

CAPITA



Delivering
stakeholder value

Capita plc Annual report and accounts 2012

What's in this report

A snapshot of our business	 1
Our business	 6
Our 2012 performance	7
Our business strategy in operation	14
Governance	 58
Board members	59
Corporate governance report	61
Audit Committee report	67
Remuneration report	78
Accounts	 90
Financial statements	91
Notes to financial statements	95
Other information	129

 There's more on our new website: www.capita.co.uk

Directors' report

The Directors present the Annual Report for the year ended 31 December 2012 which includes the business review (which comprises sections: A snapshot of our business and Our business), governance and audited Group accounts for the year. Pages 1 to 89 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.

Our business goal is to deliver value to all our stakeholders

To achieve our business goal, we have a strategy of continuously growing our operations in a controlled, profitable manner across all our target markets.

Our strategy is delivered through our consistent business model which enables us to deliver effective service solutions for our clients, generate healthy returns for our shareholders and build a sustainable business.

We maintain our leading position in the UK business process management market where we play a key role in our clients' operations, delivering their customer, administration and professional support services.

We create unique, cost effective services that meet the individual needs of our clients. And we don't just design these services, we also deliver them. However complex the challenge, we bring together the right people with the right skills to streamline our clients' services and improve customer experiences across hundreds of public and commercial organisations.

Our business model focuses on four key elements highlighted in the next few pages and explored in more depth in this report 



Targeting growth markets

👉 find out more on page 16

From a starting point in local government in 1984, Capita now operates in 10 markets and our revenue is currently split 47% public sector and 53% private sector. And we are continually targeting new market areas. During the year we increased our presence in a number of our newer sectors including defence, health, justice and emergency services. We have also significantly extended our private sector footprint particularly across utilities, telecoms and retail. For example, we are now providing full customer management services for major retailer Debenhams plc.





UNITED KINGDOM



POLAND



SOUTH AFRICA



INDIA

Building capability and scale



👉 find out more on page 20

We continually enrich our offering in existing and new sectors, internally and through small to medium sized acquisitions, helping us to maintain our leading market position. Our unrivalled business centre network provides our clients with choice and flexibility regarding how and where they deliver services. We currently have business centres in the UK, Europe and India and, following the acquisition of Full Circle in July 2012, we are now also able to deliver services from a new business centre in South Africa.



Creating innovative solutions

← find out more on page 24

Responsive service design is central to our sales offering. We have unrivalled experience of helping our clients improve the way they do business. Whether we are bidding for a government or private sector contract, the first step is to understand the current and future requirements of our client, and vitally, the end-user of the service. In 2012, we secured our first major business process management (BPM) contract in the defence market with the announcement of the Recruiting Partnership Project (RPP) which will see a transformation of Army recruiting for the Ministry of Defence (MOD).



Securing organic growth

👉 find out more on page 26

2012 was a record sales year for Capita with £4.0bn of contracts secured, of which 90% relates to new contracts and 10% to extensions. This total is more than double our previous record year in 2011 and includes the largest single contract win in Capita's history, to create an innovative educational support services joint venture with Staffordshire County Council.

Our business



Our 2012 performance 7

Our Chief Executive reviews our performance in 2012 and progress against our financial and non-financial key performance indicators.

Our strategy in operation 14

In this section we introduce our strategy and business model and explain how this is underpinned by strong leadership and controls to ensure that we continue to develop Capita as a long term, sustainable business that consistently delivers value to all our stakeholders.

A: Operating an efficient, profitable business model 15

We grow the business by providing compelling propositions to clients across our target markets and continuously enrich our offering, internally and through acquisition, fuelling further growth.

We focus on the following four key areas:

- Targeting growth markets 16
- Building capability and scale 20
- Creating innovative solutions 24
- Securing organic growth 26

B: Ensuring strong leadership and robust processes 30

Our growth is underpinned by disciplined management and operating processes which promote accountability and knowledge sharing across the Group. We are committed to:

- Maintaining financial discipline 31
- Robust operational controls and risk management 36
- A flexible divisional structure 40

C: Delivering value to all our stakeholders 47

We grow our business in a transparent and socially responsible way which delivers long term, sustainable value to all our stakeholders.

In this section, we explain:

- Our approach to corporate responsibility (CR) 48
- How we deliver value to our five key stakeholder groups 49

Our 2012 performance



2012 was a year of strong sales and operational performance. We maintained good profit performance, returned to organic growth and delivered improved cash generation. This has positioned us well for 2013.

Paul Pindar Chief Executive



Overview

2012 was an excellent year for Capita. We achieved record sales, securing £4.0bn (2011: £2.0bn) of contract wins, comprising 90% new business and 10% extensions. This reflects the health of the UK customer and business process management (BPM) market and the strength of our many service propositions. We have achieved particular sales success across the central and local government markets and in health, justice and emergency services, defence and the private sector.

We have delivered against the three key objectives that we set for 2012:

- maintaining good profit performance
- securing organic growth of 3% for the full year
- delivering improved conversion of operating profit to operating cash compared to 2011.

2012 highlights

Return to organic growth

- Record sales year, £4.0bn of contract wins (2011: £2.0bn), 90% new/10% extensions
- Win rate of better than one in two
- Largest ever contract win, Staffordshire County Council, £1.7bn over 20 years
- Organic growth of 3% (2011: -7%).

Extending our capability and reach

- Broadened our operational capability and market reach: £178m spent on 14 acquisitions in 2012
- New service delivery operation established in South Africa.

Return to excellent cash generation

- Operating cash flow before settlements of £519m (2011: £364m)
- Operating profit to operating cash conversion rate sharply improved to 110% (2011: 85%)
- Free cash flow more than doubled to £316m.

Delivering strong returns

- Underlying earnings per share¹ up 10% to 53.16p
- Total dividend up 10% to 23.5p.

Strong start to 2013

- Secured £160m contract with Carphone Warehouse
- Two year extension of Civil Service Learning agreement
- £5.2bn current pipeline (November 2012: £4.8bn)².

¹ Excludes non-underlying items detailed in note 4 on page 101.

² We have adjusted the criteria of our bid pipeline from 1 January 2013 to reflect the greater size of the Group and the opportunities we are addressing. We now report all bids worth £25m or above (previously £10m or above), now capped at £1bn (previously £500m). Under the previous criteria the bid pipeline as at 28 February 2013 would have stood at £4.8bn (November 2012: £4.0bn).

Good financial performance

In the full year 2012, revenue increased by 14% to £3,352m (2011: £2,930m). Underlying operating profit¹ rose by 10% to £471.7m (2011: £427.4m) and underlying profit before taxation¹ increased by 10% to £425.6m (2011: £385.2m). Underlying earnings per share¹ grew by 10% to 53.16p (2011: 48.49p). We have increased our total dividend for the full year 2012 by 10% to 23.5p per share (2011: 21.4p).

The majority of our divisions traded well in 2012, with particularly strong performance across our Customer Management & International, Justice & Secure Services, Workplace Services and Investor & Banking divisions. The trading activities of two business areas, Property Services and parts of our IT business, continue to be adversely affected by challenging economic conditions but are well positioned to benefit as the economy recovers. Our General Insurance division had a poor year with lower revenues and profits and we have therefore strengthened both the leadership and sales teams to reinvigorate these operations.

We completed a range of acquisitions in 2012 which have strengthened our position in our target markets and played a key role in enhancing our client propositions, contributing to our contract wins and fuelling further organic growth.

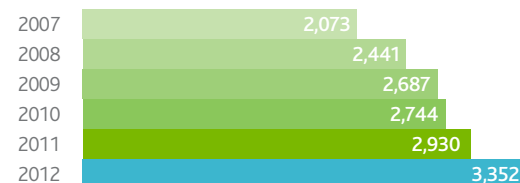
➡ See pages 31 to 35

2012 financial highlights

Revenue (£m)

£3,352m

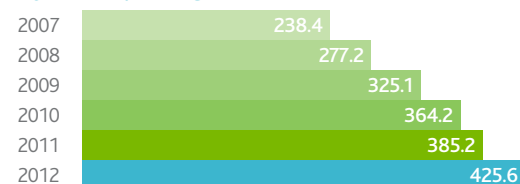
5 year compound growth 10%



Underlying profit before tax (£m)¹

£425.6m

5 year compound growth 12%



Reported profit before tax (£m)

£290.0m

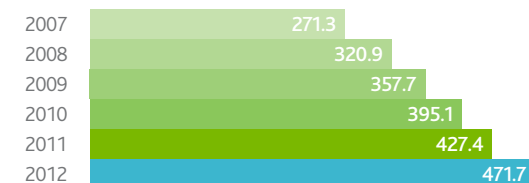
5 year compound growth 5%



Underlying operating profit (£m)¹

£471.7m

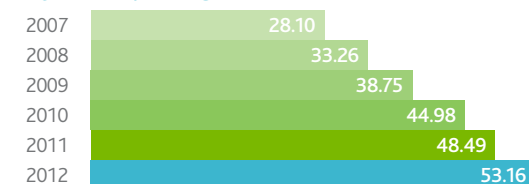
5 year compound growth 12%



Underlying earnings per share (p)¹

53.16p

5 year compound growth 14%



Reported earnings per share (p)

37.08p

5 year compound growth 6.5%



¹ Underlying figures exclude: non-underlying non-cash items of intangible amortisation, net contingent consideration movements and impairments of £120.5m (2011: £56.5m); non-underlying acquisition costs of £10.3m (2011: £15.4m); and non-cash mark to market finance costs of £4.8m (2011: £10.4m).

Shareholder returns

Regular dividends: The Board is recommending a final dividend of 15.6p per ordinary share (2011: 14.2p), making a total of 23.5p for the year (2011: 21.4p) representing an increase for the year of 10%. The final dividend will be payable on 28 May 2013 to shareholders on the register at the close of business on 19 April 2013. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 14% over the five years to 31 December 2012. Dividend cover is 2.26 times for 2012.

Total shareholder returns: Over the 10 year period to 31 December 2012, Capita has delivered £1.2bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and a special dividend. Capita's total shareholder return over the same period is 265% compared to 113% for the FTSE 100.

Returning to profitable organic growth

We generate profitable growth by winning business from new and existing customers and through acquiring businesses that enhance our propositions and broaden our capability and market reach. We are strongly positioned across our target markets. 2012 was an excellent sales year and positions us well for renewed strong organic growth.

Major contract wins – 2012: Capita secured 35 new and extended major contracts with a total value of £4.0bn, double the value secured in the previous year (2011: 26 contracts totalling £2bn) representing a higher than one in two win rate.

➡ See page 29

2013 has started well with a major contract win and one extension in the period to end February 2013.

Major contract wins – January and February 2013: Carphone Warehouse – contract to provide all non-store customer contact in a number of different areas across the business and support all aspects of customer service strategy. The contract is worth around £160m over 10 years and is expected to commence on 1 April 2013.

Civil Service Learning agreement – extension to our existing contract worth at least £60m over two years to end March 2016.

2012 major contracts over £50m

Contract	Value/duration
Recruiting Partnering Project (RPP)	£497m 10 years
Civil Service Learning agreement	£100m 2 years
West Sussex County Council New BPM contract + IT services extension	£154m + £18m 10 years + 2 years
North Tyneside Council	£152m 15 years
Personal Independence Payment (PIP) assessments, Central England & Wales	£140m 5 years
Personal Independence Payment (PIP) assessments, Northern Ireland	£65m 5 years
London Borough of Barnet	£320m 10 years
Staffordshire County Council	£1.7bn 20 years
Fire Service College	£200m 10 years
3 major private sector contracts	£161m 3-5 years
23 contracts £10m-£50m	£496m 2-10 years

For further details relating to our contract wins, see page 29.

Buoyant sales outlook for 2013

Our bid pipeline: Despite an extremely active few months in terms of client decisions at the end of 2012 and the first two months of 2013, the pipeline was rapidly replenished. The bid pipeline stood at £5.2bn on 28 February 2013 (November 2012: £4.8bn) and comprised 27 bid situations across our target markets, with the highest value of bids being in central government, followed by local government, private sector and defence. Behind the bid pipeline there is an active prospect list of opportunities.

We have adjusted the criteria of our bid pipeline from 1 January 2013 to reflect the greater size of the Group and the opportunities we are addressing. Our bid pipeline now contains all bids worth £25m or above, with bids capped at £1bn (previously £10m or above, capped at £500m) and where we have been shortlisted to the last four or fewer. Under the previous criteria the bid pipeline at 28 February 2013 would have stood at £4.8bn (November 2012: £4.0bn). We announce the value of the pipeline three times a year and it is therefore a snapshot at a specific point in time.

Contract rebids: Over the next five years, there are no material contracts due for rebid (defined as having forecast annual revenue in excess of 1% of 2012 revenue). The next major contract up for renewal will be the Phoenix contract in 2019.

Market update: Independent industry analyst, IDC, estimates that the total market for customer management and BPM¹ in the UK in 2012 was £10.3bn (2011: £9.9bn) against market potential of £117bn² a year. The capacity for long term growth is therefore substantial. By moving from in-house service provision to a specialist third party provider, government and commercial entities can benefit from specialist support, economies of scale and flexible delivery options.

➡ See pages 16 to 19

Enhancing capabilities, increasing our resources and expanding our infrastructure

The strength of our offering is a result of our proactive development of the Group's capability and infrastructure, both internally and through selective acquisition, ensuring that we have the right resources in place to deliver tailored service solutions for our clients. In 2012, we acquired a number of organisations that extended our market reach and international delivery network and added complementary skills and capabilities, enhancing our propositions and strengthening our ability to secure further growth.

Acquisitions: In 2012, we purchased 14 companies for a total cash consideration of £178m with a particular focus on enhancing our proposition in our newer markets, notably, emergency services and health, as well as adding capability to our more established operations including pensions administration, business travel and financial services.

Our focus is now on achieving the successful integration of these businesses and realising synergies. Alongside the significant recovery in organic growth, we continue to see many attractive opportunities for bolt on acquisitions and we therefore expect our acquisition activity in 2013 to be at similar levels to 2012. In early February 2013, we purchased Northgate Managed Services Limited (NMS) for an enterprise value of £65m. NMS complements our existing IT Services business, providing cloud-based infrastructure solutions and specialist managed services.

¹ IDC 2012: BPM market including customer management services. BPM market excluding customer management services 2012: £8.5bn (2011: £8.1bn).

² IDC 2010.

International delivery network: Our delivery network now includes 70 centres in the UK, the Channel Islands and Europe and offshore in India and South Africa. By offering onshore, nearshore, offshore or blended service delivery options in a time zone that suits our clients, we can provide maximum flexibility, quality and cost savings in our sales propositions. In July 2012, we enhanced our delivery offering through the acquisition of a leading contact centre solutions business based in South Africa, Full Circle, and we now have approximately 200 employees in Cape Town. We have already started to provide new customer management services from South Africa for an existing client.

Our people and organisational structure

Our people: The Board would like to take this opportunity to thank all our people for their continued hard work and dedication which underpins Capita's performance. Our employees join us through direct recruitment, contracts or acquisitions and their commitment and enthusiasm play a vital role in helping us to meet client expectations and sustain our growth.

Operational structure and leadership: During the year, we further strengthened our management teams to prepare us for our next stage of growth, ensuring that we have the strongest operational team in place to maintain our track record of quality service delivery and sustained, disciplined growth. To further support our clients and the markets in which we operate, we have made some further minor changes to our operational structure for 2013. With effect from 1 January 2013, we now operate in 10 market facing or service specific divisions.

Group Board: Senior Independent Director, Nigel Wilson, who joined Capita in May 2010, stepped down from the Board with effect from 31 December 2012. Gillian Sheldon joined the Board on 1 September 2012 as Non-Executive Director. Gillian, a senior banker at Credit Suisse, brings substantial experience of advising boards across a wide range of complex situations and transactions. She is a member of the Nomination, Audit and Remuneration Committees and, with effect from 1 January 2013, Senior Independent Director.

Future prospects

2012 was a year of strong sales and operational performance. We maintained good profit performance, returned to organic growth and delivered improved cash generation. This has positioned us well for 2013.

Our major contract sales success in 2012 gives us excellent revenue visibility for 2013. The continued buoyant sales environment, as evidenced by our bid pipeline, provides the ingredients for further growth in 2013 and underpins our confidence in the Group's long term performance prospects.



The continued buoyant sales environment provides the ingredients for further growth in 2013 and underpins our confidence in the Group's long term performance prospects.

Paul Pindar
Chief Executive



2012 progress against our principal financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2012	See more
Operating margin ¹	Maintain and strengthen margin	We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective	14.07% 2011: 14.59%	 Page 31
Earnings per share (EPS) ¹	Achieve long term, steady growth in EPS	Long term growth in EPS is a fundamental driver to increasing shareholder value. Board Directors' incentive schemes have EPS targets to align their interests with those of our shareholders	53.16p 2011: 48.49p	 Page 32
Free cash flow	Maintain a high level of operating and free cash flow	We focus on securing timely payment terms and cash conversion underpinned by providing valued services and maintaining an efficient finance operation	£316m 2011: 157m	 Page 33
Capital expenditure	Contain 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	2.9% 2011: 3.5%	 Page 33
Return on capital employed (ROCE)	Achieve healthy ROCE which exceeds our cost of capital	Reflects the margin between the cost of our capital and the returns we generate by investing it	16.0% 2011: 16.5%	 Page 33
Gearing – interest cover	Maintain a conservative and efficient capital structure, with an appropriate 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	10.2x 2011: 10.2x	 Page 34
Economic profit ¹	Achieve steadily increasing Group economic profit	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)	£211m 2011: £179m	 Page 34

¹ Excludes non-underlying items detailed in note 4 on page 101.

2012 progress against our principal non-financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2012	See more
Shareholder value	Steadily grow ordinary dividends (annual growth of total dividends)	Demonstrates the financial health of the business and commitment to creating shareholder value	10% 2011: 7%	 Page 49
Client resources	Continue to develop our infrastructure of business centres to meet the needs of our business	Reflects the scale and breadth of our offering for clients	70 business centres 2011: 68 business centres	 Page 50
Create successful supplier relationships	Annually audit all strategic suppliers against Capita's standards of business	A proactive approach to procurement helps us secure best value goods and services, which can improve our performance and that of our clients	100% 2011: 100%	 Page 54
Employee resources – leadership	Maintain high retention rate for managers (salaries exceeding £50k p.a.)	We need to have the right leadership and skills to deliver the Group's long term growth strategy	99% 2011: 95%	 Page 51
Employee resources – skills & flexibility	Maintain overall employee retention at or above industry average (2012: 87.3%, 2011: 87.5%) ¹	Our people are vital to our success in delivering high quality, efficient services to our clients	83% 2011: 89%	 Page 51
Controlling our environmental impacts	Continue to measure and assess our carbon footprint ² and minimise wherever possible	Although we are a low impact organisation, our aim is to manage and reduce our environmental impacts and use our resources efficiently	103,728 2011: 91,318 (tonnes CO ₂ eq)	 Page 55
Supporting our communities	Continue to grow and measure our community investment annually, using London Benchmarking Group methodology	Our business places us at the heart of the communities that we operate in and positive relationships are therefore vital to the long term health of the business	£1.8m 2011: £2.0m	 Page 56

¹ CIPD 2012 and 2011.² Based on latest available greenhouse gas emissions from Defra.

In the following pages we provide a detailed view of our business strategy and how we performed against our aims and KPIs in 2012.

Our strategy in operation

Our business strategy is to continuously grow our operations in a controlled manner across all Capita's target markets.

We deliver this strategy through our efficient, profitable **business model** which enables us to deliver effective service solutions for our clients and their customers.

Our business model is underpinned by **strong leadership and robust processes** across finance, risk management and operations.

This consistent, disciplined approach to achieving sustainable growth allows us to meet our business goal of **delivering value to all our stakeholders**.

A: Operating an efficient, profitable business model Page 15

Targeting growth markets

- providing BPM services to 10 markets across the UK public and private sectors

Small to medium acquisitions

Building capability and scale

- extensive resources and services
- ICT and BPM skills
- extensive infrastructure

Creating innovative solutions

- client responsive solutions
- improving service outcomes and reducing costs

Securing organic growth

- multi service, transformational and long term contracts
- shared service platforms
- single services

B: Ensuring strong leadership and robust processes Page 30

Financial discipline + Operational controls and risk management + Flexible divisional structure

C: Delivering value to all our stakeholders Page 47

 Page 47

Shareholders

Clients

People

Suppliers

Environment

Communities



A: Operating an efficient, profitable business model

pages 16-29

Through our clear, consistent business model we target the growth customer management and BPM market in the UK, steadily developing our capability and scale, both internally and through acquisitions, and continuously enriching our service offering and market reach. This enables us to provide compelling, valuable propositions to clients across a growing number of sectors and to build a sustainable, profitable business.

A:

Operating an efficient, profitable business model

Targeting growth markets	Page 16
Building capability and scale	Page 20
Creating innovative solutions	Page 24
Securing organic growth	Page 26

Targeting growth markets

Independent industry analyst, IDC, estimates that the total market potential for customer management and BPM in the UK is £117bn² a year, of which £10.3bn¹ was outsourced in 2012 (2011: £9.9bn), 29% in the public sector and 71% in the private sector.

Public and private sector organisations continue to face difficult decisions regarding how best to allocate resources to protect their frontline activities and outsourcing is increasingly seen as a key enabler to running a cost efficient operating model. By moving from in-house service provision to a specialist third party provider, government and commercial entities can benefit from specialist support, economies of scale and flexible delivery options.

Significant market potential

There continues to be significant drivers for outsourcing across all our chosen markets. Over the past nearly 30 years, we have worked with public and private organisations to deliver their non-core activities, bringing new and innovative ways of working, technology and scale to improve their service standards and cost efficiency. From our initial entry into local government in 1984, we now work across 10 private and public markets, applying the same principles and benefits of scale.

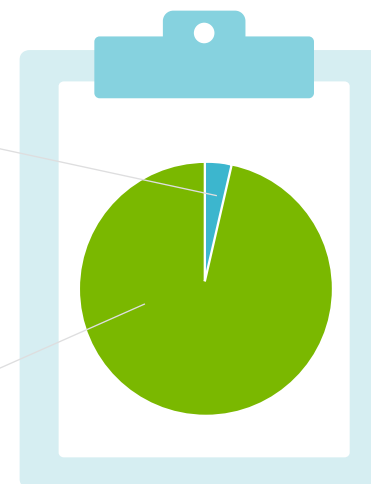
Competitor rankings UK customer management and BPM market¹

	2012	Market share 2011
1. Capita	22.2%	19.8%
2. Atos	4.4%	3.8%
3. Accenture	3.8%	3.6%
4. Serco	3.5%	2.6%
5. Xerox	3.0%	3.0%

Total UK customer management and BPM market p.a

£10.3bn
currently outsourced¹

£117bn
potential market²



¹ IDC 2012: BPM market including customer management. BPM market excluding customer management services 2012: £8.5bn (2011: £8.1bn).

² IDC 2010.

Private sector key drivers

Commercial organisations are facing continued pressure to maintain their competitive position by driving down operational costs and introducing new products to market faster, whilst maintaining high levels of customer acquisition and service. The acquisitions of Ventura and Vertex (private sector) in 2011, which were fully integrated into Capita in 2012, have significantly enhanced our customer management capabilities.

Today, we have a strong pipeline of opportunities and we are securing relationships that would not have been possible as three separate entities. Our application of customer insight, behavioural analytics, multiple channel integration and intelligent, responsive digital services enables us to deliver real value to the business models of our commercial clients. These capabilities are equally key to designing and delivering more effective and efficient responsive public services. Across the banking and financial services sectors, our administration services are experiencing high demand and we are developing new propositions that build upon and extend our existing ones.

Public sector key drivers

The ongoing pressure to reduce budgets whilst maintaining frontline services is creating a strong pipeline of opportunities in the public sector, where we are seeing renewed vigour and innovation in terms of how the private sector can support central and local government objectives. For example, our groundbreaking education support services contract with Staffordshire County Council, where we are delivering services back to the Council and at the same time growing the joint venture into a commercial operation, is positioned well to meet the requirements of the rapidly changing education market in the UK. In 2012, we increased our presence in our newer market sectors of defence, health, justice and emergency services and we are seeing significant potential for further growth in our more established market sectors.

Building on our track record

We have a strong track record of developing bespoke service delivery models that meet the needs of our clients and the current and future expectations of the public. We apply the extensive experience we have gained from our wide range of markets to share best of breed customer management and business process practices across all our client relationships.



Extending our market reach

During the year, we fully integrated customer management operations, Ventura and Vertex (private sector), acquired in 2011. Combined with Capita's existing services, these acquisitions have significantly enhanced our private sector capability. Our customer management offering is now securing large scale customer management and BPM contracts with leading brands, which would not have been possible as separate entities. In 2012, we secured three major contracts with Scottish Power, Debenhams plc and another major retailer.

 www.capita.co.uk

Capita revenue by market

Public sector 47%

	2012	2011
1. Central government	11	9
2. Local government ¹	18	19
3. Education	8	11
4. Health	6	5
5. Justice and emergency services	3	3
6. Defence	1	–

¹ Includes transport, previously reported separately.

Private sector 53%

	2012	2011
7. Life and pensions	17	19
8. Insurance	4	6
9. Financial services	6	5
10. Other private sector ¹	26	23

Drivers for outsourcing

1	2	3	4	5
Central government	Local government	Education	Health	Justice and emergency services
11% of Group revenue (2011: 9%)	18% of Group revenue (2011: 19%) ²	8% of Group revenue (2011: 11%)	6% of Group revenue (2011: 5%)	3% of Group revenue (2011: 3%)
- Continued financial pressure on government organisations to achieve more for less in the delivery of frontline services - Commitment to 'open public services' and civil service reform - Focus on shorter, more efficient procurement timelines - Drive to secure back office efficiencies by promoting cross-departmental working, for example, the Civil Service Learning agreement - Use of frameworks will be an area of focus for suppliers as part of the efficiency agenda - Greater understanding of the benefits of commercialising aspects of government work - Over the period from 2011-12 to 2014-15 the budgets of departments are falling by 19% in real terms (excluding health and international development)¹.	- Continuing financial pressure is supporting innovative thinking regarding service delivery models which achieve cost savings while protecting and improving frontline services - Local government organisations are looking to the private, third and voluntary sectors for best practice guidance, including adopting a more enterprising approach - Channel shift is at the top of the agenda as councils look at different ways to engage with citizens - Move towards 'commissioning model' through which councils are shifting away from being the direct provider of public services - Increasing recognition of the benefits of shared service infrastructure between councils.	- Schools are moving out of local authority control, giving them autonomy in selecting suppliers - Increasing competition between higher education institutions creates a role for outsourcing expertise - Expansion of the Academies programme providing greater outsourcing opportunities in areas such as HR, finance and ICT - Requirement to track and support shared learning across multiple education establishments - Significant potential to increase our presence in the international and independent schools market - Requirement to respond quickly to changing legislation and Government initiatives.	- Government reform of the NHS is leading to radical changes in the way services are being commissioned creating significant opportunities for the private sector - Efficiency programmes looking for budget cuts to come from back office services i.e. payroll and administration rather than frontline activities - Increased investment in ICT and systems to support increasing demands for health services resulting from changing demographics and higher incidences of long term diseases and chronic conditions - The increasing demands on GPs will provide opportunities for third party support services - Continued pressure to reduce costs with plans to deliver efficiency savings of up to £20bn by 2014-15¹.	- Police and Crime Commissioners face the dual requirements of increasing police visibility and reducing costs - Potential to improve efficiency through partnering and collaboration to gain access to a range of private sector assets including ICT, innovative delivery models and skills and expertise. - Majority of BPM spend in the police sector currently relates to payroll and pensions administration contracts - Opportunity to share/merge back office functions with other forces or partner organisations in order to free up resources to support the frontline - In the fire sector, budget cuts driving new ways of working in both frontline and back office with new technologies - UK police forces required to achieve savings of £2.4bn by 2014/15³.

¹ National Audit Office.² Includes transport, previously reported separately.³ Her Majesty's Inspectorate of Constabulary – 'Policing in Austerity'.

Drivers for outsourcing continued

6	7	8	9	10
Defence	Life and pensions	Insurance	Financial services	Other private sector
1% of Group revenue (2011: n/a)	17% of Group revenue (2011: 19%)	4% of Group revenue (2011: 6%)	6% of Group revenue (2011: 5%)	26% of Group revenue (2011: 23%) ²
• Pressure to reduce costs whilst protecting frontline services • Greater tri-service collaboration and compatibility in areas such as HR and procurement • Potential for greater flexibility in procurement • Requirement for defence clients to become more commercially savvy with assets like land and estates • Open to using private sector best practice to ensure performance in driving down costs and delivering efficiencies • Ministry of Defence facing £735m of cuts in its core budget for 2013–15¹.	• Increasingly competitive market creating ongoing pressure on providers to reduce operating and administration costs • Providers seeking assistance to respond to and share associated costs of increasingly complex legislation • Acknowledgement of the cost benefits offered by commonality across shared delivery platforms • Introduction of auto-enrolment will create high ongoing costs to serve.	• Providers seeking access to the latest technology that can support improvements in service delivery and cost efficiencies to drive growth and profitability • More effective claims handling reducing claims costs and preventing fraud and leakage • Manage the challenge of minimising claims indemnity spend while at the same time providing an ever increasing quality of customer interaction and service • Regulatory and compliance costs, including Solvency II, are impacting insurers' profitability and forcing them to look at cost cutting initiatives.	• Continued rise in self-service, online insurance quotes, comparison sites and online banking requires more skilled agents with the ability to deal with increasingly complex enquiries and cross/up sell products • Compliance costs are rising, reducing funds available for product innovation and service/channel improvement • Mobile banking becoming a mass market and providing the opportunity for differentiation • Social media moving from customer engagement to customer participation e.g. peer to peer advice/crowdsourcing • Need for financial organisations to offer greater flexibility and enhance competitiveness.	• Growing recognition of outsourced expertise as a way of improving customer service and satisfaction • Multi-media channels changing the way consumers buy services which creates opportunities to add value through analytics and channel shift • Increased competition creating pressure on organisations to reduce administrative costs and improve service levels • Pressure on investment and research budgets, despite undiminished requirement to maintain competitiveness.

¹ Autumn Statement, 2012 (December).² Includes transport, previously reported separately.

Building capability and scale

The strength of our offering across our 10 markets is a result of our proactive development of the Group's capability and scale. This ensures that we have the right resources in place to deliver compelling, cost effective client solutions, whether it's a single service in a specific market or a full strategic partnership combining multiple objectives and services.

The successful integration and delivery of progressively larger contracts, with common processes and substantial numbers of transferring employees, fuels the growth of our operations and resources.

We work closely with clients to transform their business performance primarily through:

- effective people management
- process re-engineering
- appropriate ICT platforms
- leveraging our large scale delivery network.



Our people are critical to our success. It is vital that we have the right skills in place so that we can continue to deliver high quality services for our clients and plan for long term growth.

Andy Parker
Joint COO



Effective people management: harnessing talent and leadership

Our people are critical to our success. It is vital that we have the right skills in place so that we can continue to deliver high quality services for our clients and plan for long term growth. Over 70% of our 52,500 staff have transferred to the Group under TUPE (Transfer of Undertakings, Protection of Employment) regulations demonstrating the depth of our experience of managing complex large-scale employee transfers.

We track employee retention as one of our key performance indicators. In 2012, our retention rate for managers across the Group (annual salaries exceeding £50k) was 99% (2011: 95%) and our overall employee retention rate was 83% (2011: 89%). Our overall employee retention rate has reduced this year primarily due to the recent expansion of our call centre operations, where our turnover rate reflects the average sector rates.

Succession planning is a key element of our strategy, ensuring that we have the appropriate resources in place to maintain stable leadership. In order to retain the best people we give them the opportunity to grow and develop. We support all our employees in their career development and offer a number of different types of training. We actively reassign managers to new business areas which promotes the Capita ethos and allows us to share innovation and skills between contracts and businesses, helping us to stay at the forefront of the BPM market.

➡ See page 51

Process re-engineering: effective integration and transformation

We work closely with our clients to transform and improve their business processes, applying the experience that we have gained through numerous large scale transformations in order to drive through efficiencies and optimise their revenue. We blend this with our clients' knowledge and experience in their specific market place to create the most appropriate service solutions.

On all our major BPM contracts, we streamline administration by taking out duplicate processes, switching to more efficient technology and by leveraging the Group's existing technical and service delivery platforms.

Appropriate ICT solutions

We have the capability to work with and enhance a client's existing technical platforms or we can create entirely new, bespoke systems depending on the desired outcomes. Our IT Services business provides a full range of services from off-the-shelf products to full service, on-site solutions for both internal and external clients.

Wherever possible, we migrate and integrate systems, share resources and rationalise premises to optimise our infrastructure. As we increase scale, we are able to deliver more services and contracts through shared ICT platforms and operating structures, allowing us to deliver significant cost savings for clients.

Leveraging our large scale delivery network: flexible infrastructure

Underpinning all our solutions is an extensive network of multi-discipline business centres. By offering onshore, nearshore, offshore or blended service delivery options in a time zone that suits our clients, we can provide maximum flexibility, quality and cost savings in our sales propositions.

Our delivery network now includes 70 centres in the UK, the Channel Islands, Europe, India and South Africa. Our business centres in India, where we employ over 4,500 people, continue to play an integral role in our offshore offering. We now have six centres in Mumbai, Pune and Bangalore delivering a range of services, from simple transaction processing through to more complex knowledge based back office functions.

In July 2012, we enhanced our delivery offering through the acquisition of a leading contact centre solutions business based in South Africa, Full Circle, and we now have approximately 200 employees in Cape Town. We have already started to provide new customer management services for an existing client.

We have continued to invest in our Central European business centre which we set up in Krakow, Poland in 2011. This is now fully operational and servicing a number of existing Capita clients in English and other core European languages. The 550 seat capacity centre in Krakow is located close to the city centre and the university with access to a skilled, multi-lingual workforce. We are continuing to broaden the services we deliver from the centre. For example, we now employ eight veterinary technicians to support pet insurance claims and 80 legal professionals who deliver legal research and administration services.

Our business centre network

Onshore UK 56 centres

Nearshore 6 centres
Continental Europe, Ireland, Channel Islands, Isle of Man

Offshore 8 centres
India, South Africa, Dubai

Diversifying our business through selective acquisitions

Small to medium sized acquisitions that take us into new and complementary areas and strengthen our capability and scale have always played a key role in Capita's growth.

For example, Capita took its first significant step into the private sector in 2000 with the acquisition of share registration business, IRG Plc. We then expanded this business organically and through acquisition creating a platform for further growth into the private sector and particularly the wider financial services market. In 2011, we further strengthened our capability in the private sector, particularly across the retail, telecoms and utilities segments through the acquisitions of Ventura and Vertex (private sector).

Our private sector annual revenues now contribute 53% of the Group's total revenue and we have leading market positions established across a number of areas.

We continue to look for small to medium sized businesses that help us to:

- grow organically
- strengthen existing capabilities
- extend our market position
- access a new client base
- build economies of scale
- enter a new market.

Creating a footprint in new market areas

Market	Market entry via acquisition	Year
Local government	Initial formation of Capita within CIPFA	1984
Education	SIMS	1994
Insurance	Eastgate	2000
Other private sector	IRG Plc	2000
Financial services	IRG Plc	2000
Life and pensions	Administration assets of Lincoln Financial Group	2002
Health	AON Health Solutions	2004
Emergency services	SunGard Public Sector	2010
Retail, telecoms and utilities	Ventura and Vertex (private sector)	2011

Rigorous acquisition selection criteria and pricing

Potential acquisitions are identified and brought to the Group by employees in our businesses, external consultants or through a direct approach and all deals are assessed, priced and agreed by the Group Board. Our acquisition approach is underpinned by strict criteria and this, together with our extensive experience of integrating new companies into the Capita model, ensures that we add real value to the Group.

Stringent due diligence, before and after acquisition, is undertaken at both Group and business level enabling us to achieve clear targets for growth, integration benefits and profit. We generally seek target acquisitions that:

- have operations and customers principally in the UK and/or Europe
- fit with our strategy and core competencies
- generate sustainable, quality revenues
- are preferably not in an auction as we aim to acquire without competition
- can be secured for an attractive price.

