual basis by the Board and are revisited as part of the year-end process by the Directors.

None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings other than their contracts of employment.

Voting rights and share capital

On 19 February 2010 the Company had received notifications that the following were interested in accordance with DTR 5:

Shareholder	No of shares	Percentage of ISC as at 19 Feb	No of shares Direct	No of shares Indirect
Invesco	90,928,607	14.55%		90,928,607
Baillie Gifford & Co	35,854,749	5.74%		35,854,749
Capital Research and Management Company	34,595,933	5.54%		34,595,933
FMR LLC & Fidelity International	28,476,638	4.56%		28,476,638
Legal & General	27,087,168	4.34%	24,009,959	3,077,209
Deutsche Bank	18,680,548	2.99%	18,680,548	

At the date of this report, 624,780,161 ordinary shares of 2 1/4p each have been issued and are fully paid up and are quoted on the London Stock Exchange. During the year ended 31 December 2009, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 3,355,841 new ordinary shares. A further 195,823 new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. 7,805,218 of the issued share capital is held within an Employee Benefit Trust for the use of satisfying employee share options.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2009. During the year the Company did not acquire any ordinary shares (2008 10,355,046) ordinary shares. Therefore during the year no shares (2008 10,355,046) were transferred to the Employee Benefit Trust. No shares were cancelled during the year and there are no shares held in treasury.

Rights and restrictions attaching to shares

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the payment of dividends pro rata to their holding. The Board may propose and pay an interim dividend and recommend a final dividend, in respect of any accounting period out of the profits available for distribution under English law. A final dividend may be declared by the shareholders in the General Meeting by ordinary resolution, but no dividend may be declared in excess of the amount recommended by the Board.

At any General Meeting a resolution put to vote at the meeting shall be decided on a poll. This will be a change from previous years, but the Company feels that this is in line with best practice. On a poll every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Restrictions on transfer of shares

The Company's Articles of Association allow Directors to, in their absolute discretion, refuse to register the transfer of a share in certificated form which is not fully paid. They may also refuse to register a transfer of a share in certificated form unless the instrument of transfer is lodged, duly stamped, at the registered office of the Company, or at such other place as the Directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates.

and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. They may also refuse to register any such transfer where it is in favour of more than 4 transferees or in respect of more than 1 class of shares.

The Directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 1 to 68. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 22 to 26. In addition note 26 to the financial statements on page 111 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long term contracts with a wide range of public and private sector clients and suppliers. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, and in accordance with the FRC's "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", 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.

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be retrained for other positions in the Group.

Employee involvement

The Group is committed to involving all employees in the performance and development of the Group. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development. The Group supports employees through a comprehensive range of key business and management skills courses and an annual management development programme. Capita Academy and Capita Managers Academy were launched at the end of 2009 to provide a more comprehensive approach to key skills training and personal development.

The Group encourages all its employees to participate fully in the business through open dialogue. Employees receive news of the Group through frequent email notices, internal notice board statements, Capita Connections, the Group employee intranet, and Capita Online, a regular email communication reviewing the performance of the Group from the perspective of the Directors. During 2009, the Company's intranet was redeveloped and re-launched to meet the needs of all our employees. These communication initiatives enable employees to manage their work more efficiently and to share information within and between business units and employees are encouraged to contribute news, views and feedback. The Group maintains a strong communications network and employees are encouraged, through its open door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group.

The Capita Sharesave Scheme, an employee Save As You Earn Scheme, and the Capita Share Ownership Plan, a share incentive plan, are both firmly established and are designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group. Approximately 23% of the Group's eligible employees have share options or own Capita shares.

In keeping with its belief that employees are the Group's most valuable asset, the Group operates employee awards schemes. These celebrate the core values that embody the organisation and reward employees for service excellence, effective teamwork, service to the community and innovation.

Payment of suppliers

The Company aims to pay suppliers in accordance with the suppliers' contract terms. In 2009 the Company had an average of 40 days' purchases (2008: 41 days' purchases) outstanding in trade creditors.

Charitable and political donations

During the year charitable donations amounted to £0.5m (2008: £0.6m). No political contributions were made. Further details of the Group's charitable donations and work within the community can be found on pages 39 and 40 and at www.capita.co.uk/corporate-responsibility.

Financial instruments

The Group's financial instruments primarily comprise bonds, bank loans, finance leases and overdrafts. The principal purpose of these is to raise funds for the Group's operations. In addition various other financial instruments such as trade creditors and trade debtors arise directly from its operations. From time to time, the Group also enters into derivative transactions, primarily interest rate swaps, currency swaps and forward exchange contracts, the purpose of which is to manage interest risk and currency risk, arising from the Group's operations and its sources of finance.

The main financial risks, to which the Group has exposure, are interest rate risk, liquidity risk, credit risk and foreign currency risk.

The Group borrows in selected currencies at fixed and floating rates of interest and makes use of interest rate swaps and currency swaps to generate the desired interest profile and to manage its exposure to interest rate fluctuations.

In respect of liquidity risk, the Group aims to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, unsecured loan notes, finance leases and overdrafts, over a broad spread of maturities.

In respect of credit risk, the Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from the other financial assets of the Group, such as cash, financial investments and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in India, which generates exposure to movements in the Indian Rupee exchange rate. The Group seeks to mitigate the effect of this exposure by entering forward currency instruments, in the form of non-deliverable forward contracts, to fix the Sterling cost of highly probable forecast transactions denominated in Indian Rupees. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on page 111.

Corporate governance

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2010 Annual General Meeting from 15 minutes before the meeting until it ends.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Auditors will be put forward at the forthcoming Annual General Meeting.

The Company is committed to ensuring appropriate independence in its relationship with the Auditors and the key safeguards are:

- The Group Finance Director monitors the independence of the Auditors as part of the Group's assessment of auditor effectiveness and reports to the Audit Committee.
- The Audit Committee routinely benchmarks the level of the audit fee against other comparable companies both within and outside of its sector, to ensure ongoing objectivity in the audit process.
- The Group Finance Director monitors the level and nature of non-audit fees accruing to the Auditors, and specific assignments are discussed in advance with the Auditors and flagged for the approval of the Audit Committee as appropriate and in accordance with the Company's policy on the provision of non-audit services by the Auditors. The Audit Committee reviews, in aggregate, non-audit fees of this nature on an annual basis and considers implications for the objectivity and independence of the relationship with the Auditor.

Ensuring conflicts of interest are avoided is a fundamental criterion in the selection of any third party auditor for assignments with which the Group is involved. Such conflicts may arise across public or private sector customers and key supplier relationships, for example, and are a key determinant in the award process for external audit assignments.

Powers of Directors

The business of the Company shall be managed by the Directors who are subject to the provisions of the Companies Act, the Articles of Association of the Company and to any directions given by special resolution, including the Company's power to repurchase its own shares.

The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

Change of control

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

The Group has a number of borrowing facilities provided by various banks and other financial institutions. The Group's bank debt contains a change of control provision under which the banks may require immediate repayment in full on change of control. The bonds issued by the Group contain a change of control provision which requires the Group to offer to prepay the bonds in full if a change of control event occurs and the Group does not obtain an investment grade credit rating.

There are no other significant contracts in place that would take effect, alter or terminate on the change of control of the Company.

Statement of Directors' responsibilities in respect of the financial statements and auditors

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware.

Each of the Directors has taken all steps that a Director might reasonably be expected to have taken to be aware of all relevant audit information and to establish that the Company's Auditors are aware of that information.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of each Director's knowledge, the financial statements contained within this 2009 Annual Report and Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face. Details of the principal risks and uncertainties can be found on page 28.

Annual General Meeting

The 2010 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB, on 11 May 2010. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which was sent to shareholders with the 2009 Annual Report and Accounts and includes notes explaining the business to be transacted. In May 2009, shareholders granted authority for the Company to purchase up to 62.1m ordinary shares which will expire at the conclusion of the 2010 AGM. No shares were purchased during 2009. A resolution to renew this authority will be put to shareholders at that meeting.

At the AGM in May 2009 the Directors proposed that the name of the Company be changed to Capita plc with effect from 31 December 2009. Unfortunately due to a change in the regulations implemented on 1 October 2009 and outside of our control, we are unable at this time to change the Company name. We will keep this potential change under review.

Directors' remuneration report

As required by the Companies Act 2006, Statutory Instruments 2008/410 the large and medium sized companies and groups (accounts and reports) Regulations 2008 and to meet the Listing Rules of the UK Listing Authority, the Directors present the report on Directors' remuneration for the year ended 31 December 2009

The following information is not subject to audit

Executive summary

This summary provides an overview of Directors' remuneration in 2009 and outlines the changes to the previous year

The grants made under the Long Term Incentive plan (LTIP 2008) were

Director	Number of nil cost options
Paul Pindar	165,000
Simon Pilling	120,000
Gordon Hurst	120,000
Maggi Bell	80,000
Paddy Doyle	48,000

Under this plan up to 165,000 nil cost options can be granted or 300% of an individual's salary, whichever is the greater. The Remuneration Committee have chosen to award the maximum to Paul Pindar in line with its objectives to award lower fourth quartile basic salary with top quartile performance related rewards

Base salaries

Due to the weak economic conditions in 2009 the basic salaries of Executive Directors and senior management were held at 2008 levels, apart from those in positions who were promoted or changed their responsibilities. This will be continued for 2010. The Committee believes that it is important that the pay freeze reflects the remuneration decisions being taken across our businesses. The Committee noted that all employees are paid in accordance with the market conditions and business requirement for their role. There is no system of comparing the differential across the Group as it consists of a diverse mix of businesses and it would reduce the ability for salaries to be decided at a business level. It is also important that the remuneration for all our employees is decided on the business need and market conditions for any given role. We believe that this policy keeps us competitive as a business and within the sector in which we operate.

Annual bonuses

In 2009, each Executive Director was awarded a bonus of 105% of base salary. The bonuses are awarded on the achievement of an annual target based on underlying profit before tax set at the beginning of the year by the Remuneration Committee and approved by the Board.

Although full achievement of the annual target was met on an underlying basis, the Remuneration Committee decided that the bonus should be scaled back. This was due to the exceptional item in respect of estimated costs of £30m to resolve the issue of the suspension of 2 OEIC investment funds for which Capita Financial Managers is the authorised corporate director. This is explained further in note 4 on page 97 and in note 25 on page 111.

The bonus has been split between 35% of salary payable in cash and the remaining 70% in Deferred Shares under the Deferred Annual Bonus Plan. This is a reduction of 25% of the total bonus that would otherwise have been awarded. The Deferred Annual Bonus Plan also includes a matching award of up to 15 shares for each deferred share dependent on achievement of certain performance criteria over a 3 year period.

The bonus for the year therefore reflects the performance of the Company and has been weighted towards long term share based incentives, strongly linking the interests of the Executive Directors with those of the Group's shareholders.

Deferred Annual Bonus Plan (DAB)

It was agreed that the vesting schedule would be amended to start the vesting at EPS growth of RPI + 4% per annum – 33% of the award will vest and full vesting at EPS growth of RPI + 14% per annum for awards from 2010. The Remuneration Committee decided to reduce the EPS growth targets on the matching award by 2% compared with previous awards. The new targets are considered to be stretching compared to many FTSE companies especially as this growth is being measured from a high base point given Capita's earnings growth over the last 5 years. This would bring this plan in line with the Long Term Incentive Plan.

Following the introduction of the 50% tax rate by the Government, a review was undertaken of the share plans and the impact that this change would have on the participants.

In respect of the Deferred Annual Bonus Plan it was agreed that the use of restricted shares would be made available to the Directors. This meant that they could choose to turn their deferred award into restricted shares and pay the tax and national insurance due prior to the tax rate change. The restricted shares are held in trust and have the same conditions as the deferred award. No change was made to the matching awards as there are performance conditions attached to these and this would have required an early vesting for these awards.

There was no impact to the accounting treatment of these awards and no detriment to the Company in respect of the changes made to the DAB.

The DAB is due to expire in 2010. The Company will seek to renew this plan for a further 10 years at the forthcoming AGM.

Long Term Incentive Plan (LTIP 2008)

It has been agreed that the full vesting of this award would be at EPS growth of RPI + 14% per annum for awards from 2010.

The Committee considered the stretching nature of the performance conditions and it was felt that this continued to be a challenging target for the Executive Directors and no less challenging to previous awards. They also considered other measures for the performance conditions and this included Total Shareholder Return (TSR) and also softer objectives. It was concluded that an auditable target was most appropriate and that other objectives would be part of the annual review of the Director.

Remuneration strategy and policy for Executive Directors

The table below shows our remuneration strategy and policy for our Executive Directors and how these link to the package of remuneration.

Strategy	Policy	Package
To provide a remuneration package that:		
- Is aligned to shareholders' interests	- Set base salary at lower quartile level	- Base salary - Annual bonus
- Is competitive in the current market and our business sector	- Reward upper quartile performance with upper quartile rewards	- Deferred bonus - Long Term Incentive Plan
- Encourages and supports a high performance culture	- Balance between short and long term rewards with a balance on longer term rewards	- Share matching plan
- Attracts, retains and motivates	- Competitive package of benefits	- Pension provision - Car allowance - Healthcare - All employee share plans

Directors' remuneration report

GRAPH
REMOVED

Capita's Remuneration Committee is satisfied that the remuneration policy is appropriate, particularly with regard to total executive remuneration and Group performance. The Committee plans to continue this approach in its future remuneration policy. Consistent with this principle, approximately half of an Executive's target total remuneration is performance-linked and weighted to the long term. This percentage increases in the case of performance above target. For further information regarding the remuneration strategy for Directors and the wider workforce please see page 37.

Remuneration Committee membership

Martina King was Chairperson of the Remuneration Committee throughout the year. Membership of the Remuneration Committee during the year is shown below. Eric Walters was a member of the Remuneration Committee in 2008, but stood down as a member at the beginning of 2009.

The Committee met 3 times and the attendance is shown below:

Name of Director	Number of meetings attended
Martina King	3
Bill Grimsey	3
Martin Bolland	3

Terms of reference

The Remuneration Committee has formal terms of reference and these are agreed by the Board. These include:

- Setting and reviewing performance targets
- Determining remuneration and benefits for Executive Directors and senior management
- Determining contractual terms for Executive Directors
- Granting of long term incentive plan options

The Committee also considers the remuneration packages within the organisation when reviewing the Executive Directors' remuneration.

The terms of reference for the Committee are reviewed annually and updated as required. The terms of reference were recommended and approved by the Board. These are available at www.capita.co.uk/investors or copies can be requested from the Company Secretary.

Advisers to the Committee

During 2009 the Committee sought advice from PricewaterhouseCoopers (PwC), the remuneration advisers, as required. Paul Pindar was invited to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management.

PwC also provide services in respect of overseas tax compliance, share plans and other ad hoc tax projects.

KPMG were also engaged to review some elements of the Long Term Incentive Plan and the Deferred Annual Bonus during the year. KPMG also provides services in respect of share plans and ad hoc tax projects.

Combined Code

The Company has complied with the provisions set out in Section B of the Financial Reporting Council's Combined Code on Corporate Governance (June 2008).

The Remuneration Committee confirmed that the remuneration strategy and policies remained in line with the Financial Services Authority guidance, sent out in October 2008.

Comparison of Total Shareholder Returns

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All Share Index and the FTSE 350 Support Services Index over the 5 years starting 1 January 2005 and ending 31 December 2009 assuming that all dividend income is reinvested. The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the United Kingdom and also a specific group of companies within the same sector.

GRAPH
REMOVED

A £100 investment in Capita shares on 1 January 2005 would be worth £224.60 at 31 December 2009 compared to £137.10 for an investment in the FTSE All Share Index and £136.80 for an investment in the FTSE 350 Support Services Index.

Elements of remuneration

Basic salary and benefits

The Committee regularly commissions independent reviews of the salaries and benefits of the Executive Directors. The policy adopted by the Committee requires that basic salaries and benefits be below those provided to comparable roles in comparable companies to enable the provision of a higher performance-related element of remuneration.

This low basic salary policy allows the Directors to provide a lead in terms of keeping fixed remuneration costs low across the Group as a whole and is reflective of the Group's remuneration policy in general. The continued success of the Group has enabled it to provide the benefits of a highly geared reward structure which delivers a competitive total remuneration package.

Annual bonus

The maximum annual bonus potential for Executive Directors is 140% of salary. The value of the annual bonus is determined at the start of the financial year and payment triggered at a pre-determined Group profit before tax target.

Information on the bonuses paid for the period to 31 December 2009 is detailed on page 79.

Non-Executive Directors

Non-Executive Directors' fees reflect the time, commitment and responsibilities of the role. They are reviewed annually and determined by the Executive Directors. The fees paid to the Non-Executive Directors include consideration of all the responsibilities that they are asked to undertake. The Non-Executive Directors have equal responsibilities and therefore receive equal pay.

Non-Executive Directors' fees were held at 2008 levels of £42,500. They are not paid further amounts for specific duties and responsibilities, such as chairing a committee. Eric Walters was paid £105,000 per annum as Chairman of the Group to the end of 2009. Non-Executive Directors fees are reviewed regularly.

Service contracts

The service contracts for Executive Directors are for an indefinite period and provide for a 1 year notice period. They do not include provisions for predetermined compensation on termination that exceed 1 year's salary and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid.

All Directors are appointed for an indefinite period but are subject to re-election at the Annual General Meeting every 3 years.

Details of the contracts are set out below:

Executive Directors	Date of contract	Notice period
Paul Pindar	17 December 2007	12 months
Gordon Hurst	17 December 2007	12 months
Paddy Doyle	17 December 2007	12 months
Simon Pilling	17 December 2007	12 months
Maggi Bell	1 August 2008	12 months

Paddy Doyle will move to a letter of appointment from 1 March 2010.

Non-Executive Directors	Date of joining the Board
Eric Walters*	1 January 2001
Martin Bolland	1 March 2008
Martina King	1 January 2005
Bill Grimsey	9 October 2006

* retired 1 January 2010

Share plans

Deferred Annual Bonus Plan (DAB)

The Deferred Annual Bonus Plan was approved and adopted at the Annual General Meeting on 28 April 2005. The DAB is comprised of Deferred Shares, which form part of the annual bonus scheme, and Matching Shares.