Enhancing our delivery model



In 2012, we enhanced our international delivery capability with the acquisition of leading contact centre solutions business, Full Circle, based in Cape Town, South Africa for a total consideration of £1m. Capita is now able to provide a full range of offshored services from South Africa for our UK clients, including outsourced customer service and fully-hosted contact centre solutions. This complements our operations in India and Poland and brings the total headcount across our nearshore and offshore operations to 12% of the Group's total employees.

 www.capita.co.uk

Integration of acquisitions

We have substantial experience of successfully integrating acquired businesses and contracts into the Group and achieving synergies with our existing operations. Our values and key processes are communicated and implemented right from the start of the integration process. 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.

Progress in 2012

During 2012, we continued to see a good flow of acquisition opportunities, investing £178m in 14 acquisitions which have enhanced our position in markets including health, justice and emergency services, corporate benefits and travel. In April 2012, Capita undertook a £274m capital raising in order to pursue its pipeline of value enhancing acquisitions whilst maintaining a prudent yet efficient balance sheet.

We further extended the capability of our corporate pensions and actuarial business, through the acquisition of Bluefin Corporate Consulting, provider of employee benefits consultancy to medium and large corporations, for £50m. The acquisition has been integrated with Capita Hartshead and rebranded Capita Employee Benefits. In the travel administration market, we acquired Expotel Group, a UK hotel, business travel and conference booking

agent, for £16m. The acquisition brings considerable experience in venue and event management, which, alongside our existing business, creates a proposition of genuine scale and depth in this fast growing area of the market.

In the health arena, the acquisitions of Medicare First, Clinical Solutions and Medicals Direct, have significantly developed our offering to clients in this continually evolving marketplace. For example, the home-based medical screening services of Medicals Direct, combined with the delivery infrastructure and transformation capabilities of the Group, not only helped us to win but are also playing a key role in delivering our new DWP Personal Independence Payment (PIP) contracts.

In the justice and emergency services market, we invested £24m on two acquisitions in 2012 (Reliance Secure Task Management and Fortek) and this, together with the acquisitions we completed in 2010 and 2011, has helped us to create an unparalleled offering and to win new contracts across our police client base and with the UK Border Agency and Ministry of Justice.

We are committed to generating returns for shareholders and apply a target of achieving a 15% post tax return after 12 months integration into the Group. The majority of our acquisitions achieve or exceed this target return. In December 2011, we acquired Applied Language Solutions (ALS) whilst it was just beginning to implement a new major contract to deliver courts' interpretation services. This contract and its implementation has been very challenging and Capita have invested in turning the performance around.

Expanding capability through acquisitions

2012: 14 acquisitions totalling £178m

Acquisition	Value £m ¹	Division
Full Circle	1.0 (+2.0)	Customer Management & International
Bluefin	50.0	Life & Pensions Services
Fish Administration	21.0	General Insurance
Smiths Consulting	10.0 (+2.0)	IT Services & Consulting
Whale Rock	4.0 (+4.0)	Investor & Banking Services
Fortek Computers	3.5 (+1.7)	Justice & Secure Services
Reliance Secure Task Management	20.0	
Northcroft	1.2	Property Services
Medicare First	8.5	Workplace Services
Expotel Group Limited	16.0	
The Security Watchdog	6.7	
Aviva's occupational health business	2.5 (+1.5)	Health & Wellbeing
Clinical Solutions	20.0	
Medicals Direct	13.2 (+2.0)	

¹ Value in brackets represents maximum contingent consideration.

Creating innovative solutions

Responsive service design is central to our sales offering. Whether we are bidding for a government or private sector contract, we firstly seek to understand the current and future requirements of the client and vitally, the end-user of the service. We will only start to design services after we have gathered firm evidence to ensure that we have clear insights into user behaviour and motivations. This helps us to build effective services which support long term efficiency and accessibility.

Our pool of talented specialists use their skills and experience to generate new and innovative ways of delivering services, tailored for each individual contract. We maintain open and honest discussions with our clients, which allow us to develop a detailed understanding of their business and challenges.

Securing long term client relationships

What we do

- Harness talent and leadership
- Process re-engineering
- Deliver effective integration and transformation
- Introduce new ways of working
- Adopt the most appropriate technology
- Apply our flexible delivery infrastructure
- Create innovative solutions

What we deliver

- Increased efficiency
- Reduced operating costs
- Flexible delivery models
- Improved customer service
- Increased customer retention

Commercial certainty & reduced risk

Partnership model

Responsive service design is central to our sales offering. Whether we are bidding for a government or private sector contract, the first step is to understand the current and future requirements of the client and vitally, the end-user of the service.

Vic Gysin
Joint COO



Every company we work with is different and each project is unique but we use a common overall approach:

Listening to clients' needs

- Work closely with clients to clearly define their objectives, both in the short and longer term
- Create appropriate governance and client engagement structures to ensure that we are delivering to expectations
- Establish strategic partnership boards on our largest contracts to ensure that the relationship develops to support any changing needs.

Creating appropriate solutions

- Audit current services – understand and document how the organisation works including inputs, outputs, workflow, dependencies, service infrastructure and any bottlenecks
- Provide detailed transformation plans and introduce new innovations and different, flexible service infrastructures.

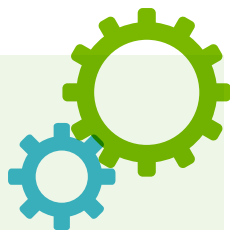
Measuring results

- Agree detailed service standards and KPIs to measure progress and improvements
- Track the results, not only to establish whether it's working as designed, but also to feed into future plans.

Delivering changes

- We deliver continual transformation of business processes using our full range of technology, people management and work environment expertise.

Supporting the frontline



Recruiting Partnering Project (RPP)

Our contract with the Ministry of Defence (MOD) to deliver RPP will transform the way the Army recruits officers and soldiers, both regular and TA, releasing over 1,100 military recruiters back to the frontline and delivering around £300m in benefits to the MOD. It will deliver a more efficient recruiting process by reducing both time and cost to enlistment, as well as engendering a clear understanding of the offer and a more positive recruiting experience for candidates, their gatekeepers and their influencers. It will place the military recruiters on the frontline of Army recruiting, allowing them to focus on their core tasks.

 www.capita.co.uk

Improving customer service and retention

By outsourcing their customer management, we support our clients in increasing sales, improving customer satisfaction, reducing costs without compromising quality, consolidating existing contact centres or rapidly setting up new ones, improving efficiency at existing sites, and increasing flexibility.

We help our clients improve customer retention with a range of comprehensive analytics that provide a detailed insight into how their customers are behaving and what they think of services.

Many of our clients adopt a multi-channel approach for both sales and customer engagement and we continually evolve our capability to ensure that we have the depth of functions necessary to meet their requirements.

Increasing efficiency and reducing costs

We have the skills to support service transformation across the public and private sectors. Our onshore, nearshore, offshore or blended delivery capability allows us to deliver guaranteed efficiencies and cost savings for our clients whilst improving service quality.

Integral to our offering is our highly efficient operating and financial structure which ensures that we contain our central overhead, helping us to remain competitive whilst providing added value propositions. We use our extensive scale to procure services cost effectively and share these cost benefits with our clients.

Flexible delivery models

We adapt our solutions to meet the specific requirements of our clients and through this, we generate a healthy mix of revenue streams for Capita across a wide spectrum of markets and industries. For some clients, a long term defined contract and cost profile is important to support their long term strategy. Other clients, who face faster decision making cycles and business seasonality, require a greater degree of flexibility, for example, organisations who need to be able to swiftly increase/reduce scale in line with short term peaks or troughs in demand.

We have an extensive track record of creating collaborative partnerships and working together with small businesses, local organisations and charities to deliver the right outcomes for our clients and the communities they serve.

Providing commercial certainty and reducing risk

For each major BPM contract, we commit to a range of contract specific performance metrics in order to ensure that we are meeting clients' expectations. As a result, clients find that outsourcing gives them more control over support operations, not less, as they are able to directly measure service costs and outputs. Outsourcing non-core parts of their operations to an industry expert, for example, HR, software development and customer support, can also improve their risk profile and enable them to focus on what they do best.

Securing organic growth

Capita's long term growth is primarily driven by securing medium to long term major customer management and BPM contracts which currently represent around 65% of overall Group revenue.

Highly visible future revenues

Our evolution across a wide range of markets has enabled us to develop a broad based services business with multiple clients across a wide range of diverse sectors.

A combination of long term major contracts and recurrent business ensures highly visible future revenues for the Group:

Long term BPM contracts

- High quality recurring revenues delivered from multiple, integrated administration and customer services contracts, typically 5–15 years.

Single services

- Annual roll-over, high repeat rate or secured under medium contracts of two to five years.

Discretionary spend

- Additional services for existing clients and/or change control requests.

Transactional activities <10% of revenue

- Short term projects/contracts for specific work streams.

Identifying the right opportunities

We constantly identify areas of opportunity and actively engage with potential clients in existing and new sectors to demonstrate the benefits and added value that outsourcing can offer. Given the long term nature of contracts, it is essential for us to pursue only those relationships that can both meet clients' expectations and generate reasonable returns for Capita. This high level of selectivity, along with our bespoke client solutions, underpins our long term win rate of between one in two and one in three. In 2012, our win rate was better than one in two.

We continue to look for:

- clients with whom we can build a strong relationship and deliver real benefits
- defined bid processes with clear decision criteria
- opportunities in line with our core competencies in service transformation
- fair risk/reward balance and acceptable contractual obligations
- limited requirement for capital investment, unless there is a real value proposition for Capita.

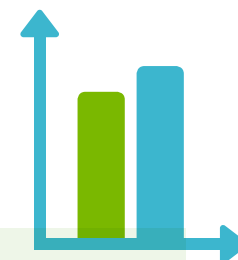
Creating the right bid team

We manage procurements either centrally or at divisional level, depending on the size and complexity of the opportunity. Our major sales team pursues complex, long term customer management and BPM contracts, usually valued in excess of £50m, drawing on Group-wide resources to tailor solutions to each client's requirements. To ensure prudent pricing, we clearly separate responsibilities between sales teams (client relationships), sales support teams (pricing and risk models) and the Group Board (solution and pricing approval).

Developing a new, growth business

In 2012, we signed a contract to create an innovative new joint venture (JV) with Staffordshire County Council to initially deliver a range of educational support services for schools and academies in the Staffordshire region. These services are expected to generate annual revenues of approximately £85m over 20 years and we will additionally focus on achieving significant growth through securing new local authority, school, academy and further and higher education clients across the country. The venture is considered one of the most unique and exciting local government and private sector partnerships in the UK. With the UK schools' education support services market currently estimated to be worth around £16bn per year, the JV is targeting total revenue of at least £2bn over the first 10 years.

 www.capita.co.uk



Procurement process

The procurement process, especially in the public sector, can be costly to pursue and we maintain stringent criteria to focus resources only on opportunities where we see a real prospect of success.

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

UK public sector contracts are subject to a defined procurement process which can take up to two years to complete. 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 and extension term is complete.

Government and local authorities are exploring ways to speed up the procurement process as they strive to realise the benefits of outsourcing at a faster pace and we have seen continued progress on this in 2012.

If at any stage we feel that procurement conditions have shifted significantly or that any of these criteria are no longer met, we will, after detailed consultation, withdraw from the process. We will not take on excessive risk or output based contracts which are overly reliant on external factors that are out of our control.



We constantly identify areas of opportunity and actively engage with potential clients in existing and new sectors to demonstrate the benefits that outsourcing can offer.

Maggi Bell
Group Business
Development
Director



Actively replenishing our pipeline

Capita's bid pipeline represents the Group's major bid opportunities over £25m which have reached shortlist stage¹. It provides an indication of the health of the outsourcing market and can be a useful indicator of likely future organic growth. Individual bids are capped at a total contract value of £1bn to prevent very large contracts distorting the overall total value.

Our bid pipeline at 28 February 2013 was £5.2bn (November 2012: £4.8bn) and comprised 27 bid situations across our target markets, with the highest value of bids being in central government, followed by local government, private sector and defence. Behind this is an active prospect list of opportunities.

Bid pipeline – 28 February 2013¹

Our bid pipeline is subject to clear criteria:

- contains contracts of £25m or above
- shortlisted to the last four or fewer bidders
- capped at £1bn to prevent very large individual contracts distorting the total.

Bid pipeline
£5.2bn
27 bids

Behind our bid pipeline is an active prospect list of opportunities where the bidding process is underway but where we have yet to reach a shortlist or final bidding stage.

Prospect list
active 'live' bids

The prospect list is supported by a 'suspect list' – relationships which we are nurturing to generate future bid opportunities.

Suspect list
identified opportunities

¹ We have adjusted the criteria of our bid pipeline from 1 January 2013 to reflect the greater size of the Group and the opportunities we are addressing. We now report all bids worth £25m or above (previously £10m or above), now capped at £1bn (previously £500m). Under the previous criteria the bid pipeline at 28 February 2013 would have stood at £4.8bn (November 2012: £4.0bn).

Securing appropriate pricing and contract terms

Our major contracts are long term commitments. It is therefore essential that our pricing and contract terms are correct from the start to ensure that we maintain a mutually beneficial, long term relationship which is based on trust. 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 and resources 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 indices, CPI and RPI). Our scale, multi country service delivery model and low central overhead costs help to provide additional competitive advantage and enable us to generate reasonable margins for the Group.

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

Retaining and expanding contracts

As well as securing new business from new clients, we work to renew or expand existing client relationships. By achieving operational excellence, we often secure additional business from clients and we achieve high retention rates as contracts come up for renewal. Over the last 29 years, we have only failed to renew four of our material contracts (defined as having forecast annual revenue in excess of 1% of the previous year's revenue). Over the next five years, there are no material contracts due for rebid. The next major contract up for renewal will be the Phoenix contract in 2019.

Typical major BPM contract life cycle



¹ Material contracts: defined as generating more than 1% of previous year's revenue.

Progress in 2012

In 2012, we reported another record sales year with £4.0bn (2011: £2.0bn) of new and extended contracts secured, more than twice the value of our previous record year. This reflects the operational track record of the Group and the buoyant demand for outsourcing and will support further revenue growth in 2013 and beyond. The wins, 90% of which relate to new contracts and 10% to contract renewals, were secured from across our markets with particular success in central and local government, retail, health and defence.

2012 major contracts over £50m

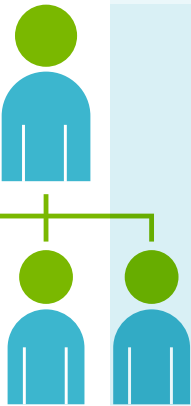
Contract	Details
Recruiting Partnering Project (RPP)	Partnering with the Ministry of Defence to deliver recruitment services for the Army and the enabling ICT for the Royal Navy and the Royal Air Force.
Civil Service Learning agreement	Selected by the Cabinet Office in February 2012 to manage exclusively the provision of training across the Civil Service in a two year contract. This contract has now been extended for a further two years to 2016.
West Sussex County Council	A support services partnership with the Council to deliver a range of back office services.
North Tyneside Council	Selected to provide wide-ranging property, highways and maintenance services in a partnership which has significant opportunities for growth.
Personal Independence Payment (PIP) assessments, Central England & Wales	Awarded the contract to deliver the PIP assessments for Central England and Wales by the Department for Work and Pensions.
Personal Independence Payment (PIP) assessments, Northern Ireland	Awarded the contract to deliver PIP assessments in Northern Ireland by The Northern Ireland Social Security Agency.
London Borough of Barnet	Selected to deliver the London Borough of Barnet's new support and customer service organisation.
Staffordshire County Council	Deliver a range of educational support services for schools and academies in Staffordshire.
Fire Service College	Selected by the Department for Communities and Local Government to run the FSC, the largest single provider of specialist operational fire and rescue training in the UK.
3 major private sector contracts	Our expanded customer management offering has secured three major contracts including a full customer management service for Debenhams plc, another major UK retailer and Scottish Power.

2012 major contracts between £10m-£50m, including:

Contract	Details
8 customer management contracts	In the motor, retail and utilities markets.
Oxfordshire County Council	Capita Symonds, our property consultancy, selected to support Carillion's partnership with the Council.
UK Border Agency	Selected to deliver contact management services to support the management of the 'overstayer' backlog.
London Fire and Emergency Planning Authority	Selected to provide control room services and mobilisation and communications technologies.
Southwark Council	Awarded a four year contract for an IT managed service designed to help transform the Council and deliver benefits for both customers and the workforce.
Ministry of Justice	Awarded a three year contract for the application management and hosting of the Criminal Justice System Exchange.

For further details relating to our contract wins, visit the media and investor centres at:

 www.capita.co.uk



B: Ensuring strong leadership and robust processes

pages 31-46

Capita's business model is underpinned by strong leadership and robust processes across finance, risk management and operations. Our management structure and financial and governance procedures promote accountability and knowledge sharing across the Group. This is supported by a straightforward and pragmatic operating structure which encourages entrepreneurship and ensures optimum service delivery for all our clients.

B:

Ensuring strong leadership and robust processes

Maintaining financial discipline  Page 31

Robust operational controls and risk management  Page 36

A flexible divisional structure  Page 40

Capita is a financially focused business. We have strong financial controls and effective governance across the Group and we monitor performance against clear KPIs.

Gordon Hurst
Group Finance
Director



Maintaining financial discipline

Capita is a financially focused business. We have strong financial controls and effective governance across the Group and we monitor performance against our clear aims and KPIs.

We delivered good financial results in 2012 with 14% revenue growth, underlying profit before tax (PBT)¹ up 10% to £425.6m and underlying earnings per share (EPS)¹ of 53.16p and we have recommended a final dividend of 23.5p, up 10% year on year.

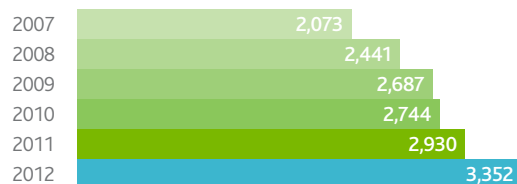
Revenue

Aim: achieve disciplined, sustainable growth.

In the full year 2012, revenue increased by 14% to £3,352m (2011: £2,930m). This comprised 3% organic growth (5% major contracts, 1% other business growth, offset by 3% attrition) and 11% from acquisitions, completed in 2011 (6%) and 2012 (5%).

Revenue (£m)

5 year compound growth 10%



Operating profit and margin

Aim: maintain and strengthen operating margin.

We constantly seek to grow the business profitably. We monitor operating margin and manage operating costs to ensure that the business is running efficiently and cost effectively. We leverage our scale, in particular our extensive shared service infrastructure, flexible delivery models, effective procurement and the added value of the services we deliver to clients.

Underlying operating profit¹ rose by 10% in 2012 to £471.7m (2011: £427.4m). The competitive landscape of the BPM market remains consistent allowing the Group to generate stable underlying operating margins. However, the nature of our business means there will be new contracts, acquisitions and investments which will, at times, have an initial adverse impact on Group margins in a particular year.

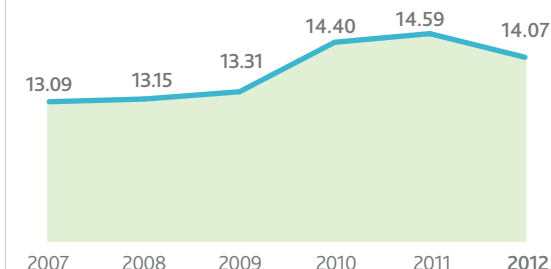
In 2012, the Group's underlying operating margin¹ was 14.07% (2011: 14.59%). Our margins were slightly lower than the previous period (52 bpts) due to: the initial implementation costs of major new contracts; the set up costs of expanding our international service delivery network in Poland and South Africa; and the underperformance of our General Insurance and Property Services divisions and two contracts – the courts' interpretation services contract and the DVLA Vehicle Excise Duty service contract.

2012 was preceded by two years of higher operating margins in 2010 and 2011, which in part was a consequence of a period of lower levels of new contract implementations. Following our sales successes in 2012, we will be implementing a significant number of new contracts in 2013. Consequently, due to the increased level of start up costs, we expect operating margins in 2013 to revert to the levels prevailing just prior to 2010 and 2011.

Our underlying figures exclude: non-cash items of intangible amortisation, net contingent consideration movements and impairments of £120.5m (2011: £56.5m); acquisition costs of £10.3m (2011: £15.4m); and non-cash mark to market finance costs of £4.8m (2011: £10.4m). After these non-underlying items, reported operating profit for 2012 is £340.9m (2011: £355.5m), reported profit before tax is £290.0m (2011: £302.9m) and reported earnings per share is 37.08p (2011: 39.16p). These figures were impacted by higher amortisation of goodwill arising from increased levels of acquisitions and impairments of goodwill relating to our acquisition of Applied Language Solutions and of our investment loan in Optima Legal Services (see note 4 on page 101).

Underlying operating margin¹

Annual change 52bpts



¹ Underlying figures exclude: non-underlying non-cash items of intangible amortisation, net contingent consideration movements and impairments of £120.5m (2011: £56.5m); non-underlying acquisition costs of £10.3m (2011: £15.4m); and non-cash mark to market finance costs of £4.8m (2011: £10.4m).

Earnings per share (EPS)

Aim: achieve long term, steady growth in EPS.

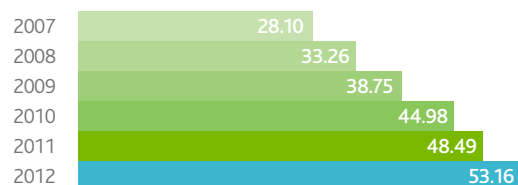
Long term growth in EPS is a fundamental driver to increasing shareholder value. Basic EPS is calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted number of ordinary shares in issue during the year. Board Directors' long term incentive schemes have EPS targets to align their interests with those of our shareholders.

In 2012, underlying earnings per share grew by 10% to 53.16p (2011: 48.49p) (see note 11 on page 107).

Underlying earnings per share¹ (p)

Annual change 10%

5 year compound growth 14%

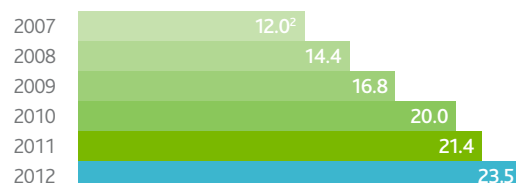


Dividends

The Board is recommending a final dividend of 15.6p per ordinary share (2011: 14.2p), making a total of 23.5p for the year (2011: 21.4p) representing an increase for the year of 10%. The final dividend will be payable on 28 May 2013 to shareholders on the register at the close of business on 19 April 2013. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 14% over the five years to 31 December 2012. Dividend cover is 2.26 times for 2012.

Total dividend per share (p)

5 year compound growth 14%



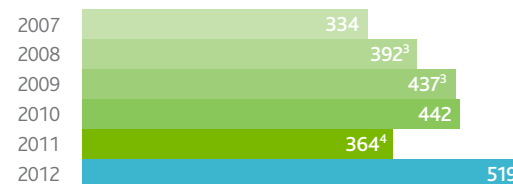
Cash flow

Aim: maintain a high level of operating and free cash flow.

During 2012, we identified a number of measures to drive strong cash flow across our business units and to ensure that cash management is a priority for both our finance and operational management teams. We have introduced new incentives and penalties at business unit level to drive behavioural change to improve the use of working capital.

In 2012, cash flow generated by operations increased 43% to £519m (2011: £364m) representing an operating profit to operating cash conversion rate (defined as cash generated from operations before settlements divided by underlying operating profit for the year) of 110% (2011: 85%). This improvement in cash conversion in 2012 was a result of the internal measures detailed above. We expect our operating profit to operating cash conversion rate to continue to be at or around 100% going forward.

Cash flow from operating activities (£m)



¹ Excludes non-underlying items, see note 4 on page 101.

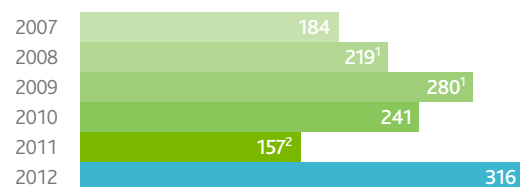
² Excluding 25p special dividend.

³ Exceptional additional pension contribution £10m (2008), £40m (2009).

⁴ Before one off settlements of £17.9m for Arch cru and £10.0m pension contribution for transfer back of the Cumbria County Council pension scheme.

Free cash flow (defined as operating cash flow before settlements, less capital expenditure, interest and taxation for the year) increased to £316m (2011: £157m). This was mainly due to the working capital improvement described on page 32.

Free cash flow (£m)



Capital expenditure (capex)

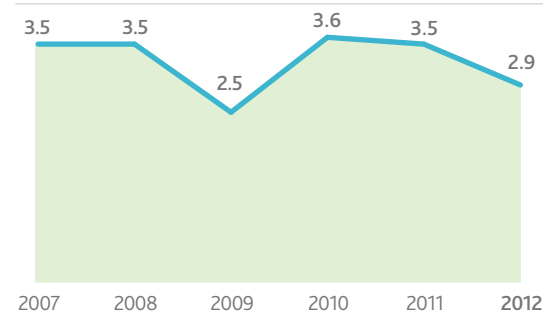
Aim: contain capex at or below 4% of revenue.

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.

In 2012, we met this objective, with net capex at 2.9% of annual revenue (2011: 3.5%). There are currently no indications of significant capex requirements in our business forecasts or bid pipeline.

Capex as % of turnover

Annual change 17%



Return on capital employed (ROCE)

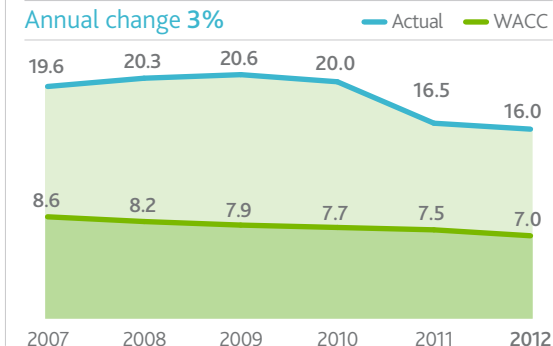
Aim: achieve healthy ROCE which exceeds our cost of capital.

This reflects the margin between the cost of our capital and the returns we generate by investing it and ensures that we add shareholder value over the long term. In the chart below the post-tax 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 post-tax WACC assuming a risk-free rate of 2.06%, a market risk premium of 8.81% and a Beta of 0.69.

We focus on driving a healthy return on capital. During 2012, our post-tax return on average capital employed was 16.0% (2011: 16.5%). This compares to our estimated post-tax WACC which is 7.0%. We expect return on capital employed to improve as organic growth returns and recent acquisitions deliver their full profit potential.

Net return on capital

Annual change 3%



¹ Exceptional additional pension contribution £10m (2008), £40m (2009).

² Before one off settlements of £17.9m for Arch cru and £10.0m pension contribution for transfer back of the Cumbria County Council pension scheme.

Gearing

Aim: maintain a conservative and efficient capital structure, with an appropriate 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. Our aim continues to be to keep the ratio of net debt to EBITDA in the range of 2.0 to 2.5 over the long term and we would be unlikely to incur borrowings which would reduce interest cover below seven times.

As at 31 December 2012, we have £1,148m of private placement bond debt of which only £99m matures before August 2015 with the remainder gradually maturing to 2021. In addition, we have £185m of bank debt under a two year term loan facility maturing in February 2014, offset by £320m of cash held on deposit. At 31 December 2012, our annualised net debt to EBITDA ratio was 1.99 (2011: 2.48) with annualised interest cover at 10.2 times (2011: 10.2 times).

Balance sheet gearing

	2012	2011
Net debt		
Bond debt (£m) ¹	1,148	1,176
Net bank facilities drawn (£m)	–	(105)
Cash in bank (£m)	(320)	–
Term debt (£m)	185	–
Other	3	5
Total underlying net debt (£m)	1,016	1,286
Interest cover	10.2x	10.2x
Net debt to EBITDA	1.99	2.48 ²

¹ Underlying net debt after impact of currency and interest swaps.

² Adjusted for December 2010 acquisitions.

Bond debt maturity profile as at 31 December 2012

	2012 £m
2013	88
2014	11
2015	97
2016	141
2017	124
2018	153
2019	101
2020	219
2021	214
Total	1,148

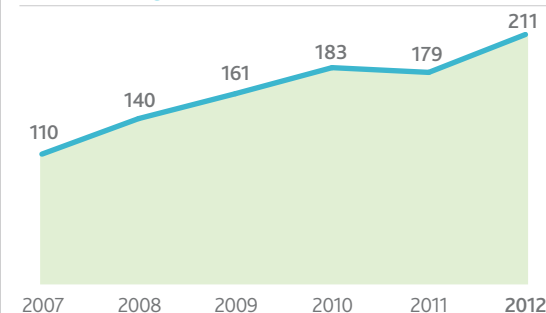
Economic profit

Aim: achieve steadily increasing 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 (WACC). 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.

Group economic profit (£m)

Annual change 18%



Creating economic profit

	2007	2008	2009	2010	2011	2012
Underlying operating profit ¹ (£m)	271	321	358	395	427	472
Average capital (£m)	998	1,155	1,271	1,491	1,976	2,348
Tax (%)	27.7	27.0	26.8	24.5	23.5	20.5
Post-tax WACC (est %)	8.6	8.2	7.9	7.7	7.5	7.0
Capital charge (£m)	(86)	(95)	(100)	(115)	(148)	(164)
Tax (£m)	(75)	(87)	(96)	(97)	(100)	(97)
Economic profit (£m)	110	140	161	183	179	211

¹ Excludes non-underlying items, see note 4 on page 101.

Amended IAS 19 standard

The amended IAS 19 standard, which comes into effect on 1 January 2013, changes the method of calculating the net interest related to the defined benefit pension schemes from one which uses the expected return on scheme assets to one based on the discount rate. It is estimated that this change will result in a £10m PBT impact, consisting of a £6m increase in operating costs and a £4m increase in financing costs for the full year 2013. Full year 2012 figures will be restated to reflect the change resulting in a PBT impact of £8.6m consisting of a £5m increase in operating costs and a £3.6m increase in financing costs.

Taxation

Capita has an open and positive working relationship with HMRC, a designated HMRC Customer Relationship Manager and is committed to prompt disclosure and transparency in all tax matters with HMRC. Capita has received a 'low' risk rating from HMRC, recognising our strong corporate governance, control process, and attitude to compliance.

Due to our clients' requirements, Capita has operations in a number of countries outside of the UK, allowing us to provide the best possible service to our clients and their customers. All Capita operations in overseas tax jurisdictions are trading operations and pay the appropriate local taxes for these activities.

Capita's contribution of £55.7m through UK corporation tax paid in 2012 is only part of our total tax contribution. Capita is a significant contributor to the UK Exchequer, paying and collecting a wide range of taxes on behalf of the UK Government. Each year, Capita contributes to The Hundred Group survey quantifying the total tax contribution of the FTSE100 companies. During 2012, £166.8m (2011: £151.6m) of other UK taxes were borne by the Group including business rates, import duties, irrecoverable VAT, employers' NIC, and environmental taxes. In addition, Capita collected and remitted £287.2m (2011: £228.4m) of VAT and £294.1m (2011: £262.7m) of PAYE and employee NIC on behalf of the UK Government.

Financial KPIs

Aim	2012	2011
1. Maintain and strengthen margin ¹	14.07%	14.59%
2. Achieve long term, steady growth in EPS ¹	53.16p	48.49p
3. Maintain a high level of operating and free cash flow	£316m	£157m
4. Contain capex at or below 4% of revenue	2.9%	3.5%
5. Achieve healthy ROCE which exceeds our cost of capital	16.0%	16.5%
6. Maintain a conservative and efficient capital structure, with an appropriate level of gearing	10.2x	10.2x
7. Achieve steadily increasing economic profit.	£211m	£179m

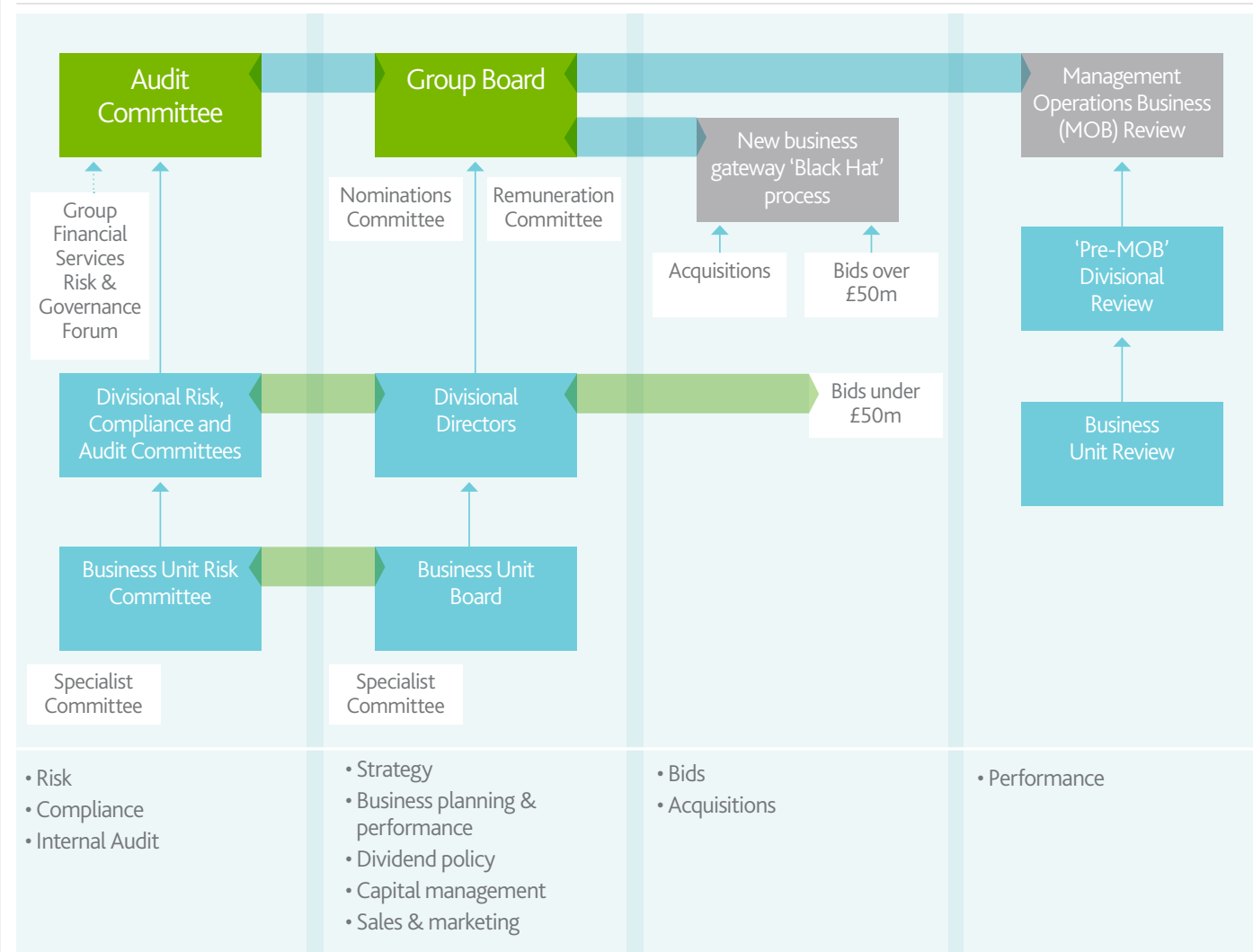
¹ Excludes non-underlying items, see note 4 on page 101.

Robust operational controls and risk management

Our management and governance structure is designed to ensure we balance our appetite for growth with maintaining business performance and careful risk management.

This ensures that management are informed and responsive to performance and trends in the business and the wider marketplace and can make informed strategic and tactical decisions. This structure empowers the Group's businesses, promotes accountability and fosters the entrepreneurial culture which supports our long term growth.

Management and governance structure



Managing our business

The Group Board sets the strategic direction for the business and monitors the ongoing achievement of these underlying goals at divisional level. The Joint Chief Operating Officers report to the Board on business performance and development and, in turn, the Divisional Directors report to them.

Each individual division develops its own business plan and strategy which are reviewed and challenged by the Board. These annual business plans feed into the overall Group business plan and strategy.

Managing our performance

The Management Operations Business (MOB) review is a monthly process where the management of each division presents details of performance and business developments to the Group's Executive Board Directors. This enables the Group Executive Board to track the financial and operational progress of each division.

The performance of the underlying business units is collated at 'pre-MOB' meetings to inform the discussions at the MOB. These meetings are an opportunity for the Divisional Directors to assess the performance of their own constituent business units and enable early escalation of any business opportunities or challenges to the Group Executive Board.

The benefit of MOB and its associated processes is the internal transparency it provides from Board level down to the performance of the Group's businesses and allows opportunities to be exploited quicker and issues resolved faster.

Managing our risks

Effective risk management not only acts to protect and maximise the financial performance of the business, it also offers the opportunity to safely undertake more complex, operationally challenging projects and attract the higher reward that comes with the ability to effectively manage risk. The Group Board is responsible for ensuring that an appropriate risk management framework is in place, with relevant systems and controls to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy.

The Capita Risk Appetite Statement, is subject to regular review as the Group's plans, controls and level of risk maturity develop over time. It provides a consistent reference point for the alignment of risk taking and risk management throughout the organisation and is reviewed and adopted at divisional and business unit level as applicable.

Implementation of risk management is aligned with Capita's decentralised business model. Each Divisional Director and/or senior management of the underlying business unit, is responsible for establishing processes and procedures to capture, manage, and report on the risks for which they are accountable in accordance with the agreed Group framework.

Capita operates the 'three lines of defence' model, with line management responsible for the first line, Risk and Compliance for the second line, and Group Internal Audit for the third line.

Group Risk & Compliance: maintains appropriate risk management policies and frameworks on behalf of the Group Board and provides oversight for the implementation and execution of those policies. In respect of financial services regulation, it also acts as a co-ordination point for our business level compliance activities and provides strategic leadership in our relationships with our various regulatory authorities. The Group Risk & Compliance Director has an administrative reporting line to the Group Finance Director. The main conduit for reporting is to the Audit Committee and, for financial services firms, the Group Financial Services Risk & Governance Forum and they have full access to any governance or risk forum across the Group. The Director also has access to all members of the Board and holds regular meetings with the Executive and Divisional Directors. The Director also regularly meets the Audit Committee Chairman and Non-Executive Directors.

Group Internal Audit: provides the Board, the Audit committee and all levels of management with an objective opinion on the results of its reviews. Its role is to review the adequacy and effectiveness of the Group's governance, processes, controls and risk management in implementing agreed strategies as defined by the Board. The Audit Committee approves the Group Internal Audit plan and may review any aspect of its work. Group Internal Audit reports regularly to the Audit Committee on significant issues, risks and themes arising from its work together with a summary of management's progress in implementing its recommendations. It is independent of the activities which it reviews and has an independent reporting line to the Audit Committee and also, for the financial services businesses, to the Financial Services Risk and Governance Forum. For administrative purposes, the Group Internal Audit function reports to the Group Finance Director. Group Internal Audit has free and full access to all activities, records, properties and employees throughout the Group in the course of its work. The Group Internal Audit Director has regular meetings with the Chairman of the Audit Committee.

Managing our growth

The robust identification, assessment and completion of new contracts and business acquisitions are key to our controlled growth. We recognise that the key to building value for the Group is ensuring that our significant new business developments have been subject to appropriate financial, operational and risk due diligence.

We therefore conduct 'Black Hat' reviews where management assess in more depth an acquisition, bid or contract renewal, and consider its commercial, financial and operational fit within the Group and its pricing and risk profile. As a fundamental part of the overall bid or acquisition process, the 'Black Hat' review determines whether opportunities should be progressed and enables management to review any bid submissions to prospective clients or third parties. Whilst we consider a large number of opportunities to develop and grow the Group, these processes help us to ensure that we do not pursue opportunities where we feel that the risks outweigh the potential rewards.

Our risk appetite

Managed risk taking is an important ingredient in our growth and success. Capita has agreed a Risk Appetite Statement which covers the appetite and tolerance for risk in the following areas:

- strategic (including new business and acquisitions)
- investments
- project and change
- advisory
- credit
- market
- liquidity
- insurance
- operational and processing
- regulatory and legal.

The appetite and tolerance for each area is set and monitored by the Board, in accordance with the Group appetite and tolerance, and this is now being cascaded and embedded into all our operating divisions.

At a business unit level the risk appetite is assessed through the setting of thresholds and target level of residual risk, within the parameters agreed by the Group Board, and is the responsibility of the unit's senior management team, reviewed by the Divisional Risk Committees on an ongoing basis.

The Group Risk Appetite Statement is reviewed regularly to ensure that it both reflects the Board's view on strategic risk and any external changes which may alter the Group's risk appetite.

Principal risk categories, potential impacts and examples of mitigations

Key risk categories	Potential impacts	Mitigating activities include	
Financial	– Adverse effect on financial performance and brand reputation.	– Financial performance of each business unit is monitored monthly	– Capital expenditure is subject to rigorous monitoring and budgetary controls.
Delegates and counterparty failure	– Reputation risk and financial loss e.g. disruption to supply chain; service interruption.	– Rigorous risk-based due diligence processes for the selection of key delegates and wider counterparties monitoring	
Operational risks	– Failure to meet contractual service level agreements – Financial penalties – Potential loss of contracts – Brand reputation impacted.	– Operating frameworks and business resilience arrangements in place – Operating performance indicators reviewed by line management – Risk committees and Group Board escalation as appropriate – Risk based independent assurance	– Business resilience arrangements in place – Risk-based independent assurance – Centralised proactive and reactive PR team provides full issues management communications support
Acquisitions and organic growth	– Planned synergies not achieved – Adverse impact on financial growth and performance – Financial penalties.	– Rigorous risk-based due diligence – 'Black Hat' process: – Fit with strategy and pricing is subject to review and approval by the Group Board – Appropriate contractual terms to ensure fair risk/reward profile	– Robust integration and transition process.
Economic landscape	– Weaker economic conditions are a key driver for outsourcing, however, extreme economic uncertainty can result in a delay in buying decisions and lower discretionary spend across some market segments.	– Focus on 10 diverse public and private sector markets – Focus on widening scope of existing contracts to help clients save money	– Supply of services that support essential client functions rather than discretionary activities – Initiatives to increase the efficiency of Group operations.
Attract and retain employees	– Lack of appropriate resources may lead to inability to develop and execute business plans – Poor employee morale – Competitive disadvantage.	– Training and development – Continual development through objective setting and appraisals – Competitive incentive and bonus plans	– Succession planning – Comprehensive vetting process in line with roles.
Loss of sensitive or confidential data	– Contractual and regulatory penalties – Adverse media comment and reputation impact on brand.	– Appropriate policies and procedures – Robust information security framework, including policies and processes – Escalation to risk committees and subsidiary boards – Training and monitoring programme across businesses	– Swift adoption of Group policies and protocols by newly acquired businesses – Sharing of best practice and issues through cross-Group forums – Regular monitoring through risk-based audits and follow-up of actions – Centralised proactive and reactive PR team.
IT risks	– Failure to support core services and business needs – Inability to provide adequate disaster recovery services – Failure to protect client and Capita data.	– Adoption, implementation and audit of industry recognised controls – Regular and documented disaster recovery tests – Regular audit of services and systems to validate adequacy of protective controls and processes	
Fraud, bribery and corruption	– Potential for civil and criminal penalties for business and/or senior officers – Potential prohibition from bidding for public sector contracts in EU – Media comment and reputation impact.	– Appropriate policies and procedures in place including a 'speak up' policy – Anti corruption culture and a zero tolerance approach with a robust disciplinary process	– Risk assessments of vulnerabilities – Monitoring and audit – Centralised proactive and reactive PR team.
Regulatory landscape	– Non-compliance with the requirements of our regulatory bodies in the UK or overseas (including the Financial Services Authority in respect of regulated UK financial services business) – Regulatory, financial and contractual penalties – Adverse impact on reputation.	– Appropriate policies and procedures – Monitoring by Risk, Internal Audit and Regulatory Compliance teams – Escalation of risks to risk committees and subsidiary boards	– Risk-based assurance and actions for improvement – Independent reporting to Group Audit Committee and Group Financial Services Risk & Governance Forum.
Health and safety	– Non-compliance with health and safety regulations – Adverse impact on wellbeing of our employees.	– Rigorously applied health and safety policy and processes – Health and safety training	– Comprehensive Group wide health and safety audits undertaken twice a year.
Environmental	– As a low impact company our key environmental impacts are energy use, business travel, resource use and waste management which we manage proactively.	– Raising awareness of environmental issues and Group sustainability initiatives – Continue to measure and manage our carbon footprint and achieve energy reductions.	– Environmental management system in place – Environmental site audits carried out twice a year – Reduction of paper use and increase in recycling.

A flexible divisional structure

We have a straightforward and pragmatic structure that supports optimum service delivery for our large customer management and BPM contracts, as well as our individual businesses and their respective client bases. It provides ready access to the Group's wider expertise, economies of scale and centralised procurement and enables us to create and deploy innovation, and harness the best of ICT and business processes.

We continuously assess the needs of each area and move businesses, contracts and managers across the divisions to ensure that we have the necessary leadership, resources and infrastructure for current and future development and growth.

To reflect the Company's continued expansion and encourage entrepreneurship and accountability, in 2012, we strengthened our operating structure by creating smaller more flexible divisional units to fuel growth. In 2012, we organised the Group into 11 divisions, each led by a Divisional Director. These Divisional Directors, the two senior divisional finance directors and the heads of strategic sales and acquisitions meet on several occasions during the year to share knowledge, experience and to discuss opportunities and challenges which can be supported by cross divisional support.

To further support our clients and the markets in which we operate, we have made some small changes to our operational structure for 2013. From 1 January 2013, we now operate in 10 market facing or service specific divisions.

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

Organisational structure 2012

Customer Management & International	Life & Pensions Services	General Insurance	IT Services & Consulting	Investor & Banking Services	Justice & Secure Services	Integrated Services	Property Services	Workplace Services	Health & Wellbeing	Professional Services
👉 page 41	👉 page 41	👉 page 42	👉 page 42	👉 page 43	👉 page 43	👉 page 44	👉 page 44	👉 page 45	👉 page 45	👉 page 46
Customer management	Life & Pensions	Insurance distribution	IT services	Shareholder services	Secure information solutions	Central government services	Capita Symonds	Specialist recruitment	Health & Wellbeing	Software services
Capita India	Corporate pensions	Commercial insurance	Consultancy	Trust services	Secure resource solutions	BBC		Managed services	Tascor Medical Services	Local government services
Capita Poland		Marsh	Assurance & testing	Financial group	Secure mobile solutions	RPP		Development solutions		Local government partnerships
Capita South Africa		Specialist insurance		Asset services	Tascor	CRB		HR solutions		Communi-cations
				Treasury services	Translation & interpreting			Screening		Total document solutions
								Business travel & conferences		Debt management services

1

Customer Management & International

This division reported strong results in 2012, with both revenue and profitability up significantly year on year, with a full year contribution from Ventura and Vertex (private sector). We have realised substantial synergies in the integration of these organisations into Capita. During the year, we also broadened our international delivery network, both in terms of geographic coverage and service lines.

	2012	2011
Revenue (£m)	230.1	99.6
Underlying operating profit (£m)	24.3	4.1
Underlying operating margin (%)	10.6	4.1
Capex (£m)	3.1	0.7

2012 highlights

- Integration and delivery of synergies across the combined Ventura, Vertex (private sector) and existing Capita offering
- Continuing to build sales momentum in our target growth sectors, securing new and extended contracts across retail, utilities, travel and leisure and the public sector
- Secured new major full customer management services contracts with Debenhams plc, another leading UK retailer and Scottish Power
- Acquisition of Full Circle, a leading contact centre solutions business in South Africa, which provides an attractive proposition for low-cost, English-speaking voice operations
- Our business centre in Poland is now delivering five different service lines across the full spectrum of Capita's clients, in four different languages
- Integration and streamlining of our Indian operations – both customer management and BPM are delivering strong performance, with some exciting growth opportunities in 2013.

2013 priorities

- Cross-sell more service lines to our existing customer management client base to develop larger, longer term and more strategic relationships
- Target growth in our strategic sectors, both through our own business development activity and by cross-selling to existing clients in other Capita divisions
- Focus on developing our innovation, analytics and process transformation capabilities in India to support client base growth
- Further develop our end-to-end debt management service by bringing together all our capability under one management team
- Maintain momentum in Poland, particularly in higher-value service lines, such as accounting and legal process outsourcing
- Grow our offshore contact management capability in South Africa to underpin delivery of our sales pipeline.

2

Life & Pensions Services

During 2012, the division secured two key acquisitions which bring new expertise and scale to our offering.

Capita remains the leading life and pensions outsourcing provider in the UK providing administrative and specialist technical services for clients, encompassing over 20m life and pension policies and over 4m group pension scheme members.

	2012	2011
Revenue (£m)	575.9	545.1
Underlying operating profit (£m)	56.9	55.9
Underlying operating margin (%)	9.9	10.3
Capex (£m)	42.2	38.1

2012 highlights

- Acquisition of Bluefin Corporate Consulting which has been integrated with our existing employee benefits business, Capita Hartshead, and rebranded as Capita Employee Benefits
- Acquisition of Underwriting Direct brings new expertise to our specialist claims and underwriting function
- Delivered an unprecedented number of change projects to support clients in meeting regulatory change requirements
- Developed and rolled out new product platform and administration services for MetLife's new Retirement Portfolio product
- Refreshed the website for Teachers Pensions' Scheme members with enhanced resources and tools designed to improve the user experience.

2013 priorities

- Retain and grow our position as the UK's leading BPM provider in life and pensions by renewing and extending existing contracts as well as seeking new opportunities
- Expand our business into the banking sector and seek new acquisitions to further strengthen our professional services capability
- Support life and pensions clients through continued regulatory change, and subsequent impact on the retail distribution landscape
- Broaden market presence with our new Capita Employee Benefits business providing an extended range of employee benefits and pension services
- Extend our specialist service offerings to new and existing clients
- Support clients seeking low cost market entry
- Help new and existing clients introduce auto-enrolment relating to pensions.

3

General Insurance

Our General Insurance division had a poor year with lower revenue and profit. We have therefore strengthened both the leadership and sales teams to reinvigorate these operations in 2013.

We remain the UK's leading provider of business support services for general insurance, with a capability that spans the complete commercial and personal lines insurance lifecycle, including the London Market.

	2012	2011
Revenue (£m)	148.6	183.5
Underlying operating profit (£m)	17.7	28.3
Underlying operating margin (%)	11.9	15.4
Capex (£m)	1.6	7.9

2012 highlights

- A strengthening of our relationship to deliver operational services to enhance Marsh UK's broking activities to clients across its business
- A further five Lloyd's Managing Agents signed contracts with us for underwriting services resulting in us supporting 30% of all Managing Agents
- Entered an exclusivity agreement with Managing Agents for the Singapore shared service contract providing underwriting services to their Singapore-based operations
- Renewal of our contract with The Department of Energy and Climate Change (DECC) for a further seven years for the administration of the National Concessionary Fuel Scheme
- Acquired Fish Administration adding greater capacity and valuable new expertise to Capita's specialist insurance broking business.

2013 priorities

- Continue to work with insurers, brokers and affinity partners across the industry to deliver expert support throughout the insurance lifecycle
- Progress the development of our market level shared services solution for the London Market
- Broaden our service offering with specialist business partners
- Further expand our commercial broking and Managing General Agent offerings
- Diversify National Dental Plan's propositions to the dental market including the acquisition of an individual dental product, launch of a retail value card and launch of a new corporate dental plan
- Identify suitable bolt-on acquisitions to enhance our position in the insurance outsourcing market
- In 2013, the General Insurance and Life & Pensions Services divisions will be merged
- Strengthen the leadership team to support greater growth
- Integrate and share expertise, resources and infrastructure with the Life & Pensions division.

4

IT Services & Consulting

2012 was a challenging year for the division due to adverse trading conditions which have impacted parts of the business. However, the division gained places on a number of government frameworks and is well positioned to benefit as the economy recovers.

	2012	2011
Revenue (£m)	502.3	511.1
Underlying operating profit (£m)	40.2	39.8
Underlying operating margin (%)	8.0	7.8
Capex (£m)	13.4	17.4

2012 highlights

- Extension of West Sussex County Council IT outsourcing contract for an additional two years to 2022 concurrent with the Group's new BPM contract
- Extended contract with BAE Systems Maritime – Submarines to 2014
- Secured a place on two PSN frameworks and the G-Cloud Services Framework
- Secured a five year contract with Fidelity Worldwide Investment for the delivery of telephony support across its European footprint
- Launched phase three of the internet booking system (IBS3) for the Driving Standards Agency (DSA) providing a means for businesses to book practical driving tests online supporting the Government strategy of 'Digital by Default'
- Launch of innovative new 'Cloud Platform' that includes utility pricing, self-service portal and near instant live provisioning
- Acquisition of Smiths Consulting, a specialist in delivering business change enabled by technology with a particular focus on SAP and Oracle Business Solutions.

2013 priorities

- Increase our market competitiveness and profitability by driving an agenda of service excellence and productivity
- Continue to support our existing clients and other parts of Capita by finding new ways to deliver high-quality IT services at a lower cost
- Develop and invest in our core service offerings around the support and transformation of critical IT infrastructure for our clients
- Continue to support client demand for flexible, usage and cloud based services
- Create greater value from our strategic industry partnerships by leveraging and focusing on key relationships.

5

Investor & Banking Services

The division performed well in 2012. Our asset servicing and share registration businesses were particularly successful in securing new business. We further enhanced our service offering through a niche acquisition and have developed a number of new client services.

	2012	2011
Revenue (£m)	240.9	212.9
Underlying operating profit (£m)	63.2	54.9
Underlying operating margin (%)	26.2	25.8
Capex (£m)	15.6	12.6

2012 highlights

- Enhanced our distribution channels enabling us to deliver more than £40m of new business during the year
- Continued to grow our share registration and share plan businesses, with 17 new share scheme appointments and nine new share registration clients secured during the year including BskyB and BP
- Achieved 97% year-on-year growth in the number of trades executed by our execution only share dealing business after expanding its executive dealing capabilities and matched bargain services
- Consolidated our treasury management proposition, delivering significant additional value to clients in both the private and public sectors
- Acquisition of Whale Rock Accounting, providers of a broad range of specialist finance and accounting services, predominantly to the oil and gas sector
- Opened a representative office in New York and entered into a strategic alliance with Boardroom Singapore in Asia
- Actively used our relationships to deliver opportunities across multiple divisions of Capita.

2013 priorities

- Continue to focus on key relationships and development of new client services
- Maximise the 'in division' client opportunities from the launch of our new 'One brand, one business' client centric approach
- Further enhance the value we offer clients by focusing on key vertical markets, including the oil and gas sector, where we provide services to more than 150 businesses across the globe
- Enhance our international reach by adding a small number of additional jurisdictions to our operating capability
- Continue to expand distribution for the overall Group
- Convert our significant pipeline of opportunities into client relationships and new contracts.

6

Justice & Secure Services

2012 has been a year of transformation for this new division. Following a number of key acquisitions which have been successfully integrated with Capita's existing BPM infrastructure, the business delivered excellent organic growth in 2012.

	2012	2011
Revenue (£m)	198.3	89.4
Underlying operating profit (£m)	23.8	15.8
Underlying operating margin (%)	12.0	17.7
Capex (£m)	3.0	6.0

2012 highlights

- Selected by the London Fire and Emergency Planning Authority to provide control room services and technologies in a contract worth £20m over 10 years
- Selected to support the UK Border Agency in the management of the 'overstayer' backlog worth around £30m over four years
- Awarded contract by the Ministry of Justice for the application management and hosting of the Criminal Justice System Exchange worth £21m over three years
- Entered a four year radio managed services framework with the Metropolitan Police Service
- Entered a collaborative agreement with three East Midlands police forces, to deliver the first shared 'back office' system covering HR, training, duty management and health and safety
- Selected by the Department for Communities and Local Government to run the Fire Service College, the UK's largest specialist fire and rescue training provider
- Strengthened key translation and interpreting relationships including Caterpillar and Coca Cola Enterprises and secured new clients such as Leica Microsystems
- Acquisition, integration and re-brand of Reliance Secure Task Management (now Tascor), a medical assessment and criminal justice support services firm. Tascor Medical Services sits within Health & Wellbeing.

2013 priorities

- Continue to provide and enhance portfolio technology enabled transformation and business process services to the police and criminal justice markets
- Deliver critical outcomes to the emergency services markets – future proofing and protecting investments
- Continue the expansion of our private sector, justice and NHS translation customer base, capitalising on our extensive pipeline of opportunities
- Focus on growth from new translation clients by offering innovative value propositions into our targeted growth markets including medical manufacturing/engineering, finance, IT and retail.

7

Integrated Services

This division contains our major public sector contracts. In 2012, the division performed well through strong operational delivery and expansion of services.

	2012	2011
Revenue (£m)	280.6	228.0
Underlying operating profit (£m)	63.2	57.0
Underlying operating margin (%)	22.5	25.0
Capex (£m)	1.2	5.1

2012 highlights

- Entered the defence market through securing a contract to partner with the Ministry of Defence to deliver the Recruitment Partnering Project (RPP) for the Army, and the enabling ICT for the Royal Navy and the Royal Air Force, in a contract valued at approximately £50m per annum over 10 years
- Commenced delivery of the new eight year BBC TVL contract and the programme to re-engineer the service delivery model, with an aim to harness advances in technology and analytics to increase the TV Licensing revenues collected whilst reducing servicing costs for the client
- Worked with The Pensions Regulator to commence communications and delivery of automatic enrolment of staff into workplace pension schemes
- Building on the success of Constructionline, initiated the 'Acclaim' health & safety accreditation service for the construction industry. Also within the Central Government Services team, secured the mandate to provide Tenancy Protection services for the Department for Communities and Local Government
- Following the acquisitions of Ventura and Vertex (private sector) in 2011, separation of Capita's customer management activities to create a new standalone operating division.

2013 priorities

- In 2013, integration of all our document services businesses into one offering, document information services (previously in Professional Services)
- Support the major sales team in designing compelling bid solutions for clients requiring large, complex transformation implementations
- Continue to ensure large contract transformations are implemented smoothly on key contract wins
- Build on our Gas Register and Constructionline operations to build a wider registration and entitlement business
- Deepen and expand our defence sector relationships.

8

Property Services (Capita Symonds)

Our property consultancy continues to be adversely affected by challenging economic conditions but we have taken measures to ensure that we are well positioned to benefit as the economy recovers. This includes focusing on our key strengths in infrastructure and regional work, particularly our local government partnerships, and we have enhanced and aligned senior management teams.

	2012	2011
Revenue (£m)	255.8	255.9
Underlying operating profit (£m)	6.9	12.8
Underlying operating margin (%)	2.7	5.0
Capex (£m)	2.4	2.5

2012 highlights

- Selected to support Carillion's partnership with Oxfordshire County Council in a contract worth £42m over 10 years
- Selected by North Tyneside Council to provide property, highways and maintenance services, expected to be worth approximately £152m over 15 years, with significant opportunities for growth
- Selected as supply chain partner to Interserve for its £300m contract with Leicestershire Partnership NHS Trust, University Hospitals of Leicester NHS Trust and the Leicester City, Leicestershire County and Rutland Primary Care Trust Cluster to improve estates and facilities management services across the region, the first of its kind in the UK
- Appointed by National Grid as its single real estate provider across its UK commercial (surplus) property business and manage a £400m portfolio
- Appointed by the Education Funding Agency to undertake condition surveys on a third of educational establishments in England as part of its Property Data Survey Programme, the largest single condition surveying project of its type ever commissioned in Europe
- Acquisition of construction consultancy Northcroft, further enhancing our cost and project management expertise.

2013 priorities

- Identify opportunities and support central and local government organisations to meet stringent cost saving targets
- Continue to build our real estate capability across both public and private sectors
- Focus on key growth sectors where we have demonstrable strength, such as central and local government, defence, health, energy and infrastructure
- Continue to rigorously control internal costs
- Continue to adapt our focus and services to the changing market environment and strengthen our leadership team
- Realign the business with the wider Group to mutually benefit from joint sales approaches.

9

Workplace Services

Workplace Services delivered strong operational and financial performance in 2012, with revenue up 27% compared to full year 2011. Following a challenging 2010 and 2011, organic growth has rebounded strongly and includes the division's largest contract win, Civil Service Learning. We have secured three acquisitions during the year increasing our headcount to more than 3,000 and positioning us for further strong growth in 2013.

	2012	2011
Revenue (£m)	359.1	282.8
Underlying operating profit (£m)	47.1	37.2
Underlying operating margin (%)	13.1	13.1
Capex (£m)	3.9	3.3

2012 highlights

- Selected by the Cabinet Office to manage exclusively the provision of training across the Civil Service in a two year contract which has now been extended for a further two years to 2016
- Reported strong performance in our recruitment businesses including executive search and education recruitment
- Acquisition of Medicare First, a specialist locum social worker and allied health professional recruitment consultancy
- Acquisition of Expotel, a hotel booking and venues and events company. We now manage over £500m of business travel and event management spend making us the fourth largest organisation in this industry
- Our recruitment process outsourcing (RPO) business has secured a number of new and existing clients including a three year contract with Severn Trent Water
- Awarded a four year learning and development contract with Manchester Airports Group and a two year contract to manage Royal Mail's external learning requirements
- Acquisition of The Security Watchdog, a leading employment screening business.

2013 priorities

- Continue to collaborate with other divisions on delivery and sales
- Continue to invest and innovate in our NHS HR shared services centre and convert our pipeline of opportunities
- Support HR transformation programmes for the Group's local authorities clients
- Further development of our capability in higher added value services such as MI analytics, HR advice, strategy and policy which support clients in achieving their strategic objectives
- Continue to add value by ensuring client awareness of all relevant regulatory and legislative changes
- Support the Government's skills agenda by working with partner organisations to create more effective and sustainable ways to improve skills
- Continue to grow our learning outsourcing business through selling learning products and services that support measurable workforce capability in UK and international markets
- Continue to focus on the integration of our travel & events business.

10

Health & Wellbeing

2012 was a strong year for our Health & Wellbeing division with revenue up 32% year-on-year. The key acquisitions we secured in 2011 and 2012 added further capability to our end-to-end offering and enabled us to secure our first major BPM contract win in this sector. We believe that this is a key growth market for the Group and will continue to evolve our offering to meet client needs.

	2012	2011
Revenue (£m)	176.2	133.0
Underlying operating profit (£m)	33.7	25.9
Underlying operating margin (%)	19.2	19.5
Capex (£m)	5.0	5.6

2012 highlights

- Selected by the Department for Work and Pensions (DWP) to deliver the new Personal Independence Payment (PIP) assessments across central England and Wales and by the Northern Ireland Social Security Agency to deliver PIP assessments in Northern Ireland
- Supporting the end-to-end screening process for the Recruitment Partnering Project (RPP), managed within Integrated Services, and ensuring appropriate candidates are selected for progression
- Secured a number of key acquisitions which have expanded our capability and supported our sales offering, including Medicals Direct Holdings, a provider of medical screening services, the occupational health business of Aviva UK Health and Clinical Solutions, provider of clinical decision support products
- Integration of the medical services business acquired as part of Reliance Secure Services, re-branded to Tascor Medical Services.

2013 priorities

- Development of division wide propositions into key public and private sector markets
- Explore the role of clinical triage and decision support solutions in improving access to health services
- Work with the DWP and the Northern Ireland Social Security Agency to successfully deliver PIP assessments appropriately and sensitively
- Support cross divisional and central sales teams in securing new business opportunities for the Group
- Deliver the new medical screening process for the RPP contract
- Continue to deliver and extend our services proposition to the legal and insurance markets
- Develop our national clinic network and extend our health and wellbeing services to employers.

11

Professional Services

Our Professional Services division reported solid performance in 2012 with respect to new client wins and steady trading across our service lines. However, the division was impacted by the ending of the National Strategies contract in 2011 and also the underperformance in 2012 of the DVLA Vehicle Excise Duty service contract. We are continually developing our offering in this area to meet the needs of our clients.

	2012	2011
Revenue (£m)	384.0	388.9
Underlying operating profit (£m)	94.7	95.7
Underlying operating margin (%)	24.7	24.6
Capex (£m)	5.4	4.8

2012 highlights

- Selected by West Sussex County Council to deliver a wide range of back office services
- Launched an award winning pilot scheme with Sheffield City Council to support channel shift and citizen self service
- Our payment management solutions team secured 13 new local authority clients
- Developed Engage, a smartphone app which provides our clients with a new customer communication channel. Our first client, Newport City Council, is using the app to enhance its customer service provision, improve efficiencies and reduce costs
- Successfully automated processes and increased efficiency for a number of our local government clients
- Our document services business reported significant growth with new clients including Christies, Weightmans, Taylor Wimpey and Addleshaw Goddard
- Expanded our document management relationship with The Law Society, providing support earlier in the process including working collaboratively with their agents and providing increased client handling and administration from our central storage facility in Coventry.

2013 priorities

- In 2013, the division will include all our local government services and partnerships, software services, children's services and our consultancy business
- Continue to support local government clients in delivering more for less including use of technology, channel shift, process automation, innovation and flexible delivery models
- Successfully commence the major new local government partnerships secured in 2012
- Continue to develop new and existing products and services to help clients meet the demands of Universal Credit and welfare reform
- Develop further solutions to meet the increasing need for mobile technology across our client base
- Full launch and roll out of the Engage smart phone app across all our markets including local government and in the education sector where we can support further and higher education establishments in improving the student experience
- Further increase the reach of our SIMS (School Information Management System) and One products in the fast growing UK academy market and into independent schools in the UK and abroad.



Award for innovation in council services

Capita was recognised by the Institute of Revenues Rating and Valuation with an Excellence in Innovation award for the transformation of revenues and benefits services at Sheffield City Council.

The Council asked us to modernise its operation to reduce costs while maintaining service levels. Since launching the service in April 2012, customer contact and payment channels are now more in tune with the way residents live their lives, allowing them to transact, apply for benefits, receive bills and manage their account online. Improved processes have also been introduced in the contact centre and the one-stop-shop, enhancing customer satisfaction and enabling better channelling of resources.



C: Delivering value to all our stakeholders

pages 48-57

Our corporate responsibility (CR) strategy is embedded in our business strategy and therefore helps to achieve our business goal of developing Capita as a long term profitable, sustainable business that delivers value to all our stakeholders: our clients, employees, suppliers, shareholders and the wider community.



Delivering value to all our stakeholders

Our CR approach	Page 48
Shareholders: delivering value	Page 49
Clients: responding to their needs	Page 50
People: managing, motivating and supporting	Page 51
Suppliers: building successful relationships	Page 54
Environment: running an efficient business	Page 55
Communities: supporting the communities where we work	Page 56

Our CR approach

To continue growing as the UK's leading provider of customer and business process management services, it is vital that we engage with and respond to the needs of all Capita's key stakeholders.

Our approach is straightforward. We have identified six main stakeholder, social and environmental priority impact areas, those which have the greatest impact on the future of our business and that reflect our stakeholders' interests. We monitor and report on these areas each year.

Our priority impact areas:

1. Delivering shareholder value
2. Responding to our clients to ensure that we meet their needs, deliver their services responsibly and deliver value to their customers
3. Managing our people well by actively attracting and building a quality, diverse workforce of motivated and supported employees
4. Creating successful supplier relationships to ensure high quality, responsible, cost-effective partnerships across the Group
5. Running a resource-efficient business
6. Investing in the local communities where we work.

Focusing on these priority areas ensures we consistently keep the needs of all our stakeholders in clear view and that we continue to deliver value to our shareholders.

CR leadership

Overall management of our CR activities sits with the Group Board. Gordon Hurst, Capita's Group Finance Director, has overall responsibility and each Executive Director is responsible for one or more priority impact areas.

Our Group functional heads are accountable for the implementation of our CR programme in each of their areas. They provide guidance and support at a business level to our employees to ensure that best practice is widely disseminated throughout the Group.

In addition to this, we have a CR Steering Group who are responsible for challenging what the business as a whole is doing in this area and ensuring that all possible risks are being identified and managed. The Group meets formally throughout the year and in 2012, members of the CR Steering Group reviewed our priority impact areas taking into account the importance and interest of these areas to our stakeholder groups. The exercise confirmed that our priority impact areas remain the same. During 2013, we will undertake a further review, consulting with stakeholders.

CR leadership structure



Delivering shareholder value

After investing in the business, to maintain our growth and sustainability, we use surplus cash to deliver further shareholder value in three main ways: through acquisitions, dividends and share buybacks.

2012 progress

Over the 10 year period to 31 December 2012, Capita has delivered £1.3bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and a special dividend. Capita's total shareholder return over the same period is 265% compared to 113% for the FTSE 100.

➡ See page 23

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 five years to 31 December 2012 we grew our dividend at a compound annual rate of 14%. Dividend cover, was 2.26 times for 2012.

Funding acquisitions to add value

In 2012, we spent £178m on 14 acquisitions. Our focus is now on achieving the successful integration of these businesses and realising synergies. We expect our acquisition activity to remain at similar levels going forward in 2013. We will continue to be selective and disciplined when assessing opportunities.

➡ See pages 24 to 26

Share buybacks

Opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. We did not complete any share buybacks in 2012, however, we will continue to evaluate any attractive opportunities as they arise. Shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our 2012 Annual General Meeting.

For further details on our financial performance,

➡ see pages 31 to 35

Our 2012 performance

	2012	2011	2010	2009	2008	2007
Dividend per share						
Interim dividend (p)	7.90	7.20	6.60	5.60	4.80	4.00
Final dividend (p)	15.60	14.20	13.40	11.20	9.60	8.00
Total ordinary dividend (p)	23.50	21.40	20.00	16.80	14.40	12.00
Special dividend (p)		–	–	–	–	25.00
Total dividend (p)	23.50	21.40	20.00	16.80	14.40	37.00
Dividend cover (excluding special dividend)	2.26x	2.27x	2.25x	2.31x	2.31x	2.34x
Totals						
Interim dividend (£m)	51	44	40	34	29	25
Final dividend (£m)	101	86	81	69	59	49
Total ordinary dividend (£m)	152	130	121	103	88	74
Special dividend (£m)		–	–	–	–	155
Total dividend paid (£m)	152	130	121	103	88	229
Share buybacks						
% of share capital authorised to repurchase	10	10	10	10	10	10
% of share capital repurchased	–	–	2.5	–	1.7	1.1
Issued share capital at year end (m)	652	608	606	617	611	609
No. of shares repurchased (m)	–	–	15.4	–	10.4	6.6
Average price (p)	–	–	751	–	659	665
Total cost (£m)	–	–	116	–	68	44
Shareholder returns						
Total return to shareholders (£m)	152	130	237	103	156	273

Responding to our clients' needs

Long term client relationships are vital to our continued success. We strive to meet our clients' needs and always try to exceed their expectations, listening and responding to their views and those of their customers, ensuring that we consistently add value to their operations.

Engaging with our clients

We engage with our clients on a regular basis. Our management team is highly accessible and we ensure that effective communication is maintained at all levels of the relationship, from day-to-day operational contacts, right through to the head of the organisation. Maintaining open and honest discussions with our clients allows us to develop a detailed understanding of their business and challenges.

Every company we work with is different, and every project unique, but we use a common overall approach. We offer a huge variety of services and it would not be appropriate to use a single method to measure client satisfaction. We use a number of different mechanisms, depending on the size and type of the contract.

➡ See page 24

Responding to change

Satisfied clients are the key to our success. To meet their expectations, we have to be able to respond to their changing needs, as well as to changes in the marketplace. We achieve this with bespoke service delivery models that ensure we always meet our clients' current needs, while taking into account their expectations and the needs of the public. There are occasions where we are required to undertake actions for our clients that are not going to be popular with the public, such as debt recovery or administering new Government benefits. We focus on ensuring that these activities are delivered on behalf of our clients, in an appropriate and sensitive manner.

When we are designing services, we make sure that they are inclusive, accessible and factor in the effects of the broad changes in society that our clients' customers are facing – for example an ageing population and changes in mobile technologies.

Protecting our clients

Our clients include many companies and organisations that handle personal data and highly sensitive material and so we make the security of client data a priority.

We have an established, robust framework in place which includes:

- detailed policies and procedures that enable us to comply with all legal requirements for data protection and information security
- mandatory annual refresher training for every employee, covering information security, data protection and fraud awareness
- regular review and update of training content to ensure it is always current and accurate
- clear incident reporting procedures that ensure we deal with any potential issue as quickly as possible and enable learning to be fed back into our procedures appropriately.