The Committee believes that this plan focuses participants on delivering strong year-on-year annual performance, which will in turn drive long term shareholder value creation. Executive Directors and Divisional Directors are eligible to participate in the DAB.

This plan is split into 2 elements. The Deferred Award (which can be awarded as a gross deferred award or as a net restricted share award) and this is made as part of the bonus for the year ending 31 December 2009. This part is not subject to performance conditions. The second part is awarded as a matching award which has performance conditions. This part is awarded as a ratio of 1.5 for each gross share awarded under the deferred award. Although this is a fixed amount the calculation is based on a percentage of salary. In 2009 this was 70% of base salary which is the maximum that could be awarded.

In February 2009, an aggregate of 151,176 Deferred Shares were awarded to Executive Directors at a price of 657.5p, being the market price determined, as detailed on page 83.

The DAB operates as follows:

The value of Deferred Shares is determined by the entitlement under the annual bonus scheme. Half of the bonus entitlement is paid in cash and the remainder is deferred, on a gross basis, into deferred shares. The Deferred Shares are held for a period of 3 years from the date of award. They are only forfeited in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants are eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares vest after the 3 year holding period to the extent to which performance criteria have been met. During the year an aggregate of 226,762 Matching Shares were awarded to Executive Directors as detailed on page 83 and subject to the following performance conditions:

The Committee has decided that the performance condition that will apply to the Matching Shares is earnings per share (EPS) growth against the UK Retail Price Index (RPI). The Committee believes that long term EPS growth is the most appropriate performance condition for the Company as it is a key indicator of shareholder value creation. The EPS based performance conditions are as follows. The proportion of awards that vest will be determined by the following schedule:

- EPS growth of RPI + 6% per annum - 33% of the award vests
- EPS growth of RPI + 16% per annum - 100% of the award vests
- Straight-line vesting occurs between these points

Performance conditions for 2010 Awards onwards

The performance conditions attached to the Matching Shares awards made under the bonus scheme may be amended by the Committee from time to time, subject to the new performance condition being no less demanding than the original condition.

The Committee has considered the challenging target set for both the Executive Directors and other participants of the scheme. It does feel that the targets are very challenging especially as this growth is being measured from a high base point given Capita's earnings growth over the last 5 years. Given this the Remuneration Committee has decided that awards made in 2010 will have the following vesting conditions:

- EPS growth at RPI + 4% per annum - 33% of the award vests
- EPS growth at RPI + 14% per annum - 100% of the award vests
- Straight-line vesting occurs between these points

Although there are no non-financial targets for this plan, the annual appraisal process considers non-financial measures and awards consider the prior year performance as a whole.

Directors' remuneration report

Long Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the Annual General Meeting on 6 May 2008. In calculating the LTIP awards granted to Executive Directors, the Committee considered that a fixed number of shares approach was preferable to fixing awards as a percentage of salary. Under the plan rules the Committee could award up to 3 times salary or a maximum of 165,000 shares. Paul Pindar has been awarded the maximum number of shares for the award in 2009.

On 20 March 2009, an aggregate of 533,000 shares were awarded to the Executive Directors, as detailed on page 79.

The vesting of awards made during 2009 will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if Capita's average share price at the date of vesting is below the average share price at the date of grant.

The proportion of awards that vest will be determined by the following schedule:

- EPS growth of RPI + 4% per annum – 20% of the award vests
- EPS growth of RPI + 16% per annum – 100% of the award vests
- Straight-line vesting occurs between these points

The Committee may vary the performance conditions if it considers that the original conditions are not appropriate and a fair measure of performance. Where the performance conditions are not met, the award will lapse. There will be no re-testing of performance. The Committee has considered the challenging target this has set both the Executive Directors and other participants of the scheme. It does feel that the targets are very challenging especially in the current market. Given this the Remuneration Committee has decided that awards made in 2010 will have a maximum target of EPS growth of RPI +14% to achieve 100% vesting.

Although there are no non-financial targets for this plan, the annual appraisal process considers non-financial measures and awards consider the prior year performance as a whole.

Capita Share Ownership Plan (CSOP)

The CSOP is open to all employees of the Company under certain eligibility criteria, including Executive Directors. Under the plan, eligible employees may invest up to £125 per month in the Company's shares and the Company matches these at a ratio of 1 Matching Share for every 10 Participant Shares.

Save as you Earn (SAYE)

The SAYE is open to all employees of the Company, including Executive Directors, under certain eligibility criteria. Under the SAYE employees can save up to £250 per month for a period of 3 years and purchase shares at the price set at the beginning of the savings period. The SAYE is due to expire in 2010. The Company will seek to renew this plan for a further 10 years at the forthcoming AGM.

Executive Share Scheme

The 1997 Executive Share Option Scheme (including both HMRC approved and unapproved elements) is a discretionary scheme for senior managers, in which the Executive Directors no longer participate.

Options granted under the 1997 Executive Share Option Scheme become exercisable if the growth in the Company's EPS exceeds growth in RPI by 8% over the 3 year period from the date of grant.

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and Divisional Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was adjusted in line with the movement in the FTSE All Share Index from the date of grant to 25 November 2007. The adjusted exercise prices were 348p for the 2002 award and 474p for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index.

As growth in the Company's EPS over the 3 year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards have or will be made under this plan.

Satisfaction of options

When satisfying awards made under its share plans and long term incentive plans, the Company uses newly issued, treasury or purchased shares as appropriate.

Dilution

All awards are made under plans that incorporate dilution limits as set out in the Guidelines for Share Incentive Schemes published by the Association of British Insurers. The current estimated dilution from subsisting awards, including executive and all-employee share awards, is approximately 9.1% of the Company's share capital as at 31 December 2009.

The following information is subject to audit

Directors' remuneration

The remuneration of the Directors is made up as follows

	Salary and fees £	Benefits £	Performance related bonus £	Total 2009 £	Total 2008 £	Dividend equivalent for DAB	Gain on exercise of options 2009 £	Gain on exercise of options 2008 £	Pension 2009 £	Pension 2008 £
Martin Bolland	42,500	–	–	42,500	35,417	–	–	–	–	–
Paul Pindar	375,000	1,260	393,750	770,010	901,248	15,175	833,033	8,955,632	18,750	18,750
Gordon Hurst	275,000	17,160	288,750	580,910	659,148	10,910	577,676	38,495	13,750	46,270
Simon Pilling	285,000	15,377	299,250	599,627	634,696	8,501	450,309	–	49,150	43,617
Maggi Bell	225,000	15,384	236,250	476,634	378,827	8,501	660,502	–	–	–
Paddy Doyle	120,000	8,422	126,000	254,422	706,520	12,051	660,817	1,356,000	13,200	63,199
Martina King	42,500	–	–	42,500	42,500	–	–	–	–	–
Bill Grimsey	42,500	–	–	42,500	42,500	–	–	–	–	–
Eric Walters	105,000	–	–	105,000	105,000	–	–	–	–	–

Directors' interests

Shareholder	Shares held beneficially for Director in trust	31 December 2009 or date of appointment if later ordinary shares of 2½p	31 December 2008 or date of appointment if later ordinary shares of 2½p
Martin Bolland	–	12,500	12,500
Paul Pindar	45,903	1,451,613	1,451,613
Gordon Hurst	33,641	10,217	10,181
Simon Pilling	32,383	–	–
Maggi Bell	25,152	–	–
Paddy Doyle	–	27,077	26,741
Martina King	–	717	–
Bill Grimsey	–	12,209	12,209
Eric Walters	–	52,212	51,158

The Directors are required to hold part of their bonus as deferred share awards. Recently the Directors exercised options over these awards and turned them into shares known as restricted stock under the plan rules and these are held beneficially for them in trust. The amount held for them is shown above.

Directors' remuneration

	2009 £000s	2008 £000s
Basic salaries	1,279	1,227
Compensation	–	–
Benefits	58	61
Annual bonus*	1,344	1,988
Dividend equivalent for DAB	55	–
Pension contributions to the Group's defined contribution scheme	82	109
Pension contributions to external defined contribution pension schemes	13	63
Fees	233	257
Total	3,064	3,705

*The sum disclosed above represents the total value of the performance related bonus payable in respect of the year ended 31 December 2009. 35% will be paid in cash and the remainder will be settled through the issue of Deferred Shares as explained on page 79.

In addition, by way of salary sacrifice, the base salaries of Paddy Doyle and Simon Pilling have been reduced by, £7,200 (2008 £33,931) and £20,000 (2008 £16,666) respectively and paid into separate defined contribution schemes.

The benefits of Gordon Hurst, Simon Pilling, Maggi Bell and Paddy Doyle are in respect of private medical insurance and the provision of a company car allowance. The benefits of Paul Pindar, the highest paid Director, are in respect of a company car and private medical insurance.

Paul Pindar was released by the Company to serve as a Non-Executive Director of Debenhams Plc with effect from 9 May 2006. He receives £57,077 per annum in fees from Debenhams Plc which he retains.

Share plan awards

Deferred Annual Bonus Plan (DAB)

Details regarding the DAB can be found on page 81. The value of the Deferred Shares is included in the Performance Related Bonus figure in the first table above.

	At 1 January 2009	Awarded in the year	Matching Shares awarded in the year	Exercised in the year	Matching Shares exercised in the year	Market price at exercise	At 31 December 2009
Paul Pindar	308,484	39,923	59,884	49,431	74,146	674.1	284,714
Gordon Hurst	223,054	29,277	43,915	35,538	53,307	650.2	207,401
Simon Pilling	189,907	28,212	42,318	27,692	41,538	650.4	191,207
Maggi Bell	171,779	21,825	32,737	27,692	41,538	702.4	157,111
Paddy Doyle	244,462	31,939	47,908	39,254	58,881	673.3	226,174

The market price on the date of the award was 657.5p.

Directors' remuneration report

Long Term Incentive Plan (2008 LTIP)

	At 1 January 2009	Awarded in the year	Vesting date	At 31 December 2009
Paul Pindar	165,000	165,000	20-Mar-12	330,000
Gordon Hurst	120,000	120,000	20-Mar-12	240,000
Simon Pilling	120,000	120,000	20-Mar-12	240,000
Maggi Bell	30,000	80,000	20-Mar-12	110,000
Paddy Doyle	120,000	48,000	20-Mar-12	168,000

The market price on the date of the grant was 684p

Capita Share Ownership Plan

Paddy Doyle and Gordon Hurst participated in the Capita Share Ownership Plan during 2009. As a result of their participation, they were awarded 22 and 3 Matching Shares respectively during the period to 31 December 2009. The Participant Shares and their Matching Shares are included in the table of Directors' interests in shares on page 83.

Capita Sharesave Scheme

The Directors' interests in the Capita Sharesave Scheme are listed below:

	Exercise price p	At 1 January 2009	Granted in the year	Exercised in the year	Market price at exercise £	At 31 December 2009	Exercisable between
Paddy Doyle ¹	733	1,289	—	—	—	1,289	01/11/2010 and 30/04/2011

¹ The exercise price quoted above was set at 100% of the market price at the date of grant.

There are no performance criteria to be satisfied under this scheme.

1997 Executive Share Option Scheme

The Directors' interests in the 1997 Executive Share Option Scheme are listed below:

	Exercise price p	At 1 January 2009	Granted in the year	Exercised in the year	Market price at exercise p	At 31 December 2009
Maggi Bell	436	79,467	—	75,000	702.4	4,467

Long Term Indexed Share Appreciation Scheme

The Executive Directors' interests in the LTISAS are listed below:

	Date of award	Price at date of grant p	Final exercise price p	At 1 January 2009	Exercised in the year	Market price at exercise £	At 31 December 2009	Exercisable between
Paul Pindar	25/11/2004	351	474	600,000	—	—	600,000	25/11/2007 to 25/11/2012

The grant price was calculated based on the average of the closing share price over the month prior to the date of grant. The exercise price of the options increased in line with the FTSE All Share Index, measured from the date of grant to 25 November 2007. The final exercise prices are set out above.

Details of the performance conditions attached to awards made under the LTISAS can be found on page 82.

The market value of an ordinary share of the Company at 31 December 2009 was 751p, and the high and low values for the year were 781.5p and 617.5p respectively.

Pensions

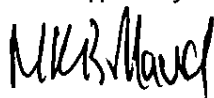
Pension contributions are made into the Group's defined contribution scheme. The Company makes contributions at a rate of 5% of basic salary. Simon Pilling and Paddy Doyle made additional contributions, by way of salary sacrifice in the year, to a separate executive defined contribution scheme.

Changes in Directors' interests

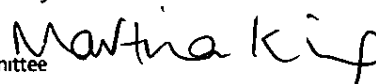
Between the end of the financial year and 19 February 2010, Paddy Doyle and Gordon Hurst acquired 38 shares under the Capita Share Ownership Plan, increasing their beneficial interest in ordinary shares of the Company to 27,115 and 10,255 respectively.

The remuneration report has been approved by the Board and has been signed on behalf of the Board by:

Martin Bolland
Non-Executive Chairman
24 February 2010

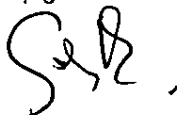


Martina King
Chairperson of the Remuneration Committee
24 February 2010



The Directors' report from pages 1 to 84 was approved by the Board and has been signed on behalf of the Board by:

Gordon Hurst
Company Secretary
24 February 2010



Accounts

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Consolidated income statement

for the year ended 31 December 2009

		2009			2008		
	Notes	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Continuing operations							
Revenue	3	2,686 8	–	2,686 8	2,441 4	–	2,441 4
Cost of sales		1,937 0	–	1,937 0	1,757 8	–	1,757 8
Gross profit		749 8	–	749 8	683 6	–	683 6
Administrative expenses	4	392 1	58 1	450.2	362 7	18 6	381.3
Operating profit	8	357 7	(58 1)	299 6	320 9	(18 6)	302 3
Net finance costs	10	(32 8)	(1 4)	(34 2)	(43 5)	(32 0)	(75 5)
Investment gain/(loss)	6	0.2	–	0 2	(0 2)	–	(0.2)
Loss on business disposal	5	–	(7 5)	(7.5)	–	–	–
Profit before tax		325 1	(67 0)	258 1	277.2	(50 6)	226 6
Income tax expense	11	(87 1)	17 9	(69 2)	(74 9)	14 1	(60 8)
Profit for the year		238 0	(49 1)	188 9	202.3	(36 5)	165 8
Attributable to							
Equity holders of the parent		238 0	(49 1)	188 9	202.3	(36 5)	165 8
Earnings per share							
– basic	12	38 75p	(7 99)p	30 76p	33 26p	(6 00)p	27 26p
– diluted		38 42p	(7 92)p	30 50p	32 96p	(5 95)p	27 01p

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Notes	2009 £m	2009 £m	2008 £m	2008 £m
Profit for the year			188.9		165.8
Other comprehensive income/(expense)					
Actuarial losses on defined benefit pension schemes	32	(58.2)		(48.1)	
Income tax effect	11	16.3		13.5	
			(41.9)		(34.6)
Exchange differences on translation of foreign operations			(2.3)		5.9
(Losses)/gains on cash flow hedges arising during the year	26	(10.8)		20.9	
Reclassification adjustments for gains included in the income statement		(4.1)		(0.8)	
Income tax effect	11	4.2		(5.6)	
			(10.7)		14.5
Other comprehensive expense for the year net of tax			(54.9)		(14.2)
Total comprehensive income for the year net of tax			134.0		151.6
Attributable to					
Equity holders of the parent			134.0		151.6

Consolidated balance sheet

at 31 December 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Property, plant and equipment	14	256.6	238.3
Intangible assets	15	1,107.0	907.0
Financial assets	17	186.3	332.4
Trade and other receivables	19	20.3	8.1
Deferred taxation	11	-	3.0
		1,570.2	1,488.8
Current assets			
Financial assets	17	2.0	5.2
Trade and other receivables	19	618.4	583.6
Cash	20	181.5	86.7
		801.9	675.5
Total assets		2,372.1	2,164.3
Current liabilities			
Trade and other payables	21	794.5	690.4
Financial liabilities	23	19.8	116.5
Provisions	25	27.6	2.3
Income tax payable		37.5	40.4
		879.4	849.6
Non-current liabilities			
Trade and other payables	21	9.0	9.6
Financial liabilities	23	951.3	882.7
Deferred taxation	11	13.9	-
Provisions	25	20.4	1.0
Employee benefits	32	31.9	24.5
		1,026.5	917.8
Total liabilities		1,905.9	1,767.4
Net assets		466.2	396.9
Capital and reserves			
Issued share capital	27	12.9	12.8
Share premium		435.2	410.4
Employee Benefit Trust	27	(0.2)	(0.2)
Capital redemption reserve		1.8	1.8
Foreign currency translation		4.3	6.6
Net unrealised gains reserve		7.8	18.5
Retained earnings		4.4	(53.0)
Equity shareholders' funds		466.2	396.9

Included in aggregate financial liabilities is an amount of £720.5m (2008 £953.1m) which represents the fair value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £139.9m included in financial assets and £0.6m included in financial liabilities (2008 £274.3m included in financial assets). Consequently, this gives an effective liability of £581.2m (2008 £678.8m).