Managing, motivating and supporting our people

Capita is a people business – we have 52,500 employees working across more than 350 sites from a diverse range of backgrounds. Our success rests on having the right people, with the right skills to deliver services to our clients. To manage and support clients effectively, a number of our Group-wide policies focus on our people, including those covering: equality and diversity, health and safety and our code of ethical conduct. With a growing international presence, we ensure that we apply the same principles to all our employees, wherever they are based.

View all our policies online

 capita.co.uk/responsibility

Our culture

Our business principles, code of conduct and core company values have helped us to create a distinctive 'Capita culture'. Our values include: respect and support, consistency in managing our employees, delivering high quality services consistently, and giving our employees autonomy and responsibility over many aspects of their work.

Recognising and rewarding performance

We want to attract and retain employees who add value to what we do and recognising and rewarding performance plays a key part in this. We reward employees both financially, through competitive remuneration packages and local performance schemes, and through the Capita People Awards scheme which celebrates those employees who put our values into practice.

With the introduction of the new Government pensions reforms, we began to implement auto-enrolment across the Group at the start of 2013. We will also shortly be introducing a more flexible benefits package, allowing employees to select from a range of voluntary benefits which they can purchase directly from their salaries.

Engaging and listening to our employees

We know that when employees feel engaged and valued the result is increased productivity and higher retention rates. Critical to this is good communication. This was once again highlighted in our 2012 employee survey and good communication becomes even more important as we expand, both in numbers and geographically.

Our employee survey is structured around our company values and gives our employees the opportunity to tell us what we are doing well, in addition to identifying opportunities for improvement. Their feedback is used to inform what we need to concentrate on in the following year.

In 2012, the response rate for our employee survey was 46% (2011: 46%). The feedback was generally positive with 71% of respondents saying that Capita is a good place to work and that they are trusted to do their job and to make decisions, 89% feel valued and respected by their colleagues and 84% feel that our business delivers a good quality service. Areas for improvement include improving communication between different businesses within Capita.

Helping employees realise their potential

We believe in investing in our employees' development, enhancing their skills and cultivating their talent. We offer several different types of training:

- skills and personal development courses
- apprenticeship programmes
- professional qualifications.

Our Capita Academy training programme delivers skills and personal development courses. In 2012, we invested £13m, providing over 11,393 days of classroom training. In addition, we also provide online training, workplace training, coaching and group instruction.

Our apprenticeship programme is a vital way of growing and sustaining talent across our business. The programme enables young people across our business to develop the skills and knowledge they need to succeed and progress in their careers. Since the programme began in 2006, we have supported over 3,800 apprentices right across our business including business administration, customer services and IT management. In 2012, a further 954 employees started our apprenticeship programme and we expect the programme to keep growing into the future. We also deliver apprenticeship programmes for a number of clients including Prudential and HSBC.

Developing talented leaders

We work hard to build and retain strong, stable leadership and management teams and proactively identify talented, ambitious employees as future leaders.

We help them achieve their potential and, through our Capita Manager Academy training programme, we equip them with the right skills. Managers who complete a range of business and personal development courses have the opportunity to gain an externally accredited ILM level 3 qualification in first-line management. In 2012, we worked with Glamorgan University to develop a new post-graduate qualification in Leadership and Management which is available to aspiring managers across the Company. Currently 48 managers are undertaking this course.

We are disability-smart

Dan is one of our facilities management commercial controllers. He has muscular dystrophy, is a wheelchair user and needs 24-hour support.

During his second year as an undergraduate studying financial economics, he had six weeks of work experience at Capita. Dan said: "When I graduated I was naturally very apprehensive about my prospects. I'd never had a job and I thought that it would all just be too difficult. My carer has to assist me with everything, including getting around. Imagine my delight when Capita got in touch to tell me about a job they thought I could apply for. It was perfect for me because it would give me the flexibility to work at home part of the time, but also to be in an office where I would be able to interact with colleagues. I applied and was interviewed. I got the job!"

We worked with Access to Work to make some adaptations to the office Dan was due to work in. Much of what he needed was already in place, but we installed automatic doors and a hoist to make the toilet accessible for him. We also offered Dan a home adaptation assessment – but he already had everything he needed to enable him to work successfully from home.

 www.capita.co.uk

Promoting diversity and inclusion

We want to attract people from all backgrounds to work for us. We access the broadest talent pool so that we can recruit the best people for the job. By recognising and valuing the differences between our employees, we can bring together diverse teams and this allows us to be more creative and innovative in the way we work and what we deliver. We also want to mirror the diversity of the communities that we work in and we aim to employ local people wherever possible.

Our Joint Chief Operating Officers are responsible for championing diversity and inclusion and we use a network of trained diversity champions to help communicate our diversity strategy across the business. The champions work with our HR advisors to help develop local diversity action plans, and to continuously improve our approach.

We are members of the Business Disability Forum and Employers Forum on Age. We collaborate with other members of these forums to share expertise and advice. All our employees must also complete our online diversity awareness training every three years.

We use our online HR administration system to track the diversity of our workforce and encourage our employees to disclose their ethnic origin. During 2012, 56% (2011: 52%) of our employees told us their ethnic origin and of these, 26% (2011: 23%) of our employees said they were from ethnic minority groups.

Employee safety and wellbeing

Our Group health and safety team works with site and facilities managers, identifying risks and conducting site audits twice a year, to ensure that we comply with both our legal requirements as well as with our own policies.

All our employees undertake health and safety training as part of their induction and where there are job specific risks, for example, for lone workers or construction site jobs, we provide additional training. In 2012, we introduced a major new course on behavioural safety and safety leadership, aimed at managers in our higher risk businesses.

We monitor our health and safety performance across the business and in 2012, our accident rate was 1.41 per 1,000 employees (2011: 1.16) showing a 38% reduction in reportable accidents from the 2004 baseline. The increase in 2012 reflects the growth in numbers of lone and blue collar workers in certain new contracts and recently acquired businesses.

Our business success relies almost entirely on our people and it follows that their overall wellbeing is very high on our agenda. Our managers have a positive and supportive style which aims to help minimise work-related stress. Investing in the health and wellbeing of our employees reduces ill-health and absenteeism.

Supporting people through change

So we can help our clients to be more efficient, it is sometimes necessary to reduce headcount in a particular contract. Because we're constantly expanding, we are often able to offer employees redeployment into other areas of the business.

Where suitable opportunities are not available, we are open and honest about the fact. We also have good relationships with trade unions, including UNISON, PCS, Prospect and Unite, and we ensure that we meet them regularly during any consultation process. Consultation with our unions is integral to securing the best outcomes for employees affected.

Where an employee opts to take voluntary redundancy, we offer them the services of our outplacement services team at Capita People Development. This team helps with career assessment and provides people with the skills, tools and confidence to look for fresh employment.

Our 2012 performance		
	2012	2011
Employee retention		
Manager retention rate (salaries exceeding £50k p.a.)	99%	95%
Overall employee retention rate	83%	89%
Health and safety (accident frequency rate per 1,000 employees RIDDOR)	1.41	1.16
Employee diversity		
Male/female split	50% male/ 50% female	53% male/ 47% female
Male/female split for management (salaries £50k – £89k p.a.)	72% male/ 28% female	78% male/ 22% female
Male/female split for senior management (salaries exceeding £90k p.a.)	84% male/ 16% female	85% male/ 15% female
Percentage/actual number of employees from ethnic minority groups ¹	26% 7,660	23% 5,561
Percentage of employees working part-time out of total workforce	19%	15%
Employees by location		
Onshore	87.7%	87.6%
Offshore	9.8%	10.1%
Nearshore	2.5%	2.3%

¹ Based on 56% of our employees disclosing their ethnic origin (2011: 52%).

Building successful supplier relationships

We recognise that good procurement practices have a direct influence on our business performance. We manage our supply chain effectively, ensure that the goods and services that we buy are provided by approved suppliers who are fully committed to our policies, meet the highest ethical standards and comply with our responsible sourcing policy.

View all our policies online

 capita.co.uk/responsibility

How we manage our approach

We have a very diverse supplier base, spending £950m with over 22,000 companies. Our key supplier relationships are managed by a central procurement team that works collaboratively with our business units on policy, process and best practice, as well as supporting local procurement specialists.

Our Group procurement team takes a category management approach that allows us to build strategic partnerships. We categorise our suppliers based both on the value of the contract and on the services they provide. We conduct continual detailed analysis of our spend with suppliers. Through this continual review, we are able to further investigate all risks to the supply chain and to take action to mitigate these risks and to support suppliers. This also provides us with an insight into the proportion of SMEs that are currently delivering goods or services to the Group.

Suppliers providing services across the Group are classified as strategic suppliers and our Group procurement team centrally manages relationships with them, actively controlling over £400m of spend.

Assessing our supply chain

All our suppliers must register on our supplier assessment portal, allowing us to monitor them and ensuring we are consistent in the way we capture information. We also use the portal for online tendering, giving all registered organisations, regardless of size, the opportunity to work with us.

We ask suppliers to complete a detailed questionnaire, including questions covering their anti-bribery and corruption policies, working conditions and the health and safety of their employees. This allows us to identify and manage any potential risks in our supply chain, including risks to our reputation and continuity of supply of goods and services. It is a robust process that ensures we select only suppliers who meet our standards.

If requirements for improvement are identified through this process, we obtain further detailed information from external sources so that we fully understand the risks. We then contact the supplier to understand its view on the information we have discovered. We can provide support to suppliers where appropriate – for example, by using our procurement expertise to help the supplier manage its supply chain risk and offering support based on our insights on procurement cost reduction.

Smart procurement

Where we have acquired a new business, our procurement team undertakes a risk assessment as part of the due diligence process to ensure that their suppliers meet Capita's standards before they migrate to become one of our own suppliers. This identification process enables us to gain better visibility of risks, so we can mitigate them through the use of existing suppliers in the Group. In addition, the process identifies suppliers that we could use more widely across the Group. This allows them to grow their businesses internally to the benefit both of Capita and the supply chain generally.

We work with a number of other partners on some of our major contracts to help deliver all the services in these contracts. When we are working with these partners we ensure that they understand our principles and meet our standards by means of an active supplier relationship management process. We have embedded this process in our category management methodology. It gives us a set of robust tools and techniques to formalise our supplier relationships and ensures that deliverables are met by both parties. This process also ensures open two way communications, in contrast to the conventional one way buyer-supplier relationship, where buyers tend to dictate to suppliers.

Engaging and actively managing our suppliers

Our Group procurement team meets our strategic suppliers regularly to ensure that the products and services they provide are compliant with our policies and guidelines; this is a routine part of our supplier relationship management. Regular meetings of this kind also give us the opportunity to share knowledge and expertise and look for further ways to improve the way we work together.

Our 2012 performance

	2012	2011
Annually audit all strategic suppliers	100% strategic suppliers audited	100% strategic suppliers audited
Engaging with our suppliers	All new suppliers registered on online portal to ensure they meet our standards	All new suppliers registered on online portal to ensure they meet our standards

Running a resource efficient business

Capita is largely an office-based company so our environmental impacts are not extensive, however, we recognise that we need to take a pro-active approach to environmental management across the Group. This not only ensures that we comply with relevant statutory and regulatory requirements, but also ensures business continuity. We focus on reducing the carbon emissions from energy use in our locations and from business travel, running a resource-efficient business and improving our waste management.

We have an environmental policy and management system in place based on ISO14001. Where it is appropriate for an individual business, they may have obtained an external accreditation.

View all our policies online

 capita.co.uk/responsibility

Measuring and reducing our carbon emissions

We measure and report our emissions annually and, in anticipation of new regulatory requirements for carbon reporting that will come into effect in 2014, we have appointed a dedicated resource to manage our carbon accounting.

In 2012, our total carbon footprint was 103,728 tonnes CO₂eq (2011: 91,318) – an increase of 14%. The increase is explained by three specific factors: the fact that our acquisition activity results in more offices; the full-year energy usage effect of our acquisition of the Ventura contact centre in 2011 (a seven-day a week operation) and an increase in business travel as a result of the growth of our UK operations and nearshore and offshore business centre network.

We work hard to reduce energy use in our offices and have had a formal energy reduction programme in place since 2006, which we have continued to roll out. Since the programme began we have made savings which equate to more than £1.2m. Where a site is subject to the UK Government's carbon reduction regulations, we install smart meters to help manage and meet our obligations.

Where we can, we try to reduce the necessity for travel using video-conferencing and tele-conferencing where possible. In 2012, we increased the number of conference calls by 34%. This also provides cost savings for the business and saves travelling time. Where travel is unavoidable, we try to encourage employees to use public transport and to consolidate their travel so that one journey can service more than one meeting. We have capped CO₂ emissions from our vehicle fleet at 130g/km.

Waste management and resource use

Many of our offices are in shared buildings and this presents us with the challenge of collecting accurate data. Where this is the case, we collaborate with landlords to collect the data we need to monitor and improve our performance. We also work with other tenants on waste reduction and to share our expertise.

Last year we set ourselves a target to monitor our waste at our top 20 sites, with the aim of recycling 80% of all our waste at these sites by 2015. We are currently working with our facilities management provider, to assess the existing waste management systems at these sites and develop tailored plans for improvement.

We work hard to avoid generating waste and we examine the way we use materials. We use electronic document management, and try to replace paper based services with online services wherever possible. We also actively encourage recycling across the Group. We run Group-wide recycling schemes for paper, consumables such as printer cartridges, mobile phones and redundant IT equipment.

Although our water usage is not significant, we do play our part in conserving this resource. Where we own the site, we have made efforts to reduce our usage and have installed low flush toilets, low flow taps and urinal controls.

Our 2012 performance

	2012	2011
Total carbon footprint (tonnes CO ₂ eq) ¹	103,728	91,318
Carbon intensity for whole Group ²	23.3	24.0
Conference calls made	302,939	226,285
Undertake environmental site audits twice a year	100% audits completed	100% audits completed

¹ Based on latest greenhouse gas emissions from Defra.

² Scope 1&2 (tonnes CO₂/£m) offices only.

Engaging and supporting local communities

Our aim is to ensure that we have a positive impact on the communities in which we operate, helping to improve their social and economic development. We know that the needs of each community differ, so we engage directly with people living in these communities to ensure we support them in ways that make a lasting and valuable difference.

Supporting regeneration

We can help to regenerate communities. We are a major employer and also contribute to local economies by using local suppliers. Where possible, we try to create new jobs for local people. For example, we are creating 375 new jobs for our contract to run the Recruiting Partnering Project for the MOD. We also provide new apprenticeship places for people from the communities in which we work. In 2012, for example, we placed 10 apprentices in our Capita insurance services business in Portsmouth and committed to create 40 apprenticeship places for local Lambeth residents as part of our strategic partnership with the Council.

We create tangible benefits to citizens when we improve the services of our public sector clients: the money our clients save can be reinvested in frontline public services.

Community investment

We go further than our contractual obligations. We identify and invest in local projects that relate to our core business and use our employees' skills. We work collaboratively with our clients, local businesses and third sector organisations on our community programmes, building relationships and ensuring that we maximise our impact.

Our community investment programmes aim to encourage a more inclusive and supportive society. We focus our programmes around the key concerns and impacts in the markets in which we operate and in the wider community. We engage and encourage our employees to get involved in our programmes, either through our volunteering scheme, donating their time, skills and expertise, or by supporting our charity initiatives.

Charitable support

We support many charities, including partnering with a number of healthcare charities. In 2011, our employees chose the Alzheimer's Society as our corporate charity partner and helped to raise £720,000 by the end of our two year partnership in December 2012.

As well as raising money, our employees volunteered their skills and expertise and worked with the Alzheimer's Society to increase awareness and understanding of dementia and the needs of sufferers.

At the start of 2013, our employees selected our new corporate charity partner, Cancer Research UK.

Measuring our impact

We want to track and measure the value and impact of our community investment, both to Capita and to society as a whole to ensure our efforts are achieving our aims. To do this, we use the London Benchmarking Group methodology. In 2012, we estimate that our total investment was £1.8m based on data captured from 50% of the Group.

Community Development Foundation 'Creating Better Tomorrows'

At the start of 2013, we established the Capita Community Development Foundation, known as 'Creating Better Tomorrows'. The foundation will support five key areas that align with the key concerns and impacts in the markets in which we operate and in the wider community:

- young people and those in care
- inclusion for people with health issues and disabilities
- offender rehabilitation
- adult social care
- resettlement for ex-service personnel.

We are already engaged and working with a number of these community groups and we will continue to build on our existing initiatives and deliver innovative, scalable community programmes.

The key focus of the foundation is to use Capita's skills and services to help support and build capacity in third sector organisations and SMEs working in these areas. This support will enable them to run their services as efficiently as possible and help them become sustainable. In this way, we hope to help in increasing the beneficial outcomes in these five initial focus areas.

Providing apprenticeships



We actively look for opportunities to help tackle the problem of youth unemployment.

Through our partnership with Lambeth Council in 2012, we offered three Lambeth residents apprenticeships in our business. One of them, 24-year-old Ifrika, joined our apprenticeship scheme in June 2012. She had been long term unemployed and unsurprisingly was finding her confidence severely dented.

Since joining us, her outlook on the future has changed. "My confidence has grown a lot since I've been at Capita. I don't mind admitting that I was a bit scared about the idea of working in a big corporate office, but everyone has been so helpful and welcoming and I quickly fitted in. I am on track to achieve my qualification and for the first time in my adult life I feel like I can have a proper career."

Jackie Meldrum, deputy leader of Lambeth Council, is also very enthusiastic. "Youth unemployment is at the very top of our list of priorities, and we've launched a campaign – More Jobs – to create local jobs, get more apprentice places, and set up young people with the skills they need for the workplace. Capita is listening to us and coming up with real jobs that offer our young people real opportunities."

 www.capita.co.uk

Our 2012 performance		
	2012	2011
Total community investment (using London Benchmarking Group methodology)	£1.8m	£2.0m
Total corporate donations including support for our charity partner and matched funding scheme, other community initiatives and disaster appeals	£135k	£500k
Employee fundraising for our corporate charity partner	£245k	£475k

Governance



This section of our report introduces our Board members and contains our corporate governance and remuneration reports.

Board members 59

A summary of the biographical details and responsibilities of the Group Board of Directors.

Corporate governance report 61

Martin Bolland, Non-Executive Chairman introduces a report on how the Company applies the principles of the UK Corporate Governance Code 2010, a formal report on compliance with the Code provisions and other statutory and regulatory information.

Audit Committee report 67

Paul Bowtell, Chairman of the Audit Committee, reports on the Audit Committee's role and work during the year.

Remuneration report 78

Martina King, Chair of the Remuneration Committee, reports on remuneration policy and practice for Executive Board members.

Board members

The Board is currently comprised of nine Directors, made up of the Chairman, Chief Executive and four other Executive and three Independent Non-Executive Directors. We continue to believe we have a talented and substantial team in place to support our continued growth. However, as the Group continually grows and diversifies, we will continue to regularly review the Board composition to ensure it meets the needs of the business.

Non-Executive Directors



Martin Bolland

Non-Executive Chairman

Joined the Board in March 2008 and became Chairman on 1 January 2010. A Chartered Accountant, Martin previously held a number of senior operational positions within the Lonrho Group and was also a founder and partner of Alchemy Partners for 11 years. Martin continues to be a member of both Alchemy's Investment Committee and Monitoring Boards. He is also currently Chairman of RecyCoal Holdings Limited and PD Parks Holdings Limited (Parkdean Holidays).

Committee memberships:

Nomination Committee (Chairman)



Gillian Sheldon

Senior Independent Director

Joined the Board in September 2012 and was appointed Senior Independent Director on 1 January 2013. She is currently a senior banker at Credit Suisse. Gillian has substantial experience of advising boards across a wide range of complex situations and transactions. Gillian joined Credit Suisse in 1997 having worked for seven years at NM Rothschild & Sons. Gillian is also a Trustee of BBC Children in Need, appointed in September 2012. She has previously been Chair of Bird & Co Group Advisory Board.

Committee memberships:

Audit Committee
Nomination Committee
Remuneration Committee



Martina King

Non-Executive Director

Joined the Board in January 2005. Martina is CEO of technology company Featurespace. Martina previously held a number of senior positions in marketing and online media, including Managing Director of Aurasma, a division of Autonomy, Yahoo! and Capital Radio. Her broad knowledge and extensive experience of management, new technology and sales and marketing brings a different range of expertise to the Board which is highly valued. Martina is also Non-Executive Director of Cineworld PLC and Debenhams PLC.

Committee memberships:

Audit Committee
Nomination Committee
Remuneration Committee (Chair)



Paul Bowtell

Non-Executive Director

Joined the Board in June 2010 and is currently Chief Financial Officer of Gala Coral Group. Paul was previously on the board of Tui Travel PLC as Chief Financial Officer and was also on the board of First Choice Holidays PLC. He is a Chartered Accountant and has extensive experience across the UK retail sector having held a number of senior positions with British Gas, WH Smith and Forte. Paul brings significant financial and commercial knowledge to the Board. He is also a Non-Executive Director and Chairman of the Audit Committee at STree PLC.

Committee memberships:

Audit Committee (Chairman)
Nomination Committee
Remuneration Committee

Nigel Wilson

Senior Independent Director until 31 December 2012

Joined the Board in May 2010 and became Senior Independent Director upon appointment. Nigel was appointed Chief Executive Officer of Legal and General Group Plc in June 2012 having previously held the appointment of Group Chief Financial Officer since September 2009. He stood down from the Board at the end of 2012.

Committee memberships:

Audit Committee
Nomination Committee
Remuneration Committee

Paddy Doyle

Non-Executive Director until 31 March 2012

Joined Capita in 1992 and was appointed to the Board in 1994 and served as Group Operations Director and then Joint Chief Operating Officer. He became a Non-Executive Director from 1 March 2010. Paddy retired from the Board at the end of March 2012.

Committee memberships:

Nomination Committee

Executive Directors



Paul Pindar

Chief Executive

Joined Capita in 1987 from 3i after advising Capita on its management buy-out. He became Chief Executive in 1999. A Chartered Accountant, Paul is responsible for managing and developing Capita's business to achieve the Company's strategic objectives and has overall responsibility for our charitable approach. In July 2012 Paul was appointed Non-Executive Chairman of Integrated Dental Holdings. Earlier in 2012 Paul retired as Chair of the Great Ormond Street Hospital's Corporate Partnerships Board.



Gordon Hurst

Group Finance Director

Joined Capita in 1988 and was appointed to the Board as Commercial Director in February 1995 and then as Group Finance Director in 1996. Gordon was also appointed Company Secretary in 2000. A Chartered Accountant, Gordon has Board responsibility for our overall corporate responsibility policy and specific responsibility for our environment, health and safety approach and supplier relationships. He chairs the Business Services Association's Finance and Taxation Committee.



Maggi Bell

Business Development Director

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. She has been head of Group Sales & Marketing since January 2005. She is also responsible for driving forward business development across the Group, including managing our Major Sales Team, and has Board responsibility for community engagement.



Andy Parker

Joint Chief Operating Officer

Joined Capita in 2001 and was appointed to the Board in January 2011. Andy oversees the majority of Capita's non-financial services operations. Andy has held various positions across the Group including being the Divisional Director for Capita's ICT, Health and Business Services Division and held a number of senior finance director positions including three years as Senior Divisional Financial Director. Andy is a Chartered Accountant and has extensive commercial and financial experience. Andy has joint Board responsibility for clients and employees with Vic Gysin.



Vic Gysin

Joint Chief Operating Officer

Joined Capita in 2002 and was appointed to the Board in January 2011. Vic oversees Capita's financial services operations, Customer Management and International and the Integrated Services Division. Vic has held various positions across the Group including being Divisional Director for Capita's Insurance and Investor Services Division and the Integrated Services Division. Since joining Capita he has overseen the successful implementation and delivery of a number of our key contracts. Vic is an experienced business director with strong leadership and management skills. Vic has joint Board responsibility for clients and employees with Andy Parker and responsibility for the Group HR function.

Corporate governance report

Chairman's report

I am pleased to present to you this report on the work of the Capita Board during 2012. This section of the Report and Accounts (pages 58 to 89) together with the business review (which includes sections: A snapshot of our business and Our business) on pages 1 to 57 form the Directors' Report.

I continue to be impressed by the Board's commitment to the highest standard of corporate governance and, most importantly, how this works within the structure of the whole organisation without being overly cumbersome.

It is vital that a Board balances its time between strategy and oversight, as this responsibility is given to them by the shareholders, but consideration of all its stakeholders is also important. I believe that this balance is managed well within Capita at Board, divisional and business unit level.

Results for 2012

Capita has had a strong sales year securing new major contracts and has continued to perform well in challenging trading conditions, achieving revenue growth of 14%, underlying operating profit growth of 10%, and an underlying EPS growth of 10%. During 2012 we were selected as preferred bidder with Staffordshire County Council to initially deliver a range of educational services for schools and academies in this region. This is expected to generate circa £85m of revenue per annum over 20 years and is the single largest contract win in Capita's history.

Board activities in 2012

During 2012 the Board discussed a range of items as well as the business as usual of strategy, risk and oversight of the Group. The Group has undertaken a large number of acquisitions and had its best year on record for securing new and renewed major contracts.

In April we undertook a placing of 40 million shares. This has enabled us to pursue acquisitions whilst maintaining an efficient balance sheet. We have a strong track record of generating valuable returns from our acquisitions and they play a key role in opening up new markets and helping us to secure new contracts.

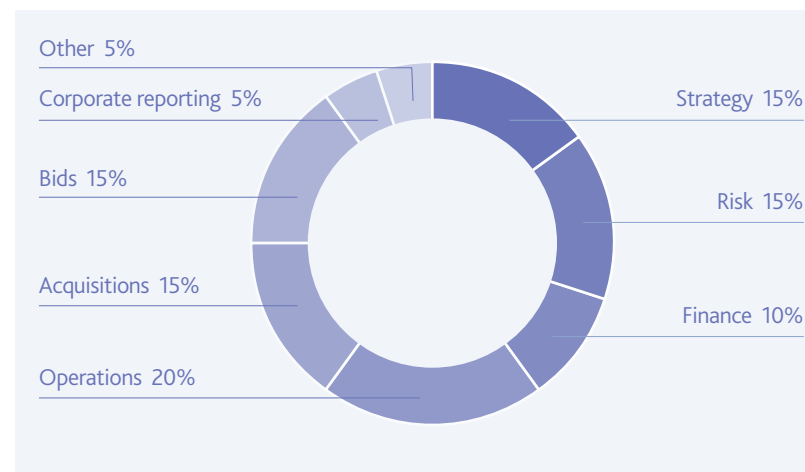
The Board and committee meetings are structured, and agendas drawn up accordingly, to cover the wide range of matters that are brought to their attention and the meetings are aligned with the financial calendar of the Company; this ensures that appropriate focus can be given to the items brought to their attention.

In September we were pleased to appoint Gillian Sheldon as Non-Executive Director and appoint her as Senior Independent Director from 1 January 2013. Her experience at Credit Suisse advising boards on a wide range of complex transactions brings additional strength to the Board. I believe that we have a talented and strong team in place on the Group Board and across our divisional management team to support our continued growth as a Group.

In order that the Board can ensure that the strategic direction and growth of the Group can continue successfully and with the appropriate risk oversight, meetings are held individually between the Group Risk & Compliance Director and the Group Internal Audit Director with the Chairman of the Audit Committee throughout the year as well as the normal scheduled meetings. Risks are identified in a number of ways and are prioritised and delegated in accordance with the risk ratings provided.

Approximate allocation of agenda time in 2012

During the year the Board's discussions have been wide-ranging, including: strategy, acquisitions, finance, placement of shares, corporate reporting, operational performance and risk and internal audit. The work of the Board is shown in the diagram below.



Corporate governance report

Strategy

A specific session to review the Group's strategy in detail is held each year. Strategy is also a standing item at each Board meeting. The diverse nature of the business means that we must continue to be adaptable to the opportunities and challenges that face us, our clients and our stakeholders. Risk is considered side by side with strategy and is included in our operational reporting.

Board members reporting

All Executive Directors prepare and present a report at each Board meeting. These include the key issues (including risk and opportunity), operational and financial performance and bid and acquisition activity. These reports are then complemented with verbal updates at the meeting. This allows the Directors to focus on specific issues and also for the other Directors to debate and challenge as required. See management and governance structure on page 36.

Financial and corporate reporting

The Board considers the Group's statutory reports and the broader aspects of corporate reporting at each scheduled meeting. Regular updates are received on the financial results from Gordon Hurst and Paul Pindar, which also include the financial outlook for the Group.

Major bids and acquisitions

Maggi Bell, Business Development Director, presents a report at each Board meeting which covers the current major bid strategy, constituents of the bid pipeline (bids over £25m in value where we are shortlisted to four or fewer) and prospects which are sitting just outside of the bid pipeline. As many of these potential contracts are of significant size and duration, these opportunities can make a significant impact on the shape and resource requirements of the Group as it grows.

Paul Pindar reports on the acquisition strategy and current acquisition activity in addition to his Chief Executive report.

Following the contract wins of Barnet and Staffordshire and the acquisitions made during the period, a review has been undertaken of the Divisional senior management and changes and adaptations made to meet the changing resource requirements of the Group. In order to meet these requirements the Board identifies candidates from within the Group or externally for key positions in the transition periods and ongoing delivery of these operations.

Board evaluation in 2012

During 2012 a full external evaluation of the Board was undertaken by Genius Methods, an external provider with no previous connection with Capita. The evaluation was questionnaire based and covered the Board, governance review and the Audit Committee. The topics covered within the evaluation included risk, board strategy, governance and training. The questions were discussed with the Senior Independent Director and the questionnaire was agreed with the external provider, myself and the Deputy Company Secretary. The evaluation was entirely administered by the external provider. The participants included all Board members and comments and observations from regular attendees at the Audit Committee (such as the Group Financial Controller, Group Risk & Compliance Director, Group Internal Audit Director and the external Auditors) were also factored into the final analysis.

The evaluation report analysed the responses, drew on above comments and was presented to the Deputy Company Secretary and myself by the provider.

The report continued the theme from our previous evaluations and recognised the strong governance process within the Board and the strength of the dynamics that exist between strategic challenge and strategic focus amongst Executive and Non-Executive Directors.

The results of the evaluation were once again very positive and the final report was presented, without amendment, to the Board in October 2012. A small number of minor follow-up matters were identified and are being resolved.

As part of our Board evaluation process, a series of meetings were held with the Non-Executives and the Senior Independent Director and also all members of the Board to discuss my own performance. The views of the Executive Directors were taken into consideration by the Non-Executives as part of the evaluation. I was not present at either meeting. A meeting of the Non-Executives without the Executive Directors was also held. I met with all members of the Board individually and regularly during the year to receive feedback and discuss current and long term opportunities.

Consideration of the Board balance is kept under regular review by the Chief Executive and myself.

Risk & Compliance and Internal Audit

This year, following the departure of the Group Risk & Business Assurance Director, we decided to combine the role of Risk & Compliance and separate the Internal Audit function from Risk. We believe that this better aligns the various processes with the operational activities.

Both the Group Risk & Compliance Director and the Group Internal Audit Director report to the Group Finance Director and independently to the Audit Committee. Both report on the internal audit programme and risk and compliance management activities across the Group. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit Committee Chairman and myself at least quarterly. See pages 36 to 39.

Directors

The Directors of the Company currently in office are listed on pages 59 and 60. As explained in our 2011 report and accounts, Paddy Doyle retired from the Board at the end of March 2012. Nigel Wilson resigned from the Board at the end of December 2012.

At the end of August we were pleased to announce the appointment of Gillian Sheldon as an independent Non-Executive Director with effect from 1 September 2012 and as Senior Independent Director from 1 January 2013. As explained in her biography on page 59 Gillian is currently a senior banker at Credit Suisse. Gillian has substantial experience of advising boards across a wide range of complex situations and transactions. Gillian joined Credit Suisse in 1997 having worked for seven years at NM Rothschild & Sons. Gillian is also a Trustee of BBC Children in Need, appointed in September 2012. Gillian brings to Capita a wealth of experience gained from advising clients across a broad range of sectors, she has a strong financial background and a record of business performance. Her skills and experience have added further depth to the Board.

No Director has a service contract exceeding one year.

All the Board will stand for re-election (Gillian Sheldon for election) at the forthcoming AGM. All of the Board have received a formal performance evaluation and each Director continues to be effective and to demonstrate their commitment to the role.

The following pages in this section consist of our corporate governance and remuneration reports. I hope that you will find these and the entire Annual Report and Accounts informative and the Board will be happy to receive any feedback you may have.

Martin Bolland
Non-Executive Chairman

Compliance with the Financial Reporting Council's UK Corporate Governance Code

Capita plc and its subsidiaries (the Group) continue to be committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2010 (the Code) applies to accounting periods beginning on or after 29 June 2010. The UK Corporate Governance Code 2012 will apply to accounting periods beginning on or after 1 October 2012, however we have chosen to comply with the majority of this as well as the Code detailed above (together the Codes). A copy of both Codes are available from the Financial Reporting Council's website www.frc.org.uk. Throughout the accounting period to which this report relates, the Company applied all of the principles set out in Sections A to E of the Code except as detailed below:

Code provision	Area of non-compliance	Position at 31 December 2012
B.1.2 Composition of the Board	During the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors.	The balance was 5 Executive Directors and 4 Independent Non-Executive Directors and a Non-Executive Chairman.

As noted above, the balance of independent Non-Executives to Executives is not equal. However, in accordance with the Codes, (B.1 Supporting Principles) the Board needs to be appropriate in size and experience to manage the complexities it faces. We believe that the number of our Board Directors and their range of skills are appropriate for the scale and scope of the business and to ensure effective Board processes. The Board has the broad range of experience that is essential to ensure effective execution of strategy and management of risk, whilst also ensuring that the balance of skills is appropriate for the committees. Our Executives recognise all of their responsibilities and do not solely represent the activities they have within the Group which adds to open and constructive debate, as well as demonstrating the overall strength of the Board.

This area of non-compliance is expected to remain throughout 2013.

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

Board changes in the year

There were the following changes to the Board during the year.

Paddy Doyle retired at the end of March 2012. Nigel Wilson resigned at the end of December 2012 and Gillian Sheldon was appointed as an Independent Non-Executive Director in September 2012 and was appointed Senior Independent Director from 1 January 2013.

Corporate governance report

	Executive Directors	Non-Executive Directors
January 2012	Paul Pindar	Martin Bolland
	Gordon Hurst	Nigel Wilson*
	Maggi Bell	Paul Bowtell*
	Vic Gysin	Martina King*
	Andy Parker	Paddy Doyle

	Executive Directors	Non-Executive Directors
December 2012	Paul Pindar	Martin Bolland
	Gordon Hurst	Nigel Wilson*
	Maggi Bell	Paul Bowtell*
	Vic Gysin	Martina King*
	Andy Parker	Gillian Sheldon*

	Executive Directors	Non-Executive Directors
January 2013	Paul Pindar	Martin Bolland
	Gordon Hurst	Gillian Sheldon*
	Maggi Bell	Paul Bowtell*
	Vic Gysin	Martina King*
	Andy Parker	

*Independent in accordance with the Code.

Board leadership

Consistent with previous years, the Board continues to support the need to segregate the responsibility for operating the Board and managing the underlying business. Martin Bolland's role as Non-Executive Chairman and Paul Pindar's role as Chief Executive are separate.

Martin Bolland as Chairman and Nigel Wilson as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2012. Both Martin and Gillian are also available to meet with shareholders when requested.

Role of the Board

The Companies Act 2006 requires Directors to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders as a whole. In doing so, the Directors must have regard (amongst other matters) to:

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster business relationships with suppliers, customers and others
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct
- the need to act fairly between shareholders of the Company.

In addition to their statutory duties, the Directors must ensure that the Board focuses effectively on all its accountabilities.

The Board determines the strategic objectives and policies of the Group to best support the delivery of long term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company: the Executive Directors are directly responsible for running the business operations and the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The Non-Executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by executive and divisional management and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Board independence

Non-Executive Directors are required to be independent in character and judgement. All relationships that may materially interfere with this judgement are disclosed as required under the conflicts of interest policy. The Board has determined that all the Non-Executive Directors who served during the year were independent and before and upon appointment as Chairman, Martin Bolland met the criteria of independence as outlined in the Codes.

Provision B1.1 of the Codes suggests that serving more than nine years could be relevant to the determination of a Non-Executive Director's independence. Martina King was appointed on 1 January 2005 and therefore is serving her ninth year with Capita. The Board continue to believe that she is independent in character and judgement. She continues to bring challenge and rigour to Board discussions and her high degree of knowledge and understanding of the Company are of great benefit to shareholders and add significantly to the strength of the Board.

The Board does not believe that a Non-Executive's tenure materially interferes with their ability to act in the best interests of the Group. The Board also believes that each of the Non-Executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group.

The Board is satisfied that no conflict of interest exists for any Director. This matter is a standing agenda item.

Board Directors' inductions and training

Following appointment to the Board all new Directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. All Directors have received an appropriate induction for their roles within Capita. These have included familiarisation with:

- terms of reference for all committees and matters reserved for the Board
- overviews of the business via Monthly Operations Business (MOB) reports
- the Group approach to risk management.

Following the appointment of Gillian Sheldon to the Board in September 2012, training was given in respect of her role as a Non-Executive Director. This included meetings and briefings with the Chairman, the Executive Directors, the Group Financial Controller, Group Risk & Compliance Director, Group Internal Audit Director and the Deputy Company Secretary. Gillian also spent an afternoon meeting all the key heads of department in Finance.

Ongoing training and briefings are also given to all Directors, including external courses as required.

Company Secretary

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 the Group Finance Director, is available to all Directors and he is responsible for ensuring that all Board procedures are complied with. As with the Board composition and ongoing requirements, this is regularly reviewed.

The duties of the Company Secretary continue to grow with the increase in size and diversity of the Group's activities and legislative changes.

To assist in this area, the Deputy Company Secretary coordinates and manages the provision of share registration, company secretarial services and share plans to the Group on behalf of Gordon Hurst. The Deputy Company Secretary has direct access and responsibility to the Chairs of the standing committees and open access to all the Directors. The Deputy Company Secretary has been appointed as Secretary to the Audit, Remuneration and Nomination Committees to ensure that there are no conflicts of interest. The Deputy Company Secretary meets regularly with the Chairman, the Chairman of the Audit Committee and the Chair of the Remuneration Committee and briefs them on areas of governance and committee requirements.

The Board continues to keep the Company Secretary role under review, but feels that the combination of the roles continues to work well for the business as a whole.

Corporate governance report

Committees' terms of reference

The terms of reference of the Nomination, Remuneration and Audit Committees were reviewed during the year. The terms of reference are summarised in the table below and displayed in full in the investor centre at www.capita.co.uk/investors along with the matters reserved for the Board.

Terms of reference	Nomination Committee	Audit Committee	Remuneration Committee
Brief description of responsibilities	Reviews composition of the Board. Recommends appointment of new Directors. Considers succession plans for Chairman and Executive positions. Monitors corporate governance issues. The Group diversity statement is reviewed and recommended by this committee.	Reviews accounting policies and the contents of financial reports. Monitors the internal control environment. Considers the adequacy and scope of the external and internal audit programme. Oversees the relationship with our external auditors. Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.	Sets the policy for Executive Directors' and senior executives' remuneration. Approves individual remuneration awards. Agrees changes to senior executive incentive plans. Approves the policy on remuneration for FSA regulated firms and also reviews and approves the Remuneration Policy Statement in respect of the FSA Remuneration Code.

Membership of the committees

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

	Martin Bolland	Gillian Sheldon	Martina King	Paul Bowtell	Nigel Wilson
Nomination	(C)x	x	x	x	x
Audit		x	x	(C)x	x
Remuneration		x	(C)x	x	x

(C) Chair

Nomination Committee

The Nomination Committee in 2012 comprised Martin Bolland (Committee Chairman), Nigel Wilson, Martina King, Paul Bowtell and Gillian Sheldon (on appointment). Paddy Doyle was a member of the Committee until his retirement. The Deputy Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

The Committee is also authorised under its terms of reference to obtain the advice of independent search consultants. The terms of reference for the Nomination Committee can be found on the Group's website at www.capita.co.uk/investors.

The Committee reports and makes recommendations to the Board in relation to its activities and deliberations. The Committee's key responsibilities are:

- to identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition
- to keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board
- to review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Board members
- to consider the Group Diversity Statement.

Committee activities during 2012

During the year Gillian Sheldon was appointed to the Board as an Independent Non-Executive Director. Prior to recommending the appointment for approval, the Committee conducted a rigorous review of the size and structure of the Board and the balance and range of its Directors' knowledge and experience. For this appointment neither an external search agency nor open advertising was used. Martin Bolland continues to review opportunities for the Board on an ongoing basis and directly approached Gillian for this post following a recommendation.

During the year the Nomination Committee has also considered succession planning for the Board more generally.

Given that all Directors will be retiring at the Annual General Meeting the performance of all Directors, their interests and any potential conflicts of interest declared to the Company were reviewed.

The Committee considered many issues, such as length of service and conflicts of interest, and how these may have an impact on the independence of the Non-Executives. The Committee also considers diversity on the Board and this is detailed further on page 72 of this report.

The time committed by the Non-Executives was also considered and this remained appropriate to ensure that each discharged their duties and responsibilities effectively.

Audit Committee report

I am pleased to present the report on the activities of the Audit Committee for the year to 31 December 2012. Set out below is a summary of the work carried out by the Committee.

Audit Committee

Throughout 2012 the members of the Audit Committee were Paul Bowtell (Chairman), Martina King, Nigel Wilson and Gillian Sheldon (from appointment in September 2012), all of whom are independent Non-Executive Directors. Paul Bowtell is a Chartered Accountant and has recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit Committees. The Board has reviewed the performance of the Committee and is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner.

Audit Committee meetings are by invitation and generally attended by: the Non-Executive Chairman; Group Finance Director; Group Risk & Compliance Director; the Group Internal Audit Director and by representatives of the external Auditors.

The Chairman of the Committee is directly available to and holds regular meetings with the Group Risk & Compliance Director, Deputy Company Secretary, who acts as Secretary to the Committee, the Group Internal Audit Director and external Auditors.

The external Auditor was tendered in July 2010 and therefore no tendering is expected to be undertaken in the medium term. This resulted in a change of external Auditor at that time.

The Auditors undertook various non-audit work such as assistance on acquisitions and bids across our business.

Role and responsibilities

The Audit Committee assists the Board in fulfilling its oversight responsibilities in respect of the Company and the Group. The Committee's key responsibilities are:

- (i) to review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements
- (ii) to review the effectiveness and objectivity of the external audit process, assess the independence of the Auditors and ensure appropriate policies and procedures are in place to protect such independence
- (iii) to review and assess the adequacy of the systems of internal control and risk management (which includes monitoring the Company's Internal Audit function) and monitor the risk profile of the business.

The Audit Committee terms of reference set out in full the role, responsibilities and authority of the Committee and can be found on the Company's website at www.capita.co.uk/investors.

Committee activities during 2012

The Committee met six times during the year. 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. Reports are received at all meetings from the Group Risk & Compliance and Group Internal Audit departments and new contract terms are also reviewed as appropriate.

During the year the Committee undertook the following activities:

- January: This meeting specifically reviewed the Group Internal Audit plans for 2012 and looked at the structure of the department, the scope and emphasis of the audits proposed. These plans were approved by the Committee
- February: At the meeting to review the 2011 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
- February: Reviewed and approved the Representation Letter required by the Auditors
- February: Met with the Auditors independently of the Executive Directors and also separately met with the Group Risk and Business Assurance Director
- February: Update from Group Compliance and Group Risk and Business Assurance including Group safety, health and environment
- May and ongoing: Monitored the internal controls that are operated by management to ensure the integrity of information reported to shareholders
- May: Discussion and update on the Anti-Bribery Act and the processes and policies implemented across the Group
- May: Review of business continuity planning and the plans within both the financial services and non-financial services businesses. All plans were well established and emphasis was being driven on new contracts and acquisitions to bring the businesses to the same standard
- May: A full review of all risk maps was included for the Committee for each Division
- May: the terms of reference were reviewed and no amendments proposed
- July: Contract wins to date in the year were reviewed

Audit Committee report

- July: Review of Half Yearly Accounts for 2012. This included consideration of both financial and non-financial aspects of the accounts
- October: A review of the split of Audit to non-audit fees was undertaken and noted
- October: A review of the internal audits was undertaken and the schedule of audits for the remainder of the year with a discussion on the headcount for the area
- October: Audit evaluation – An evaluation of the Audit Committee had been undertaken as part of the main board evaluation and the results were presented to the Committee
- November: Report from the external Auditors on the audit planning for the year-end audit process
- November: Presentation given to the Committee from Dawn Marriott-Sims on vetting procedures for areas working with vulnerable adults and children within the business.

In line with its responsibilities, the Committee reviewed the annual internal audit programme and ensured that the Group Internal Audit function was adequately sponsored and resourced. The Group Internal Audit business plan was presented to the Committee in October 2012 and approved at the meeting in November 2012.

Ongoing: Reviewed a wide range of financial reporting and related matters during the year, in addition to the review of 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. At each meeting an update was also received from Group Risk & Compliance and Group Internal Audit. The Committee is also responsible for the policies on whistleblowing (speak up) and the provision of the non-audit services by the external Auditors. Both policies are published on the Company's intranet. The Committee also receives feedback from the Financial Services Risk & Governance Forum that brings together all the regulated areas within the Group.

Statutory Auditors

The Committee provides a forum for reporting by the Group's Auditors (KPMG), 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 discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. The evaluation of KPMG also included the planning of the audit and a post audit evaluation.

A resolution to re-appoint KPMG Audit Plc as the Auditors of the Company will be put forward at the forthcoming Annual General Meeting.

The lead audit partner is rotated on a five-yearly basis.

Disclosure of information to Auditors

The Directors who held office at the date of the approval of this Director's report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Auditor independence

The Committee takes seriously its responsibility to put in place safeguards to Auditor objectivity and independence. It has therefore established a policy on the provision of services by the Group's Auditors. The policy describes the circumstances in which the Auditors may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditors for non-audit work. Any assignment where the expected fee is above the relevant threshold requires specific approval from the Committee or a member of the Committee. The Deputy Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. The policy is reviewed by the Committee annually. Details of audit and non-audit fees are given in note 7 on page 105.

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 Group audit fee against other comparable companies both within and outside of the Group's 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 a six monthly basis and considers implications for the objectivity and independence of the relationship with the Auditors

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 clients and key supplier relationships, for example, and are a key determinant in the award process for external audit assignments.

Paul Bowtell
Chairman
Audit Committee

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 78 to 89.

Board and Committee members, frequency of meetings and attendance

During 2012 the Board met nine times, excluding ad hoc meetings, solely to deal with procedural matters. The Nomination Committee and the Remuneration Committee met two and four times during the year, respectively. The Audit Committee met six 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	2	4	6
Martin Bolland	9	2	–	–
Paul Pindar	8	–	–	–
Gordon Hurst	8	–	–	–
Andy Parker	8	–	–	–
Vic Gysin	8	–	–	–
Maggi Bell	8	–	–	–
Gillian Sheldon*	3	1	2	2
Paul Bowtell	9	2	4	6
Martina King	8	2	4	6
Nigel Wilson	9	2	4	6
Paddy Doyle	3	–	–	–

* Gillian Sheldon's attendance at meetings were following her appointment in September 2012.

Due to the nature of the acquisition and bid strategy, consideration of meeting times has to include flexibility to hold meetings outside of this timetable and meetings of this nature tend to be held by telephone.

Any Director's absence from Board meetings or meetings of the Audit, Remuneration or Nomination Committees was previously agreed with the Chairman of the Board, the Chief Executive or the Chair of the relevant committee.

Audit Committee report

Dialogue with shareholders

The Board encourages and seeks to build a mutual understanding of objectives between the Group and its shareholders. As part of this process the Executive Directors make regular presentations and meet with institutional shareholders to discuss the Group's business model and growth strategy, address any issues of concern, obtain feedback and consider corporate governance issues. The Board welcomes the revised UK Stewardship Code 2012 and the steps it has made to improve engagement and purposeful dialogue between companies and investors. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company's website – www.capita.co.uk. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The 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 Group's website at www.capita.co.uk. 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 analyst reports concerning Capita are circulated to the Directors.

Directors, including the Chair of the various committees, are present at the Annual General Meeting to answer any questions. The Board particularly encourages communication with and the participation of private investors at the Annual General Meeting.

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 key risks faced by the Group, which has been in place throughout the year under review and up to the date of approval of the 2012 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 and additional internal communication channels
- authority to operate the individual businesses comprising the Divisions that make up the Group who then delegate to Managing Directors, within limits set by the Group, including the recruitment of the underlying management teams. The Board establishes key operations, functional and financial reporting standards for application across the whole Group and this is cascaded through the MOB review process. These are supplemented by operational 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. The Non-Executive Directors challenge the Executive Directors at each Board meeting
- 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. The Group's exposure to business risk is ultimately monitored by the Audit Committee
- across many of the Group's businesses (including all regulated financial services businesses) there are formally constituted risk committees. These committees provide an appropriate means to routinely monitor the risk profile for these businesses, including regulatory risks, and for proposed mitigating actions to be challenged and tracked

- the Group Internal Audit function reports for administrative purposes to the Group Finance Director and independently to the Audit Committee. It is separate and independent from the other functions and activities of the business. 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 an independent view of those risks is taken by the Group Internal Audit function. In addition, risk and compliance matters are overseen by the Group Risk & Compliance Director reporting through the Group Finance Director and independently to the Audit Committee and the Group Financial Services Risk & Governance Forum. Dedicated risk and compliance teams within the relevant businesses independently monitor risk 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 Risk & Compliance function and the Group Internal Audit function routinely apprise 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.

Through the above mechanisms, the Board and the Audit Committee have performed a Group-wide review of the effectiveness of the internal control system, including financial and operational controls and risk management in accordance with the Code for the period from 1 January 2012 to the date of approval of this Annual Report and Accounts. The Board and the Audit Committee were satisfied with the process of monitoring the effectiveness of internal controls and that it complies with the Internal Control Guidance for Directors in the Code issued by the Institute of Chartered Accountants in England and Wales and in the revised Turnbull Guidance (2005).

Risk management and governance is also referred to on pages 36 to 39.

Group Financial Services Risk & Governance Forum

The Group Financial Services Risk & Governance Forum (Forum) was established at the beginning of 2012 and meets at least quarterly to assess the risks across Capita's financial services businesses. The Forum is chaired by Tim Brooke, independent non-executive chair. Membership includes Vic Gysin and Gordon Hurst with the Group Risk & Compliance Director and the Group Internal Audit Director. Other key divisional staff are invited to attend and report to this forum. All Non-Executive Directors have open invitations to attend any of these meetings.

The terms of reference for this Forum include:

- Reviewing and commenting upon Group control function oversight plans and monitoring progress of the same
- Reviewing material findings arising from oversight activities and issues identified by management
- Tracking key regulatory changes impacting on the Group's regulated firms
- Tracking key business developments, including bids, acquisitions and offshoring developments
- Receiving updates on regulatory capital issues (e.g. ICAAP)
- Reviewing and adopting policies applicable to the financial services businesses
- Identifying items for the attention of the Board or Audit Committee.

The scope of the Forum includes the FSA in the UK and the equivalent financial services regulator in other jurisdictions where the Group operates regulated financial services firms.

The Forum met six times in 2012 and attendance was as follows:

Name of Forum member	Number of meetings attended
Tim Brooke ¹	4
Vic Gysin	4
Gordon Hurst	5
Chris Terry – Group Risk & Compliance Director	6
Clive Smith – Group Internal Audit Director ²	2
David Edwards – Group Risk & Business Assurance Director ³	4

¹ Appointed April 2012

² Appointed July 2012

³ Resigned June 2012

Other statutory and regulatory information

Business review and principal activities

Business review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2012 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'business review'). The purpose of the business review is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the business review can be found in pages 1 to 57. Details of the Group's business goal, strategy and model are on pages 14 and 15.

Events after the Balance Sheet date

There were no events.

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 2006.

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 three years in accordance with the Code and the Company's Articles of Association. However, all Directors will retire and will offer themselves for re-election at the Annual General Meeting in May, in accordance with the Code provision B.71.

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 seven 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.

Board diversity

Regarding the continuing debate on the topic of diversity on boards and in particular whether prescribed quotas regarding women on boards are preferable or not, approaching 20% of our senior management team and 30% of our Board in 2012 were women. Capita sees significant business benefit in having access to the diversity of thinking that comes from people with a wide range of backgrounds at all levels in the Company. Only by encouraging this diversity and by fostering talent throughout the business can the Company expect to achieve further diversity in senior management and on boards. Capita established a network of diversity champions across the Group in 2008 and the Company's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to continuing to foster talent and support those people from all backgrounds who wish to progress. However, the Company will also continue to appoint and promote people on merit and in line with the skills and attributes identified for each post, including those identified by the Nominations Committee for the Board.

Social and environmental responsibility

Details of how the Group manages its social and environmental responsibilities can be found on pages 47 to 57 and at www.capita.co.uk/responsibility.

Group activities

Capita is the leading UK provider of business process management solutions and integrated professional support services to organisations across the public and private sectors. The Group's 10 chosen markets are: in the public sector – central government, local government, education, health, justice and emergency services and defence, and in the private sector – life and pensions, insurance, financial services and other private sector.

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

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 57. Our divisional operations and financial performance are detailed on pages 31 to 46.

Profits and dividends

The Group underlying profit before taxation amounted to £425.6m (2011: 385.2m). The Directors recommend a final dividend of 15.6p share (2011: 14.2p per share) to be paid on 28 May 2013 to ordinary shareholders on the Register on 19 April 2013. This gives a total dividend for the year of 23.5p per share (2011: 21.4p per share).

The employee benefit trust has waived its right to receive a dividend on the shares being held within the Trust.

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 Capita. 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 20 February 2013, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 20 February 2013	Number of shares direct	Number of shares indirect
BlackRock Inc	34,267,189*	5.23%	34,267,189*	–
Invesco Limited	146,923,343	22.42%	–	146,923,343
Legal & General Group Plc	23,279,554	3.55%	19,081,948	4,197,606
Veritas Asset Management (UK) Limited	38,757,504	5.91%	–	38,757,504

*This figure includes a Contract for Difference (CFD) for 4,000,402 shares

At 20 February 2013, 668,501,999 ordinary shares of 2¹/₁₅p each have been issued and are fully paid up and are quoted on the London Stock Exchange. 13,248,139 shares are held in treasury and the total voting rights equates to 655,253,860. During the year ended 31 December 2012, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 839,560 new ordinary shares. 32,329 shares have been allotted under these schemes since the end of the financial year to the date of this report. 0.5% of the issued share capital is held within an employee benefit trust for the use of satisfying employee share options.

The share price at 31 December 2012 was 755p. The highest share price in the period was 781.5p and the lowest was 602p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2012. During the year the Company did not purchase any shares (2011: nil).

Other statutory and regulatory information

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 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 31 to 35. In addition, note 26 to the financial statements on page 116 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 risk 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 and to ensure that any reasonable adjustments are made to either workplace or job content to accommodate a person's disabilities. Disabled employees are eligible to participate in all career development opportunities available to employees and will be supported to do so. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group.

Employee involvement

Capita 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 and personal development programmes through the Capita Academy and Capita Manager Academy. At the same time our businesses provide business specific training for all employees relevant to their role. In addition the Group supports the achievement of professional qualifications including a range of National Vocational Qualifications.

The Group encourages all of 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; the Group employee intranet, Capita Connections, and regular email updates on business performance from both Divisional and Group Directors. Capita Connections enables 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.

Capita has an established employee share plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group. In keeping with its belief that employees are the Group's most valuable asset, the Group operates employee awards schemes both at Group and Divisional level. These celebrate the core values that embody the organisation and reward employees for service excellence, teamwork, leadership, cost saving and efficiency and charitable support and community engagement.

Payment of suppliers

The Company aims to pay suppliers in accordance with the suppliers' contract terms. In 2012 the Company had an average of 41 days purchases (2011: 41 days purchases) outstanding in trade creditors.

Charitable and political donations

During the year charitable donations amounted to £0.6m (2011: £0.5m). No political contributions were made. Further details of the Group's charitable donations and work within the community can be found on pages 56 and 57 and at www.capita.co.uk/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, 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 debt 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 pages 116 to 122.

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 2013 Annual General Meeting from 15 minutes before the meeting until it ends.

Powers of Directors

The business of the Company shall be managed by the Directors who are subject to the provisions of the Companies Act 2006, 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 in relation 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.

Capita has a number of borrowing facilities provided by various banks and other financial institutions. Capita'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 Capita 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 Capita 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 Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Details of the principal risk categories can be found on page 39.

Rights and restrictions attaching to shares

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the receipt 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. 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 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 four transferees or in respect of more than one 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 exempted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

Annual General Meeting

The 2013 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB, on 14 May 2013. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2012 Annual Report and Accounts and includes notes explaining the business to be transacted. In May 2012 shareholders granted authority for the Company to purchase up to 61,380,909 ordinary shares which will expire at the conclusion of the 2013 AGM. No shares were purchased during 2012. A resolution to renew this authority will be put to shareholders at the 2013 Annual General Meeting.

Approval of the Annual Accounts

These Annual Accounts have been approved by the Directors of Capita plc. The Directors confirm that the Annual Accounts have been prepared in accordance with applicable law and regulations and that they include a fair review of the development and performance of the business and the position of the parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We, the Directors of the Company, confirm that to the best of our knowledge:

- the financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole
- the Director's Report, including content contained by reference, 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.

Remuneration report

Chair's report

The following information is not subject to audit.

It is my pleasure to report on the activities of the Remuneration Committee for the period to 31 December 2012. This report will be presented for approval by shareholders at the 2013 Annual General Meeting.

This report sets out the remuneration policy and remuneration details of the Executive and Non-Executive Directors of the Company. The report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and also meets the requirements of the Listing Rules of the UK Listing Authority. Our remuneration for our Executive Directors is fully compliant with the Code.

The long term strategy of Capita is to attract and retain the best employees to fulfil the overall business plan of the Group and ensuring that this aligns with our shareholders, external shareholders and a risk policies and systems. Our remuneration strategy and policy for Executive Directors is to set base salary at lower quartile level and reward upper quartile performance with upper quartile rewards.

Last year I informed you that although our strategy has not altered, the Executives remain below the bottom quartile for their base salaries. You may recall that we received approval to increase the Executive's 'opportunity to earn' through bonuses. This brought the Executives back to median point for similar size companies and of course were subject to achieving stretching targets.

As the Chairman has already reported, the Executive team delivered excellent results and we are satisfied that the remuneration policy has done its job in 2012. I am pleased that the stretching targets set by this Committee in 2011 for 2012 have been exceeded and that bonuses will be paid to the Executive Directors in full.

The Committee are also pleased to have also awarded pay rises for the Executive Directors which are detailed below, and are reflective of the performance of themselves and the Group.

Members of the Committee

The following Non-Executive Directors were members of the Committee during 2012:

Martina King (Chair), Paul Bowtell, Gillian Sheldon and Nigel Wilson

The Committee met four times during 2012 and the attendance of the Committee is shown in the attendance table on page 69.

Key activities undertaken during 2012

In line with the responsibilities set out in the committee's terms of reference the following key issues were discussed during the year:

- approval of the 2011 Directors' remuneration report
- review of bonus and share plan performance measures against the 2011 year-end targets
- review and approval of all awards made under the Long Term Incentive Plan (LTIP) and Deferred Annual Bonus (DAB) plan, taking into account the total value of awards made under these plans
- review of Executive Directors' shareholdings and levels achieved
- consideration of advisory bodies' and institutional investors' current guidelines on executive compensation
- annual review of all Executive Directors' and Chairman's base salaries and benefits
- ratification of salary increases for Divisional Directors in line with Company policies
- assessment of the risk environment surrounding the Company's current remuneration arrangements
- set targets for 2013 cash bonuses and deferred bonus
- review of targets under the DAB and the LTIP
- review and adoption of the Remuneration Policy for areas of the business adhering to the FSA's Remuneration Code
- approve the Remuneration Policy Statement as required under the FSA's Remuneration Code
- tender and appointment of Deloitte as the Committee's independent remuneration advisers
- review of the committee's terms of reference.

Overview of Executive remuneration

Summary of remuneration policy and strategy

The remuneration strategy of Capita is to provide a pay package that:

- attracts, motivates and retains the best employees
- encourages and is supportive of a high performance culture
- rewards the fulfilment of the overall business plan of the Group
- aligns employees with the interests of our shareholders and other external stakeholders
- is consistent with our risk policies and systems.

In order to achieve this, our remuneration policy for Executive Directors is to set fixed pay (base salary plus benefits) around the lower quartile and to offer the potential for competitive levels of total pay if stretching performance targets attached to incentive awards are met. Our policy is that performance-related pay should form a significant part of Executive Directors' remuneration packages with an appropriate balance between short and longer-term targets linked to delivery of the Group's business plan.

Remuneration framework

The current remuneration framework for Executive Directors to implement the remuneration policy is summarised below. During 2013, the Committee intends to review this framework to ensure it remains consistent with the policy.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013
Base salaries To attract and retain talent by ensuring base salaries are sufficiently competitive.	Reviewed annually in December with any changes effective in January. Review takes into account: • salaries in similar companies and comparably-sized companies • remuneration policy • economic climate • market conditions • Group performance • the role and responsibility of the individual Director • employee remuneration.	Base salary increases are applied in line with the outcome of the review.	Individual and business performance are considerations in setting base salaries.	Base salary increases consistent with this framework were made effective 1 January 2013 as set out on page 81.
Benefits Designed to be consistent with benefits available to employees in the Group.	Benefits include pension provision, car allowance, private medical insurance, travel and property hire. Executives can also participate in all-employee share plans.	Benefit provision varies between different Directors.	Not performance related.	No changes are planned for 2013.
Annual Bonus Scheme Performance measures are selected to focus executives on delivery of the Group business plan for the financial year.	The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year. Performance against targets is reviewed following completion of the final accounts for the period under review. 50% of any bonus earned is delivered in shares deferred for three years under the Deferred Annual Bonus (DAB) plan with the remainder delivered in cash or deferred shares at the Director's discretion.	A maximum of 200% of base salary can be achieved for delivery of stretching performance targets.	Executives' performance is measured relative to challenging targets for underlying profit before tax.	No changes are planned for 2013.

Remuneration report

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013
Deferred Annual Bonus (DAB) plan Designed to reward and retain executives over the longer-term while aligning their interests with those of shareholders. Also designed to focus participants on delivering strong year on year performance, which in turn drives long term shareholder value creation.	Executives receive matching awards of shares linked to their deferred bonus shares. Matching awards are usually granted in February or March and are subject to performance targets measured over a three year period. Performance measures are reviewed by the Committee before each award to ensure they remain relevant to business plan priorities and aligned with shareholder interests. Full details of the operation of the DAB are set out on page 82.	A maximum match of 2 shares for each gross share deferred under the Annual Bonus Scheme.	Matching shares do not usually vest until the third anniversary of grant. Vesting is usually subject to continued employment and satisfaction of a performance target. Matching shares were last awarded in 2011 and were subject to EPS growth targets.	No changes are planned for 2013.
Long Term Incentive Plan (LTIP) Designed to reward and retain executives over the longer-term while aligning their interests with those of shareholders.	LTIP awards are usually granted in February or March in the form of nil cost options. Award levels for each award are set by the Committee at a level appropriate with the individual's performance and experience. Performance targets applying to LTIP awards are relevant to business plan priorities and aligned with shareholder interests. Full details of the operation of the LTIP are set out on page 82.	A maximum annual award of 165,000 shares (or shares worth 300% of salary if higher).	LTIP shares do not usually vest until the third anniversary of grant. Vesting is usually subject to continued employment and satisfaction of a performance target. LTIP shares were last awarded in 2012 and were subject to EPS growth targets and a share price hurdle.	No changes are planned for 2013.

Service contracts

The service contracts for Executive Directors are for an indefinite period and provide for a one year notice period. They do not include provisions for predetermined compensation on termination that exceed one 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 annual re-election at the Annual General Meeting.

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
Maggi Bell	1 August 2008	12 months
Andy Parker	10 January 2011	12 months
Vic Gysin	10 January 2011	12 months

Non-Executive Directors	Date of joining the Board
Martin Bolland	1 March 2008
Gillian Sheldon	1 September 2012
Martina King	1 January 2005
Paul Bowtell	28 June 2010
Nigel Wilson ¹	12 May 2010
Paddy Doyle ²	1 March 2010

¹ Resigned 31 December 2012

² Retired 31 March 2012

Key elements of Executive remuneration

Base salaries

At the request of the Executive Directors their 2012 salaries as well as those of Divisional Directors were maintained at 2011 levels. This decision was supported by the Committee.

For 2013 increases in the range 2.5% to 4.5% have been awarded to Paul Pindar, Gordon Hurst and Maggi Bell. This followed a review by the Committee that took into account a range of factors including salary increases in comparator companies, the economic climate, market conditions and individual roles and responsibilities. The Committee also took into account the average salary increase for our workforce for 2013 of 2.5%.

Vic Gysin and Andy Parker were promoted to the Board in 2011 on significantly lower salaries than their predecessors. Following two years of good performance in their new roles their salaries have been increased by 13% in 2013 to a level of established Board Directors. These changes were communicated to our top 20 shareholders before being implemented.

For 2013 the salaries for the Executive Directors will be:

Name	2012 Salary	2013 Salary	% increase
Paul Pindar	£380,000	£390,000	2.6%
Gordon Hurst	£280,000	£290,000	3.6%
Maggi Bell	£230,000	£240,000	4.3%
Vic Gysin	£230,000	£260,000	13%
Andy Parker	£230,000	£260,000	13%

Pensions

Pension contributions are made into the Group's defined contribution scheme. The Company makes contributions at a rate of 5% of basic salary. Andy Parker made additional contributions, by way of salary sacrifice in the year, to a separate defined contribution scheme. These benefits are the same as those open to all employees within Capita in the UK.

Non-Executive fees

The fees for the Non-Executive Directors are determined by the Board (apart from the Chairman which is set by the Remuneration Committee) and are set at a level that ensures that the Company can attract and retain individuals with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities.

The fees also recognise the responsibility of the role and the time commitments required – these are not performance-related or pensionable. The fees are paid monthly in cash and there are no other benefits. There were no increases in fees in 2012.

No increases in fees are proposed for 2013 for the Non-Executive Directors and Chairman. An increase was given to Gillian Sheldon from 1 January 2013 to reflect her promotion to position of Senior Independent Director to £70,000. This is the same fee as paid to the previous Senior Independent Director.

Short term incentives

Annual bonus scheme

The maximum potential award under the annual bonus scheme for 2012 was 200% of salary. A minimum of 50% of any bonus payable is deferred into shares. The balance can be decided by the Executive as a mixture of cash and deferral into shares. Any deferred shares form part of the Deferred Annual Bonus (DAB) plan. The DAB includes for a matching award of 2 shares to each 1 deferred, dependent on the achievement of certain performance criteria over three years as outlined below.

The annual bonus scheme is reviewed annually and is designed to drive performance and profitability across the organisation. For 2012, the bonus was based on underlying profit before tax performance. A highly stretching target range was set which took into account market expectations and forecasts submitted within the business planning process. This range was set at the beginning of the year by the Remuneration Committee and approved by the Board. This is in line with our policy of rewarding upper quartile performance with upper quartile rewards.

For 2012, the Group achieved impressive growth in underlying profit before tax of 10% which meant that the maximum target set by the Committee was exceeded. As a result, each Executive Director has been awarded a bonus worth 200% of base salary, at least half of which will be deferred into shares. In 2011 no bonus was paid in respect of the period.

The bonus structure for 2013 will be unchanged from that adopted for 2012.

Remuneration report

Share plans

Plan name

Deferred Annual Bonus (DAB) plan

Plan background and objective

The DAB was approved and adopted at the Annual General Meeting on 28 April 2005 and new rules were adopted at the Annual General Meeting in May 2010. Shareholder approval was received for further amendment to the DAB at the Annual General Meeting in May 2011. The DAB is comprised of Deferred Shares, which form part of the annual bonus scheme, and Matching Shares. Deferred shares receive dividends declared during the deferral period that are paid in cash at the end of the deferral period.

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

The DAB is split into two elements:

Deferred Award – this is the deferred element of an individual's bonus. This part is not subject to performance conditions.

Matching Award – which is subject to performance conditions. This is awarded at a ratio of two shares for each gross share awarded under the Deferred Award.

No award was made in 2012 as no bonus was awarded in respect of the 2011 financial period.

Plan operation

The value of the Deferred Shares is determined by the entitlement under the annual bonus scheme, half of the bonus entitlement is deferred as determined by the Committee; the remaining half can be taken as cash or can also be deferred in a proportion decided by the participant. Any deferral is made on a gross basis into Deferred Shares or as a net restricted share award. The Deferred Shares are held for a period of three 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 two Matching Shares for every Deferred Share. Matching Shares vest after a three year holding period to the extent to which performance criteria have been met.

The Committee has currently 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 continues to believe 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 Committee believe that the current EPS targets are very challenging in the current economic climate and market conditions.

Clawback – In circumstances where the Committee considers in good faith that the vesting of the Matching Award was determined on the basis of materially misstated or other financial data, it shall take such steps as it considers appropriate to recover the difference in value between the incorrect Matching Award and the Matching Award that would have vested had the correct data been used.

Performance period and criteria

2010

EPS growth of RPI + 4% per annum – 33% of the award vests

EPS growth of RPI +14% per annum – 100% of the award vests

Straight-line vesting occurs between these points.

2011 onwards

EPS growth of RPI + 4% per annum – 33% of the award vests

EPS growth of RPI +12% per annum – 100% of award vests

Straight-line vesting occurs between these points.

Plan name

Long Term Incentive Plan (2008 LTIP)

Plan background and objective

At the Annual General Meeting in 2008 the Long Term Incentive Plan (LTIP) was approved by shareholders. In calculating the LTIP awards granted to Executive Directors, the Committee considered that a fixed number of shares was preferable to fixing awards as a percentage of salary. Under the plan rules the Committee can award up to the higher of three times salary or 165,000 shares. Paul Pindar has been awarded the maximum of 165,000 shares in all years.

On 23 February 2012, 645,000 shares were awarded to the Executive Directors as detailed in the table on page 84.

Plan operation

The vesting of awards will depend on the share price growth and EPS targets measured over a three 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.

If the share price target is satisfied, the proportion of awards that vest will be determined by a range of EPS growth targets.

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 believe that the current EPS targets are very challenging in the current economic climate and market conditions.

Performance period and criteria

2010

EPS growth of RPI + 4% per annum – 20% of the award vests

EPS growth of RPI +14% per annum – 100% of the award vests

Straight-line vesting occurs between these points.

2011 onwards

EPS growth of RPI + 4% per annum – 20% of the award vests

EPS growth of RPI +12% per annum – 100% of the award vests

Straight-line vesting occurs between these points.

Plan name

Co-Investment Plan (CIP)

Plan background and objective

The Co-Investment Plan (CIP) was approved and adopted at the Annual General Meeting on 10 May 2011 as a one off plan for Paul Pindar.

The CIP is split into two elements. Paul Pindar pledged the value of £1m of shares, made up of new and existing shares. These Pledged Shares do not have any performance conditions as they are part of Paul Pindar's personal shareholding.

The second part was awarded in May 2011 as a Matching Award with performance conditions over a four year period.

No further awards are planned under the CIP.

Plan operation

The value of the Pledged Shares was determined by the share price, and one third of the Pledged Shares were required to be purchased as new shares. The remainder could be pledged from the existing shareholding.

The Matching Award was made following the pledging of the shares and the approval of the plan by shareholders. The Matching Shares have a performance target of Total Shareholder Return (TSR) compared to the FTSE 100 Index over a fixed four year period. In addition, the Committee may consider various factors when assessing the underlying performance but the minimum requirement for any vesting is that the earnings per share of the Company must have grown over the performance period.

Clawback – In circumstances where the Committee considers in good faith that the vesting of the Matching Award was determined on the basis of materially misstated or other financial data, it shall take such steps as it considers appropriate to recover the difference in value between the incorrect Matching Award and the Matching Award that would have vested had the correct data been used.

Performance period and criteria

Capita's TSR over the performance period to be at upper quartile to the constituents of the FTSE 100 Index.

One third will vest for achieving median TSR and straight line vesting between median and upper quartile.

There will be no vesting of the Matching Award below median TSR.

Satisfaction of options

When satisfying awards made under its share 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 estimated dilution from existing awards including executive and all-employee share awards is approximately 6.48% of the Company's share capital as at 31 December 2012.