The accounts were approved by the Board of Directors on 24 February 2010 and signed on its behalf by



P R M Pindar
Chief Executive



G M Hurst
Group Finance Director

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital £m	Share premium £m	Employee Benefit Trust shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Net unrealised gains reserve £m	Total equity £m
At 1 January 2008	12.6	374.9	–	1.8	(62.2)	0.7	4.0	331.8
Profit for the year	–	–	–	–	165.8	–	–	165.8
Other comprehensive expense	–	–	–	–	(34.6)	5.9	14.5	(14.2)
Total comprehensive income for the year	–	–	–	–	131.2	5.9	14.5	151.6
Share based payment	–	–	–	–	9.2	–	–	9.2
Income tax deduction on exercise of stock options in excess of share based payments	–	–	–	–	17.6	–	–	17.6
Deferred income tax relating to share based payments	–	–	–	–	(2.2)	–	–	(2.2)
Share transaction costs	–	–	–	–	(0.4)	–	–	(0.4)
Shares issued	0.2	35.5	–	–	–	–	–	35.7
Employee benefit trust shares purchased	–	–	(0.2)	–	(68.2)	–	–	(68.4)
Equity dividends paid	–	–	–	–	(78.0)	–	–	(78.0)
At 1 January 2009	12.8	410.4	(0.2)	1.8	(53.0)	6.6	18.5	396.9
Profit for the year	–	–	–	–	188.9	–	–	188.9
Other comprehensive expense	–	–	–	–	(41.9)	(2.3)	(10.7)	(54.9)
Total comprehensive income for the year	–	–	–	–	147.0	(2.3)	(10.7)	134.0
Share based payment	–	–	–	–	9.8	–	–	9.8
Income tax deduction on exercise of stock options in excess of share based payments	–	–	–	–	6.0	–	–	6.0
Deferred income tax relating to share based payments	–	–	–	–	(12.2)	–	–	(12.2)
Shares issued	0.1	24.8	–	–	–	–	–	24.9
Equity dividends paid	–	–	–	–	(93.2)	–	–	(93.2)
At 31 December 2009	12.9	435.2	(0.2)	1.8	4.4	4.3	7.8	466.2

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 21/15p ordinary shares

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them

Employee Benefit Trust shares – Shares that have been bought back by the Company, which are available for retirement or resale, shares held in the Employee Benefit Trust have no voting rights and do not have entitlement to a dividend

Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Foreign currency translation reserve – Gains or losses resulting from the process of expressing amounts denominated or measured in 1 currency in terms of another currency by use of the exchange rate between the 2 currencies. This process is required to consolidate the financial statements of foreign affiliates into the total Group financial statements and to recognise the conversion of foreign currency or the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded.

Net unrealised gains reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Also recorded here are fair value changes on available for sale investments.

Retained earnings – Net profits kept to accumulate in the Group after dividends are paid and retained in the business as working capital.

Consolidated cash flow statement

for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Operating profit on continuing activities before interest and taxation		299.6	302.3
Depreciation	14	54.4	50.0
Amortisation of other intangible assets (treated as depreciation)	15	1.2	1.5
Amortisation of intangible assets created on acquisition	15	28.1	18.6
Share based payment expense	28	9.8	9.2
Pension charge	32	21.2	19.3
Pension contributions before exceptional additional contribution	32	(32.0)	(28.5)
Loss on sale of property, plant and equipment		1.1	1.1
Movement in provisions		25.5	(2.2)
Movement in provisions due to reclassification from payables during the year		17.2	-
Decrease/(increase) in receivables		18.6	(90.7)
(Decrease)/increase in payables		(8.0)	111.4
Cash generated from operations before exceptional additional pension contribution		436.7	392.0
Income tax paid		(58.3)	(48.6)
Exceptional additional pension contribution	32	(40.0)	(10.0)
Net interest paid		(31.1)	(38.4)
Cash generated from operations after income tax, interest and exceptional additional pension contribution		307.3	295.0
Net cash used in investing activities			
Purchase of property, plant and equipment	14	(68.4)	(86.4)
Proceeds from sale of property, plant and equipment		0.1	0.3
Acquisition of subsidiary undertakings and businesses	18	(197.1)	(188.4)
Cash acquired with subsidiary undertakings	18	24.2	8.9
Disposal of financial assets	17	1.6	23.1
Purchase of financial assets	17	(0.4)	-
Investment loan	17	(0.6)	(6.2)
Proceeds on business disposal (net of cash sold)	5	8.0	-
Return on investment in joint venture	6/17	0.4	0.1
		(232.2)	(248.6)
Net cash from financing activities			
Issue of ordinary share capital	27	24.9	35.7
Share buybacks		-	(68.4)
Share transaction costs		-	(0.4)
Dividends paid	13	(93.2)	(78.0)
Capital element of finance lease rental payments	29	-	(0.2)
Instalment debtor movement		(8.1)	-
Asset based securitised financing	29	6.7	0.7
Repayment of loan notes and long term debt	29	(108.0)	(3.3)
Proceeds on issue of debt	29	200.0	200.2
Financing arrangement costs	23	(2.6)	(0.7)
		19.7	85.6
Net increase in cash and cash equivalents		94.8	132.0
Cash and cash equivalents at the beginning of the period		86.7	(45.3)
Cash and cash equivalents at 31 December		181.5	86.7
Cash and cash equivalents comprise			
Cash at bank and in hand	20	181.5	86.7
Total		181.5	86.7

Notes to the consolidated financial statements

for the year ended 31 December 2009

1 Corporate information

The consolidated financial statements of The Capita Group Plc for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Directors on 24 February 2010. The Capita Group Plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the business review on pages 58 to 64.

2 Summary of significant accounting policies

Underlying profit

The Group separately presents amortisation, the movement in the mark to market valuation of certain financial instruments and specific non-recurring items in the income statement which, in the Directors' judgement, need to be disclosed separately by virtue of their size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the reported periods. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and the measurement of defined benefit obligations and provisions. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether goodwill is impaired on an annual basis and thus requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate (see note 16). Measurement of defined benefit obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate (see note 32).

(a) Statement of compliance

The consolidated financial statements of The Capita Group Plc and all of its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 127-137.

(b) Basis of preparation

The consolidated financial statements have been prepared under IFRS where certain financial instruments and the pension assets and liabilities have been measured at fair value. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest tenth of a million (£m) except when otherwise indicated.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of The Capita Group Plc and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies, but in accordance with UK GAAP. Adjustments are made to bring into line any dissimilar accounting policies that may exist between IFRS and UK GAAP.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which The Capita Group Plc has control.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows.

The Group has adopted the following new amendments to IFRS and IFRIC interpretations during the year.

- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IAS 1 Revised Presentation of Financial Statements
- IAS 23 Borrowing Costs (Revised)
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Improvements to IFRSs (2008)
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(d) Changes in accounting policies (continued)

The principal effects of these changes are as follows

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments – Disclosures The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the opening and closing balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the consolidated financial statements other than to enhance disclosure.

IFRS 8 Operating Segments This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting.

IAS 1 Revised Presentation of Financial Statements The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income. It presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements. Related changes to IAS 12 require equity movements in tax to be shown in the statement of changes in equity rather than in the statement of comprehensive income. The presentation has been aligned with this requirement.

In addition, the revised standard requires the presentation of an additional balance sheet in those circumstances where changes resulting from retroactive restatements would have a material effect on the comparative amounts included within the balance sheet. There have been no material retroactive restatements.

IAS 23 Borrowing Costs (Revised) The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard, this has been adopted as a prospective change from the commencement date of 1 January 2009. No change has been made for borrowing costs incurred prior to this date that have been expensed. Since adoption, the Group has commissioned no qualifying assets thus no borrowing costs have been capitalised.

IAS 32 Financial Instruments – Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation The standards have been amended to allow a limited scope exemption for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs (2008) In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Group.

IFRIC 13 Customer Loyalty Programmes This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Group does not operate any customer loyalty programmes and therefore the adoption of this IFRIC did not have any impact on the financial position or performance of the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation This interpretation provides guidance on the accounting for a hedge of a net investment. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has no hedges of net investments in foreign operations and consequently the adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 18 Transfers of Assets from Customers This interpretation, which is effective for transfers of assets from customers received on or after 1 July 2009, provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The entity must initially determine whether the asset meets the definition set out in the interpretation. If the definition is met, the asset is measured at fair value on initial recognition as part of an exchange transaction. The entity must identify the service/s delivered and allocate the consideration received (the fair value of the asset) to each identifiable service. Revenue is recognised as each service is delivered by the entity. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

(e) Revenue

Revenue is earned within the United Kingdom, Europe, India and South-East Asia.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Other than in respect of service contracts, described below, and where the Group is acting as lessor (see (v)), revenue represents fee income recognised in respect of services provided during the period (stated net of value added tax).

For time and materials contracts which are those where Capita provide staff to clients at hourly or daily rates, revenue is recognised on the basis of time worked.

Revenue on contracts where there is an ongoing service (e.g. life and pension policy administration, hardware maintenance) is recognised over the period during which the service is provided.

Contracts where there are distinguishable components are separated and revenue is recognised individually on the basis that each component can be reliably estimated. Revenues and costs relating to each element are recognised simultaneously.

2 Summary of significant accounting policies (continued)

(f) Service contracts

(i) **Brownfield outsourcing contracts** – A brownfield contract is one where there is a transfer of an existing operation to the Group. For brownfield contracts all costs incurred prior to service commencement are expensed as incurred and revenue represents fee income in respect of services provided.

(ii) **Greenfield outsourcing contracts** – A greenfield contract is one in which an entirely new service is being established for a client. For these contracts no profit is recognised until service delivery commences and is being invoiced. Upon commencement, revenue represents fees invoiced in respect of services provided. Direct incremental costs incurred on the contract prior to service commencement and reimbursable during the contract, excluding any overheads, are included in prepayments and amortised over the life of the contract. On some contracts, non-refundable payments are received, prior to full service commencement, on the achievement of agreed contract delivery milestones. These are recognised as revenue when earned.

(iii) **Property consultancy and transformation contracts** – Revenue represents the sales value of work done in the year, including fees invoiced and estimates in respect of amounts to be invoiced after the year-end. Profits are recognised on long term contracts where the final outcome can be assessed with reasonable certainty. In calculating this, the percentage of completion method is used based on the proportion of costs incurred to the total estimated cost. Cost includes direct staff costs and outlays. Full provision is made for all known or anticipated losses on each contract immediately such losses are forecast.

In respect of construction contracts, gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

(g) Foreign currency translation

The functional and presentation currency of The Capita Group Plc and its United Kingdom subsidiaries is the pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas operations include the euro, Indian rupee, Malaysian ringgit, and the South Korean won. As at the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of The Capita Group Plc at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1. In utilising this exemption, all cumulative translation differences are deemed to be zero as at 1 January 2004 and all subsequent disposals shall exclude any translation differences arising prior to the date of transition.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings and long leasehold property – over 50 years

Leasehold improvements – period of the lease

Plant and equipment – 3 – 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the administrative expenses line item.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group will capitalise borrowing costs for all qualifying assets where construction commences on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(j) Goodwill

Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at this date. This goodwill had been amortised on a straight-line basis over its useful economic life (ranging from 5 to 20 years). This was changed on transition to IFRS. Goodwill recognised subsequent to 1 January 2004 is, on acquisition, initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves and does not get recycled through the income statement.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2008 or 2009. Amortisation is charged on assets with finite lives, this expense is taken to the income statement through the administrative expenses line item.

Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets identified and recognised since transition to IFRS are profiled as follows:

- brands are amortised evenly over their useful economic lives of between 5 and 10 years
- software and licences are amortised over their useful economic lives of 5 years
- contracts and committed sales are amortised over their useful economic lives of between 1.5 and 15 years
- client lists and relationships are amortised over their useful economic lives of between 4 and 10 years
- other intangibles are amortised over their useful economic lives of 6.5 years.

(l) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

(m) Investments and other financial assets

All investments are initially recorded at their fair value. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investment loans are measured at amortised cost using the effective interest method.

Available for sale financial assets are measured at their fair value with unrealised gains or losses being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Financial assets at fair value through the income statement (disclosed in investment income) include financial assets designated upon initial recognition as at fair value through the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

(n) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(o) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, except where no right of set-off exists.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value.

After initial recognition loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

2 Summary of significant accounting policies (continued)

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(r) Surplus properties

The Group provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

(s) Pre-contract costs

Pre-contract award bidding costs are expensed as incurred.

(t) Pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement for the year when they are due.

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement, unless the changes are conditional on employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the average vesting period.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest cost element of the defined benefit pension charge represents a change in the present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on fair value of plan assets of contributions received and benefits paid during the year.

In respect of 3 of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

Actuarial gains and losses are fully recognised in equity through the statement of comprehensive income such that the balance sheet reflects the scheme's surplus or liability at the balance sheet date. Current and past service cost are charged to operating profit with the interest cost, net of expected return on assets in the plans, included within administrative expenses.

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

(u) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement and are presented as non-underlying.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(v) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and is concerned with whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income arising from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(w) Income tax

Deferred income tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences

- except where the deferred tax liability arises from the initial recognition of goodwill
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(x) Share based payments

The Group operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

2 Summary of significant accounting policies (continued)

(y) Participation in Lloyd's Market Syndicate

Capita provides run-off administrative services to Lloyd's Syndicates. On occasion where there is a commercial driver to do so, the Group will take an equity holding in a Corporate Member (a limited liability company – operating in the Lloyd's market).

The Group has treated this arrangement as an investment in a joint venture, whereby the Group and the other venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group's investment in the joint venture is accounted for using the equity method of accounting. Under the equity method the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity. The income statement reflects, where material, the share of the results of operations of the joint venture. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The Corporate Member's share of the assets and liabilities of the Syndicate and the quota share arrangement are further disclosed in note 17 to these financial statements.

(z) New standards and interpretations not applied

The IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

			Effective date
International Accounting Standards (IAS/IFRSs)			
IFRS 3	Business Combinations (Revised)		Annual periods after 1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)		Annual periods after 1 July 2009
IAS 27	Consolidated and Separate Financial Statements (Amendment)		Annual periods after 1 July 2009
IFRS 2	Group Cash-settled Share based Payment Arrangements		1 January 2010
	Improvements to IFRSs (2009)		1 January 2010
IAS 32	Amendment: Classifications of Rights Issues		Annual periods after 1 February 2010
IAS 24	Related Party Disclosures (Revised)		1 January 2011
IFRS 9	Financial Instruments		1 January 2013
International Financial Reporting Interpretations Committee (IFRIC)			
IFRIC 17	Distributions of Non-cash Assets to Owners		Annual periods after 1 July 2009
IFRIC 14	Amendment: Prepayments of a Minimum Funding Requirement		1 January 2011

The Directors do not currently anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

	Notes	2009 £m	2008 £m
Rendering of services		2,528.9	2,289.0
Construction contracts	22	157.9	152.4
Revenue from operating activities		2,686.8	2,441.4
Finance revenue	10	1.9	5.7
Total revenue in accordance with IAS 18		2,688.7	2,447.1

4 Administrative expenses

Included within Administrative expenses, disclosed in the column headed 'Non-underlying', are:

	Notes	2009 £m	2008 £m
Intangible amortisation	15	28.1	18.6
Arch cru costs		30.0	–
Total		58.1	18.6

Arch cru Funds – dealings in 2 open ended investment companies (OEICs), for which Capita Financial Managers (CFM) is the authorised corporate director (ACD) and Arch Financial Products LLP was the delegated investment manager, were suspended on 13 March 2009, as a result of illiquidity in the underlying investments of the OEICs and an anticipated inability to meet future redemptions. This was exacerbated by unprecedented market turmoil post the collapse of Lehman Brothers. Since the suspension, CFM, has been working with specialist advisers to conduct a detailed review of the underlying assets of the OEICs and options for their future. This review was completed in December 2009. The underlying assets of the OEICs have fallen in value and remain illiquid. CFM has advised investors that the only feasible option in the best interests of investors as a whole is for the OEICs to be wound up, with the underlying assets being realised in an orderly manner over a period of time, and the proceeds being returned to investors in the OEICs.

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The detailed work undertaken since March 2009 has resulted in significant costs. We have set aside estimated costs of £30m (both incurred and potentially to be incurred) in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009. It is expected that an outcome will be reached in 2010.

Notes to the consolidated financial statements

5 Loss on business disposal

In the year the Group disposed of the revenue and benefits software business that it had acquired in 2008 as part of its acquisition of IBS OPENSystems (as directed by the Competition Commission). The table below gives a summary of the disposal.

	Notes	2009 £m
Fixed assets		0.4
Debtors		1.9
Creditors		(2.2)
Intangibles	15	5.9
Goodwill	15	7.3
Total net assets disposed of		13.3
Transitional services provided		2.2
Net proceeds received		(8.0)
Loss on business disposal		7.5

6 Investment gain/(loss)

Investment gain/(loss) includes

	2009 £m	2008 £m
Loss on financial assets measured at fair value through the income statement	-	(0.7)
Investment in joint venture	0.2	0.5
Net investment gain/(loss)	0.2	(0.2)

The investment gain represents income recognised in relation to the Lloyd's Market Syndicates in which the Group has a joint venture arrangement as disclosed in note 17. During the year the Group received a dividend of £0.4m (2008: £0.1m) from the Syndicate which is reflected in the net assets recognised in the disclosure in note 17.

The investment loss in the comparative year is in recognition of negative returns on investments in units held in managed funds by the Group's insurance captives, as disclosed in note 17. At the date of the approval of these financial statements the Group no longer has any investment in these managed funds.

7 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the business review on pages 58 to 64. No operating segments have been aggregated to form the reportable operating segments below.

The comparative figures have been restated due to a reorganisation of the Group's business divisions during the year. The Directors decided this was necessary to better manage the growth in the business and to enhance service provision across the Group.

Before eliminating sales between business units on consolidation, the Group accounts for sales between business units as if they were to a third party at market rates.

The tables below present revenue, result and certain asset and liability information for the Group's business segments for the years 2009 and 2008. All operations in 2009 are continuing.