Remuneration report

Directors' remuneration

The remuneration of the Directors is made up as follows:

Remuneration of Directors as a single figure (audited)

Directors	Salary and fees (£)	Benefits (£)	Pension (£)	Performance related bonus ³ (£)	Subtotal of remuneration 2012 (£)	Subtotal of remuneration 2011 (£)	Projected LTIP vesting in 2013 for performance conditions ending 31 Dec 2012 ⁴ (£)	Projected DAB Matching Shares vesting in 2013 for performance conditions ending 31 Dec 2012 ⁴ (£)	Dividend on the DAB Deferred Shares ⁵ (£)	Single figure for remuneration (£)
Martin Bolland	200,000	–	–	–	200,000	200,000	–	–	–	200,000
Paul Pindar	380,000	8,130	19,000	760,000	1,167,130	381,490	536,669	218,339	21,398	1,943,536
Gordon Hurst	280,000	17,610	14,000	560,000	871,610	297,390	390,305	160,111	15,692	1,437,718
Andy Parker	230,000	30,310	13,800	460,000	734,110	246,466	194,548	27,652	–	956,310
Vic Gysin	230,000	97,759	11,500	460,000	799,259	246,405	194,548	104,802	5,257	1,103,866
Maggi Bell	230,000	15,408	–	460,000	705,408	245,404	390,305	131,000	11,698	1,238,411
Gillian Sheldon	20,000	–	–	–	20,000	–	–	–	–	20,000
Paul Bowtell	60,000	–	–	–	60,000	60,000	–	–	–	60,000
Martina King	60,000	–	–	–	60,000	60,000	–	–	–	60,000
Nigel Wilson ¹	70,000	–	–	–	70,000	70,000	–	–	–	70,000
Paddy Doyle ²	15,000	–	–	–	15,000	60,000	–	–	–	15,000
Total	1,775,000	169,217	58,300	2,700,000	4,702,517	1,867,155	1,706,375	641,904	54,045	7,104,841

¹ Retired 31 December 2012

² Retired 31 March 2012

³ Paid in 2013. Half of this bonus will be paid in Deferred Shares under the DAB

⁴ The value is taken using the share price (755p) at the end of the financial period under review

⁵ Dividends on the DAB Deferred Shares relate to the cash payment made at exercise in 2012 in relation to dividends accrued during the deferral period for Deferred Shares that were released in 2012

Out of the salary figures shown above, by way of salary sacrifice, Andy Parker paid £13,800 into separate defined contribution schemes.

The benefits of Gordon Hurst, Andy Parker, Vic Gysin and Maggi Bell are in respect of some or all of the following: private medical insurance, the provision of a company car allowance, work travel and accommodation. The benefits of Paul Pindar, the highest paid Director, are in respect of a car allowance and private medical insurance.

Benefits are declared to HMRC as required.

Paul Pindar was additionally paid £50,000 in 2012 in his position as Chairman of Integrated Dental Holdings.

Directors Interests

Directors	31 December 2012 or date of resignation – ordinary shares of 2½ each	31 December 2011 or date of appointment if later – ordinary shares of 2½ each
Martin Bolland	55,000	40,000
Paul Pindar*	878,349	1,701,903
Gordon Hurst*	40,891	54,900
Andy Parker	–	–
Vic Gysin*	10,433	16,220
Maggi Bell*	86,584	81,094
Gillian Sheldon	–	–
Paul Bowtell	–	–
Martina King	717	717
Nigel Wilson	–	–
Paddy Doyle	27,289	27,289

*Some held beneficially in trust

Between the end of the financial year and 28 February 2013, Gordon Hurst acquired 35 shares under the Capita Share Ownership Plan, increasing his beneficial interest in ordinary shares of the Company to 40,926.

Executive Directors	Beneficially held restricted stock
Paul Pindar	21,736
Gordon Hurst	15,940
Andy Parker	–
Vic Gysin	10,433
Maggi Bell	13,042

Shareholding guidelines

Executive Directors are asked to hold 100% of salary in shares in the Company. This is built up over a period of five years from appointment. The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three year period. Share awards that are subject to performance conditions are not included. Currently these holdings are as follows:

Executive Directors	Shareholding for guidelines	% of salary	% held of target
Paul Pindar	896,629	1781%	100%
Gordon Hurst	54,296	146%	100%
Andy Parker	11,595	38%	38%
Vic Gysin	19,695	65%	65%
Maggi Bell	97,552	320%	100%

Remuneration report

Share plan awards (audited)

The Company utilises a number of different share plans to incentivise and align the interests of employees, including the Executive Directors, with that of shareholders. Details regarding the various share plan schemes can be found on pages 82 and 83. The table below sets out the Executive Directors' interests in these plans.

	Number of shares under award/option at 1 January 2012 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/ exercise price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2012	Number of shares under award/option at 31 December 2012 or date of resignation	Vested number of shares under option	Value of release/ exercise (£)	End of share plan performance period (or first exercise/ scheduled release date)	Last exercise/ scheduled release date
Paul Pindar													
LTISAS 2004	600,000	–	–	3.51	4.74	–	–	–	600,000	–	–	25/11/2007	25/11/2014
LTIP 2009	165,000	–	–	6.84	–	92,433	7.3514	72,567	–	92,433	679,512	20/03/2012	20/04/2012
LTIP 2010	165,000	–	–	7.215	–	–	–	–	165,000	–	–	04/03/2013	04/06/2013
LTIP 2011	165,000	–	–	7.355	–	–	–	–	165,000	–	–	25/02/2014	25/05/2014
LTIP 2012	–	165,000	–	7.180	–	–	–	–	165,000	–	–	23/02/2015	23/05/2015
DAB 2009	83,438	–	–	6.575	–	57,101	7.3907	26,337	–	57,101	250,037	26/02/2012	26/05/2012
DAB 2010	76,999	–	–	7.16	–	–	–	–	76,999	–	–	26/02/2013	26/05/2013
DAB 2011	91,397	–	–	7.18	–	–	–	–	91,397	–	–	24/02/2014	24/05/2014
Co-Invest Plan	412,087	–	–	7.41	–	–	–	–	412,087	–	–	10/05/2015	10/05/2021
Gordon Hurst													
LTIP 2009	120,000	–	–	6.84	–	67,224	7.3514	52,776	–	67,224	494,191	20/03/2012	20/04/2012
LTIP 2010	120,000	–	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
LTIP 2011	120,000	–	–	7.355	–	–	–	–	120,000	–	–	25/02/2014	25/05/2014
LTIP 2012	–	120,000	–	7.180	–	–	–	–	120,000	–	–	23/02/2015	23/05/2015
DAB 2009	61,188	–	–	6.575	–	41,874	7.3907	19,314	–	41,874	183,360	26/02/2012	26/05/2012
DAB 2010	56,465	–	–	7.16	–	–	–	–	56,465	–	–	26/02/2013	26/05/2013
DAB 2011	67,025	–	–	7.18	–	–	–	–	67,025	–	–	24/02/2014	24/05/2014
CSOP	506	235	29	–	–	–	–	–	770	–	–	–	–
Andy Parker													
LTIP 2009	40,000	–	–	6.84	–	28,701	7.3514	11,299	–	28,701	210,993	20/03/2012	20/04/2012
LTIP 2010	40,000	–	–	7.215	–	–	–	–	40,000	–	–	04/03/2013	04/06/2013
LTIP 2011	80,000	–	–	7.355	–	–	–	–	80,000	–	–	25/02/2014	25/05/2014
LTIP 2012	–	120,000	–	7.18	–	–	–	–	120,000	–	–	23/02/2015	23/05/2015

	Number of shares under award/option at 1 January 2012 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2012	Number of shares under award/option at 31 December 2012 or date of resignation	Vested number of shares under option	Value of release/exercise (£)	End of share plan performance period (or first exercise/scheduled release date)	Last exercise/scheduled release date
DAB 2010	11,665	–	–	7.16	–	–	–	–	11,665	–	–	26/02/2013	26/05/2013
DAB 2011	46,307	–	–	7.18	–	–	–	–	46,307	–	–	24/02/2014	24/05/2014
ESOS 2009	4,392	–	–	6.84	6.83	4,392	7.35140	–	–	4,392	2,290	20/03/2012	20/06/2012
Vic Gysin													
LTIP 2009	40,000	–	–	6.84	–	28,701	7.3514	11,299	–	28,701	210,993	20/03/2012	20/04/2012
LTIP 2010	40,000	–	–	7.215	–	–	–	–	40,000	–	–	04/03/2013	04/06/2013
LTIP 2011	80,000	–	–	7.355	–	–	–	–	80,000	–	–	25/02/2014	25/05/2014
LTIP 2012	–	120,000	–	7.18	–	–	–	–	120,000	–	–	23/02/2015	23/05/2015
DAB 2009	20,500	–	–	6.575	–	14,029	7.3907	6,471	–	14,029	61,430	26/02/2012	26/05/2012
DAB 2010	36,959	–	–	7.16	–	–	–	–	36,959	–	–	26/02/2013	26/05/2013
DAB 2011	46,307	–	–	7.18	–	–	–	–	46,307	–	–	24/02/2014	24/05/2014
ESOS 2007	50,000	–	–	6.83	6.615	–	–	–	50,000	–	–	26/02/2010	26/02/2017
ESOS 2009	4,392	–	–	6.84	6.83	4,392	7.3514	–	–	4,392	2,290	20/03/2012	20/04/2012
Maggi Bell													
LTIP 2009	80,000	–	–	6.84	–	44,816	7.3514	35,184	–	44,816	329,460	20/03/2012	20/04/2012
LTIP 2010	120,000	–	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
LTIP 2011	120,000	–	–	7.355	–	–	–	–	120,000	–	–	25/02/2014	25/05/2014
LTIP 2012	–	120,000	–	7.180	–	–	–	–	120,000	–	–	23/02/2015	23/05/2015
DAB 2009	45,613	–	–	6.575	–	31,215	7.3907	14,398	–	31,275	137,130	26/02/2012	26/05/2012
DAB 2010	46,199	–	–	7.16	–	–	–	–	46,199	–	–	26/02/2013	26/05/2013
DAB 2011	54,837	–	–	7.18	–	–	–	–	54,837	–	–	24/02/2014	24/05/2014
Paddy Doyle¹													
LTIP 2009	48,000	–	–	6.84	–	26,889	7.3514	21,111	–	26,889	197,672	20/03/2012	20/04/2012
DAB 2009	47,908	–	–	6.575	–	26,838	7.3907	21,070	–	26,838	198,352	26/02/2012	26/05/2012
CSOP	3,096	–	–	–	–	–	–	–	3,069	–	–	–	–

¹ Paddy Doyle retired with effect from 31 March 2012.

Remuneration report

The LTISAs and the ESOS have not been used for some years. Paul Pindar and Vic Gysin have options remaining in these schemes respectively. The performance conditions for these options have already been met in full.

LTIP awards granted in 2009 were subject to the following performance condition: 20% vested for EPS growth of RPI+4% per annum rising to 100% vesting for EPS growth of RPI+16% per annum between 2008 and 2011. Actual EPS growth above RPI over this period was 9.40% per annum so 56.02% of the awards became exercisable during 2012.

DAB awards granted in 2009 were subject to the following performance condition: 33% vested for EPS growth of RPI+6% per annum rising to 100% vesting for EPS growth of RPI+16% per annum between 2008 and 2011. Actual EPS growth above RPI over this period was 9.40% per annum so 56.02% of the awards became exercisable during 2012.

The share price on 31 December 2012 was 755p and the highest and lowest share price during 2012 were 781.5p and 602p respectively.

All employee plans

The Group is a strong believer in the value of all-employee share plans. Currently all employees are offered the opportunity to participate in the Capita Share Ownership Plan (CSOP), the key terms of which are summarised below.

Plan background and objective

The CSOP is open to all employees of the Company, under certain eligibility criteria.

Plan operation

Under the plan employees may invest up to £125 per month in the Company's shares and the Company matches these at a ratio of three matching shares for every 20 participant shares.

Performance period and criteria

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

On behalf of the Committee I am delighted to propose and support the Remuneration Report resolution at the forthcoming Annual General Meeting and would like to thank you for your continued support in Capita.

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

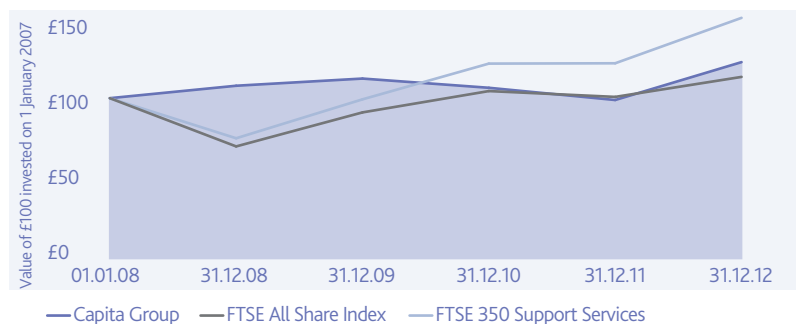
Martina King	Martin Bolland
Chair, Remuneration Committee 27 February 2013	Non-Executive Chairman 27 February 2013

Other disclosures

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 five years starting 1 January 2008 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.

Capita vs. FTSE All Share Index and FTSE 350 Support Services Index
Value of investment of £100 on 1 January 2007



A £100 investment in Capita shares on 1 January 2008 would be worth £122 at 31 December 2012 compared to £113 for an investment in the FTSE All Share Index and £150 for an investment in the FTSE 350 Support Services Index.

Advisers to the Committee

During 2012 the Committee sought independent advice from PricewaterhouseCoopers (PwC) and Deloitte as required. Deloitte was formally appointed as the Committee's adviser in November 2012 following a tender process.

During the year PwC also provided services to the Group in respect of overseas tax compliance, share plans and other ad hoc tax projects and Deloitte also provided services to the Group in respect of tax, property, advice to internal audit and other ad hoc advisory projects.

During the year, 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.

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
- setting the Chairman's fee level
- 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.

Shareholding voting

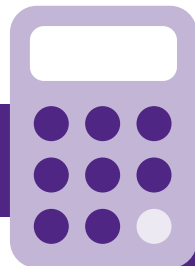
We remained committed to ongoing shareholder dialogue and take an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, we seek to understand the reasons for any such vote, and will detail here any actions in response to it.

The following table sets out actual voting in respect of our previous remuneration report:

Number of votes	For	Against	Abstain *
2011 Directors' Remuneration Report (2012 AGM)	483m	27.1m	9.8m
	(95%)	(5%)	

* A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'For' or 'Against' a resolution.

Gordon Hurst
Company Secretary
27 February 2013



Accounts

Our accounts section contains our financial statements, notes and Auditor's report.

Financial statements	91
Consolidated income statement	91
Consolidated statement of comprehensive income	91
Consolidated balance sheet	92
Consolidated statement of changes in equity	93
Consolidated cash flow statement	94
Notes	95
Notes to the consolidated financial statements	95
Other information	129
Statement of Directors' responsibilities	129
Independent Auditor's report to the members of Capita plc	130
Five year summary	131
Company balance sheet	132
Notes to the accounts	133
Principal Group investments	139
Useful information for shareholders	140

Consolidated income statement for the year ended 31 December 2012

				2012			2011
	Notes	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Continuing operations:							
Revenue	3	3,351.8	–	3,351.8	2,930.2	–	2,930.2
Cost of sales		2,411.0	–	2,411.0	2,094.7	–	2,094.7
Gross profit		940.8	–	940.8	835.5	–	835.5
Administrative expenses	4	469.1	130.8	599.9	408.1	71.9	480.0
Operating profit	7	471.7	(130.8)	340.9	427.4	(71.9)	355.5
Net finance costs	9	(46.0)	(4.8)	(50.8)	(42.0)	(10.4)	(52.4)
Investment expense	5	(0.1)	–	(0.1)	(0.2)	–	(0.2)
Profit before tax		425.6	(135.6)	290.0	385.2	(82.3)	302.9
Income tax expense	10	(87.3)	33.3	(54.0)	(90.5)	25.6	(64.9)
Profit for the year		338.3	(102.3)	236.0	294.7	(56.7)	238.0
Attributable to:							
Equity holders of the parent		338.3	(102.3)	236.0	294.7	(56.7)	238.0
Earnings per share	11						
– basic		53.16p	(16.08)p	37.08p	48.49p	(9.33)p	39.16p
– diluted		52.58p	(15.90)p	36.68p	48.38p	(9.31)p	39.07p

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	£m	2012 £m	£m	2011 £m
Profit for the year			236.0		238.0
Other comprehensive income/(expense):					
Actuarial losses on defined benefit pension schemes	32	(28.4)		(104.4)	
Income tax effect	10	2.6		24.1	
			(25.8)		(80.3)
Exchange differences on translation of foreign operations			(5.8)		2.1
Losses on cash flow hedges arising during the year	26	(11.3)		(16.5)	
Reclassification adjustments for gains included in the income statement	26	(1.2)		(5.0)	
Income tax effect	10	2.7		5.6	
			(9.8)		(15.9)
Other comprehensive expense for the year net of tax			(41.4)		(94.1)
Total comprehensive income for the year net of tax			194.6		143.9
Attributable to:					
Equity holders of the parent			194.6		143.9

Consolidated balance sheet as at 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Property, plant and equipment	13	358.3	330.2
Intangible assets	14	1,919.9	1,828.9
Financial assets	16	236.2	293.8
Deferred taxation	10	1.3	–
Trade and other receivables	18	72.7	65.8
		2,588.4	2,518.7
Current assets			
Financial assets	16	8.0	3.0
Funds receivables ¹	23	108.0	98.0
Trade and other receivables	18	839.1	846.3
Cash	19	319.9	71.5
		1,275.0	1,018.8
Total assets		3,863.4	3,537.5
Current liabilities			
Trade and other payables	20	971.1	936.5
Financial liabilities	22	121.5	36.5
Funds payables ¹	23	121.2	107.1
Provisions	25	23.6	17.0
Income tax payable		46.7	47.0
		1,284.1	1,144.1
Non-current liabilities			
Trade and other payables	20	12.5	20.0
Financial liabilities	22	1,539.7	1,695.9
Deferred taxation	10	–	21.0
Provisions	25	40.9	46.7
Employee benefits	32	108.1	85.7
		1,701.2	1,869.3
Total liabilities		2,985.3	3,013.4
Net assets		878.1	524.1
Capital and reserves			
Issued share capital	27	13.8	13.0
Share premium		470.4	459.4
Employee benefit trust & treasury shares	27	(0.4)	(0.4)
Capital redemption reserve		1.8	1.8
Foreign currency translation reserve		1.7	7.5
Net unrealised losses reserve		(17.3)	(7.5)
Retained earnings		408.1	50.3
Equity shareholders' funds		878.1	524.1

¹ These balances are related to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director.

Included in aggregate financial liabilities is an amount of £1,370.1m (2011: £1,432.2m) 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 £222.4m included in financial assets and £0.3m included in financial liabilities (2011: £256.8m included in financial assets and £0.9m included in financial liabilities). Consequently, this gives an effective liability of £1,148.0m (2011: £1,176.3m).

The accounts were approved by the Board of Directors on 27 February 2013 and signed on its behalf by:

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Company registered number: 2081330

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share capital £m	Share premium £m	Employee benefit trust & treasury shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Net unrealised losses reserve £m	Total equity £m
At 1 January 2011	13.0	454.9	(0.5)	1.8	12.5	5.4	8.4	495.5
Profit for the year	–	–	–	–	238.0	–	–	238.0
Other comprehensive expense	–	–	–	–	(80.3)	2.1	(15.9)	(94.1)
Total comprehensive income for the year	–	–	–	–	157.7	2.1	(15.9)	143.9
Share based payment	–	–	–	–	8.3	–	–	8.3
Income tax deduction on exercise of stock options	–	–	–	–	(3.8)	–	–	(3.8)
Deferred income tax relating to share based payments	–	–	–	–	0.7	–	–	0.7
Shares issued	–	4.5	0.1	–	(0.1)	–	–	4.5
Equity dividends paid	–	–	–	–	(125.0)	–	–	(125.0)
At 1 January 2012	13.0	459.4	(0.4)	1.8	50.3	7.5	(7.5)	524.1
Profit for the year	–	–	–	–	236.0	–	–	236.0
Other comprehensive expense	–	–	–	–	(25.8)	(5.8)	(9.8)	(41.4)
Total comprehensive income for the year	–	–	–	–	210.2	(5.8)	(9.8)	194.6
Share based payment	–	–	–	–	9.1	–	–	9.1
Deferred income tax relating to share based payments	–	–	–	–	6.2	–	–	6.2
Shares issued	0.8	11.0	–	–	270.4	–	–	282.2
Equity dividends paid	–	–	–	–	(138.1)	–	–	(138.1)
At 31 December 2012	13.8	470.4	(0.4)	1.8	408.1	1.7	(17.3)	878.1

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 & treasury 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 one currency in terms of another currency by use of the exchange rate between the two 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 losses 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 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Operating profit on continuing activities before interest and taxation		340.9	355.5
Depreciation	13	71.7	70.2
Amortisation of intangible assets (treated as depreciation)	14	1.2	0.2
Amortisation of intangible assets recognised on acquisition	14	95.3	67.7
Share based payment expense	28	9.1	8.3
Pensions	32	(6.9)	(33.3)
Adjustment for non-cash items: contingent consideration releases, impairments of goodwill and investment loan	4	25.2	(11.2)
(Profit)/loss on sale of property, plant and equipment		(0.1)	0.7
Movement in provisions		(18.2)	(9.2)
Net movement in payables and receivables		1.0	(84.9)
Cash generated from operations before settlements		519.2	364.0
Settlement of Arch cru		–	(17.9)
Settlement of Cumbria County Council pension deficit	32	0.8	(10.0)
Cash generated from operations		520.0	336.1
Income tax paid		(62.3)	(62.6)
Net interest paid		(46.0)	(42.0)
Net cash inflow from operating activities		411.7	231.5
Cash flows from investing activities			
Purchase of property, plant and equipment		(95.5)	(102.3)
Purchase of intangible assets	14	(5.8)	(8.0)
Proceeds from sale of property, plant and equipment		1.4	0.1
Acquisition of subsidiary undertakings and businesses		(144.4)	(352.2)
Debt repaid on the acquisition of subsidiaries	17	(57.1)	(22.3)
Cash/(overdraft) acquired with subsidiary undertakings	17	17.6	(9.6)
Purchase of financial assets	16	–	(0.2)
Investment loan	16	0.3	–
Return on investment in joint venture		–	0.3
Net cash outflow from investing activities		(283.5)	(494.2)
Cash flows from financing activities			
Issue of ordinary share capital	27	284.9	4.5
Share transaction costs	27	(2.7)	–
Dividends paid	12	(138.1)	(125.0)
Capital element of finance lease rental payments	29	(1.7)	(1.0)
Instalment debtor movement		–	14.2
Asset based securitised financing	29	–	(11.7)
Repayment of loan notes	29	(2.3)	–
Proceeds on issue of term debt and bonds	29	160.3	339.8
Revolving credit facility	29	(178.0)	178.0
Financing arrangement costs	29	(1.5)	(3.2)
Net cash inflow from financing activities		120.9	395.6
Increase in cash and cash equivalents		249.1	132.9
Cash and cash equivalents at the beginning of the period		71.5	(60.3)
Impact of movement in exchange rates		(0.7)	(1.1)
Cash and cash equivalents at 31 December		319.9	71.5
Cash and cash equivalents comprise:			
Cash at bank and in hand	19	319.9	71.5
Total		319.9	71.5

Notes to the consolidated financial statements for the year ended 31 December 2012

1 Corporate information

The consolidated financial statements of Capita plc for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 27 February 2013. Capita 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 1 to 57.

2 Summary of significant accounting policies

Underlying profit

The Group separately presents intangible amortisation, acquisition contingent consideration adjustments, acquisition expenses, impairments and the movement in the mark to market valuation of certain financial instruments.

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, the measurement of defined benefit obligations, provisions (see note 25) and revenue. 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 15). 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). The Group makes use of estimates to determine revenue in respect of percentage complete/long term and construction contracts (see (e) and (f) below).

(a) Statement of compliance

The consolidated financial statements of Capita 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 132 to 138.

(b) Basis of preparation

The consolidated financial statements have been prepared under IFRS where certain financial instruments and the pension assets 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 Capita 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 intra-group 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 Capita plc has control. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

(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 during the year.

- IFRS 7 Financial Instruments: Disclosures (Amendment) – Transfers of Financial Assets
- IAS 12 Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures (Amendment) – Transfers of Financial Assets The IASB issued an amendment to IFRS7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements. The adoption of this revised standard did not have any impact on the financial position or performance of the Group.

IAS 12 Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

(e) Revenue

The Group has revenue streams largely in the United Kingdom but also in Europe, India and South East Asia.

The Group operates a number of diverse businesses and therefore it has to use a variety of methods for revenue recognition – see (f) below.

In all cases revenue is recognised when the services have been performed and it is probable that the economic benefits resulting from this performance will flow to the Group and the revenue can be reliably measured.

Costs incurred prior to the Group being awarded a contract or achieving preferred bidder status are expensed to the income statement.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)**(f) Revenue recognition**

The main accounting policies for recognition are:

Ongoing service contracts

Revenue is recognised over the period the services are delivered to the client.

Time and materials contracts

Where Capita provide staff to clients at hourly or daily rates, revenue is recognised on the basis of time worked.

Brownfield contracts

A brownfield contract is one where there is a transfer of an existing operation to the Group. All costs incurred prior to service commencement are expensed as incurred and revenue represents fee income in respect of the services provided.

Percentage complete/long term contracts

Revenue reflects the sales value of work performed in the year, including fees invoiced and estimates in respect of amounts to be invoiced after the year-end (long term contracts). Where contracts are long term and the profit to be earned on the contract can be determined with reasonable certainty, the amount of revenue recognised is calculated on the basis of the stage of completion. This is determined by measuring the costs incurred to date as a proportion of the full cost of completing the contract and then applying the percentage to the total revenue expected to be earned. The costs incurred within a contract include all direct costs and outlays.

If, on the review of the performance of the contract, a loss is anticipated then the full value of this expected loss to the end of the contract is booked immediately in the income statement.

Construction contracts

The Group's property consultancy provides professional services to clients as a subcontractor. The Group is not directly involved in constructing assets in its own right but provides professional consultancy services to entities which do construct assets. The services provided are architectural, structural or other services that result in the construction of an asset. In line with the requirements of IAS 11 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.

Greenfield contracts

A Greenfield contract is one in which an entirely new service is being established for a client. Where non-refundable payments are received prior to full service commencement on the achievement of agreed contract delivery milestones, these are recognised as revenue when the associated milestone has been achieved. Direct incremental costs incurred prior to service commencement and reimbursable during the contract, excluding any overheads, are included in prepayments and amortised over the contract's life.

On commencement of service delivery revenue represents fees invoiced in respect of the services provided.

Contracts with multiple elements

Within some contracts there are multiple services to be delivered such as transformation of the existing service delivery model, transitions of processes, people or data and the delivery of administration services, which have to be undertaken over the course of the contract.

In these contracts these activities are treated separately where appropriate, with the relevant accounting policy for revenue recognition, as detailed previously, being applied to each individual element. The following table illustrates which policies are currently predominately used in each segment.

Segment	Ongoing service contracts	Time & material contracts	Brownfield contracts	Percentage complete/long term contracts	Construction contracts	Greenfield contracts
Health & Wellbeing	●	●	●			●
IT Services & Consulting	●	●	●	●		
Justice & Secure Services	●	●	●			
Professional Services	●	●	●	●		
Property Services		●	●	●	●	
Workplace Services	●	●	●			●
Integrated Services	●	●	●	●		●
Customer Management & International	●	●	●			
General Insurance	●	●	●			
Investor & Banking Services	●	●	●			
Life & Pensions Services	●	●	●			

Contract renewals

On the renewal of existing contracts, the Group continues to review the circumstances pertinent to each contract to ensure that the correct methodologies are adopted and are in line with current experience. As a result of such a review and in keeping with the principles of revenue recognition, the Group has recognised revenue in respect of certain income at the point the income is deemed to be earned rather than when the cash is received. This resulted in an increase in revenue and profit in the year of £5.2m.

(g) Foreign currency translation

The functional and presentation currency of Capita 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 and the Indian rupee. As at the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita 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.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)**(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 to 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 capitalises borrowing costs for all qualifying assets where construction commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

(j) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is passed to the Group.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the acquisition is measured as the aggregate of the fair value of the consideration transferred plus the recognised amount of any non-controlling interests in the acquiree. For each business combination on a transaction by transaction basis, the Group elects to measure the non-controlling interests either at its fair value or at its proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Costs related to the acquisition, other than those associated with the issue of debt or securities, are expensed as incurred and included within administrative expenses and included within the 'non-underlying' column.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

In a business combination achieved in stages, the Group re-measures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the income statement.

Goodwill is initially measured at cost being the excess of the aggregate of the fair value of the consideration transferred and the recognised amount of any non-controlling interests (plus the fair value of any existing equity interest) over the net recognised amount of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Acquisitions between 1 January 2004 (IFRS transition date) and 1 January 2010

For acquisitions between the Group's IFRS transition date of 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Contingent consideration was recognised only where the Group had a present obligation and the economic outflow was more likely than not and a reliable estimate was determinable. Any subsequent adjustment to the contingent consideration was recognised as part of goodwill.

Acquisitions prior to 1 January 2004 (IFRS transition date)

On transition to the adoption of IFRS, the Group took advantage of the exemption allowed in IFRS 1 not to restate business combinations which took place prior to the date of transition. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at this date (deemed cost). This goodwill had been amortised on a straight-line basis over its useful economic life (ranging from 5 to 20 years).

Goodwill

Following initial recognition goodwill is stated 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.

Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)**(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. In the case of capitalised software development costs, research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. In these cases, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

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 2011 or 2012. 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, on a straight-line basis, as follows:

- brands are amortised 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
- capitalised software development costs are amortised over their useful economic lives of between 5 and 15 years
- other intangibles are amortised over their useful economic lives of 15 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.

(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.

(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. 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.

(r) Onerous contracts

The Group reviews its long term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Group recognises the excess of the unavoidable costs over economic benefits due to be received, as an onerous contract provision.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(s) 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 re-measured 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 costs 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.

(t) 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 re-measuring 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.

(u) 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.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)**(v) 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.

(w) 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 2005.

(x) 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. In 2012, the Group's investment in the joint venture reduced to £nil having ceased trading in 2011.

(y) 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)		
IAS 1	Amendment: Presentation of Items of Other Comprehensive Income	Annual periods after 1 July 2012
IAS 19	Amendment: Employee Benefits	1 January 2013
IAS 27	Amendment: Separate Financial Statements	1 January 2013
IAS 28	Amendment: Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Amendment: Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 7	Amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 10	Amendment: Investment Entities	1 January 2014
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
Improvements to IFRSs (2012)		1 January 2013
IFRS Interpretations Committee (IFRIC)		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

Other than 'IAS 19 Amendment: Employee Benefits', 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. The amended IAS 19 standard changes the method of calculating the net interest related to the defined benefit pension schemes from one which uses the expected return on scheme assets to one based on the discount rate. It is estimated that this change will lead to a reduction in profit before tax of approximately £10m in 2013. In 2013, the prior year comparative for 2012 will be restated for this change, reducing profit before tax by £8.6m. From 2013, we will split out the financing element of the pension charge from operating costs. This is estimated to be approximately £4m (2012: £3.6m) of the circa £10m reduction in profit (2012: £8.6m).

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

	Notes	2012 £m	2011 £m
Rendering of services		3,217.3	2,802.2
Construction contracts	21	134.5	128.0
Revenue from operating activities		3,351.8	2,930.2
Finance revenue	9	0.5	0.4
Total revenue		3,352.3	2,930.6

4 Administrative expenses

Included within administrative expenses are:

	Notes	2012 £m	2011 £m
Non-underlying, non-cash items:			
Intangible amortisation	14	95.3	67.7
Goodwill impairment net of contingent consideration movements		10.2	(11.2)
Impairment of Optima investment loan		15.0	–
		120.5	56.5
Non-underlying, cash items:			
Professional fees re acquisitions		9.6	13.3
Stamp duty paid on acquisitions		0.7	2.1
		10.3	15.4
Total		130.8	71.9

Applied Language Solutions (ALS) was acquired in December 2011 and due to uncertainties in the newly won courts interpretation contract, consideration for the acquisition was structured with a high proportion of contingent consideration relative to the initial consideration of £7.5m. Due to the performance of this contract, no contingent consideration is now likely to be payable and the related goodwill has also been reassessed to nil. This has resulted in a goodwill impairment net of the contingent consideration release of £10.6m. There is no cash impact as no contingent consideration has been paid. In 2012, there was other contingent consideration release of £0.4m (2011 £11.2m).

The investment loan with Optima Legal Services Ltd has been reduced by £15.0m to £20.7m reflecting a fall in the fair value of the loan as the Optima business has been adversely affected by the downturn in the mortgage administration market.

5 Investment expense

	2012 £m	2011 £m
Investment in joint venture	(0.1)	(0.2)

This represents expense recognised in relation to the Lloyd's Market Syndicates in which the Group had a joint venture arrangement. The Group ceased this joint venture arrangement in 2011 and the remaining investment unwound in 2012.

6 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 1 to 57. No operating segments have been aggregated to form the reportable operating segments below. The information disclosed below represents the way in which the results of the businesses are reported to the Group Board. The comparative figures have been restated due to a reorganisation of the Group's business segments during the year and a consequent change in the way in which the results of the businesses are reported to the Group Board.

Notes to the consolidated financial statements

6 Segmental information (continued)

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 2012 and 2011. All operations are continuing.

Year ended 31 December 2012

	Health & Wellbeing £m	IT Services & Consulting £m	Justice & Secure Services £m	Professional Services £m	Property Services £m	Workplace Services £m	Integrated Services £m	Customer Management & International £m	General Insurance £m	Investor & Banking Services £m	Life & Pensions Services £m	Total £m
Underlying segment revenue												
Total segment revenue	201.7	633.4	198.3	485.3	273.4	383.9	285.6	230.1	148.6	250.3	659.0	3,749.6
Inter-segment revenue	(25.5)	(131.1)	–	(101.3)	(17.6)	(24.8)	(5.0)	–	–	(9.4)	(83.1)	(397.8)
Third party revenue	176.2	502.3	198.3	384.0	255.8	359.1	280.6	230.1	148.6	240.9	575.9	3,351.8
Underlying segment result												
Result after depreciation	34.1	40.6	23.9	96.4	7.5	48.2	65.4	24.4	18.5	63.8	58.0	480.8
Share based payment	(0.4)	(0.4)	(0.1)	(1.7)	(0.6)	(1.1)	(2.2)	(0.1)	(0.8)	(0.6)	(1.1)	(9.1)
	33.7	40.2	23.8	94.7	6.9	47.1	63.2	24.3	17.7	63.2	56.9	471.7
Non-underlying												
Intangible amortisation												(95.3)
Acquisition costs												(10.3)
Loan impairment												(15.0)
Goodwill impairment net of contingent consideration movements												(10.2)
												340.9
Net underlying finance costs												(46.0)
Financial instruments – mark to market												(8.7)
Investment expense												(0.1)
Currency swaps' counterparty risk – mark to market												3.9
Profit before tax												290.0
Income tax expense												(54.0)
Profit for the year												236.0

Other segment information

	Health & Wellbeing £m	IT Services & Consulting £m	Justice & Secure Services £m	Professional Services £m	Property Services £m	Workplace Services £m	Integrated Services £m	Customer Management & International £m	General Insurance £m	Investor & Banking Services £m	Life & Pensions Services £m	Total £m
Assets by segment												
Trade receivables, accrued income & construction contracts	92.9	86.8	46.7	37.8	66.3	94.2	40.3	45.6	82.0	63.6	131.7	787.9
Deferred income	(11.3)	(29.5)	(18.7)	(60.8)	(15.2)	(10.9)	(19.4)	(0.9)	(5.8)	(9.1)	(23.9)	(205.5)
Matched creditors*	–	–	–	–	–	(32.1)	–	–	(60.0)	(20.8)	–	(112.9)
Net allocated assets	81.6	57.3	28.0	(23.0)	51.1	51.2	20.9	44.7	16.2	33.7	107.8	469.5
Unallocated assets												3,075.5
Unallocated liabilities												(2,666.9)
Total net assets												878.1
Capital expenditure												
Tangible assets	5.0	13.4	3.0	5.4	2.4	3.9	1.2	3.1	1.6	15.6	42.2	96.8
Depreciation charge	5.3	13.6	4.1	6.4	2.1	3.5	1.2	3.6	3.3	6.4	23.4	72.9
Intangible assets	46.0	12.2	53.2	–	3.0	39.1	–	–	26.2	5.2	49.1	234.0
Intangible amortisation	10.1	13.6	15.2	8.8	4.3	7.2	–	8.4	9.5	8.9	9.3	95.3

*Matched creditors represent those creditors where there is a related trade receivable balance and where as a result management report the net position.