Year ended 31 December 2009

Underlying segment revenue	HR Solutions £m	Property Consultancy £m	Insurance Services £m	Investor Services £m	Integrated Services £m	ICT, Health & Business Services £m	Life & Pensions Services £m	Professional Services £m	Total £m
Total segment revenue	312.4	272.7	246.8	179.8	341.3	734.9	581.2	424.7	3,093.8
Inter-segment revenue	(31.8)	(14.6)	-	(5.3)	(1.3)	(227.5)	(60.5)	(66.0)	(407.0)
Third party revenue	280.6	258.1	246.8	174.5	340.0	507.4	520.7	358.7	2,686.8
Underlying segment result									
Result after depreciation	27.4	24.3	30.1	35.8	57.4	59.2	63.0	70.3	367.5
Share based payment	(1.2)	(1.2)	(1.7)	(0.7)	(2.4)	(0.8)	(0.9)	(0.9)	(9.8)
	26.2	23.1	28.4	35.1	55.0	58.4	62.1	69.4	357.7
Non-underlying									
Intangible amortisation	-	(1.7)	(4.8)	(4.6)	-	(6.2)	(4.1)	(6.7)	(28.1)
Arch cru	-	-	-	(30.0)	-	-	-	-	(30.0)
	26.2	21.4	23.6	0.5	55.0	52.2	58.0	62.7	299.6
Net finance costs (before callable swaps)									(32.8)
Callable swaps									1.1
Mark to market movement on currency swaps									(2.5)
Investment gain									0.2
Loss on business disposal									(7.5)
Profit before tax									258.1
Corporation taxation									(69.2)
Profit after tax									188.9
Other segment information									
Assets by segment									
Assets	37.3	82.5	98.3	85.9	108.3	136.4	223.8	122.8	895.3
Intangible assets	84.1	76.5	254.7	196.4	2.8	233.9	135.1	123.5	1,107.0
	121.4	159.0	353.0	282.3	111.1	370.3	358.9	246.3	2,002.3
Liabilities	(44.1)	(49.0)	(124.7)	(72.6)	(113.9)	(197.4)	(160.1)	(159.9)	(921.7)
Net allocated assets	77.3	110.0	228.3	209.7	(2.8)	172.9	198.8	86.4	1,080.6
Unallocated assets									369.8
Unallocated liabilities									(984.2)
Total net assets									466.2
Capital expenditure									
Tangible assets	1.4	2.1	2.4	12.8	6.8	9.7	28.8	4.4	68.4
Depreciation charge	1.7	3.2	5.8	3.8	19.8	6.6	9.1	5.6	55.6
Intangible assets	-	15.7	16.4	23.1	-	154.7	31.1	1.5	242.5
Intangible amortisation	-	1.7	4.8	4.6	-	6.2	4.1	6.7	28.1

Unallocated assets include held for sale financial assets, financial assets held at fair value through the income statement, the cash flow hedge financial asset, cash in bank, currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, callable swaps, bonds and the pension liability.

Notes to the consolidated financial statements

7 Segmental information (continued)

The tables below present revenue by the geographical location of clients, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets

	United Kingdom £m	Non-United Kingdom £m	Total £m
Revenue			
Total segment revenue	2,964 0	129 8	3,093 8
Inter-segment revenue	(356 9)	(50 1)	(407 0)
Third party revenue	2,607 1	79 7	2,686 8
Other segment information			
Assets	866 3	29 0	895 3
Intangible assets	1,038 7	68 3	1,107 0
Unallocated assets	369 8	–	369 8
Total assets	2,274 8	97 3	2,372 1
Capital expenditure			
Tangible assets	67 9	0 5	68 4
Intangible assets	219 2	23 3	242 5

Year ended 31 December 2008

Underlying segment revenue	HR Solutions £m	Property Consultancy £m	Insurance Services £m	Investor Services £m	Integrated Services £m	ICT, Health & Business Services £m	Life & Pensions Services £m	Professional Services £m	Total £m
Total segment revenue	278.5	284.2	263 6	173 9	344 7	505 3	479 6	396 5	2,726 3
Inter-segment revenue	(20.3)	(22 0)	(17 4)	–	(5.2)	(123 1)	(25 6)	(71 3)	(284 9)
Third party revenue	258.2	262.2	246.2	173 9	339 5	382.2	454 0	325 2	2,441 4
Underlying segment result									
Result after depreciation	25 3	24 0	32 7	40 3	56 7	37 8	54 7	58 6	330 1
Share based payment	(11)	(1.2)	(1 6)	(0 7)	(2.3)	(0 7)	(0 8)	(0 8)	(9.2)
	24.2	22 8	31 1	39 6	54 4	37 1	53 9	57 8	320 9
Non-underlying									
Intangible amortisation	(0.2)	(1 4)	(3 7)	(3 7)	–	(2 4)	(3 8)	(3 4)	(18 6)
	24 0	21 4	27 4	35 9	54 4	34 7	50 1	54 4	302 3
Net finance costs (before callable swaps)									(43.5)
Callable swaps									(32 0)
Investment loss									(0.2)
Profit before tax									226 6
Corporation taxation									(60 8)
Profit after tax									165 8
Other segment information									
Assets by segment									
Assets	52.2	84 8	126 4	75 3	121 0	101 7	174 4	102.3	838 1
Intangible assets	84.3	62 5	244 3	178 1	2 8	85.3	107 9	141 8	907 0
	136 5	147.3	370 7	253 4	123 8	187 0	282.3	244 1	1,745 1
Liabilities	(27 8)	(48 8)	(136 0)	(42 0)	(108 8)	(121 7)	(102 0)	(168 5)	(755 6)
Net allocated assets	108 7	98 5	234 7	211 4	15 0	65 3	180 3	75 6	989 5
Unallocated assets									419 2
Unallocated liabilities									(1,011 8)
Total net assets									396 9
Capital expenditure									
Tangible assets	2 0	2 7	8 0	18.3	8 9	10 1	34 9	6 0	90 9
Depreciation charge	1 4	3 1	5 8	2 9	19 0	5 6	8 1	5 6	51.5
Intangible assets	–	9 5	23 1	7 7	–	44 7	26 1	70 3	181 4
Intangible amortisation	0.2	1 4	3 7	3 7	–	2 4	3 8	3 4	18 6

Unallocated assets include held for sale financial assets, financial assets held at fair value through the income statement, the cash flow hedge financial asset, cash in bank, currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, callable swaps, bonds and the pension liability.

7 Segmental information (continued)

The tables below present revenue by the geographical location of clients, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	2,639.5	86.8	2,726.3
Inter-segment revenue	(265.3)	(19.6)	(284.9)
Third party revenue	2,374.2	67.2	2,441.4
Other segment information			
Assets	806.7	31.4	838.1
Intangible assets	859.5	47.5	907.0
Unallocated assets	419.2	–	419.2
Total assets	2,085.4	78.9	2,164.3
Capital expenditure			
Tangible assets	85.1	5.8	90.9
Intangible assets	164.6	16.8	181.4

8 Operating profit

This is stated after charging/(crediting)

	Notes	2009 £m	2008 £m
Employee benefits expense	9	1,128.8	1,051.9
Amortisation of intangible assets (as shown in the non-underlying column)	15	28.1	18.6
Depreciation	14	54.4	50.0
Loss on sale of property, plant and equipment		1.1	1.1
Amortisation of other intangible assets (treated as depreciation)*	15	1.2	1.5
Minimum lease payments recognised as an operating lease expense		75.5	70.6
Foreign exchange differences		(2.3)	(1.6)

*Included within operating activities before amortisation.

UK fees paid to the auditors include fees in relation to	2009 £m	2008 £m
Audit of financial statements	0.6	0.6
Other UK fees		
Local statutory audits for subsidiaries	0.3	0.3
Further assurance services	0.3	0.2
Other non-audit services**	0.8	–
	2.0	1.1

Other non audit services provided in the year are higher than previous years due to Ernst & Young providing services in relation to the Arch cru funds (see note 25)

**There were no other amounts payable to the auditors requiring disclosure under Section 494 of the Companies Act 2006.

9 Employee benefits expense

	Notes	2009 £m	2008 £m
Wages and salaries		974.7	910.1
Social security costs		92.2	86.6
Pension costs	32	52.1	46.0
Share based payments	28	9.8	9.2
		1,128.8	1,051.9

The average number of employees during the year was made up as follows

	2009 Number	2008 Number
Sales	776	731
Administration	2,060	1,943
Operations	31,789	29,927
	34,625	32,601

Details of Directors' remuneration are contained within the Directors' remuneration report on pages 79 to 84

Notes to the consolidated financial statements

10 Net finance costs

	Notes	2009 £m	2008 £m
Bank interest receivable		(0.5)	(0.9)
Other interest receivable		(1.4)	(0.1)
Loan note interest		0.7	0.8
Bonds		26.2	39.9
Callable swaps – realised		5.0	(4.7)
Bank loans and overdrafts		2.1	8.3
Other interest payable		0.6	0.1
Unwinding of interest on discounted property provision		0.1	0.1
Underlying net finance costs		32.8	43.5
Callable swaps – mark to market	26	(1.1)	32.0
Mark to market movement on currency swaps*	26	2.5	–
Non-underlying net finance costs		1.4	32.0
Total net finance costs		34.2	75.5

*The mark to market movement on currency swaps represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US\$ denominated bonds (see note 26 – Hedges)

11 Income tax

The major components of income tax expense for the years ended 31 December 2009 and 2008 are

	2009 £m	2008 £m
Consolidated income statement		
Current income tax		
Current income tax charge	69.1	73.2
Adjustment in respect of prior years	(9.4)	(3.1)
Deferred income tax		
Origination and reversal of temporary differences	3.5	(8.8)
Adjustment in respect of prior years	6.0	(0.5)
	69.2	60.8
Consolidated statement of comprehensive income		
Deferred income tax on cash flow hedges	(4.2)	5.6
Deferred income tax movement in relation to actuarial losses on defined benefit plans	(16.3)	(13.5)
	(20.5)	(7.9)
Income tax related to items (credited)/charged directly to equity		
Consolidated statement of changes in equity		
Current income tax deduction on exercise of stock options in excess of share based payments	(6.0)	(17.6)
Deferred income tax movement in relation to share based payment	12.2	2.2
	6.2	(15.4)

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2009 and 2008 is as follows

	2009 £m	2008 £m
Accounting profit before tax	258.1	226.6
Notional charge at UK corporation tax rate of 28% (2008: 28.5%)	72.2	64.6
Adjustments in respect of current income tax of prior years	(9.4)	(3.1)
Adjustments in respect of deferred tax of prior years	6.0	(0.5)
Non-deductible expenses	4.2	2.4
Attributable to lower tax rates in overseas jurisdictions	(3.8)	(2.6)
At the effective tax rate of 26.8% (2008: 26.8%)	69.2	60.8
Total tax expense reported in the income statement	69.2	60.8

The tax charge for the year ended 31 December 2009 was £69.2m (2008: charge of £60.8m) and is after a prior year net credit of £3.4m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an underlying effective tax rate of 26.8% (2008: 26.8%). The effective tax rate on underlying profit is 26.8% (2008: 27.0%). In addition, a net tax credit of £6.0m has been credited directly to equity in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2009.

11 Income tax (continued)**Deferred income tax**

Deferred income tax at 31 December relates to the following

	Consolidated balance sheet		Consolidated income statement	
	2009 £m	2008 £m	2009 £m	2008 £m
Deferred tax liabilities				
Accelerated capital allowances	(13.5)	(5.7)	11.6	1.3
Pension scheme's asset	-	-	-	0.4
Cash flow hedges	(3.0)	(7.2)	-	-
Fair value adjustments on acquisition	(35.3)	(22.7)	(9.0)	(4.8)
	(51.8)	(35.6)		
Deferred tax assets				
Share based payments	6.7	16.1	(2.7)	(2.6)
Pension schemes' liability	8.9	6.9	14.2	5.0
Provisions	12.8	6.7	(4.9)	(1.5)
Losses available for offset against future taxable income	0.2	-	0.7	1.8
Mark to market movement on currency swaps	0.7	-	(0.7)	-
Cash flow swaps	8.6	8.9	0.3	(8.9)
	37.9	38.6		
Net deferred tax (liability)/asset	(13.9)	3.0		
Deferred income tax expense			9.5	(9.3)

The Group has tax losses and other temporary differences of £55.2m (2008 £5.8m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, of which £53.3m are related to losses incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance. Deferred tax assets have not been recognised in respect of £54.5m (2008 £5.8m) of these losses or other temporary differences, as their recoverability is uncertain.

12 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations.

	2009 £m	2008 £m
Net profit attributable to ordinary equity holders of the parent from operations	188.9	165.8
	2009 Number million	2008 Number million
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	614.2	608.3
Dilutive potential ordinary shares		
Employee share options	5.2	5.5
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	619.4	613.8

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

The following additional earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent of £238.0m (2008 £202.3m) and, after non-underlying costs, earnings of £188.9m (2008 £165.8m). They are included as they provide a better understanding of the underlying trading performance of the Group.

	2009 p	2008 p
Basic earnings per share – underlying	38.75	33.26
– after non-underlying	30.76	27.26
Diluted earnings per share – underlying	38.42	32.96
– after non-underlying	30.50	27.01

Notes to the consolidated financial statements

13 Dividends paid and proposed

	2009 £m	2008 £m
Declared and paid during the year		
Ordinary shares (equity)		
Final for 2008 paid 9.6p per share (2007 8.0p per share)	58.8	48.8
Interim for 2009 paid 5.6p per share (2008 4.8p per share)	34.4	29.2
	93.2	78.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity)		
Final for 2009 11.2p per share (2008 9.6p per share)	69.1	58.6

14 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2008	50.1	245.1	295.2
Subsidiaries acquired	2.4	3.0	5.4
Additions	17.1	73.8	90.9
Disposals	(5.3)	(40.1)	(45.4)
At 31 December 2008	64.3	281.8	346.1
Subsidiaries acquired	1.0	4.9	5.9
Additions	6.7	61.7	68.4
Disposals	(2.7)	(18.3)	(21.0)
At 31 December 2009	69.3	330.1	399.4
Depreciation and impairment			
At 1 January 2008	18.6	83.2	101.8
Provided during the year	8.1	41.9	50.0
Disposals	(4.3)	(39.7)	(44.0)
At 31 December 2008	22.4	85.4	107.8
Provided during the year	9.6	44.8	54.4
Disposals	(2.4)	(17.0)	(19.4)
At 31 December 2009	29.6	113.2	142.8
Net book value			
At 1 January 2008	31.5	161.9	193.4
At 31 December 2008	41.9	196.4	238.3
At 31 December 2009	39.7	216.9	256.6

The net book value of plant and machinery includes an amount of £1.6m (2008 £nil) in respect of assets held under finance leases

15 Intangible assets

	Brands £m	Software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Sub-total £m	Other intangibles £m	Total £m
Cost								
At 1 January 2008	8.8	6.0	11.9	46.2	704.8	777.7	13.4	791.1
Recognition of intangibles – prior year acquisitions	0.1	–	–	12.5	(9.1)	3.5	–	3.5
Subsidiaries acquired	2.8	8.5	8.3	23.6	134.7	177.9	–	177.9
At 31 December 2008	11.7	14.5	20.2	82.3	830.4	959.1	13.4	972.5
Recognition of intangibles – prior year acquisitions	1.7	(3.9)	–	12.2	(9.1)	0.9	–	0.9
Subsidiaries acquired	6.4	–	13.1	62.8	159.3	241.6	–	241.6
Disposals	(0.7)	(1.4)	–	(5.3)	(7.3)	(14.7)	–	(14.7)
At 31 December 2009	19.1	9.2	33.3	152.0	973.3	1,186.9	13.4	1,200.3
Amortisation and impairment								
At 1 January 2008	3.9	2.1	4.7	12.2	12.0	34.9	10.5	45.4
Amortisation during the year	2.1	2.1	1.8	12.6	–	18.6	1.5	20.1
At 31 December 2008	6.0	4.2	6.5	24.8	12.0	53.5	12.0	65.5
Amortisation during the year	2.7	1.4	2.0	22.0	–	28.1	1.2	29.3
Disposals	(0.1)	(0.3)	–	(1.1)	–	(1.5)	–	(1.5)
At 31 December 2009	8.6	5.3	8.5	45.7	12.0	80.1	13.2	93.3
Net book value								
At 1 January 2008	4.9	3.9	7.2	34.0	692.8	742.8	2.9	745.7
At 31 December 2008	5.7	10.3	13.7	57.5	818.4	905.6	1.4	907.0
At 31 December 2009	10.5	3.9	24.8	106.3	961.3	1,106.8	0.2	1,107.0

During the year a total of £10.0m (2008: £12.6m) of intangible assets was recognised or derecognised in respect of prior year acquisitions for which the provisional intangible valuations performed in the previous year have now been completed. This has resulted in a reduction in the value of goodwill. As required by IAS 12, deferred taxation is recognised in respect of these items, the impact of this was to increase goodwill in 2009 by £0.9m (2008: £3.5m) and to create a deferred tax liability of the same amount.

The amount in 'other intangibles' represents the consideration paid to AON to acquire the contract for the administration of the miners' personal injury liability claims on behalf of the Department of Energy and Climate Change.

16 Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash generating units (CGUs) listed below. These represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

The significant groups of CGUs identified are Local government software and partnerships, Property Consultancy, HR Solutions, Insurance Services, Registrar Services, Financial Services, Life & Pensions and IT & Software Services. The remaining groups of CGUs are included in the 'balance of non-significant CGUs' column.

The recoverable amount of all the CGUs is based on a value in use calculation using cash flow projections based on the latest 1 year budget forecast extrapolated for 4 future years by a growth rate applicable to each unit, an appropriate terminal value based on a perpetuity calculation using nil real growth is then added. A discount rate of 10.5% (2008: 10.0%) is then applied to these projections.

Compound growth rates (years 2–5)	%
Local Government Software and Partnerships	8.1
Property Consultancy	8.1
HR Solutions	8.1
Insurance Services	5.1
Registrar Services	7.2
Financial Services	7.6
Life & Pensions Services	7.5
IT & Software Services	8.1
Balance of non-significant CGUs (weighted average growth rate)	6.3

Notes to the consolidated financial statements

16 Impairment of goodwill (continued)

Carrying amount of goodwill allocated to groups of cash generating units

	Local Government Software & Partnerships £m	Property Consultancy £m	HR Solutions £m	Insurance Services £m	Registrar Services £m	Financial Services £m	Life & Pensions Services £m	IT & Software Services £m	Balance of non- significant CGUs £m	Total £m
2009										
Goodwill	81.5	62.3	91.3	244.8	123.5	57.2	90.4	141.0	69.3	961.3
2008										
Goodwill	97.4	49.7	91.3	231.1	114.8	56.9	78.0	41.6	57.6	818.4

The key assumptions used in the impairment testing were as follows

- profit before interest and taxation
- discount rates
- rates of growth in CGUs for the years 2 to 5

Profit before interest and taxation

The profit before interest and taxation is based on the assumption that future margins will remain at the levels currently being achieved

Discount rate

The discount rate reflects management's estimate of the gross cost of capital employed for the groups of CGUs listed above. This is the benchmark established to assess operating performance and to evaluate future capital investment proposals. The rate applied to all CGUs is the same across all units, this reflects the Group's funding arrangements where all units have equal access to the Group's treasury functions and borrowing lines to fund their operations. None of the Group's CGUs demonstrates levels of risk that are significantly different to that experienced by the Group generally and all have similar funding profiles and therefore the discount rate applied is deemed to be justified.

Rates of growth in cash-generating units beyond the budget period (years 2 to 5)

Growth rate assumptions are based on, as far as possible, published industry research (Ovum 2009). Where the cash-generating unit does not correspond directly with the research undertaken then the growth rate used is that of the nearest possible match in relation to the risks experienced within the associated market. The rates used are further cross-checked with the senior operational management of the units in question.

Goodwill impairment

Management believes that no reasonably possible change in the key assumptions above would cause any of the identified CGUs to become impaired.

17 Financial assets

Current	2009 £m	2008 £m
Cash flow hedges ⁴	2.0	4.1
Currency swaps in relation to US\$ denominated bonds ⁵	–	0.4
Interest rate swaps in relation to GBP denominated bonds ⁵	–	0.7
	2.0	5.2
Non-current financial assets		
Available for sale assets ¹	0.7	0.3
Investment loan ²	36.7	35.3
Financial assets at fair value through the income statement ³	–	1.6
Cash flow hedges ⁴	8.8	21.6
Currency swaps in relation to US\$ denominated bonds ⁵	136.6	269.2
Interest rate swap in relation to GBP denominated bonds ⁵	3.3	4.0
Investment in a joint venture ⁶	0.2	0.4
	186.3	332.4

¹ Available for sale assets comprise investments in unlisted ordinary shares. The unlisted ordinary shares, for which there is no immediately identifiable market and which have no fixed maturity date or coupon rate, are carried at cost less provision for any impairment.

² The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) and during the year has provided it with an additional £1.4m (2008: £6.2m) to fund that company's acquisition of further volume legal services businesses. In addition, the Group has entered into an option agreement to acquire the shares of OLSL for £1 in the event that Law Society rules are amended to allow the Group to own the shares in this type of legal services company. The Group believes that the option should be held at the fair value of £1 as the change in Law Society rules in favour of the Group is uncertain.

³ Financial assets at fair value through the income statement include investments in units, held in the Group's insurance captives. The units are held in managed funds (comprising units of equities and other assets) which are traded with a quoted market price in an active market. An explanation of the Group's accounting policy with regard to these assets is contained in note 2(m) on page 94. During the year the Group made the decision to withdraw the funds invested in these assets, the remaining units were sold early in 2009, the Group therefore no longer holds units in these funds.

⁴ The cash flow hedges are used to hedge the exposure to currency fluctuations in the Group's forecast transactional cash flows, principally in Indian rupees. Details of the cash flow hedges are contained in note 26.

⁵ The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US\$ denominated bonds. The uplift in the fair value of the underlying bonds due to changes in interest and currency rates is equivalent to the fair value of the currency swaps recognised above. The interest rate swaps are used to hedge the fair value of the Group's GBP denominated bonds and the uplift in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swap, currency swaps and cash flow hedges are contained in note 26.

⁶ The investment in a joint venture disclosed represents the Group's interest in a Syndicate (for which the Group provides administrative outsourcing services) operating in the Lloyd's Market, through its joint venture ownership of Cobex Corporate Member No 1 Limited (Cobex) in conjunction with the Group's insurance partners. The Group's share of the net assets and liabilities of this Syndicate are set out in the following table.

17 Financial assets (continued)

	2009 £m	2008 £m
Investments	16.4	8.9
Reinsurance assets	7.0	9.6
Other debtors	2.7	2.8
Cash and cash equivalents	0.7	10.0
Total assets	26.8	31.3
Technical provisions	22.0	23.6
Other creditors	4.3	6.9
Accruals and deferred income	0.3	0.4
Total liabilities	26.6	30.9
Net position	0.2	0.4

The Group, through Capita Commercial Insurance Services Limited (CCIS), a wholly owned subsidiary, has a 50.1% holding in Cobex Corporate Member No 1 Limited (Cobex). In addition to the assets and liabilities of the underlying Syndicate, Cobex has in place a quota share arrangement with its insurance partners such that only 8.86% of any profit or loss declared by the Syndicate, in respect of Cobex, would be attributable to the Group.

The Group has no rights over the assets or liabilities of the Syndicate other than to the extent that it will receive distributed profits or contribute to relieve losses. The Group has in place a letter of credit amounting to £1.0m (2008: £1.0m) which is the maximum exposure that the Group has to losses generated within the Syndicate.

18 Business combinations

The Group made a number of acquisitions in 2009 which are shown in aggregate. The book and fair values of the assets acquired are disclosed in the table below.

	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	10.1	72.2	82.3
Property, plant and equipment	5.9	-	5.9
Deferred tax	5.9	(20.9)	(15.0)
Debtors	59.6	(0.4)	59.2
Cash and short term deposits	24.2	-	24.2
Creditors	(96.7)	(0.5)	(97.2)
Long term debt	(9.1)	-	(9.1)
Provisions	-	(2.2)	(2.2)
Corporation tax	(1.9)	-	(1.9)
Net assets	(2.0)	48.2	46.2
Goodwill arising on acquisition			159.3
			205.5
Discharged by:			
Cash			196.4
Deferred consideration paid			0.7
Deferred consideration accrued			8.4
			205.5

Included within the table above are the net assets of Synetrix (Holdings) Limited of £7.1m, including provisionally recognised intangible assets of £28.1m. The cash consideration paid was £77.6m with resulting goodwill of £70.5m. Intangible valuations relating to this acquisition have been performed on a provisional basis and the exercise will be completed in the subsequent year.

The performance of these acquisitions post their inclusion in the Group cannot be ascertained as they have been fully integrated within existing offerings.

Acquisitions in the year included FMS (Netherlands) B.V., CHKS Limited, Hero Insurance Services Limited, MMB Associates Limited, Gissings Holdings Limited, Canllion IT Services Limited (now known as Capita IT Services Limited), Fidei Fiduciaire S.à.r.l., IMMO Guillaume Schneider S.A., IMMO J.A.S.A., Multi-Tech Group Limited and Synetrix (Holdings) Limited.

For all acquisitions in the year the Group acquired 100% of the issued share capital of the acquired company.

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably. These items include client loyalty and the assembled workforce.

Notes to the consolidated financial statements

18 Business combinations (continued)

2008 acquisitions

The Group made a number of acquisitions in 2008 which are shown in aggregate. The book and fair values of the assets acquired are disclosed in the table below.

	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	–	43.2	43.2
Property, plant and equipment	5.9	(0.5)	5.4
Deferred tax	1.5	(11.4)	(9.9)
Debtors	32.4	(2.8)	29.6
Cash and short term deposits	8.9	–	8.9
Creditors	(23.1)	(2.3)	(25.4)
Provisions	(0.5)	(2.2)	(2.7)
Net assets	25.1	24.0	49.1
Goodwill arising on acquisition			135.0
			184.1
Discharged by:			
Cash			180.6
Loan notes issued			3.5
			184.1

Included within the table above are net assets of IBS OPENSysystems Limited of £21.5m, including recognised intangible assets of £13.1m. The cash consideration paid was £74.9m with resulting goodwill of £53.4m. Intangible valuations relating to this acquisition had been performed on a provisional basis and the exercise was completed in the subsequent year.

During the year deferred consideration of £9.1m was settled in respect of acquisitions made in prior years, £7.8m was paid in cash and the remainder of £1.3m through the issue of loan notes, of which £9.4m had been previously provided, the impact of this was to reduce goodwill by £0.3m.

As a result of the above total goodwill of £134.7m was recognised in the year.

Acquisitions in the year included IBS OPENSysystems plc (now known as IBS OPENSysystems Limited), ComputerLand UK PLC (now known as ComputerLand UK Limited), Lancaster Insurance Services Limited, Nieuwenhuis Services BV (now known as Capita Fiduciary BV), and ABS Network Solutions Limited. For all acquisitions in the year the Group acquired 100% of the issued share capital of the acquired company.

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably. These items include client loyalty and the assembled workforce.

The Group's acquisition in 2008 of IBS OPENSysystems Limited (IBS) was the subject of a referral to the Competition Commission (CC) under Section 22(1) of the Enterprise Act 2002. On 4 June 2009 the CC announced its decision. The CC determined that the acquisition by the Group of IBS resulted in a lessening of competition in the market for revenue and benefits software systems and that the corrective measure required was the sale of the element of IBS that provides this product and service. Consequently, the Group disposed of this part of the business – see note 5.

19 Trade and other receivables

	2009 £m	2008 £m
Current		
Trade receivables	308.1	306.6
Other receivables	38.9	37.2
Gross amounts due from customers on construction contracts	25.4	17.8
Prepayments and accrued income	246.0	222.0
	618.4	583.6
Non-current		
Other receivables	9.2	1.8
Prepayments and accrued income	11.1	6.3
	20.3	8.1

Trade receivables are non-interest bearing and are generally on 30 days' terms.

At 31 December 2009, trade receivables at a nominal value of £10.5m (2008: £7.1m) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2009 £m	2008 £m
At 1 January	7.1	4.2
Charge for year	7.3	5.7
Amounts written off	(1.9)	(1.0)
Unused amounts reversed	(2.0)	(1.8)
	10.5	7.1

19 Trade and other receivables (continued)

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows

	Total £m	Neither past due nor impaired £m	Past due but not impaired			
			0-3 months £m	4-6 months £m	7-12 months £m	More than 12 months £m
2009	308.1	245.3	56.5	6.3	-	-
2008	306.6	245.6	52.6	8.4	-	-

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty

20 Cash at bank and in hand

	2009 £m	2008 £m
Cash at bank and in hand	181.5	86.7

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash is the same as the carrying amount above

21 Trade and other payables

	2009 £m	2008 £m
Current		
Trade payables	96.2	111.3
Other payables	76.2	87.3
Other taxes and social security	64.1	60.8
Gross amounts due to customers on construction contracts	7.2	6.2
Accruals and deferred income	542.4	424.8
Deferred consideration payable	8.4	-
	794.5	690.4
Non-current		
Accruals and deferred income	9.0	9.6
	9.0	9.6

Trade payables are non-interest bearing and are normally settled on terms agreed with suppliers

22 Construction contracts

Presented in the table below are disclosures with regard to the Group's property consultancy business where the provision, as a sub-contractor, is architectural, structural or another service that results in the construction of a new asset.

	2009 £m	2008 £m
Contract revenue recognised in relation to construction contracts in the year	157.9	152.4
Aggregate costs incurred and recognised profits (less losses) to date	201.9	180.5
Gross amount due from customers for construction contracts	25.4	17.8
Gross amount due to customers on construction contracts	7.2	6.2

23 Financial liabilities

	Notes	2009 £m	2008 £m
Current			
Obligations under finance leases	24	0.1	-
Bonds		-	101.3
Unsecured loan notes		2.6	3.7
Asset-based securitised financing (see below)		17.1	10.4
Callable swaps		-	1.1
		19.8	116.5
Non-current			
Obligations under finance leases	24	1.3	-
Bonds		720.5	851.8
Term debt		198.0	-
Currency swaps in relation to US\$ denominated bonds		0.6	-
Callable swaps		30.9	30.9
		951.3	882.7

The aggregate bond value stated above of £720.5m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2009. To remove the Group's exposure to interest rate and currency fluctuations it has entered into interest rate swaps and currency swaps which effectively hedge any movement in the underlying bond fair value. The fair value of the currency swaps is disclosed in note 17 - Financial assets and note 23 - Financial liabilities in the current year (2008 Financial assets - note 17)

Notes to the consolidated financial statements

23 Financial liabilities (continued)

On the 20 June 2009 the Group repaid bonds, which reached maturity, including £55m 2002 Series B bonds and US\$66m 2002 Series A bonds (sterling equivalent £45.3m) giving an aggregate repayment of £100.3m in the year

On 15 July 2009 the Group secured £200m of term debt (shown above net of issue costs) for which it pays a rate of interest based on LIBOR and which matures on the second anniversary of issuance. The debt has an extension option of one year, at the Group's request, subject to the lenders' agreement

The Group has insurance debtors which are subject to a securitisation agreement. The purpose of this arrangement is to securitise client receivables, derived through the provision of instalment credit facilities to insurance clients of the Group. The Group sells these receivables, with no immediate effect on the income statement, for cash to a third party. The third party takes on the rights and responsibilities of these receivables such that the terms of this agreement dictate that it has no recourse to the Group beyond 14% of the total receivable securitised.

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. The bonds effectively bear a floating interest charge at a rate based on 6 month LIBOR.

Loan notes issued during the year amounted to £nil (2008 £5.3m) and £1.4m (2008 £3.3m) were repaid. The interest rates attributable to the loan notes are fixed for each new issue. The rates attributable to these remaining loan notes ranged from 0.87% to 5.00%. The outstanding loan notes totalling £2.6m are repayable on demand and have a final weighted average maturity of less than 1 year.

The Group has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005***				
Series A	0.525 above 6m GBP LIBOR	GBP	50.0	28 September 2013
Series B	0.525 above 6m GBP LIBOR	GBP	25.0	28 September 2015
Issued 2008*				
Series C	7.19	GBP	32.0	13 September 2015
Total of sterling denominated bonds			107.0	
			US\$m	
Issued 2002***				
Series C	6.47	US\$**	36.0	20 June 2012
Issued 2006***				
Series A	5.74	US\$**	60.0	28 June 2013
Series B	5.88	US\$**	130.0	28 June 2016
Series A	5.66	US\$**	11.0	13 September 2013
Series B	5.81	US\$**	74.0	13 September 2016
Series C	5.77	US\$**	60.0	13 September 2016
Issued 2007***				
Series A	5.57	US\$**	21.0	11 October 2014
Series B	5.88	US\$**	179.0	11 October 2017
Issued 2008**				
Series A	6.04	US\$**	80.0	13 September 2015
Series B	6.51	US\$**	256.0	13 September 2018
Total of US\$ denominated bonds			907.0	

All series are unsecured and rank pari passu in all respects.

* The Group has entered into an interest rate swap to convert the interest cost to a floating rate based on 6 month GBP LIBOR.

** The Group has entered into currency swaps for the US\$ issues to achieve a floating rate of interest based on 6 month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 26 commencing on page 111.

***Subsequently the Group has entered a series of callable interest rate swaps to convert these issues from paying a floating rate based on 6 month LIBOR to fixed rates. See note 26 for further details of these callable swaps.

The issue costs incurred on the issue of the term debt during the year amounted to £2.6m (2008 Bond issue costs £0.7m). Issue costs on the bonds and term debt are spread over the life of the bonds and term debt to their maturity. The unamortised balance of issue costs at the year end totalled £3.1m (2008 £1.4m).

24 Obligations under leases and hire purchase contracts**Obligations under finance leases and hire purchase contracts**

The Group uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal and purchase options but no escalation clauses. Renewals are at the option of the lessee.

The value of future minimum lease payments and their present value, which are the same, is analysed as follows.

	2009 £m	2008 £m
Not later than 1 year	0.1	-
Later than 1 year but not more than 5 years	1.3	-
	1.4	-

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and machinery. These leases have an average duration of between 3 and 10 years.

Future minimum rentals payable under non-cancellable operating leases are as follows.

	2009 £m	2008 £m
Not later than 1 year	59.3	59.2
Later than 1 year but not later than 5 years	128.5	158.0
Later than 5 years	53.9	23.0
	241.7	240.2

25 Provisions

	Insurance provision £m	Property provision £m	Arch cru £m	Other £m	Total £m
At 1 January 2009	-	3.3	-	-	3.3
Transfer from accruals in the year	-	-	-	3.0	3.0
Transfer from other payables in the year	14.2	-	-	-	14.2
Utilisation	-	(0.6)	-	-	(0.6)
Additional provisions in the year	0.8	2.4	20.0	2.6	25.8
Provisions acquired	-	2.2	-	-	2.2
Unwinding of interest on discounted provisions	-	0.1	-	-	0.1
At 31 December 2009	15.0	7.4	20.0	5.6	48.0

Certain liabilities previously held within accruals and other payables have been reclassified as provisions as it is considered that the classification is more appropriate given the nature of the balances.

The property provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 6 years.

Arch cru Funds – dealings in 2 open ended investment companies (OEICs), for which Capita Financial Managers (CFM) is the authorised corporate director (ACD) and Arch Financial Products LLP was the delegated investment manager, were suspended on 13 March 2009, as a result of illiquidity in the underlying investments of the OEICs and an anticipated inability to meet future redemptions. This was exacerbated by unprecedented market turmoil post the collapse of Lehman Brothers. Since the suspension, CFM, has been working with specialist advisers to conduct a detailed review of the underlying assets of the OEICs and options for their future. This review was completed in December 2009. The underlying assets of the OEICs have fallen in value and remain illiquid. CFM has advised investors that the only feasible option in the best interests of investors as a whole is for the OEICs to be wound up, with the underlying assets being realised in an orderly manner over a period of time, and the proceeds being returned to investors in the OEICs.

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The detailed work undertaken since March 2009 has resulted in significant costs. We have provided estimated costs of £20m in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009. It is expected that an outcome will be reached in 2010.

Insurance provisions relate to provisions held by the Group's captive insurer. Such provisions are held until utilised or such time as further claims are considered unlikely under the respective insurance policies.