Notes to the consolidated financial statements

6 Segmental information (continued)

Other segment information

	Health & Wellbeing £m	IT Services & Consulting £m	Justice & Secure Services £m	Professional Services £m	Property Services £m	Workplace Services £m	Integrated Services £m	Customer Management & International £m	General Insurance £m	Investor & Banking Services £m	Life & Pensions Services £m	Total £m
Assets by segment												
Trade receivables, accrued income & construction contracts	73.4	112.7	32.5	61.5	79.8	69.7	17.2	57.8	113.7	63.0	126.5	807.8
Deferred income	(4.3)	(42.8)	(9.8)	(54.5)	(8.6)	(8.6)	(20.3)	(2.3)	(9.4)	(5.7)	(34.4)	(200.7)
Matched creditors*	–	–	–	–	–	(16.9)	–	–	(79.5)	(18.0)	–	(114.4)
Net allocated assets	69.1	69.9	22.7	7.0	71.2	44.2	(3.1)	55.5	24.8	39.3	92.1	492.7
Unallocated assets												2,729.7
Unallocated liabilities												(2,698.3)
Total net assets												524.1
Capital expenditure												
Tangible assets	5.6	17.4	6.0	4.8	2.5	3.3	5.1	0.7	7.9	12.6	38.1	104.0
Depreciation charge	4.4	13.8	2.5	4.7	1.9	3.8	4.8	3.7	3.0	6.1	21.7	70.4
Intangible assets	19.3	42.9	82.8	68.2	11.6	32.6	–	134.9	–	54.5	34.5	481.3
Intangible amortisation	6.8	11.2	9.2	8.4	3.8	5.9	–	2.6	7.4	6.5	5.9	67.7

*Matched creditors represent those creditors where there is a related trade debtor balance and where as a result management report the net position.

Unallocated assets include property, plant and equipment, intangible assets, financial assets, other receivables, prepayments, funds receivables, and cash. Unallocated liabilities includes trade payables (excluding matched creditors*), other payables, other taxes and social security, gross amounts due to customers on contraction contracts, accruals, financial liabilities, funds payables, deferred taxation, provisions, income tax payable, and employee benefits liability.

The table below presents 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	3,214.9	166.4	3,381.3
Inter-segment revenue	(391.5)	(59.6)	(451.1)
Third party revenue	2,823.4	106.8	2,930.2
Other segment information			
Trade receivables, accrued income & construction contracts	774.5	33.3	807.8
Unallocated assets	2,608.4	121.3	2,729.7
Total assets	3,382.9	154.6	3,537.5
Capital expenditure			
Tangible assets	96.5	7.5	104.0
Intangible assets	448.4	32.9	481.3

Notes to the consolidated financial statements

7 Operating profit

This is stated after charging/(crediting):

	Notes	2012 £m	2011 £m
Employee benefits expense	8	1,507.9	1,282.1
Amortisation of intangible assets (as shown in the non-underlying column)	14	95.3	67.7
Depreciation	13	71.7	70.2
Amortisation of other intangible assets (treated as depreciation) ¹	14	1.2	0.2
(Profit)/loss on sale of property, plant and equipment		(0.1)	0.7
Minimum lease payments recognised as an operating lease expense		84.2	80.9
Foreign exchange differences		(0.4)	1.6
UK fees paid to the auditors include fees in relation to:			
Audit of financial statements		1.2	0.8
Other UK fees:			
Local statutory audits for subsidiaries		0.3	0.4
Taxation compliance services		0.1	0.1
Taxation advisory services		0.1	0.1
Services related to corporate finance transactions		0.4	0.7
Other assurance services ²		0.3	0.4
		2.4	2.5

¹ Included within operating activities before amortisation.² There were no other amounts payable to the auditors requiring disclosure under Section 494 of the Companies Act 2006.**8 Employee benefits expense**

	Notes	2012 £m	2011 £m
Wages and salaries		1,314.2	1,138.3
Social security costs		122.7	105.0
Pension costs	32	61.9	30.5
Share based payments	28	9.1	8.3
		1,507.9	1,282.1

The average number of employees during the year was made up as follows:

	2012 Number	2011 Number
Sales	1,741	1,005
Administration	5,087	4,376
Operations	40,762	34,986
	47,590	40,367

Details of Directors' remuneration are contained within the Directors' remuneration report on pages 78 to 89.

9 Net finance costs

	Notes	2012 £m	2011 £m
Bank interest receivable		(0.3)	(0.1)
Other interest receivable		(0.2)	(0.3)
Interest receivable		(0.5)	(0.4)
Bonds		29.5	26.3
Fixed rate interest rate swaps – realised		9.1	11.5
Bank loans and overdrafts		7.9	4.6
Interest payable		46.5	42.4
Underlying net finance costs		46.0	42.0
Fixed rate interest rate swaps – mark to market	26	8.2	7.2
Non-designated foreign exchange forward contracts – mark to market		0.5	(0.1)
Currency swaps' counterparty risk adjustment – mark to market ¹	26	(3.9)	3.3
Non-underlying net finance costs		4.8	10.4
Total net finance costs		50.8	52.4

¹ 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).

Notes to the consolidated financial statements

10 Income tax

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	2012 £m	2011 £m
Consolidated income statement		
Current income tax		
Current income tax charge	71.4	80.0
Adjustment in respect of prior years	(3.8)	(8.3)
Deferred income tax		
Origination and reversal of temporary differences	(13.3)	(7.0)
Adjustment in respect of prior years	(0.3)	0.2
	54.0	64.9
Consolidated statement of comprehensive income		
Deferred income tax on cash flow hedges	(2.7)	(5.6)
Deferred income tax movement in relation to actuarial losses on defined benefit plans	(2.6)	(24.1)
	(5.3)	(29.7)
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	–	(3.8)
Deferred income tax movement in relation to share based payment	6.2	0.7
	6.2	(3.1)

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2012 and 2011 is as follows:

	2012 £m	2011 £m
Accounting profit before tax	290.0	302.9
Notional charge at UK corporation tax rate of 24.5% (2011: 26.5%)	71.0	80.3
Adjustments in respect of current income tax of prior years	(3.8)	(8.3)
Adjustments in respect of deferred tax of prior years	(0.3)	0.2
Non-deductible expenses	3.6	2.2
Attributable to reduction in corporation tax rate	(7.4)	(6.5)
Attributable to lower tax rates in overseas jurisdictions	(5.6)	(6.7)
Adjustments to tax relief on share based payment	(3.5)	3.7
At the effective tax rate of 18.6% (2011: 21.4%)	54.0	64.9
Total tax expense reported in the income statement	54.0	64.9

The tax charge for the year ended 31 December 2012 was £54.0m (2011: charge of £64.9m) and is after a prior year net credit of £4.1m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an effective tax rate of 18.6% (2011: 21.4%). The effective tax rate on underlying profit is 20.5% (2011: 23.5%).

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2012 £m	2011 £m	2012 £m	2011 £m
Deferred tax liabilities				
Accelerated capital allowances	(14.4)	(14.2)	4.6	5.6
Fair value adjustments on acquisition	(55.8)	(63.9)	(25.6)	(21.7)
	(70.2)	(78.1)		
Deferred tax assets				
Share based payments	10.8	2.7	(1.9)	1.5
Pension schemes' liability	24.9	21.4	(0.6)	9.3
Provisions	18.0	17.7	9.6	–
Losses available for offset against future taxable income	–	0.1	0.2	0.2
Mark to market movement on currency swaps	0.4	1.5	1.1	(0.8)
Cash flow swaps	12.2	11.3	1.8	(0.9)
Cash flow hedges	5.2	2.4	(2.8)	–
	71.5	57.1		
Net deferred tax asset/(liability)	1.3	(21.0)		
Deferred income tax credit			(13.6)	(6.8)

The Group has tax losses and other temporary differences of £77.0m (2011: £72.0m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £76.7m 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 £77.0m (2011: £72.0m) of these losses or other temporary differences, as their recoverability is uncertain.

The UK corporation tax rate will decrease from 24% to 23% from 1 April 2013. The deferred tax balance has been adjusted in the current year to reflect this change. Proposed changes to tax laws and rates that will have an effect on the deferred tax assets and liabilities of the Group have also been announced but not substantively enacted at the balance sheet date. The impact of these changes on the Group is not considered to be material.

Notes to the consolidated financial statements

11 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:

	2012 £m	2011 £m
Net profit attributable to ordinary equity holders of the parent from operations	236.0	238.0
	2012 Number million	2011 Number million
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	636.4	607.7
Dilutive potential ordinary shares:		
Employee share options	7.0	1.4
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	643.4	609.1

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 £338.3m (2011: £294.7m) and, after non-underlying costs, earnings of £236.0m (2011: £238.0m). They are included as they provide a better understanding of the underlying trading performance of the Group.

	2012 p	2011 p
Basic earnings per share – underlying	53.16	48.49
– after non-underlying	37.08	39.16
Diluted earnings per share – underlying	52.58	48.38
– after non-underlying	36.68	39.07

12 Dividends paid and proposed

	2012 £m	2011 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2011 paid: 14.2p per share (2010: 13.4p per share)	86.7	81.2
Interim for 2012 paid: 7.9p per share (2011: 7.2p per share)	51.4	43.8
	138.1	125.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2012: 15.6p per share (2011: 14.2p per share)	101.3	86.4

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2011	69.4	395.7	465.1
Subsidiaries acquired	0.6	6.6	7.2
Additions	10.5	93.5	104.0
Disposals	(8.0)	(47.4)	(55.4)
Exchange movement	(1.0)	(3.0)	(4.0)
At 31 December 2011	71.5	445.4	516.9
Subsidiaries acquired	2.7	2.1	4.8
Additions	9.1	87.7	96.8
Disposals	(14.2)	(75.3)	(89.5)
Exchange movement	(0.5)	(1.5)	(2.0)
At 31 December 2012	68.6	458.4	527.0
Depreciation and impairment			
At 1 January 2011	32.4	141.3	173.7
Provided during the year	8.5	61.7	70.2
Disposals	(7.5)	(47.1)	(54.6)
Exchange movement	(0.7)	(1.9)	(2.6)
At 31 December 2011	32.7	154.0	186.7
Provided during the year	9.3	62.4	71.7
Disposals	(13.6)	(74.6)	(88.2)
Exchange movement	(0.4)	(1.1)	(1.5)
At 31 December 2012	28.0	140.7	168.7
Net book value			
At 1 January 2011	37.0	254.4	291.4
At 31 December 2011	38.8	291.4	330.2
At 31 December 2012	40.6	317.7	358.3

The net book value of plant and machinery includes an amount of £2.5m (2011: £2.1m) in respect of assets held under finance leases.

Notes to the consolidated financial statements

14 Intangible assets

	Brands £m	Software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Sub-total £m	Capitalised software development £m	Other intangibles £m	Total £m
Cost									
At 1 January 2011	25.1	19.0	93.2	195.7	1,204.4	1,537.4	–	13.4	1,550.8
Recognition of intangibles – prior year acquisitions	–	–	–	–	2.0	2.0	–	–	2.0
Subsidiaries acquired	3.7	3.1	3.1	140.8	320.6	471.3	–	–	471.3
Additions	–	–	–	–	–	–	–	8.0	8.0
Exchange movement	–	–	(1.0)	(0.4)	(0.1)	(1.5)	–	–	(1.5)
At 31 December 2011	28.8	22.1	95.3	336.1	1,526.9	2,009.2	–	21.4	2,030.6
Subsidiaries acquired	1.8	–	–	79.5	146.9	228.2	–	–	228.2
Additions	–	–	–	–	–	–	4.7	1.1	5.8
Asset retirement	–	–	–	–	–	–	–	(13.4)	(13.4)
Exchange movement	–	–	–	(0.3)	(0.1)	(0.4)	–	–	(0.4)
At 31 December 2012	30.6	22.1	95.3	415.3	1,673.7	2,237.0	4.7	9.1	2,250.8
Amortisation and impairment									
At 1 January 2011	12.1	6.8	15.1	75.4	12.0	121.4	–	13.4	134.8
Amortisation treated as depreciation	–	–	–	–	–	–	–	0.2	0.2
Other amortisation	4.2	3.5	14.4	45.6	–	67.7	–	–	67.7
Exchange movement	–	–	–	–	(1.0)	(1.0)	–	–	(1.0)
At 31 December 2011	16.3	10.3	29.5	121.0	11.0	188.1	–	13.6	201.7
Amortisation treated as depreciation	–	–	–	–	–	–	0.5	0.7	1.2
Other amortisation	4.8	3.4	14.5	72.6	–	95.3	–	–	95.3
Impairment – note 4	–	–	–	–	46.1	46.1	–	–	46.1
Asset retirement	–	–	–	–	–	–	–	(13.4)	(13.4)
At 31 December 2012	21.1	13.7	44.0	193.6	57.1	329.5	0.5	0.9	330.9
Net book value									
At 1 January 2011	13.0	12.2	78.1	120.3	1,192.4	1,416.0	–	–	1,416.0
At 31 December 2011	12.5	11.8	65.8	215.1	1,515.9	1,821.1	–	7.8	1,828.9
At 31 December 2012	9.5	8.4	51.3	221.7	1,616.6	1,907.5	4.2	8.2	1,919.9

The amount in 'Other intangibles' at 1 January 2011 of £13.4m 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. This contract has ended and the associated asset has been retired. In 2011 the Group paid £8.0m to acquire the underlying elements which support the contract with Zurich. The amortisation on Other Intangibles and Capitalised Software Development is being treated as depreciation.

Notes to the consolidated financial statements

15 Goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash generating units (CGUs) that are expected to benefit from the synergies of the combination. These represent the lowest level within the Group at which goodwill can be allocated.

Carrying amount of goodwill allocated to groups of cash generating units

	CCM & International £m	Shareholder Services £m	Insurance Services £m	Life & Pensions Services £m	Local Government & Further Education £m	IT & Software Services £m	Secure Information Solutions £m	Property Services £m	Workforce Services £m	Balance of non-significant CGUs £m	Total £m
2012											
Goodwill	88.5	90.7	288.4	135.5	84.3	202.7	93.5	97.3	117.3	418.4	1,616.6
2011											
Goodwill	91.2	88.3	276.3	106.3	85.8	198.2	90.3	94.9	110.3	374.3	1,515.9

Disclosed above are the significant groups of CGUs identified, with the remaining CGUs included in the 'non-significant balance' column. The non-significant CGUs included within the balance do not individually exceed 5% of the Group's total goodwill balance. The number of CGUs identified for 2012 has increased due to organic growth and acquisitions. Shareholder Services (previously reported as Registrar Services), Local Government & Further Education Software, IT & Software Services have been restated accordingly as a consequence.

The recoverable amount of the CGUs is based on a value in use calculation using cash flow projections based on the latest 1 year budget forecast approved by senior management, extrapolated for 4 future years at a growth rate applicable to each unit; an appropriate terminal value is then added. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital are then applied to these projections.

The key assumptions used in the impairment testing are as follows:

- profit before interest and taxation (year 1)
- pre-tax discount rates
- rate of growth in CGUs beyond the budget period (years 2 to 5)
- long term growth (>5 years)

Profit before interest and taxation

The profit before interest and taxation is based on the assumption that future margins will remain in line with levels currently being achieved. Non cash items have been added back where appropriate to the profit before interest and taxation in order to determine the cash flow for the CGU.

Discount rate

The Group's post tax-weighted average cost of capital of 7.0% (2011: 7.5%) has been used to derive a Group pre-tax discount rate. The Group pre tax rate is adjusted where appropriate to reflect the risks specific to the market in which the CGUs are operating. The specific risk-adjusted pre-tax discount rates applied to the projected cash flows of each CGU range from 8.8% to 11.2%.

Rates of growth in cash generating units beyond the budget period (years 2 to 5)

The growth rate assumptions used in each CGU for years 2 to 5 are based on a combination of projections by senior operational management and, where possible, published industry research for the relevant market. Projections by senior management are reflective of past experience, internal data regarding the current pipeline of opportunities and future expected market trends.

Long term growth rates (>5 years)

A terminal value based on a perpetuity calculation using nil growth has been added to the projected 5 year cash flows.

Notes to the consolidated financial statements

15 Goodwill (continued)

Sensitivity analysis

Impairment testing is dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows and the discount rate applied to those cash flows. Sensitivity analysis has been performed for these key assumptions.

Sensitivities have been applied to the discount rate by risk adjusting the cost of equity which is applied to each CGU. The cost of debt has been considered constant for all CGUs and reflects the fact that all units have equal access to the Group's treasury facilities to fund their operations and all have similar funding profiles. The sensitised pre tax discount rates applied to the CGUs range from 10.0% to 12.4%.

Sensitivities have been applied to the short term growth rates for years 2 to 5. The adjustments made to the base growth rate have been included in the table below.

		Growth Sensitivities bps
CCM & International	minus	350
Shareholder Services	minus	250
Insurance Services	minus	200
Life & Pensions Services	minus	200
Local Government & Further Education Software	minus	300
IT & Software Services	minus	300
Secure Information Solutions	minus	350
Property Services	minus	250
Workforce Services	minus	350
Balance	minus	300

Based on the sensitivity analysis performed, the recoverable amount of Insurance Services is most sensitive to a change in the key assumptions. The overall level of projected cash flows for Insurance Services would need to reduce by more than 35% against our base case projections to cause an impairment of the associated goodwill.

Management has concluded that no reasonable possible change in the key assumptions discussed above would cause any of the goodwill within the identified significant CGUs to become impaired.

Impairment

Included within the balance of non significant CGUs is Applied Language Solutions (ALS). ALS was acquired in December 2011 and due to uncertainties in the newly won courts' interpretation contract, the transaction was structured with a high proportion of contingent consideration relative to the initial consideration of £7.5m. Due to the performance of this contract it is anticipated that no contingent consideration is now likely to be payable and the goodwill in relation to this acquisition has been impaired to £nil. The total impairment charge in the year ended 31 Dec 2012 was £46.1m (See Note 14, Intangible assets).

16 Financial assets

	2012 £m	2011 £m
Current financial assets		
Investment loan ¹	0.3	0.3
Cash flow hedges ²	–	1.8
Available-for-sale assets ³	0.8	0.9
Currency swaps in relation to US\$ denominated bonds ⁴	6.9	–
	8.0	3.0
	2012 £m	2011 £m
Non-current financial assets		
Investment loan ¹	20.7	36.0
Cash flow hedges ²	–	0.9
Currency swaps in relation to US\$ denominated bonds ⁴	199.6	243.3
Interest rate swaps in relation to GBP denominated bonds ⁴	15.9	13.5
Investment in a joint venture ⁵	–	0.1
	236.2	293.8

¹ The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL). During the year, this loan has been impaired by £15.0m (note 4) and the level of funding advanced has not increased (2011: £nil).

² 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.

³ 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.

⁴ The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US\$ denominated bonds. The change in the fair value of the underlying bonds due to changes in interest and currency rates is offset by 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 change 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 swaps, currency swaps and cash flow hedges are contained in note 26.

Notes to the consolidated financial statements

17 Business combinations

2012 acquisitions

The Group made a number of acquisitions in 2012 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Intangible assets	81.3
Property, plant and equipment	4.8
Deferred tax	(3.0)
Bank loans and overdrafts	17.6
Trade receivables – gross	64.2
Impairment of trade receivables	(5.2)
Payables	(56.2)
Accruals	(44.4)
Long term debt	(57.1)
Provisions	(19.0)
Corporation tax	5.1
Net assets	(11.9)
Goodwill arising on acquisition	146.9
	135.0
Discharged by:	
Cash	126.6
Contingent consideration accrued	8.4
	135.0

In all cases 100% of the ordinary share capital was acquired and the consideration satisfied in cash. The companies acquired have been mainly in the areas of Pensions and Employee Benefits, Security, Health and Travel and complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition during the year the Group settled contingent consideration payments with regard to previous acquisitions amounting to £12.0m, all of which had been accrued.

During the year some of the acquired businesses have been completely integrated into the existing businesses of the Group and therefore their post-acquisition performance cannot be determined. In aggregate for the year, the other acquired subsidiaries contributed £23.0m to the profit before tax of the Group. If the acquisition had occurred on 1 January 2012, Group revenue would have been an estimated £3,478.2m and Group profit before tax would have been an estimated £300.5m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2012. The post acquisition revenue of Clinical Solutions benefited from a £5.6m release of deferred income (included in the balance sheet at the date of acquisition) arising from a change in the performance obligations and expected future costs of a significant contract.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £3.3m (2011: £83.7m).

Contingent consideration

In respect of the acquisitions made in 2012, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The range of the additional consideration payment is estimated to be between £5m and £10m. The Group has included £8.4m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighing the probability of a range of payments to give an estimate of the final obligation.

The fair value exercise has been completed on a provisional basis for acquisitions made in 2012. The Group will complete this review in 2013 though any adjustment to the carrying value is likely to be insignificant to the individual acquisition.

Acquisition related costs

The Group incurred acquisition related costs of £10.3m related to professional fees paid for due diligence, general professional fees and legal advice. These costs have been included in administrative expenses in the Group's consolidated income statement.

Notes to the consolidated financial statements

17 Business combinations (continued)**2011 acquisitions**

The Group made a number of acquisitions in 2011 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Intangible assets	150.7
Property, plant and equipment	7.2
Deferred tax	(25.1)
Bank loans and overdrafts	(9.6)
Trade receivables – gross	103.8
Impairment of trade receivables	(11.4)
Payables	(28.0)
Accruals	(67.7)
Long term debt	(22.3)
Provisions	(33.2)
Corporation tax	1.7
Net assets	66.1
Goodwill arising on acquisition	320.6
	386.7
Discharged by:	
Cash	335.1
Contingent consideration accrued	51.6
	386.7

During 2011 the Group completed a number of acquisitions which are shown in aggregate above. In all cases 100% of the ordinary share capital was acquired and the consideration satisfied in cash. The companies acquired were mainly in the areas of Customer Management, Health, Financial Services and IT, and complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition during 2011 the Group settled contingent consideration payments with regard to previous acquisitions amounting to £1.7m, all of which had been accrued.

During 2011 some of the acquired businesses had been completely integrated into the existing businesses of the Group and therefore their post-acquisition performance could not be determined. In aggregate for the year, the other acquired subsidiaries contributed £16.6m to the profit before tax of the Group. If the acquisitions had occurred on 1 January 2011, Group revenue in 2011 would have been an estimated £3,106.8m and Group profit before tax would have been an estimated £318.9m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2011.

Goodwill arose on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses.

Contingent consideration

In respect of the acquisitions in 2011, the Group agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 4 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. At 31 December 2011, the range of the additional consideration payment was estimated to be between £40m and £70m. The Group had included £51.6m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration had been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighing the probability of a range of payments to give an estimate of the final obligation. There was further contingent consideration accrued of £2.0m in respect of acquisitions in previous years.

Fair values had been provisional in relation to the acquisitions that were completed in the final quarter of 2011. The Group completed this review in the first half of 2012.

Acquisition related costs

The Group incurred acquisition related costs of £15.4m related to professional fees paid for due diligence, general professional fees and legal advice in respect of the acquisitions in 2011. These costs were included in administrative expenses in the Group's consolidated income statement.

Notes to the consolidated financial statements

18 Trade and other receivables

	2012 £m	2011 £m
Current		
Trade receivables	417.4	464.5
Other receivables	33.4	25.0
Gross amounts due from customers on construction contracts	14.1	20.0
Accrued income	302.8	277.3
Prepayments	71.4	59.5
	839.1	846.3
Non-current		
Other receivables	6.1	4.7
Accrued income	53.6	46.0
Prepayments	13.0	15.1
	72.7	65.8

Trade receivables are non-interest bearing and are generally on 30 days' terms.

For 2011, £34.0m of amounts recoverable under contract have been reclassified as accrued income to be in line with current year treatment.

At 31 December 2012, trade receivables at a nominal value of £21.8m (2011: £30.1m) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2012 £m	2011 £m
At 1 January	30.1	22.7
Provisions acquired	5.2	11.4
Charge for year	13.9	21.3
Amounts written off	(0.7)	(3.6)
Unused amounts reversed	(26.7)	(21.7)
At 31 December	21.8	30.1

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
2012	417.4	311.9	93.1	12.4	–	–
2011	464.5	406.5	51.2	6.8	–	–

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

During the year, the basis for Medical bad debt provisioning was changed to reflect improved visibility and process over collection. As a consequence £5.0m of unused amounts were reversed in 2012.

19 Cash

	2012 £m	2011 £m
Cash at bank and in hand	319.9	71.5

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.

20 Trade and other payables

	2012 £m	2011 £m
Current		
Trade payables	184.9	170.9
Other payables	103.9	136.0
Other taxes and social security	123.9	91.1
Gross amounts due to customers on construction contracts	5.0	2.6
Accruals	357.5	344.3
Deferred income	195.9	191.6
	971.1	936.5
Non-current		
Other payables	1.5	3.4
Accruals	1.4	7.5
Deferred income	9.6	9.1
	12.5	20.0

Trade payables are non-interest bearing and are normally settled on terms agreed with suppliers.

Notes to the consolidated financial statements

21 Construction contracts

The Group's property consultancy provides professional services to some clients as a subcontractor. The Group is not directly involved in constructing assets in its own right but provides consultancy services to entities which do construct assets. The services provided are architectural, structural or other services that result in the construction of an asset in line with the requirements of IAS 11.

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.

	2012 £m	2011 £m
Contract revenue recognised in relation to construction contracts in the year	134.5	128.0
Aggregate costs incurred and recognised profits (less losses) to date	141.4	209.8
Gross amount due from customers for construction contracts	14.1	20.0
Gross amount due to customers on construction contracts	5.0	2.6

22 Financial liabilities

	Notes	2012 £m	2011 £m
Current			
Contingent consideration		21.1	6.0
Obligations under finance leases	24	1.1	2.0
Unsecured loan notes		0.1	2.3
Cash flow hedges		2.6	0.5
Non-designated foreign exchange forward contracts		0.2	–
Currency swaps in relation to US\$ denominated bonds		–	0.9
Bonds		95.0	24.4
Fixed rate interest rate swaps		1.4	0.4
		121.5	36.5
Non-current			
Contingent consideration		5.7	54.6
Obligations under finance leases	24	1.6	1.1
Unsecured loan notes		0.4	–
Bonds		1,275.1	1,407.8
Term loan		185.0	–
Revolving credit facility		–	176.1
Cash flow hedges		19.9	12.0
Non-designated foreign exchange forward contracts		0.2	–
Currency swaps in relation to US\$ denominated bonds		0.3	–
Fixed rate interest rate swaps		51.5	44.3
		1,539.7	1,695.9

The aggregate bond value stated above of £1,370.1m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2012. 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 16 – Financial assets and note 22 – Financial liabilities in the current and comparative years.

In June 2012 the Group repaid bonds which reached maturity. These were US\$36.0m 2002 Series C bonds (GBP equivalent: £24.7m).

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. The loan notes issued are non-interest bearing.

The Group has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005³				
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 2008¹				
Series C	7.19	GBP	32.0	13 September 2015
Issued 2010				
Series C	4.78	GBP	50.0	30 June 2020
Issued 2011¹				
Series A ⁵	4.85	GBP	50.0	22 July 2019
Series C	4.76	GBP	35.0	19 July 2021
Total of sterling denominated bonds			242.0	
			US\$m	
Issued 2006^{2,3}				
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^{2,3}				
Series A	5.57	US\$	21.0	11 October 2014
Series B	5.88	US\$	179.0	11 October 2017
Issued 2008²				
Series A	6.04	US\$	80.0	13 September 2015
Series B ⁵	6.51	US\$	256.0	13 September 2018
Issued 2010²				
Series A	4.15	US\$	50.0	30 June 2017
Series B ^{4,5}	4.80	US\$	250.0	30 June 2020
Issued 2011²				
Series B ⁵	4.65	US\$	80.0	22 July 2019
Series A	3.72	US\$	40.0	19 July 2018
Series B	4.50	US\$	236.0	19 July 2021
Series A	4.75	US\$	50.0	26 July 2021
Total of US\$ denominated bonds			1,577.0	

¹ The Group has entered into an interest rate swap to convert the interest cost to a floating rate based on 6 month GBP LIBOR.

² 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.

³ Subsequently, the Group has entered a series of fixed rate 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 fixed rate interest swaps.

⁴ The Group has entered a fixed rate interest rate swap to convert GBP24.7m of this issue from paying a floating rate based on 6 month LIBOR to a fixed rate.

⁵ The Group has entered a series of fixed rate interest rate swaps to convert the whole or a proportion of these issues from paying a floating rate based on 6 month LIBOR to fixed rates with an effective start date subsequent to the reporting date. See note 26 for further details of these fixed rate interest swaps.

Notes to the consolidated financial statements

22 Financial liabilities (continued)

All series are unsecured and rank pari passu in all respects.

In February 2012, the Group arranged a new £285.0m 2 year term loan at floating rates of interest and prepaid £100.0m in June 2012.

The issue costs incurred on the issue of the bonds during the year amounted to £nil (2011: £0.6m). Issue costs on the bonds are spread over the life of the bonds to their maturity. The unamortised balance of issue costs at the year-end totalled £1.7m (2011: £2.0m).

23 Funds receivables and payables

	2012 £m	2011 £m
Funds receivables	108.0	98.0
Funds payables	(121.2)	(107.1)

These balances relate to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The balances are due to and from the investors and Investment Funds. The parties to the trade are permitted to take advantage of a four day settlement period between initiation and settlement of the trade.

24 Obligations under 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:

	2012 £m	2011 £m
Not later than 1 year	1.1	2.0
Later than 1 year but not more than 5 years	1.6	1.1
	2.7	3.1

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:

	2012 £m	2011 £m
Not later than 1 year	80.7	74.1
Later than 1 year but not later than 5 years	177.6	168.9
Later than 5 years	147.9	112.6
	406.2	355.6

25 Provisions

	Insurance captive provision £m	Property provision £m	Arch cru £m	Other £m	Total £m
At 1 January 2012	20.3	40.4	0.6	2.4	63.7
Utilisation	(14.2)	(5.6)	–	(9.0)	(28.8)
Created/(released) in the year	9.9	(0.1)	(0.6)	1.4	10.6
Provisions acquired	–	4.7	–	14.3	19.0
At 31 December 2012	16.0	39.4	–	9.1	64.5

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

The insurance provision is made in relation to the Group's Professional Indemnity, Motor and Employee Liability exposures. The Group uses a captive insurer to reduce the cost of providing this cover for its operations; claims that are in excess of the Captive's liability are reinsured with a number of large insurance underwriters. The Group makes provision when a claim has been made where it is more probable than not that an insured loss will occur. These provisions are reassessed regularly to ensure that the level of provisioning is consistent with the claims that have been reported. In the year the Group has settled a number of insurance liabilities which it had provided for in previous years. Additionally it has made provision for new claims and increased or decreased existing provisions where more information on the progress of the claim has become available.

Within the property provisions there is included a discounted provision for the difference between the market value of the property leases acquired in 2011 with Ventura and Vertex Private Sector and the lease obligations committed to at the date the leases were signed by the previous owners. This is in accordance with IFRS 3 (revised) which requires the use of fair value measurement. The remaining 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 15 years.

Other relates to provisions in respect of potential claims arising due to the nature of some of the operations that the Group provides and a provision for an onerous contract in relation to the ALS courts' interpretation contract. These are likely to unwind over a period of 1 to 3 years.

Notes to the consolidated financial statements

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, fixed rate 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.

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, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The fair values are the same as the carrying values other than a £50.0m fixed rate bond, included below in the bond value of £1,370.1m, with a carrying value of £50.0m and a fair value of £54.2m.

	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 2012						
Financial assets						
Unlisted equity securities	0.8	–	–	–	–	0.8
Investment loan	–	–	21.0	–	–	21.0
Interest rate swaps in relation to GBP denominated bonds	–	–	–	15.9	–	15.9
Currency swaps in relation to US\$ denominated bonds	–	–	–	206.5	–	206.5
	0.8	–	21.0	222.4	–	244.2
Financial liabilities						
Unsecured loan notes	–	–	–	–	0.5	0.5
Bonds	–	–	–	–	1,370.1	1,370.1
Term loan	–	–	–	–	185.0	185.0
Cash flow hedges	–	–	–	22.5	–	22.5
Non-designated foreign exchange forward contracts	–	0.4	–	–	–	0.4
Currency swaps in relation to US\$ denominated bonds	–	–	–	0.3	–	0.3
Contingent consideration	–	–	–	–	26.8	26.8
Obligations under finance leases	–	–	–	–	2.7	2.7
Fixed rate interest rate swaps	–	52.9	–	–	–	52.9
	–	53.3	–	22.8	1,585.1	1,661.2

The aggregate bond value above of £1,370.1m includes the GBP value of the US\$ denominated bonds at 31 December 2012. 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 values of the currency and interest swaps are disclosed in note 16 – Financial assets and in note 22 – 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 2011						
Financial assets						
Unlisted equity securities	0.9	–	–	–	–	0.9
Investment loan	–	–	36.3	–	–	36.3
Cash flow hedges	–	–	–	2.7	–	2.7
Interest rate swaps in relation to GBP denominated bonds	–	–	–	13.5	–	13.5
Currency swaps in relation to US\$ denominated bonds	–	–	–	243.3	–	243.3
	0.9	–	36.3	259.5	–	296.7
Financial liabilities						
Unsecured loan notes	–	–	–	–	2.3	2.3
Bonds	–	–	–	–	1,432.2	1,432.2
Revolving credit facility	–	–	–	–	176.1	176.1
Cash flow hedges	–	–	–	12.5	–	12.5
Currency swaps in relation to US\$ denominated bonds	–	–	–	0.9	–	0.9
Contingent consideration	–	–	–	–	60.6	60.6
Obligations under finance leases	–	–	–	–	3.1	3.1
Fixed rate interest rate swaps	–	44.7	–	–	–	44.7
	–	44.7	–	13.4	1,674.3	1,732.4

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.

Notes to the consolidated financial statements

26 Financial instruments (continued)**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.

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

At 31 December 2012	2012 £m	2011 £m
Assets measured at fair value		
Cash flow hedges	–	2.7
Interest rate swaps in relation to GBP denominated bonds	15.9	13.5
Currency swaps in relation to US\$ denominated bonds	206.5	243.3
Liabilities measured at fair value		
Bonds	1,320.1	1,382.2
Term loan	185.0	–
Revolving credit facility	–	176.1
Unsecured loan notes	0.5	2.3
Cash flow hedges	22.5	12.5
Non-designated foreign exchange forward contracts	0.4	–
Currency swaps in relation to US\$ denominated bonds	0.3	0.9
Fixed rate interest rate swaps	52.9	44.7
Contingent consideration	26.8	60.6

During both years the Group only had Level 2 assets or liabilities measured at fair value apart from contingent consideration which is a Level 3 liability. During the year ended 31 December 2012, 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 the fair value of the bonds due to changes in prevailing foreign currency exchange and interest rates.

In February 2008, Capita executed a series of fixed rate interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. Up to June 2012, the counterparty held the option to cancel these swaps on each semi-annual coupon payment date. In June 2012, the counterparty's option to cancel was removed, the duration of the swaps was extended and the fixed rate was reduced, taking advantage of the lower prevailing interest rate environment. These fixed rate 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 9 – Net finance costs.

Following the fall in prevailing interest rates at the end of 2008 and the low base interest rates maintained thereafter, these fixed rate interest rate swaps show a negative mark to market value of £52.9m at 31 December 2012 (2011: negative mark to market value of £44.7m). This movement results in a non-cash accounting loss in the year of £8.2m (2011: loss of £7.2m).

In addition to the fixed rate bonds of £429.6m in issue as at 31 December 2012 (underlying value – not adjusted for the impact of the swaps), the Group had a further £718.2m of swapped bonds, a £185.0m two year term loan and a £425.0m undrawn revolving credit facility, all paying floating rate 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.