26 Financial instruments**Financial risk management objectives and policies**

The Group's principal financial instruments are comprised of cash, bank loans, bond issues, loan notes, finance leases and derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations and to manage the Group's financial risks. The Group also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

The Group also enters into derivative transactions. These are interest rate swaps, currency swaps, callable interest rate swaps and forward currency contracts. Their purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Notes to the consolidated financial statements

26 Financial instruments (continued)

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors and cash in hand) that are carried in the financial statements. The values represent both the carrying amounts and the fair values.

	Available for sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 31 December 2009						
Financial assets						
Unlisted equity securities	0.7	-	-	-	-	0.7
Investment loan	-	-	36.7	-	-	36.7
Cash flow hedges	-	-	-	10.8	-	10.8
Interest rate swaps in relation to GBP denominated bonds	-	-	-	3.3	-	3.3
Currency swaps in relation to US\$ denominated bonds	-	-	-	136.6	-	136.6
Investment in joint venture	-	-	0.2	-	-	0.2
	0.7	-	36.9	150.7	-	188.3
Financial liabilities						
Unsecured loan notes	-	-	-	-	2.6	2.6
Bonds	-	-	-	-	720.5	720.5
Currency swaps in relation to US\$ denominated bonds	-	-	-	0.6	-	0.6
Term debt	-	-	-	-	198.0	198.0
Asset-based securitised financing	-	-	-	-	17.1	17.1
Obligations under finance leases	-	-	-	-	1.4	1.4
Callable swaps	-	30.9	-	-	-	30.9
	-	30.9	-	0.6	939.6	971.1

The aggregate bond value above of £720.5m includes the GBP value of the US\$ denominated bonds at 31 December 2009. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the bonds' fair value due to changes in prevailing foreign exchange and interest rates. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The fair value of the currency and interest swaps are disclosed in note 17 – Financial assets and in note 23 – Financial liabilities in the current year.

	Available for sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 31 December 2008						
Financial assets						
Investments in units	-	1.6	-	-	-	1.6
Unlisted equity securities	0.3	-	-	-	-	0.3
Investment loan	-	-	35.3	-	-	35.3
Cash flow hedges	-	-	-	25.7	-	25.7
Interest rate swaps in relation to GBP denominated bonds	-	-	-	4.7	-	4.7
Currency swaps in relation to US\$ denominated bonds	-	-	-	269.6	-	269.6
Investment in joint venture	-	-	0.4	-	-	0.4
	0.3	1.6	35.7	300.0	-	337.6
Financial liabilities						
Unsecured loan notes	-	-	-	-	3.7	3.7
Bonds	-	-	-	-	953.1	953.1
Asset-based securitised financing	-	-	-	-	10.4	10.4
Callable swaps	-	32.0	-	-	-	32.0
	-	32.0	-	-	967.2	999.2

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities and investment loans. The valuation models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and volatility surfaces. Unlisted equity securities and investment loans are held at amortised cost. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

26 Financial instruments (continued)

As at 31 December 2009, the Group held the following financial instruments measured at fair value

At 31 December 2009	Level 2 £m
Assets measured at fair value	
Cash flow hedges	10 8
Interest rate swaps in relation to GBP denominated bonds	3 3
Currency swaps in relation to US\$ denominated bonds	136 6
Liabilities measured at fair value	
Bonds	720 5
Currency swaps in relation to US\$ denominated bonds	0 6
Callable swaps	30 9

During the year the Group only had Level 2 assets or liabilities measured at fair value. During the year ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises primarily from the Group's long term debt.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate financial instruments to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations.

The Group has primarily issued fixed rate coupon US\$ denominated bonds, which have been swapped to floating rate GBP liabilities at the date of issuance using currency swaps. These currency swaps are designated as fair value hedges against changes in fair value of the bonds due to changes in prevailing foreign currency exchange and interest rates.

In February 2008, Capita executed a series of callable interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. The counterparty holds the option to cancel these swaps on each semi-annual coupon payment date. These callable interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 10 – Net finance cost.

Following the fall in interest rates at the end of 2008 and an increase in the implied volatilities, these callable swaps show a negative mark to market value of £30.9m at 31 December 2009 (2008 negative mark to market value of £32m). This movement results in a non-cash accounting profit in the year of £1.1m (2008 loss of £32m). The callable swap will reverse through the income statement as the mark to market valuation will tend towards zero as the swaps approach maturity or cancellation.

In addition to the fixed rate bonds of £380m issued as at 31 December 2009 (underlying value – not adjusted for the impact of the swaps), the Group had a further £200.2m of swapped bonds, and a £245m revolving credit facility, both paying floating rate interest. On 15 July 2009 the Group took £200m of bank term debt maturing on the second anniversary of the issue date paying a floating rate of interest. This gives the Group as a whole a balanced interest rate risk profile through the use of both fixed and floating rate financial instruments.

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

At 31 December 2009	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Loan notes	2 6	–	–	–	–	–	2 6
Bonds	–	–	24 1	98 1	13 9	328 4	464 5
Obligations under finance leases	0 1	13	–	–	–	–	14
Foreign currency swaps in relation to US\$ denominated bonds	–	–	0 6	(10 1)	(3 5)	(71 4)	(84 4)
Callable swaps	–	–	1 6	6 4	0 8	22 1	30 9
Floating rate							
Cash in hand	(181 5)	–	–	–	–	–	(181 5)
Term debt	–	198 0	–	–	–	–	198 0
Investment loan	–	–	–	–	–	(36 7)	(36 7)
Assets available for sale	(0 4)	–	–	–	–	(0 3)	(0 7)
Bonds	–	–	–	–	–	256 0	256 0
Asset-based securitised financing	17 1	–	–	–	–	–	17 1
Cash flow hedges	(2 0)	(2 4)	(1 4)	(1 4)	(0 6)	(3 0)	(10 8)
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	–	(3 3)	(3 3)
Foreign currency swaps in relation to US\$ denominated bonds	–	–	–	–	–	(51 6)	(51 6)

Notes to the consolidated financial statements

26 Financial instruments (continued)

At 31 December 2008	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	More than 5 years £m	Total £m
Fixed rate							
Loan notes	37	-	-	-	-	-	37
Bonds	101.3	-	-	27.2	105.0	408.9	642.4
Interest rate swap in relation to GBP denominated bonds	(0.7)	-	-	-	-	-	(0.7)
Foreign currency swaps in relation to US\$ denominated bonds	(0.4)	-	-	(2.6)	(16.9)	(142.5)	(162.4)
Callable swaps	1.1	-	-	1.5	5.9	23.5	32.0
Floating rate							
Cash in hand	(86.7)	-	-	-	-	-	(86.7)
Investment loan	-	-	-	-	-	35.3	35.3
Assets available for sale	-	-	-	-	-	(0.3)	(0.3)
At fair value through income statement	(1.6)	-	-	-	-	-	(1.6)
Bonds	-	-	-	-	-	310.7	310.7
Asset-based securitised financing	10.4	-	-	-	-	-	10.4
Cash flow hedges	(4.1)	(1.6)	(3.5)	(2.3)	(2.7)	(11.5)	(25.7)
Interest rate swap in relation to GBP denominated bonds	-	-	-	-	-	(4.0)	(4.0)
Foreign currency swaps in relation to US\$ denominated bonds	-	-	-	-	-	(107.2)	(107.2)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity

	Increase/ (decrease) in basis points	Effect on profit before tax £m
2009	16/(16)	(0.3)/0.3
2008	146/(146)	(2.8)/2.8

Foreign currency risk

The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions in UK operations which are affected by foreign exchange movements. The Group is not generally exposed to significant foreign currency risk except in respect of its cash flows in overseas operations in India which generate exposure to movements in the INR/GBP exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency contracts (in the form of Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable forecast transactions denominated in INR.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the underlying cash flows in order to maximise hedge effectiveness.

At 31 December 2009, the Group had cash flow hedges in place against forecast monthly INR costs in 2010 and each year up to and including 2019. These forecast INR costs have been determined on the basis of the underlying cash flows, associated with the delivery of services under signed contracts which run to 2019.

The following table demonstrates the sensitivity to a reasonably possible change in the INR/GBP exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of the Group's forward exchange contracts.

	Increase/ (decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
2009	4.1%	-	9.9
2008	2.5%	-	6.3

Hedges**Fair value hedges**

The Group has in issue fixed rate dollar and sterling bonds which it has hedged through a combination of interest rate and currency swaps.

The Group had an interest rate swap in place with a notional amount of £32.0m (2008: £87.0m) whereby it receives a fixed rate of interest of 7.19% (2008: weighted average fixed rate of interest 6.71%) and pays a variable rate based on 6 month LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £32.0m (2008: £87.0m) of the Group's 7.19% (2008: weighted average fixed rate of interest 6.71%) bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6 month LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £472.8m (2008: £518.2m) of the Group's bonds, which have coupon rates ranging from 5.57% to 6.51%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar issued bonds. The bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 23).

26 Financial instruments (continued)

The mark to market movement on currency swaps represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US\$ denominated bonds.

The Group may, at its option, upon notice of not less than 30 days and not more than 60 days, repay at any time all or part of the notes at no more than the present value of future payments.

Cash flow hedges

As noted above, the Group holds a series of forward exchange currency contracts in the form of NDFs designated as hedges of highly probable forecast transactions in INR of the Group's Indian operations.

Forward exchange contracts	Assets £m	2009 Liabilities £m	Assets £m	2008 Liabilities £m
Fair value	10.8	–	25.7	–

The terms of the forward currency contracts have been negotiated to match the terms of the commitments.

The cash flow hedges are in respect of highly probable forecast monthly costs, based on long term contracts that the Group has in place, denominated in INR up to 2019. These were assessed to be highly effective as at 31 December 2009 and a net unrealised gain of £10.8m (2008: £25.7m) less deferred tax of £3.0m (2008: £7.2m) was recognised in equity. The net loss recognised on cash flow hedges during the year was £10.8m (2008: net gain £20.9m) whilst net gains of £4.1m (2008: £0.8m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a credit of £4.2m (2008: charge of £5.6m).

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents, available for sale financial investments, investment loan, financial assets at fair value through the income statement, investment in a joint venture and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

The Group has netting arrangements in respect of its transactional banking facilities resulting in the legal right of set-off for its overdraft and cash balances.

Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2018.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual payments.

At 31 December 2009	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	More than 5 years £m	Total £m
Loan notes	2.6	–	–	–	–	–	2.6
Bonds	–	–	24.1	98.2	14.1	585.2	721.6
Interest on above bonds	37.3	37.3	36.6	34.8	32.7	83.1	261.8
Term debt	–	200.0	–	–	–	–	200.0
Interest on term debt	6.7	3.6	–	–	–	–	10.3
Asset-based securitised financing	17.1	–	–	–	–	–	17.1
Obligations under finance leases	0.1	1.3	–	–	–	–	1.4
Currency swaps	–	–	0.6	–	–	–	0.6
Callable swaps	–	–	1.6	6.4	0.8	22.1	30.9
	63.8	242.2	62.9	139.4	47.6	690.4	1,246.3

Notes to the consolidated financial statements

26 Financial instruments (continued)

At 31 December 2008	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	More than 5 years £m	Total £m
Loan notes	37	–	–	–	–	–	37
Bonds	101.3	–	–	27.3	105.0	720.8	954.4
Interest on above bonds	38.9	38.9	38.2	36.4	33.2	83.6	269.2
Asset-based securitised financing	10.4	–	–	–	–	–	10.4
Callable swaps	11	–	–	1.5	5.9	23.5	32.0
	155.4	38.9	38.2	65.2	144.1	827.9	1,269.7

In addition to the above the Group has available to it a Rolling Credit Facility (RCF) of £245m, of which £nil had been drawn down as at 31 December 2009 (2008: £nil drawn down). These funds are available for the Group's immediate use.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group has covenanted to maintain a specified consolidated leverage ratio and a consolidated net interest expense coverage ratio, the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

The Group does not set a target level of gearing but uses capital opportunistically to add value for shareholders. The key discipline adopted by the Group is to widen the margin between the return on capital employed and the cost of that capital as shown in the business review on pages 25 and 33.

The table below presents quantitative data for the components the Group manages as capital.

	2009 £m	2008 £m
Shareholders' funds	466.2	396.9
Bank overdraft	–	–
Cash in hand	(181.5)	(86.7)
Unsecured loan notes	2.6	3.7
Obligations under finance leases	1.4	–
Bonds	720.5	953.1
Term debt	198.0	–
Currency and interest rate swaps	(139.3)	(274.3)
At 31 December	1,067.9	992.7

27 Authorised and issued share capital

	2009 Million	2008 Million	2009 £m	2008 £m
Authorised				
Ordinary shares of 2 1/15p	967.7	967.7	20.0	20.0
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	621.2	609.0	12.8	12.6
Issued on exercise of share options	3.4	12.2	0.1	0.2
At 31 December	624.6	621.2	12.9	12.8

During the year 3.4m (2008: 12.2m) ordinary 2 1/15p shares with an aggregate nominal value of £0.1m (2008: £0.2m) were issued under share option schemes for a total consideration of £15.1m (2008: £35.7m).

Treasury shares	2009 Million	2008 Million	2009 £m	2008 £m
Ordinary shares of 2 1/15p				
At 1 January	–	–	–	–
Shares repurchased	–	10.4	–	0.2
Shares transferred to Employee Benefit Trust	–	(10.4)	–	(0.2)
At 31 December	–	–	–	–

In 2008, the Group purchased 10.4m ordinary 2 1/15p shares with an aggregate nominal value of £0.2m at a total cost of £68.4m for which it paid cash at an average cost per share of £6.58. There were additional expenses of acquiring the shares of £0.4m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

27 Authorised and issued share capital (continued)

Employee Benefit Trust shares	2009 Million	2008 Million	2009 £m	2009 £m
Ordinary shares of 2 1/15p				
At 1 January	10.4	–	0.2	–
Shares transferred from treasury	–	10.4	–	0.2
Shares allotted in the year	(2.5)	–	–	–
At 31 December	7.9	10.4	0.2	0.2

The Group will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.5m ordinary 2 1/15p shares with an aggregate nominal value of £0.05m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £9.8m.

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

28 Share based payment plans

The Group operates several share based payment plans as follows:

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares. The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The Committee has considered the targets that were set for previous awards made under this scheme and believe in light of current market conditions and the further challenges that this represents that the vesting conditions for matching awards made in 2010 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

Long Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards made during 2009 will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows:

As growth in the Company's EPS over the 3 year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan.

Long Term Investment Plan (LTIP)

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights (IPSARSs). The last Restricted Share Awards and awards of IPSARSs vested in full in May 2001 and 2003 respectively. The performance requirements were met in full on those dates and the IPSARS are exercisable at £1.69. No further awards were made under the LTIP and only 1 award of IPSARS was made.

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2008: nil, 2007: nil, 2006: nil, 2005: 10% and 20% prior to 2005). The options become exercisable for a 6 month period following completion of a 3 or 5 year savings period. There are no performance conditions attached to these options.

The expense recognised for share based payments in respect of employee services received during the year to 31 December 2009 was £9.8m (2008: £9.2m), all of which arises from equity-settled share based payment transactions.

Notes to the consolidated financial statements

28 Share based payment plans

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and IPSARS), which are shown separately

Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	14.1	£5.05	20.6	£4.54
Granted during the year	2.0	£6.77	1.6	£7.04
Exercised	(5.5)	£4.11	(6.7)	£3.88
Forfeited	(0.7)	£6.28	(1.3)	£5.65
Expired during the year	(0.1)	£4.53	(0.1)	£4.57
Outstanding as at 31 December ¹	9.8	£6.18	14.1	£5.05
Exercisable at 31 December	2.3	£3.60	3.3	£3.29

¹Included within this balance are options over 0.1m (2008: 0.8m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.16 (2008: £6.76)

2008 LTIP

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	1.8	–	–	–
Awarded during the year	2.0	–	1.9	–
Forfeited	(0.2)	–	(0.1)	–
Outstanding as at 31 December	3.6	–	1.8	–
Exercisable at 31 December	–	–	–	–

LTISAS

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	1.1	£4.74	3.5	£4.32
Exercised	–	£4.74	(2.4)	£4.12
Outstanding as at 31 December	1.1	£4.74	1.1	£4.74
Exercisable at 31 December	1.1	£4.74	1.1	£4.74

The weighted average price of options exercised in 2008 was £7.16

Under the LTISAS scheme two tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11.

IPSARS

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	–	–	2.4	£1.69
Exercised	–	–	(2.4)	£1.69
Outstanding as at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

The last of these options were exercised at a weighted average price of £6.81 in 2008.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2008: £1.7m). The Matching Shares allocation in respect of the 2008 awards under this plan charged in 2009 was £0.5m (2008: £0.6m).

The weighted average fair value of options granted during the year was £2.62 (2008: £2.69). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2008: £1.88 to £7.33).

28 Share based payment plans (continued)

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2009 and 31 December 2008

	2009	2008
Dividend yield (%)	2.11	1.88
Expected share price volatility (%)	26.53	22.38
Risk free interest rate (%)	2.25	4.62
Expected life of option (years)	3.12	3.10
Weighted average share price of options granted during the year	£3.20	£2.74

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

29 Additional cash flow information**Reconciliation of net cash flow to movement in net funds/(debt)**

	Net debt at 1 January 2009 £m	Acquisitions in 2009 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2009 £m
Cash and cash equivalents	86.7	-	94.8	-	181.5
Cash	86.7	-	94.8	-	181.5
Loan notes	(3.7)	-	1.4	(0.3)	(2.6)
Bonds†	(953.1)	-	100.3	132.3	(720.5)
Term debt	-	-	(197.4)	(0.6)	(198.0)
Currency swaps in relation to US\$ denominated bonds†	269.6	-	-	(133.6)	136.0
Interest rate swaps in relation to GBP denominated bonds†	4.7	-	-	(1.4)	3.3
Long term debt	-	(9.1)	6.3	-	(2.8)
Finance leases	-	(1.4)	-	-	(1.4)
Sub-total net debt	(595.8)	(10.5)	5.4	(3.6)	(604.5)
Asset based securitised finance*	(10.4)	-	(6.7)	-	(17.1)
Callable swaps	(32.0)	-	-	1.1	(30.9)
	(638.2)	(10.5)	(1.3)	(2.5)	(652.5)

†The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £581.2m (2008: £678.8m)

*The asset based securitised finance movement represents the net movement on the underlying balances with clients.

The aggregate bond fair value above of £720.5m (2008: £953.1m) (disclosed in note 23 – Financial liabilities) includes the GBP value of the US\$ denominated bonds at 31 December 2009. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying bond fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds.

The combined fair value of the interest and currency swaps, of £139.3m (2008: £274.3m), is disclosed in note 17 – Financial assets, and in note 23 – Financial liabilities.

	Net debt at 1 January 2008 £m	Acquisitions in 2008 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2008 £m
Cash and cash equivalents	0.8	-	85.9	-	86.7
Overdrafts	(46.1)	-	46.1	-	-
Cash	(45.3)	-	132.0	-	86.7
Loan notes	(1.7)	-	3.3	(5.3)	(3.7)
Bonds†	(461.1)	-	(199.5)	(292.5)	(953.1)
Currency swaps in relation to US\$ denominated bonds†	(18.1)	-	-	287.7	269.6
Interest rate swaps in relation to GBP denominated bonds†	0.1	-	-	4.6	4.7
Finance leases	(0.2)	-	0.2	-	-
Sub-total net debt	(526.3)	-	(64.0)	(5.5)	(595.8)
Asset based securitised finance*	(9.7)	-	(0.7)	-	(10.4)
Callable swaps	-	-	-	(32.0)	(32.0)
	(536.0)	-	(64.7)	(37.5)	(638.2)

Notes to the consolidated financial statements

30 Capital commitments

At 31 December 2009, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £8.8m (2008: £0.7m)

31 Contingent liabilities

(a) The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £41.7m (2008: £51.4m)

(b) Further consideration may be due, dependent on certain performance criteria, on acquisitions completed by the Group in 2008 up to a maximum of £8.2m

(c) Further consideration may be due, dependent on certain performance criteria, on acquisitions completed by the Group in 2009 up to a maximum of £15.1m

The Group expects that these payments, if ultimately due, will be satisfied by the end of 2012

32 Pensions

The Group operates both defined benefit and defined contribution pension schemes. These pension schemes are funded and contributions are made to separate trustee-administered funds. The assets of the pension schemes are held separately from the Group.

The pension charge for the defined contribution pension schemes for the year is £30.9m (2008: £26.7m)

In 2009 there was one main defined benefit pension scheme where the Group was the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: 1 scheme where the Group is the sole employing sponsor; allocated sections of 2 multi-employer schemes in which the Group is a participating employer; an allocated section in an industry wide scheme, and several schemes to which the Group makes contributions under Admitted Body status to our clients' defined benefit pension schemes in respect of certain TUPE employees.

For the Admitted Body schemes, which are all part of the Local Government Pension Scheme, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions. In addition, for some schemes, the Group will be required to pay any deficit (as determined by the respective Scheme Actuary) that is remaining for the notional section of the scheme at the end of the contract.

The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are

	Capita scheme £m	Other schemes £m	Group total £m
At 31 December 2009			
Scheme assets at fair value			
Equities/hedge funds/absolute returns	301.7	84.7	386.4
Bonds	103.6	33.4	137.0
Property	13.5	6.4	19.9
Insurance contracts	4.5	–	4.5
Cash/other	27.0	3.8	30.8
Total	450.3	128.3	578.6
Present value of scheme liabilities	(457.1)	(153.4)	(610.5)
Net liability	(6.8)	(25.1)	(31.9)
At 31 December 2008			
Scheme assets at fair value			
Equities/hedge funds/absolute returns	206.6	68.3	274.9
Bonds	66.7	29.9	96.6
Property	15.9	6.5	22.4
Insurance contracts	3.2	0.2	3.4
Cash/other	25.4	4.7	30.1
Total	317.8	109.6	427.4
Present value of scheme liabilities	(320.2)	(131.7)	(451.9)
Net liability	(2.4)	(22.1)	(24.5)

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

32 Pensions (continued)

The amounts recognised in the consolidated income statement and in the consolidated statement of comprehensive income for the year are analysed as follows

Year ended 31 December 2009	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement.			
Current service cost	20.5	2.7	23.2
Past service cost	0.6	–	0.6
Recognised in arriving at operating profit	21.1	2.7	23.8
Expected return on scheme assets	(23.9)	(7.1)	(31.0)
Interest cost on scheme liabilities	20.2	8.2	28.4
Net finance cost included in administrative expenses	(3.7)	1.1	(2.6)
Total defined benefit charge	17.4	3.8	21.2
Taken to the statement of comprehensive income			
Actual return on scheme assets	75.4	16.3	91.7
Less expected return on scheme assets	(23.9)	(7.1)	(31.0)
	51.5	9.2	60.7
Other actuarial losses	(106.0)	(12.9)	(118.9)
Actuarial losses recognised in the statement of comprehensive income	(54.5)	(3.7)	(58.2)

Of the total service cost charge of £23.8m in 2009, £18.4m was included in cost of sales and £5.4m was included in administrative expenses.

Year ended 31 December 2008	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement			
Current service cost	21.6	3.2	24.8
Past service cost	0.7	–	0.7
Recognised in arriving at operating profit	22.3	3.2	25.5
Expected return on scheme assets	(25.6)	(9.5)	(35.1)
Interest cost on scheme liabilities	19.8	9.1	28.9
Net finance cost included in administrative expenses	(5.8)	(0.4)	(6.2)
Total defined benefit charge	16.5	2.8	19.3
Taken to the statement of comprehensive income			
Actual return on scheme assets	(67.1)	(30.6)	(97.7)
Less expected return on scheme assets	(25.6)	(9.5)	(35.1)
	(92.7)	(40.1)	(132.8)
Other actuarial gains	52.1	32.6	84.7
Actuarial losses recognised in the statement of comprehensive income	(40.6)	(7.5)	(48.1)

Of the total service cost charge of £25.5m in 2008, £19.8m was included in cost of sales and £5.7m was included in administrative expenses.

Pension contributions are determined based on the advice of independent qualified actuaries. The Group made a special additional cash contribution to the Capita scheme of £40m in January 2009 as a result of the outcome of the full formal valuation. This was in addition to a special additional cash contribution of £10m made in December 2008.

Formal valuations of the Capita scheme and the FPS scheme were carried out as at 6 April 2008 and 31 March 2008 respectively. For the other schemes, the latest formal valuations were carried out as at either 1 April 2004, 31 December 2006 or 31 March 2007. These valuations are updated by independent qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

The assumption for the expected long term rate of return on assets has been derived by considering the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset was then weighted based on the target asset allocation to develop the assumption for the expected long term rate of return on assets for the portfolio.

Notes to the consolidated financial statements

32 Pensions (continued)

Main assumptions	Capita scheme		Other schemes	
	2009 %	2008 %	2009 %	2008 %
Rate of price inflation	3.5	2.7	3.5	2.7
Rate of salary increase	4.5	3.7	4.5	3.7
Rate of increase of pensions in payment ¹				
– inflation capped at 5%	3.3	2.6	3.3	2.6
– inflation capped at 2.5%	2.3	2.0	2.3	2.0
Discount rate	5.7	6.2	5.7	6.2
Expected rates of return on scheme assets (net of scheme expenses)				
Equities/hedge funds/absolute returns	5.8 to 7.9	5.6 to 7.7	5.8 to 7.9	5.6 to 7.7
Bonds	5.6	5.7	4.9 to 5.7	4.6 to 6.2
Property	5.1	4.6	5.1	4.6
Insurance contracts	5.7	6.2	5.7	6.2
Cash/other	0.9	2.0	0.5 to 0.9	2.0
Expected take up of extended limits of tax free cash due to A day legislation	50.0	50.0	50.0	50.0 ²

Post retirement mortality	Capita scheme		Other schemes ³	
	2009	2008	2009	2008
– Current pensioners	PA92 MC (YOB) rated up 2 years, 0.5% p a minimum improvement	PA92 MC (YOB) rated up 1 year, 0.5% p a minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p a minimum improvement	PA92 MC (YOB) rated up 1 year, 0.5% p a minimum improvement
– Future pensioners	PA92 MC (YOB) rated up 2 years, 0.5% p a minimum improvement	PA92 MC (YOB) rated up 1 year, 0.5% p a minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p a minimum improvement	PA92 MC (YOB) rated up 1 year, 0.5% p a minimum improvement

Mortality tables above are independently prepared and published

¹There are other levels of pension increase which apply to particular periods of membership

²This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken

³This does not apply to the Admitted Body schemes.

Changes in the present value of the defined benefit pension obligations are analysed as follows

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2008	330.2	153.5	483.7
Current service cost	21.6	3.2	24.8
Past service cost	0.7	–	0.7
Interest cost	19.8	9.1	28.9
Benefits paid	(9.5)	(2.8)	(12.3)
Actuarial gains and losses	(52.1)	(32.6)	(84.7)
Contributions by employees	0.3	1.3	1.6
Contract bulk transfers/change in classification of plans	9.2	–	9.2
As at 31 December 2008	320.2	131.7	451.9
Current service cost	20.5	2.7	23.2
Past service cost	0.6	–	0.6
Interest cost	20.2	8.2	28.4
Benefits paid	(10.6)	(3.3)	(13.9)
Actuarial gains and losses	106.0	12.9	118.9
Contributions by employees	0.3	1.2	1.5
Contract bulk transfers/change in classification of plans	(0.1)	–	(0.1)
As at 31 December 2009	457.1	153.4	610.5

The defined benefit obligation comprises £610.5m (2008 £451.9m) arising from schemes that are wholly or partly funded

32 Pensions (continued)

Changes in the fair value of scheme assets are analysed as follows

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2008	350.5	137.6	488.1
Expected return on scheme assets	25.6	9.5	35.1
Contract bulk transfers/business combinations	9.2	–	9.2
Employer contributions	34.4	4.1	38.5
Contributions by employees	0.3	1.3	1.6
Benefits paid	(9.5)	(2.8)	(12.3)
Actuarial gains and losses	(92.7)	(40.1)	(132.8)
As at 31 December 2008	317.8	109.6	427.4
Expected return on scheme assets	23.9	7.1	31.0
Contract bulk transfers/business combinations	(0.1)	–	(0.1)
Employer contributions	67.5	4.5	72.0
Contributions by employees	0.3	1.2	1.5
Benefits paid	(10.6)	(3.3)	(13.9)
Actuarial gains and losses	51.5	9.2	60.7
As at 31 December 2009	450.3	128.3	578.6

The total employer contributions to the defined benefit pension schemes in 2010 are estimated to be £27.6m in respect of the Capita scheme and £4.8m in respect of the 'Other' schemes

History of experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Capita scheme					
Fair value of scheme assets	450.3	317.8	350.5	321.4	286.1
Present value of defined benefit obligation	(457.1)	(320.2)	(330.2)	(328.8)	(308.1)
Scheme surplus/(deficit)	(6.8)	(2.4)	20.3	(7.4)	(22.0)
Experience adjustments arising on scheme liabilities	–	3.5	–	3.6	(29.3)
Experience adjustments arising on scheme assets	51.5	(92.7)	(4.3)	9.8	26.4
Other schemes					
Fair value of scheme assets	128.3	109.6	137.6	122.4	109.3
Present value of defined benefit obligation	(153.4)	(131.7)	(153.5)	(141.8)	(130.3)
Scheme deficit	(25.1)	(22.1)	(15.9)	(19.4)	(21.0)
Experience adjustments arising on scheme liabilities	–	28.7	0.1	(3.9)	(13.1)
Experience adjustments arising on scheme assets	9.1	(40.1)	(0.3)	3.5	12.5

The cumulative amount of actuarial losses recognised since 1 January 2004 in the consolidated statement of comprehensive income is £91.3m (2008 cumulative actuarial losses of £33.1m). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £77.8m (of which an IFRS transitional adjustment of £67.7m was taken directly to equity) is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of comprehensive income before 1 January 2004.

33 Related party transactions

Other than the information disclosed in the Directors' report and the Directors' remuneration report (pages 1 to 84), the only other related party transactions requiring disclosure are details of key management personnel compensation. These details are set out in the table below.

Compensation of key management personnel (excluding Directors of parent company)

	2009 £m	2008 £m
Short term employment benefits	2.5	2.1
Share based payments	1.0	1.2
	3.5	3.3

Gains on share options exercised in the year by key management personnel totalled £1.1m (2008: £2.5m)

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge

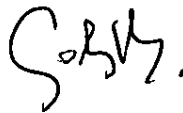
- a) the consolidated financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole and
- b) the parent company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- c) the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board



P R M Pindar
Chief Executive

24 February 2010



G M Hurst
Group Finance Director

Independent auditors' report to the members of The Capita Group Plc

We have audited the Group financial statements of The Capita Group Plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 an 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 Directors' responsibilities statement set out on page 78, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group 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 (APB'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 Group'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.

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion

- the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements, and
- the information given in the Corporate governance statement set out on pages 72-78 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following

- we have not received all the information and explanations we require for our audit, or
- a Corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 77, in relation to going concern, and
- the part of the Corporate governance statement on pages 72 to 78 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of The Capita Group Plc for the year ended 31 December 2009 and on the information in the Directors' remuneration report that is described as having been audited.



Nick Gomer (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

London
24 February 2010

Five year summary

for the year ended 31 December 2009

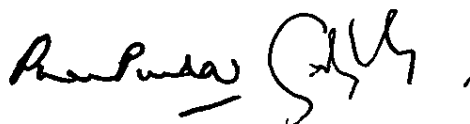
Group balance sheet	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Non-current assets	1,570.2	1,488.8	1,032.5	862.5	783.5
Current assets	801.9	675.5	458.1	404.6	343.8
	2,372.1	2,164.3	1,490.6	1,267.1	1,127.3
Liabilities	(1,857.9)	(1,764.1)	(1,156.2)	(939.6)	(726.4)
Provision for liabilities and charges	(48.0)	(3.3)	(2.6)	(1.7)	(3.3)
	466.2	396.9	331.8	325.8	397.6
Capital and reserves	466.2	396.9	331.8	325.7	397.4
Minority interests	-	-	-	0.1	0.2
	466.2	396.9	331.8	325.8	397.6
Group income statement					
Turnover	2,686.8	2,441.4	2,073.3	1,738.5	1,435.5
Underlying operating profit	357.7	320.9	271.3	225.1	183.1
Other operating income/(expense)	0.2	(0.2)	1.2	-	-
Net interest payable	(32.8)	(43.5)	(34.1)	(25.0)	(13.5)
Underlying profit before taxation	325.1	277.2	238.4	200.1	169.6
Intangible amortisation	(28.1)	(18.6)	(9.7)	(6.9)	(4.5)
Arch cru costs	(30.0)	-	-	-	-
Impairment	-	-	-	-	(12.0)
Callable swaps	1.1	(32.0)	-	-	-
Currency swaps	(2.5)	-	-	-	-
Loss on business disposal	(7.5)	-	-	-	-
Taxation	(69.2)	(60.8)	(62.5)	(53.5)	(45.8)
Minority interests	-	-	-	0.1	0.2
Profit after taxation	188.9	165.8	166.2	139.8	107.5
Basic earnings per share – underlying	38.75p	33.26p	28.10p	23.10p	18.60p
Basic earnings per share – after non-underlying	30.76p	27.26p	27.09p	22.32p	16.28p
Diluted earnings per share – underlying	38.42p	32.96p	27.63p	22.56p	18.33p
Diluted earnings per share – after non-underlying	30.50p	27.01p	26.64p	21.80p	16.05p
Special dividend	-	-	25.00p	-	-
Dividend per ordinary share	16.80p	14.40p	12.00p	9.00p	7.00p

Company balance sheet

at 31 December 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	5	21 5	18 8
Investments	7	484 0	473 8
Financial assets	6	8 9	21 6
		514 4	514 2
Current assets			
Trade investments	7	0 1	0 1
Financial assets	6	2 0	4 1
Debtors due within 1 year	8	372 9	435 8
Debtors due after more than 1 year	8	116 1	212 8
Cash		136 5	14 9
		627 6	667 7
Creditors amounts falling due within 1 year	9	23 8	125 7
Net current assets		603 8	542 0
Total assets less current liabilities		1,118.2	1,056.2
Creditors amounts falling due after more than 1 year	9	357 1	404 3
		761 1	651 9
Capital and reserves			
Called up share capital	11	12 9	12 8
Employee benefit trust	12	(0 2)	(0.2)
Share premium account	12	435 2	410 4
Capital redemption reserve	12	1 8	1 8
Merger reserve	12	44 6	44 6
Profit and loss account	12	266 8	182 5
		761 1	651 9

The accounts were approved by the Board of Directors on 24 February 2010 and signed on its behalf by



P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Notes to the accounts

for the year ended 31 December 2009

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply with the following new Financial Reporting Standards and Urgent Issues Task Force abstracts issued by the UK Accounting Standards Board (ASB). Adoption of these standards did not have any effect on the financial position of the Company although in some instances they did give rise to additional disclosures.

Improvements to Financial Reporting Standards (2008)

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments were adopted by the ASB and issued in December 2008. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Company.

Amendments to FRS 8, Related Party Disclosures

This standard was amended to reflect international accounting developments and UK legal changes introduced by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The definition of a related party has been amended and an exemption is only allowed for transactions entered into between two or more members of a group, provided that any subsidiary undertaking that is a party to the transaction is wholly owned by such a member.

Amendments to FRS 29 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the opening and closing balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. This has had no effect on the financial statements of the Company as the Company takes advantage of the exemption allowed by paragraph 2D (b) of FRS 29 not to make these disclosures in its own entity's financial statements as the consolidated financial statements include the required disclosures for the Group.

Amendments to UITF Abstract 42 (IFRIC 9) Reassessment of Embedded Derivatives and FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement – Embedded Derivatives

These amendments have been issued to ensure that the UK standards are kept in line with the equivalent IFRSs and IFRICs. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Company.

UITF Abstract 46 (IFRIC 16) Hedges of a Net Investment in a Foreign Operation

This has the effect of implementing the International Accounting Standards Board's IFRIC 16 into UK GAAP. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Company has no hedges of net investments in foreign operations and consequently the adoption of this interpretation did not have any impact on the financial position or performance of the Company.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by Section 408 of the Companies Act 2006.

(b) Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight-line basis over the expected useful lives of the assets concerned, as follows:

Computer equipment	3 – 10 years
Furniture, fixtures and equipment	4 – 5 years
Leasehold improvements	over the period of the lease

(c) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

Investments held as current assets are stated at the lower of cost and net realisable value.

The carrying value of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

(d) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the Company, which pays the Group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that company.

(e) Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

1 Accounting policies (continued)

(f) *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 or to receive more, taxation, with the following exceptions

- provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold
- provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date

(g) *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments

(h) *National Insurance on share option gains*

National Insurance on outstanding share options at the year end has been grossed up and shown as a provision and a receivable on the balance sheet.

(i) *Financial instruments, disclosure and presentation*

A separate note dealing with the disclosures of FRS 29 has not been presented as provided by paragraph 2D (b) of FRS 29. The consolidated financial statements include the required disclosures of IFRS 7 for the Group

(j) *Derivative financial instruments*

The Company uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account.

(k) *Share based payments*

The Company operates a number of executive and employee share schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity

Subsidiary undertakings of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share schemes

Notes to the accounts

2 Deferred taxation

	2009 £m	2008 £m
The deferred taxation included in the balance sheet is as follows		
Accelerated capital allowances	(20)	(19)
Share based payments	39	34
Cash flow hedges	(30)	(7.2)
Callable swaps	87	89
Provisions	01	06
Included in debtors note 8	77	38

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £167.7m (2008: loss of £41.5m)

4 Dividends

	2009 £m	2008 £m
Declared and paid during the year		
Ordinary shares (equity)		
Final for 2008 paid 9.6p per share (2007: 8.0p per share)	58.8	48.8
Interim for 2009 paid 5.6p per share (2008: 4.8p per share)	34.4	29.2
	93.2	78.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity)		
Final for 2009: 11.2p per share (2008: 9.6p per share)	69.1	58.6

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2009	27.5	0.8	3.2	31.5
Additions	6.4	0.1	0.1	6.6
Disposals	(1.4)	(0.1)	(0.1)	(1.6)
31 December 2009	32.5	0.8	3.2	36.5
Depreciation				
1 January 2009	10.2	0.6	1.9	12.7
Charge for year	3.1	0.1	0.3	3.5
Disposals	(1.0)	(0.1)	(0.1)	(1.2)
31 December 2009	12.3	0.6	2.1	15.0
Net book value at				
1 January 2009	17.3	0.2	1.3	18.8
31 December 2009	20.2	0.2	1.1	21.5

6 Financial assets

	2009 £m	2008 £m
Current		
Cash flow hedges	2 0	4 1
	2 0	4 1
Non-current		
Cash flow hedges	8 9	21 6
	8 9	21 6

7 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2009	473 8
Additions	35 8
Transfers to subsidiary undertakings	(25 6)
31 December 2009	484 0

During the year the Company completed an intragroup transfer as follows. It disposed of Capita Hartshead Limited to Capita Life & Pensions Regulated Services Limited and settled the transaction via intercompany for a consideration of £7.9m. It also disposed of Capita Hartshead Solutions Limited to Capita Hartshead Limited and settled the transaction via intercompany for a consideration of £17.7m.

During the year the Company subscribed to 2.8 million £1 ordinary shares at a premium of £25.2m in Capita Fiduciary Group Limited, a subsidiary undertaking. During the year additional fees of £0.9m were paid in respect of previous acquisitions.

The Company made the following acquisitions during the year for respective considerations of £5.9m (£6.6m) and £1m: Capita Fiduciary UK Holdings Limited and Capita Financial Administrators (Guernsey) Limited.

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the company	Description of shares held
Capita Holdings Limited	England	100%	Ordinary £1 shares
Capita Business Services Limited*	England	100%	Ordinary 1p shares
Capita Trust Company Limited	England	100%	Ordinary £1 shares
Capita Commercial Insurance Services Limited*	England	100%	Ordinary £1 shares
BDML Connect Limited*	England	100%	Ordinary £1 shares
Capita Registrars Limited*	England	100%	Ordinary £1 shares
Capita Resourcing Limited*	England	100%	Ordinary £1 shares
Capita Symonds Limited*	England	100%	Ordinary £1 shares
Capita Life & Pensions Limited	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited	England	100%	Ordinary £1 shares
Evolvi Rail Systems Limited	England	100%	Ordinary £1 shares
Service Birmingham Limited*	England	100%	Ordinary £1 shares
ComputerLand UK Limited	England	100%	Ordinary £0.02 shares
IBS OPENSysystems (UK) Limited	England	100%	Ordinary £1 shares
Synetrix Limited*	England	100%	Ordinary 10p shares
Capita IT Services Limited (formerly Carillion IT Services Limited)*	England	100%	Ordinary 1p shares

*Indirectly held.

The activities of The Capita Group Plc undertakings are given on page 138.

(b) Trade investments

	£m
At 1 January 2009 and 31 December 2009	0 1

Notes to the accounts

8 Debtors

	2009 £m	2008 £m
Debtors due within 1 year		
Amounts owed by subsidiary undertakings	323.7	377.6
Taxation recoverable	46.8	52.2
Other taxes and social security	0.3	–
Other debtors	0.7	1.7
Currency swap	–	0.4
Interest rate swap	–	0.7
Prepayments and accrued income	1.4	3.2
	372.9	435.8

	2009 £m	2008 £m
Debtors due beyond 1 year		
Prepayments and accrued income	2.1	1.8
Deferred taxation	7.7	3.8
Currency swap	103.0	203.1
Interest rate swap	3.3	4.1
	116.1	212.8

9 Creditors

	2009 £m	2008 £m
Amounts falling due within 1 year		
Trade creditors	2.3	2.9
Other creditors	0.1	0.2
Bonds	–	101.3
Callable swaps	–	1.0
Cash flow hedges	0.1	–
Accruals and deferred income	21.3	20.3
	23.8	125.7

	2009 £m	2008 £m
Amounts falling due after more than 1 year		
Bonds	325.5	373.4
Interest rate swap	0.6	–
Callable swaps	30.9	30.9
Cash flow hedges	0.1	–
	357.1	404.3

The bank overdraft and the bonds are unsecured

10 Deferred taxation

	£m
At 1 January 2009	(3.8)
New provisions in the year	(3.9)
At 31 December 2009 – included in debtors note 8	(7.7)

11 Share capital

	2009 Million	2008 Million	2009 £m	2008 £m
Authorised				
Ordinary shares of 2 1/15p each	967.7	967.7	20.0	20.0
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	621.2	609.0	12.8	12.6
Issued on exercise of share options	3.4	12.2	0.1	0.2
At 31 December	624.6	621.2	12.9	12.8

During the year 3.4m (2008: 12.2m) ordinary 2 1/15p shares with an aggregate nominal value of £0.1m (2008: £0.2m) were issued under share option schemes for a total consideration of £15.1m (2008: £35.7m)

Treasury shares

	2009 Million	2008 Million	2009 £m	2008 £m
Ordinary shares of 2 1/15p each				
At 1 January	-	-	-	-
Shares repurchased	-	10.4	-	0.2
Shares transferred to Capita Employee benefit trust	-	(10.4)	-	(0.2)
At 31 December	-	-	-	-

In 2008, the Company purchased 10.4m ordinary 2 1/15p shares with an aggregate nominal value of £0.2m at a total cost of £68.4m for which it paid cash at an average cost per share of £6.58. There were additional expenses of acquiring the shares of £0.4m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

Employee Benefit Trust shares

	2009 Million	2008 Million	2009 £m	2008 £m
Ordinary shares of 2 1/15p each				
At 1 January	10.4	-	0.2	-
Shares transferred from treasury	-	10.4	-	0.2
Shares allotted in the year	(2.5)	-	-	-
At 31 December	7.9	10.4	0.2	0.2

The Company will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.5m ordinary 2 1/15p shares with an aggregate nominal value of £0.05m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £9.8m.

The Company has an unexpired authority to repurchase up to 10% of its issued share capital.

12 Reserves

Company	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Employee benefit trust shares £m	Profit and loss account £m
At 1 January 2009	410.4	1.8	44.6	(0.2)	182.5
Shares issued	24.8	-	-	-	-
Share based payment	-	-	-	-	9.8
Equity dividends paid	-	-	-	-	(93.2)
Retained profit for the year	-	-	-	-	167.7
At 31 December 2009	435.2	1.8	44.6	(0.2)	266.8

13 Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit/(loss) for the year	167.7	(41.5)
Dividends	(93.2)	(78.0)
	74.5	(119.5)
Share based payment	9.8	9.2
Shares issued	24.9	35.7
Share transaction costs	-	(0.4)
Shares purchased	-	(68.4)
Net movement in shareholders' funds	109.2	(143.4)
Opening shareholders' funds	651.9	795.3
Closing shareholders' funds	761.1	651.9

Notes to the accounts

14 Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows

	2009		2008	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire				
In 2 to 5 years inclusive	0.5	–	0.5	0.6
Over 5 years from the balance sheet date	0.8	–	0.8	–
	1.3	–	1.3	0.6

(b) The Company has guaranteed overdraft and loan facilities of Group undertakings amounting to £245.0m (2008: £245.0m)

15 Borrowings

	2009 £m	2008 £m
Bank overdraft payable on demand	–	–
Bonds	277.6	377.7
	277.6	377.7
Repayments fall due as follows:		
Within 1 year:		
Bonds	–	100.3
Bank overdraft payable on demand	–	–
	–	100.3
After more than 1 year:		
In more than 1 year but not more than 2 years	–	–
In more than 2 years but not more than 5 years	112.5	112.7
In more than 5 years	165.1	164.7
	277.6	277.4
Total borrowings and finance leases	277.6	377.7

The Company has issued guaranteed unsecured bonds as follows

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005				
Series A	0.525 above 6m LIBOR	GBP	50.0	28 September 2013
Series B	0.525 above 6m LIBOR	GBP	25.0	28 September 2015
Total of sterling denominated bonds			75.0	
US\$m				
Issued 2002				
Series C	6.47	US\$**	36.0	20 June 2012
Issued 2006				
Series A	5.74	US\$**	60.0	28 June 2013
Series B	5.88	US\$**	130.0	28 June 2016
Series A	5.66	US\$**	11.0	13 September 2013
Series B	5.81	US\$**	74.0	13 September 2016
Series C	5.77	US\$**	60.0	13 September 2016
Total of US\$ denominated bonds			371.0	

**The Company has entered into currency swaps for the US\$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 26 commencing on page 111.

All series are unsecured

16 Related party transactions

There were no related party transactions that require disclosure in the year

17 Pension costs

The Company operates a defined contribution scheme

The pension charge for the defined contribution scheme for the year was £1.2m (2008 £1.3m)

18 Share based payment

The Company operates several share based payment plans as follows

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares. The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

Long Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards made during 2009 will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows:

As growth in the Company's EPS over the 3 year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan.

Long Term Investment Plan (LTIP)

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights (IPSARs). The last Restricted Share Awards and awards of IPSARs vested in full in May 2001 and 2003 respectively. The performance requirements were met in full on those dates and the IPSARs are exercisable at £1.69. No further awards were made under the LTIP and only 1 award of IPSARs was made.

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2008 nil, 2007 nil, 2006 nil, 2005 10% and 20% prior to 2006). The options become exercisable for a 6 month period following completion of a 3 or 5 year savings period. There are no performance conditions attached to these options.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2009 was £9.8m (2008 £9.2m), all of which arises from equity-settled share based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of FRS 20 'Share based payment' was £4.0m (2008 £2.9m).

Notes to the accounts

18 Share based payment (continued)

The following table illustrates the number and weighted average exercise prices (WAEF) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and IPSARS), which are shown separately

Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

	2009 Million	2009 WAEF	2008 Million	2008 WAEF
Outstanding as at 1 January	14.1	£5.05	20.6	£4.54
Granted during the year	2.0	£6.77	1.6	£7.04
Exercised	(5.5)	£4.11	(6.7)	£3.88
Forfeited	(0.7)	£6.28	(1.3)	£5.65
Expired during the year	(0.1)	£4.53	(0.1)	£4.57
Outstanding as at 31 December ¹	9.8	£6.18	14.1	£5.05
Exercisable at 31 December	2.3	£3.60	3.3	£3.29

¹Included within this balance are options over 0.1m (2008: 0.8m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.16 (2008: £6.76)

2008 LTIP

	2009 Million	2009 WAEF	2008 Million	2008 WAEF
Outstanding at 1 January	1.8	–	1.9	–
Awarded during the year	2.0	–	–	–
Forfeited	(0.2)	–	(0.1)	–
Outstanding as at 31 December	3.6	–	1.8	–
Exercisable at 31 December	–	–	–	–

LTISAS

	2009 Million	2009 WAEF	2008 Million	2008 WAEF
Outstanding as at 1 January	1.1	£4.74	3.5	£4.32
Exercised	–	£4.74	(2.4)	£4.12
Outstanding as at 31 December	1.1	£4.74	1.1	£4.74
Exercisable at 31 December	1.1	£4.74	1.1	£4.74

The weighted average price of options exercised in 2008 was £7.16

Under the LTISAS scheme 2 tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11.

18 Share based payment (continued)

IPSARS

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	-	-	2.4	£1.69
Exercised	-	-	(2.4)	£1.69
Outstanding as at 31 December	-	-	-	-
Exercisable at 31 December	-	-	-	-

The last of these options were exercised at a weighted average price of £6.81 in 2008

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2008: £1.7m). The Matching Shares allocation in respect of the 2008 awards under this plan charged in 2009 was £0.5m (2008: £0.6m).

The weighted average fair value of options granted during the year was £2.62 (2008: £2.69). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2008: £1.88 to £7.33).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2009 and 31 December 2008.

	2009	2008
Dividend yield (%)	2.11	1.88
Expected share price volatility (%)	26.53	22.38
Risk free interest rate (%)	2.25	4.62
Expected life of option (years)	3.12	3.10
Weighted average share price of options granted during the year	£3.20	£2.74

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

Principal Group investments

Capita Business Services

Providing an integrated range of business process outsourcing and professional services to clients in the UK and Ireland

Capita Commercial Services

Market leader in providing outsourced administration and support services to the general insurance sector and affinity partnerships

Capita Symonds

Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services.

Capita Registrars

Share registration and employee share scheme administration services.

Capita Trust Company

Corporate trustees and providers of trust and administration services

Capita Life & Pensions

Administration and customer services for life and pensions operations

Capita Life & Pensions Regulated Services

Administration and customer services for life and pensions regulated operations

Service Birmingham

Joint venture set up to support Birmingham City Council's transformation plan

Capita Resourcing

Employee recruitment services

Evolvi Rail Systems Limited

Business travel software provider

CMGL Group Limited

A leading provider of outsourced claims and insurance management services

Synetrix (Holdings) Limited

Providing managed, high bandwidth network services

Capita IT Services

Designing, providing and managing networked computing and communication systems

Independent auditors' report to the members of The Capita Group Plc

We have audited the parent company financial statements of The Capita Group Plc for the year ended 31 December 2009 which comprise the Company balance sheet and the related notes 1 to 18. 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 an 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 Directors' responsibilities statement set out on page 78, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company 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 parent 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.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009,
- 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 part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' remuneration report to be audited 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.

Other matter

We have reported separately on the Group financial statements of The Capita Group Plc for the year ended 31 December 2009.



Nick Gomer (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2010

Useful information for shareholders

e-communications for shareholders

Help us communicate with you in a greener, more efficient and cost effective way by switching from postal to email communications. Shareholders can receive important information online, including annual and half year reports and notice of meetings. Registering for e-communications also enables shareholders to

- obtain secure online access to personal shareholding details
- submit queries to our registrars, download forms and obtain general shareholder information
- update shareholding accounts online

To register for e-communications, visit

www.capita.co.uk/investorcentre/ecomms

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Shareholder enquiries

Shareholders who have questions relating to the Group's business or wish to receive further copies of annual or half year reports should contact Capita's investor relations team on 020 7799 1525 or email corporate@capita.co.uk.

If you have any queries about your shareholding please contact the Company's registrar, Capita Registrars, at the address below

Capita Registrars

Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0GA

Tel (UK) 0871 664 0300

(UK calls cost 10p per minute plus network extras, lines are open 8 30am to 5 30pm, Monday to Friday)

(Overseas) +44 20 8639 3399

email ssd@capitaregistrars.com

Financial calendar

Annual General Meeting
11 May 2010

Final Dividend payment
24 May 2010

Half year results
22 July 2010

Share dealing

A quick and easy share dealing service is now available for existing Capita shareholders to either sell or buy more Capita Group Plc shares online or by telephone

For further information on this service or to buy and sell Capita shares online go to

www.capitadeal.com or by telephone 0871 664 0454 (UK calls cost 10p per minute plus network extras, lines are open 8 00am to 4 30pm, Monday to Friday)

You may donate your shares to charity free of charge through ShareGift. Further details are available at www.sharegift.org.uk or by telephoning 020 7930 3737

Dividend reinvestment plan (DRIP)

We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend. These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement. Further details of the DRIP can be found online. Please visit the shareholder services section at www.capita.co.uk/investorcentre or call Capita Registrars on 0871 664 0381 (UK calls cost 10p per minute plus network extras, lines are open 9 00am to 5 30pm, Monday to Friday)

International dividend payment service

Capita Registrars has partnered with Travelex to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Registrars on 0871 664 0385 (UK calls cost 10p per minute plus network extras, lines are open 9 00am to 5 30pm, Monday to Friday) (Overseas) +44 20 8639 3405

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Photography by George Brooks
Illustration by Ryan Todd
Printed by St Ives Westerham

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A huge thank you to all our clients and colleagues who contributed to this report.

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