Notes to the consolidated financial statements

26 Financial instruments (continued)

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

	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
At 31 December 2012							
Fixed rate							
Unsecured loan notes	0.1	0.2	0.1	0.1	–	–	0.5
Bonds	95.0	13.7	24.7	190.7	134.3	74.3	532.7
Obligations under finance leases	1.1	0.8	0.5	0.3	–	–	2.7
Foreign currency swaps in relation to US\$ denominated bonds	(6.9)	(3.6)	–	(49.9)	(43.4)	–	(103.8)
Fixed rate interest rate swaps	1.4	0.4	1.6	11.4	9.0	29.1	52.9
Floating rate							
Cash in hand	(319.9)	–	–	–	–	–	(319.9)
Investment loan	(0.3)	(0.5)	(3.5)	(4.0)	(5.0)	(7.7)	(21.0)
Assets available-for-sale	–	–	–	–	–	(0.8)	(0.8)
Bonds	–	–	91.0	–	33.5	712.9	837.4
Term loan	–	185.0	–	–	–	–	185.0
Cash flow hedges	2.6	3.8	2.8	3.6	4.0	5.7	22.5
Non-designated foreign exchange forward contracts	0.2	0.1	0.1	–	–	–	0.4
Interest rate swap in relation to GBP denominated bonds	–	–	(4.2)	–	–	(11.7)	(15.9)
Foreign currency swaps in relation to US\$ denominated bonds	–	–	(14.8)	–	0.3	(87.9)	(102.4)
At 31 December 2011							
Fixed rate							
Unsecured loan notes	2.3	–	–	–	–	–	2.3
Bonds	23.5	98.7	14.9	24.7	201.6	190.0	553.4
Obligations under finance leases	2.0	1.1	–	–	–	–	3.1
Foreign currency swaps in relation to US\$ denominated bonds	0.9	(10.9)	(4.6)	–	(60.8)	(47.4)	(122.8)
Fixed rate interest rate swaps	0.4	4.9	1.0	3.0	20.2	15.2	44.7
Floating rate							
Cash in hand	(71.5)	–	–	–	–	–	(71.5)
Revolving credit facility	–	176.1	–	–	–	–	176.1
Investment loan	(0.2)	(0.3)	(0.5)	(3.5)	(4.0)	(27.8)	(36.3)
Assets available-for-sale	–	–	–	–	–	(0.9)	(0.9)
Bonds	–	–	–	95.1	–	783.7	878.8
Cash flow hedges	(1.3)	1.1	2.3	1.4	1.2	5.1	9.8
Interest rate swap in relation to GBP denominated bonds	–	–	–	(4.9)	–	(8.6)	(13.5)
Foreign currency swaps in relation to US\$ denominated bonds	–	–	–	(18.2)	–	(101.4)	(119.6)

Notes to the consolidated financial statements

26 Financial instruments (continued)

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
2012	17/(17)	(1.0)/1.0
2011	62/(62)	(5.0)/5.0

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 2012, the Group had cash flow hedges in place against forecast monthly INR costs in 2013 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
2012	(6.00)%	–	9.6
2011	(4.99)%	–	8.7

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 interest rate swaps in place with a notional amount of £117.0m (2011: £117.0m) whereby it receives a weighted average fixed rate of interest of 5.46% (2011: fixed rate of interest 5.46%) and pays variable rates based on six month GBP LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £117.0m (2011: £117.0m) of the Group's bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on six month GBP LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £905.8m (2011: £930.5m) of the Group's bonds, which have coupon rates ranging from 3.72% 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 22).

The total loss in the year on the fair value hedges of £37.8m (2011: total gain £76.4m), excluding credit risk, was equal to the gain on the hedged items resulting in no net gain or loss in the income statement.

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.

	Assets £m	2012 Liabilities £m	Assets £m	2011 Liabilities £m
Forward exchange contracts				
Fair value	–	22.5	2.7	12.5

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 2012 and a net unrealised loss of £22.5m (2011: loss of £10.0m) less deferred tax of £5.2m (2011: £2.5m) was recognised in equity. The net loss recognised on cash flow hedges during the year was £11.3m (2011: net loss £16.5m) whilst net gains of £1.2m (2011: gains of £5.0m) 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 £2.7m (2011: credit of £5.6m).

Notes to the consolidated financial statements

26 Financial instruments (continued)

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, 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.

The mark to market movement on derivatives includes 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.

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, term loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2021.

Notes to the consolidated financial statements

26 Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments.

	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
At 31 December 2012							
Unsecured loan notes	0.1	0.2	0.1	0.1	–	–	0.5
Bonds	93.8	13.0	106.4	163.0	141.4	698.0	1,215.6
Interest on above bonds	61.1	59.0	58.3	50.3	42.6	83.9	355.2
Term loan	–	185.0	–	–	–	–	185.0
Interest on above term debt	3.1	0.3	–	–	–	–	3.4
Contingent consideration	21.2	3.2	2.4	–	–	–	26.8
Obligations under finance leases	1.1	0.8	0.5	0.3	–	–	2.7
Currency swaps	–	–	–	–	0.3	–	0.3
Fixed rate interest rate swaps	1.4	0.4	1.6	11.4	9.0	29.1	52.9
Non-designated foreign exchange forward contracts	0.2	0.1	0.1	–	–	–	0.4
Cash flow hedges	2.6	3.8	2.8	3.6	4.0	5.7	22.5
	184.6	265.8	172.2	228.7	197.3	816.7	1,865.3
At 31 December 2011							
Revolving credit facility	–	176.1	–	–	–	–	176.1
Interest on above revolving credit facility	3.1	3.1	–	–	–	–	6.2
Unsecured loan notes	2.3	–	–	–	–	–	2.3
Bonds	23.2	95.8	13.5	108.6	170.2	870.6	1,281.9
Interest on above bonds	65.7	63.9	61.4	60.6	52.3	131.0	434.9
Obligations under finance leases	2.0	1.1	–	–	–	–	3.1
Contingent consideration	6.0	17.8	1.1	0.3	35.4	–	60.6
Currency swaps	0.9	–	–	–	–	–	0.9
Fixed rate interest rate swaps	0.4	4.9	1.0	3.0	20.2	15.2	44.7
Cash flow hedges	0.5	1.9	2.6	1.7	1.4	4.4	12.5
	98.1	346.8	78.5	173.9	244.1	1,021.2	1,962.6

The Group has available to it a Revolving Credit Facility of £425.0m maturing in December 2015, of which £nil had been drawn down as at 31 December 2012 (2011: £178.0m drawn down). These funds are available for the Group's immediate use.

Notes to the consolidated financial statements

26 Financial instruments (continued)

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 2012 and 31 December 2011.

The table below presents quantitative data for the components the Group manages as capital:

	2012 £m	2011 £m
Shareholders' funds	878.1	524.1
Cash in hand	(319.9)	(71.5)
Unsecured loan notes	0.5	2.3
Obligations under finance leases	2.7	3.1
Bonds	1,370.1	1,432.2
Revolving credit facility	–	176.1
Currency and interest rate swaps	(222.1)	(255.9)
At 31 December	1,709.4	1,810.4

27 Issued share capital

	2012 Million	2011 Million	2012 £m	2011 £m
Allotted, called up and fully paid				
Ordinary shares of 2 ¹ /15p each				
At 1 January	627.6	627.5	13.0	13.0
Issue of share capital	40.0	–	0.8	–
Issued on exercise of share options	0.8	0.1	–	–
At 31 December	668.4	627.6	13.8	13.0

During the year 0.8m (2011: 0.1m) ordinary 2¹/15p shares with an aggregate nominal value of £nil (2011: £nil) were issued under share option schemes for a total consideration of £4.8m (2011: £1.0m).

The Company completed a placing of shares in April 2012 for 40m ordinary shares at a price of 685p per share. The gross proceeds to the Company from the placing of the new ordinary shares were a non-cash consideration of £274.0m, (shares in a company which received the placing proceeds), which satisfied the requirements of s612 of the Companies Act 2006 for the excess of consideration in above the nominal value to be treated as an unrealised reserve, and recorded in retained earnings as a realised reserve when it was redeemed. The new ordinary shares issued in the placing, representing approximately 6.5% of the Company's issued share capital prior to the placing, were credited as fully paid and rank pari passu in all respects with the existing ordinary shares.

Treasury shares

	2012 Million	2011 Million	2012 £m	2011 £m
Ordinary shares of 2 ¹ /15p				
At 1 January	14.2	14.7	0.3	0.3
Shares allotted in the year	(0.8)	(0.5)	–	–
At 31 December	13.4	14.2	0.3	0.3

In 2012, the Group made no purchases of shares into Treasury and allotted 0.8m (2011: 0.5m) shares with an aggregate nominal value of £nil (2011: £nil). The total consideration received in respect of these shares was £5.1m (2011: £1.2m).

Employee benefit trust shares

	2012 Million	2011 Million	2012 £m	2011 £m
Ordinary shares of 2 ¹ /15p				
At 1 January	5.1	7.2	0.1	0.2
Shares allotted in the year	(1.8)	(2.1)	–	(0.1)
At 31 December	3.3	5.1	0.1	0.1

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 1.8m (2011: 2.1m) ordinary 2¹/15p shares with an aggregate nominal value of £nil (2011: £0.1m) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £1.1m (2011: £2.3m).

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. The expense recognised for share based payments in respect of employee services received during the year to 31 December 2012 was £9.1m (2011: £8.3m), all of which arises from equity-settled share based payment transactions. Details of the schemes are 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 on pages 78 to 89) 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. Directors have the option to defer up to 100% of their annual bonus 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.

Notes to the consolidated financial statements

28 Share based payment plans (continued)

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 2 Matching Shares for every Deferred Share. Prior to 2010 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 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 vesting conditions for matching awards made in 2010 were 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.

The vesting conditions for matching awards made in 2011 were 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 12% per annum.

There were no issues under the Deferred Annual Bonus Plan in 2012.

Long Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards 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. 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 outperformed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets.

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.

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 the market price at the date of grant. The options become exercisable for a 6 month period following completion of a 3 year savings period. There are no performance conditions attached to these options.

2011 Co-Investment Plan

The Co-Investment Plan was approved at the AGM on 10 May 2011 and provides for a grant of three times the number of Company shares pledged by Chief Executive Paul Pindar (the sole participant) before the end of 2011, up to a maximum limit of £1.0m in total market value of shares pledged. The number of matching shares vesting is determined on the basis of Total Shareholder Return (TSR) as compared to the increase in the TSR of the FTSE 100 over the four year performance period from the date of grant. No shares will vest if over the performance period the Company's TSR is lower than the median; 33.33% will vest if it is equal to median and 100% will vest if ranked in the upper quartile when compared against the FTSE 100 TSR. Between median TSR and top quartile the number of shares vesting will be on a straight-line basis in proportion to the position achieved by the Company. No plan shares will vest if the EPS of Capita plc has not grown over the performance period.

During the year ended 31 December 2011 the total number of shares pledged was 137,362 with a market value of £1.0m. The maximum matching shares under the plan amounted to 412,087 with a market value of £3.1m at 31 December 2012.

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 2008 LTIP, which are shown separately).

Notes to the consolidated financial statements

28 Share based payment plans (continued)

Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

	2012 Million	2012 WAEP	2011 Million	2011 WAEP
Outstanding as at 1 January	7.0	£6.68	7.5	£6.60
Granted during the year	–	–	1.6	£7.20
Exercised	(1.8)	£6.36	(0.7)	£6.29
Forfeited	(0.7)	£6.94	(1.0)	£7.05
Expired during the year	(0.1)	£6.94	(0.4)	£6.95
Outstanding as at 31 December	4.4	£6.77	7.0	£6.68
Exercisable at 31 December	1.9	£5.88	2.7	£5.99

The weighted average remaining contractual life of the above shares outstanding at 31 December 2012 was 2.3 years (2011: 3.0 years).

2008 LTIP

	2012 Million	2012 WAEP	2011 Million	2011 WAEP
Outstanding as at 1 January	6.6	–	5.9	–
Awarded during the year	3.1	–	2.7	–
Exercised	(1.4)	–	(1.6)	–
Forfeited	(1.0)	–	(0.4)	–
Outstanding as at 31 December	7.3	–	6.6	–
Exercisable at 31 December	0.2	–	–	–

The weighted average remaining contractual life of the above shares outstanding at 31 December 2012 was 1.5 years (2011: 1.6 years).

LTISAS

	2012 Million	2012 WAEP	2011 Million	2011 WAEP
Outstanding as at 1 January	0.6	£4.74	0.6	£4.74
Exercised	–	–	–	–
Outstanding as at 31 December	0.6	£4.74	0.6	£4.74
Exercisable at 31 December	0.6	£4.74	0.6	£4.74

The weighted average remaining contractual life of the above shares outstanding at 31 December 2012 was 1.9 years (2011: 2.9 years).

The weighted average share price of options at the date of exercise in 2012 was £7.23. The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.06 (2011: £7.04).

Under the LTISAS scheme two tranches of 600,000 share options were 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.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £nil (2011: £1.0m). The Matching Shares allocation in respect of the 2011 awards under this plan charged in 2012 was £nil (2011: £1.6m).

The weighted average fair value of options granted/awarded during the year was £4.03 (2011: £3.24). The range of exercise prices for all options outstanding at the end of the year was £2.60 to £7.25 (2011: £2.60 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 2012 and 31 December 2011.

	2012	2011
Dividend yield (%)	2.98	2.74
Expected share price volatility (%)	21.00	26.00
Floor price for LTIP (applicable to LTIP 08)	£7.18	£7.25
Risk free interest rate (%)	0.50	1.90
Expected life of option (years)	3.00	3.17
Weighted average share price of options granted during the year	–	£7.20

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 2012 £m	Acquisitions in 2012 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2012 £m
Cash and cash equivalents	71.5	–	249.1	(0.7)	319.9
Cash	71.5	–	249.1	(0.7)	319.9
Loan notes	(2.3)	–	2.3	(0.5)	(0.5)
Bonds ¹	(1,432.2)	–	24.7	37.4	(1,370.1)
Revolving credit facility	(176.1)	–	178.0	(1.9)	–
Currency swaps in relation to US\$ denominated bonds ¹	242.4	–	–	(36.2)	206.2
Interest rate swaps in relation to GBP denominated bonds ¹	13.5	–	–	2.4	15.9
Long term debt	–	(57.1)	57.1	–	–
Term loan	–	–	(185.0)	–	(185.0)
Finance leases	(3.1)	–	1.7	(1.3)	(2.7)
Underlying net debt	(1,286.3)	(57.1)	327.9	(0.8)	(1,016.3)
Fixed rate interest rate swaps	(44.7)	–	–	(8.2)	(52.9)
	(1,331.0)	(57.1)	327.9	(9.0)	(1,069.2)

The aggregate bond fair value above of £1,370.1m (2011: £1,432.2m) (disclosed in note 22 – Financial liabilities) includes the GBP value of the US\$ denominated bonds at 31 December 2012. 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.

Notes to the consolidated financial statements

29 Additional cash flow information (continued)

The combined fair value of the interest and currency swaps, of £221.1m (2011: £255.9m), is disclosed in note 16 – Financial assets, and in note 22 – Financial liabilities.

	Net debt at 1 January 2011 £m	Acquisitions in 2011 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2011 £m
Cash and cash equivalents	38.5	–	34.1	(1.1)	71.5
Overdraft and bank loans	(98.8)	–	98.8	–	–
Cash	(60.3)	–	132.9	(1.1)	71.5
Loan notes	(2.3)	–	–	–	(2.3)
Bonds ¹	(1,016.4)	–	(339.2)	(76.6)	(1,432.2)
Revolving credit facility	–	–	(175.4)	(0.7)	(176.1)
Currency swaps in relation to US\$ denominated bonds ¹	178.5	–	–	63.9	242.4
Interest rate swaps in relation to GBP denominated bonds ¹	4.4	–	–	9.1	13.5
Long term debt	–	(22.3)	22.3	–	–
Finance leases	(2.4)	–	1.0	(1.7)	(3.1)
Underlying net debt	(898.5)	(22.3)	(358.4)	(7.1)	(1,286.3)
Asset based securitised finance ²	(11.7)	–	11.7	–	–
Fixed rate interest rate swaps	(37.5)	–	–	(7.2)	(44.7)
	(947.7)	(22.3)	(346.7)	(14.3)	(1,331.0)

¹ The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,148.0m (2011: £1,176.3m).

² The asset based securitised finance movement represents the net movement on the underlying balances with clients.

30 Capital commitments

At 31 December 2012, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £0.1m (2011: £0.1m).

31 Contingent liabilities

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £58.2m (2011: £47.6m).

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 £44.7m (2011: £39.9m).

In 2012 there was one main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: 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, the Group will be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this the Group is carrying a sufficient level of provision in these financial statements.

During 2011 the contract with Cumbria County Council came to an end and the assets and pension obligations relating to the participants were transferred back to the Council. The respective Scheme Actuary determined that an additional payment was due and, as requested, the Group made a provisional payment of £10m to cover the estimated exit debt. During 2012 the final exit debt amount of circa £9.2m was notified to Capita and the overpayment refunded to Capita.

During 2012 the contract with Torfaen County Borough Council came to an end. This may result in an exit debt payment. Capita is in discussion with Greater Gwent (Torfaen) Pension Fund regarding the amount of any exit debt that may be payable.

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 2012			
Scheme assets at fair value:			
Equities/hedge funds/absolute returns	407.3	36.6	443.9
Bonds	111.1	15.1	126.2
Property/US High Yield	92.5	4.7	97.2
Insurance contracts	6.2	–	6.2
Cash/other	–	1.7	1.7
Total	617.1	58.1	675.2
Present value of scheme liabilities	(707.4)	(75.9)	(783.3)
Net liability	(90.3)	(17.8)	(108.1)

At 31 December 2011

	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value:			
Equities/hedge funds/absolute returns	346.8	49.4	396.2
Bonds	99.8	22.0	121.8
Property	47.9	4.7	52.6
Insurance contracts	2.9	–	2.9
Cash/other	2.5	2.4	4.9
Total	499.9	78.5	578.4
Present value of scheme liabilities	(560.3)	(103.8)	(664.1)
Net liability	(60.4)	(25.3)	(85.7)

There are no amounts included in the pension schemes' plan assets for the Group's own financial instruments, properties or other assets used by the Group.

Notes to the consolidated financial statements

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:

	Capita scheme £m	Other schemes £m	Group total £m
Year ended 31 December 2012			
Recognised in the income statement:			
Current service cost	22.3	0.8	23.1
Past service cost	1.2	(5.0)	(3.8)
Settlements/curtailments	–	(0.2)	(0.2)
Recognised in arriving at operating profit	23.5	(4.4)	19.1
Expected return on scheme assets	(30.7)	(4.0)	(34.7)
Interest cost on scheme liabilities	28.3	4.5	32.8
Net finance cost included in administrative expenses	(2.4)	0.5	(1.9)
Total defined benefit charge	21.1	(3.9)	17.2
Taken to the statement of comprehensive income:			
Actual return on scheme assets	49.8	6.0	55.8
Less: expected return on scheme assets	(30.7)	(4.0)	(34.7)
	19.1	2.0	21.1
Other actuarial losses	(46.7)	(2.8)	(49.5)
Actuarial losses recognised in the statement of comprehensive income	(27.6)	(0.8)	(28.4)

Of the total service cost of £19.1m in 2012, £14.7m was included in cost of sales and £4.4m was included in administrative expenses.

	Capita scheme £m	Other schemes £m	Group total £m
Year ended 31 December 2011			
Recognised in the income statement:			
Current service cost	20.7	1.1	21.8
Past service cost	(27.9)	4.0	(23.9)
Recognised in arriving at operating profit	(7.2)	5.1	(2.1)
Expected return on scheme assets	(34.3)	(5.9)	(40.2)
Interest cost on scheme liabilities	27.3	5.6	32.9
Net finance cost included in administrative expenses	(7.0)	(0.3)	(7.3)
Total defined benefit charge	(14.2)	4.8	(9.4)
Taken to the statement of comprehensive income:			
Actual return on scheme assets	(16.0)	(4.8)	(20.8)
Less: expected return on scheme assets	(34.3)	(5.9)	(40.2)
	(50.3)	(10.7)	(61.0)
Other actuarial losses	(45.3)	1.9	(43.4)
Actuarial losses recognised in the statement of comprehensive income	(95.6)	(8.8)	(104.4)

In 2010, the Minister of State for Pensions announced the UK Government's intention to change to the use of the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the inflation measure for determining the statutory pension increases in respect of benefits accrued. As a result, certain benefits within the schemes of the Group changed their link of increases in RPI to increases in CPI in 2011. This change was communicated to the members during 2011. As such, members' expectations were changed from pension increases related to changes in RPI to pension increases related to changes in CPI. Therefore, for accounting purposes this is treated as a change in the operation of the plan and the associated credit in respect of past service costs was recognised in the income statement in accordance with the guidance in UITF Abstract 48 'Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits' issued by the Accounting Standards Board.

The impact of changing the minimum increase in pensions within the schemes affected to one based on CPI, was a reduction of the pension liabilities in those schemes of £27.9m and a gain in respect of this change being recognised within past service cost in the income statement within the period as disclosed in the table above.

Of the total service cost credit of £2.1m in 2011, £1.6m was included in cost of sales and £0.5m was included in administrative expenses.

Pension contributions are determined based on the advice of independent qualified actuaries. A formal valuation of the Capita scheme was carried out as at 6 April 2011. The last formal valuation of the FPS scheme (the other scheme where the Group was the sole employing sponsor) was carried out as at 31 March 2008, however this scheme was merged into the Capita scheme on 31 July 2011. For the other schemes, the latest formal valuations were carried out as at either 31 December 2009 or 31 March 2010. The SIPS scheme (one of the 2 multi-employer schemes where Capita is a participating employer and has an allocated section) was merged into the Capita scheme on 1 April 2012. The valuations for the other schemes are updated by 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.

	Capita scheme		Other schemes	
	2012 %	2011 %	2012 %	2011 %
Main assumptions:				
Rate of price inflation – RPI/CPI	2.9/2.0	3.0/2.1	2.9/2.0	3.0/2.1
Rate of salary increase	3.9	4.0	3.9	4.0
Rate of increase of pensions in payment ¹ :				
– RPI inflation capped at 5% pa	2.9	2.9	2.9	2.9
– RPI inflation capped at 2.5% pa	2.1	2.1	2.1	2.1
– CPI inflation capped at 5% pa	2.1	2.1	2.1	2.1
– CPI inflation capped at 2.5% pa	1.7	1.7	1.7	1.7
Discount rate	4.5	4.9	4.5	4.9
CARE active revaluation (inflation capped at 3.5% pa)	2.6	2.6	2.6	2.6
Expected rates of return on scheme assets (net of scheme expenses):				
Equities/hedge funds/absolute returns	6.2 to 6.7	6.2 to 6.7	6.2 to 6.7	6.2 to 6.7
Bonds	3.7	4.4	3.4 to 4.1	3.6 to 4.9
Property/US High Yield	5.2	5.2	5.2	5.2
Insurance contracts	4.5	4.9	4.5	4.9
Cash/other	1.0	1.0	1.0	1.0
Expected take up maximum available tax free cash	85.0	85.0	85.0	85.0 ²

Notes to the consolidated financial statements

32 Pensions (continued)

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2012 and 31 December 2011 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2012	2011	2012	2011	2012	2011	2012	2011
Capita scheme	24.0	23.8	24.5	24.5	24.0	23.8	25.2	25.1
Other schemes ³	22.2	22.1	24.4	24.3	23.5	23.4	25.9	25.9

¹ There are other levels of pension increase which apply to particular periods of membership.

² This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken.

³ This 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 2011	505.8	166.9	672.7
Current service cost	20.7	1.1	21.8
Past service cost	(27.9)	4.0	(23.9)
Interest cost	27.3	5.6	32.9
Benefits paid	(14.7)	(3.0)	(17.7)
Actuarial gains and losses	45.3	(1.9)	43.4
Contributions by employees	0.3	0.5	0.8
Contract bulk transfers/business combinations	3.5	(69.4)	(65.9)
As at 31 December 2011	560.3	103.8	664.1
Current service cost	22.3	0.8	23.1
Past service cost	1.2	(5.0)	(3.8)
Interest cost	28.3	4.5	32.8
Benefits paid	(14.2)	(2.1)	(16.3)
Actuarial gains and losses	46.7	2.8	49.5
Contributions by employees	0.2	0.3	0.5
Settlements	–	(0.2)	(0.2)
Contract bulk transfers/business combinations	62.6	(29.0)	33.6
As at 31 December 2012	707.4	75.9	783.3

The defined benefit obligation comprises £783.3m (2011: £664.1m) arising from schemes that are wholly or partly funded.

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 2011	506.3	141.8	648.1
Expected return on scheme assets	34.3	5.9	40.2
Employer contributions	20.5	13.4	33.9
Contributions by employees	0.3	0.5	0.8
Benefits paid	(14.7)	(3.0)	(17.7)
Actuarial gains and losses	(50.3)	(10.7)	(61.0)
Contract bulk transfers/business combinations	3.5	(69.4)	(65.9)
As at 31 December 2011	499.9	78.5	578.4
Expected return on scheme assets	30.7	4.0	34.7
Employer contributions	20.9	3.2	24.1
Contributions by employees	0.2	0.3	0.5
Benefits paid	(14.2)	(2.1)	(16.3)
Actuarial gains and losses	19.1	2.0	21.1
Contract bulk transfers/business combinations	60.5	(27.8)	32.7
As at 31 December 2012	617.1	58.1	675.2

At the time of the 2011 acquisition of Vertex (private sector), a provision of £3.0m was established representing the estimated deficit of the value of liabilities taken on by Capita against the assets available to meet those liabilities. The bulk transfer of liabilities and assets into the Capita scheme was completed in November 2012. At this time, the amount of assets received (£50.1m) was broadly equal to the value of liabilities transferred into the Capita scheme by reference to the IAS 19 assumptions. The £3.0m provision has been released to the income statement in the year.

The total employer contributions to the defined benefit pension schemes in 2013 are estimated to be £20.0m in respect of the Capita scheme and £2.6m in respect of the 'Other' schemes.

Notes to the consolidated financial statements

32 Pensions (continued)

History of experience gains and losses:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Capita scheme					
Fair value of scheme assets	617.1	499.9	506.3	450.3	317.8
Present value of defined benefit obligation	(707.4)	(560.3)	(505.8)	(457.1)	(320.2)
Scheme surplus/(deficit)	(90.3)	(60.4)	0.5	(6.8)	(2.4)
Experience adjustments arising on scheme liabilities	–	(8.5)	–	–	3.5
Experience adjustments arising on scheme assets	19.1	(50.3)	10.9	51.5	(92.7)
Other schemes					
Fair value of scheme assets	58.1	78.5	141.8	128.3	109.6
Present value of defined benefit obligation	(75.9)	(103.8)	(166.9)	(153.4)	(131.7)
Scheme deficit	(17.8)	(25.3)	(25.1)	(25.1)	(22.1)
Experience adjustments arising on scheme liabilities	–	(6.8)	(2.2)	–	28.7
Experience adjustments arising on scheme assets	2.0	(10.7)	3.5	9.1	(40.1)

The cumulative amount of actuarial losses recognised since 1 January 2004 in the consolidated statement of comprehensive income is £238.2m (2011: cumulative actuarial losses of £209.8m). 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**Compensation of key management personnel**

	2012 £m	2011 £m
Short term employment benefits	7.6	5.5
Pension	0.1	0.2
Share based payments	3.6	3.6
	11.3	9.3

Gains on share options exercised in the year by key management personnel totalled £4.6m (2011: £5.8m).

Nigel Wilson, who was Senior Independent Director until his resignation from the Board on 31 December 2012, was Group Chief Financial Officer of Legal & General Group Plc until June 2012 when he was appointed as Chief Executive Officer of that group. The Legal & General Group Plc had an interest in 23,279,554 shares in Capita plc as at 20 February 2013 and has a contractual relationship with the Group. Nigel Wilson did not participate in any Legal & General board discussions or decisions in respect of that company's dealings with Capita plc which are conducted on an arm's length basis.

Pursuant to the Company's share placing which completed on 24 April 2012, funds managed by Invesco Limited, a substantial shareholder in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority), subscribed, pro rata to their previously existing holdings, for an additional 8,000,000 shares in the Company at the placing price of 685p representing an aggregate further investment of £54.8m. In addition, Invesco acquired a further 16,459,384 shares during the year at market value.

Statement of Directors' responsibility

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;
- 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

27 February 2013

G M Hurst
Group Finance Director

Independent auditor's report to the members of Capita plc

We have audited the financial statements of Capita plc for the year ended 31 December 2012 set out on pages 91 to 128 and 132 to 138. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK 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 auditors' 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 76, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance statement set out on pages 61 to 71 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:

Under the Companies Act 2006 we are required 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; 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 74, in relation to going concern;
- the part of the Corporate Governance statement on pages 61 to 71 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Oliver Tant (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square
London, E14 5GL

27 February 2013

Five year summary for the year ended 31 December 2012

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Group balance sheet					
Non-current assets	2,588.4	2,518.7	2,011.6	1,570.2	1,488.8
Current assets	1,275.0	1,018.8	848.7	801.9	675.5
	3,863.4	3,537.5	2,860.3	2,372.1	2,164.3
Liabilities	(2,920.8)	(2,949.7)	(2,307.2)	(1,857.9)	(1,764.1)
Provision for liabilities and charges	(64.5)	(63.7)	(57.6)	(48.0)	(3.3)
	878.1	524.1	495.5	466.2	396.9
Capital and reserves	878.1	524.1	495.5	466.2	396.9
Group income statement					
Turnover	3,351.8	2,930.2	2,744.0	2,686.8	2,441.4
Underlying operating profit	471.7	427.4	395.1	357.7	320.9
Other income/(expense)	(0.1)	(0.2)	0.9	0.2	(0.2)
Net interest payable	(46.0)	(42.0)	(31.8)	(32.8)	(43.5)
Underlying profit before taxation	425.6	385.2	364.2	325.1	277.2
Intangible amortisation	(95.3)	(67.7)	(41.3)	(28.1)	(18.6)
Arch cru costs	–	–	–	(30.0)	–
Professional fees and stamp duty on acquisitions	(10.3)	(15.4)	(6.5)	–	–
Goodwill impairment net of contingent consideration movements	(10.2)	11.2	–	–	–
Impairment of Optima investment loan	(15.0)	–	–	–	–
Financial instruments – mark to market	(8.7)	(7.1)	(6.6)	1.1	(32.0)
Loss on business disposal	–	–	–	(7.5)	–
Currency swaps' counterparty risk – mark to market	3.9	(3.3)	–	(2.5)	–
Taxation	(54.0)	(64.9)	(74.8)	(69.2)	(60.8)
Profit after taxation	236.0	238.0	235.0	188.9	165.8
Basic earnings per share – underlying	53.16p	48.49p	44.98p	38.75p	33.26p
Basic earnings per share – after non-underlying	37.08p	39.16p	38.44p	30.76p	27.26p
Diluted earnings per share – underlying	52.58p	48.38p	44.48p	38.42p	32.96p
Diluted earnings per share – after non-underlying	36.68p	39.07p	38.01p	30.50p	27.01p
Dividend per ordinary share	23.5p	21.4p	20.0p	16.80p	14.40p

Company balance sheet

as at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Tangible assets	5	17.1	19.0
Investments	7	300.3	300.5
Financial assets	6	–	0.9
		317.4	320.4
Current assets			
Trade investments	7	0.1	0.1
Financial assets	6	–	1.8
Debtors due within 1 year	8	898.5	801.2
Debtors due after more than 1 year	8	191.9	225.7
Cash		257.2	31.1
		1,347.7	1,059.9
Creditors: amounts falling due within 1 year	9	363.0	49.8
Net current assets		984.7	1,010.1
Total assets less current liabilities		1,302.1	1,330.5
Creditors: amounts falling due after more than 1 year	9	472.6	562.1
		829.5	768.4
Capital and reserves			
Called up share capital	11	13.8	13.0
Employee benefit trust and treasury shares	12	(0.4)	(0.4)
Share premium account	12	470.4	459.4
Capital redemption reserve	12	1.8	1.8
Merger reserve	12	44.6	44.6
Profit and loss account	12	299.3	250.0
		829.5	768.4

The accounts were approved by the Board of Directors on 27 February 2013 and signed on its behalf by:

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Company registered number: 2081330

Notes to the accounts for the year ended 31 December 2012

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. There were no new Financial Reporting Standards issued by the UK Financial Reporting Council (FRC) which were required to be adopted in the year.

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 to 10 years
Furniture, fixtures and equipment	4 to 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 values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values 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.

(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.

Notes to the accounts

1 Accounting policies (continued)**(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.

2 Deferred taxation

	2012 £m	2011 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	(1.0)	(1.3)
Share based payments	3.5	3.3
Cash flow hedges	5.2	2.5
Fixed rate interest rate swaps	12.1	11.1
Provisions	1.2	1.1
Included in debtors note 8	21.0	16.7

3 Profit / Loss attributable to members of the parent undertaking

The loss after taxation dealt with in the accounts of the parent undertaking was £92.1m (2011: profit of £132m).

4 Dividends

	2012 £m	2011 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2011 paid: 14.2p per share (2010: 13.4p per share)	86.7	81.2
Interim for 2012 paid: 7.9p per share (2011: 7.2p per share)	51.4	43.8
	138.1	125.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2012: 15.6p per share (2011: 14.2p per share)	101.3	86.4

Notes to the accounts

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2012	32.1	0.4	2.5	35.0
Additions	1.9	–	–	1.9
Disposals	(2.7)	(0.2)	(1.5)	(4.4)
31 December 2012	31.3	0.2	1.0	32.5
Depreciation				
1 January 2012	14.0	0.2	1.8	16.0
Charge for year	3.4	0.1	0.3	3.8
Disposals	(2.7)	(0.2)	(1.5)	(4.4)
31 December 2012	14.7	0.1	0.6	15.4
Net book value at:				
1 January 2012	18.1	0.2	0.7	19.0
31 December 2012	16.6	0.1	0.4	17.1

6 Financial assets

Current	2012 £m	2011 £m
Cash flow hedges	–	1.8

Non-current

	2012 £m	2011 £m
Cash flow hedges	–	0.9

7 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2012	300.5
Disposals	(0.2)
31 December 2012	300.3

7 Investments (continued)

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company	Description of shares held
Capita Holdings Ltd ¹	England	100%	Ordinary £1 shares
Capita Trust Company Ltd ²	England	100%	Ordinary £1 shares
Capita Group Insurance PCC Ltd ²	England	100%	Ordinary £1 shares
Capita IRG Trustees Ltd ²	England	100%	Ordinary £1 shares
Capita Fiduciary Group Ltd ²	England	100%	Ordinary £1 shares
Capita Fiduciary (UK Holdings) Ltd ¹	England	100%	Ordinary £1 shares
Capita International Financial Services (Ireland) Ltd ²	England	100%	Ordinary £1 shares
Capita Life & Pensions Ltd ²	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Ltd ²	England	100%	Ordinary £1 shares
Capita Gwent Consultancy Ltd ^{*2}	England	51%	Ordinary £1 shares

¹ Investing holding company² Outsourcing services company

* Indirectly held

(b) Trade investments

	£m
At 1 January 2012 and 31 December 2012	0.1

8 Debtors

	2012 £m	2011 £m
Debtors due within 1 year		
Amounts owed by subsidiary undertakings	828.0	759.5
Taxation recoverable	54.0	36.4
Other debtors	3.0	2.0
Currency swap – USD bonds	6.9	–
Prepayments and accrued income	6.6	3.3
	898.5	801.2

Debtors due beyond 1 year

	2012 £m	2011 £m
Prepayments and accrued income	1.4	1.3
Deferred taxation	21.0	16.7
Currency swap	153.5	194.2
Interest rate swap	16.0	13.5
	191.9	225.7

Notes to the accounts

9 Creditors

	2012 £m	2011 £m
Amounts falling due within 1 year		
Bank overdraft	189.5	–
Amounts owed to subsidiary undertakings	52.8	–
Trade creditors	1.6	2.8
Other creditors	–	3.2
Cash flow hedges	2.9	0.5
Currency swaps	–	0.9
Fixed rate interest rate swaps	1.4	0.4
Bonds	95.0	23.7
Other taxes and social security	0.7	0.2
Provisions	6.6	–
Accruals and deferred income	12.5	18.1
	363.0	49.8

	2012 £m	2011 £m
Amounts falling due after more than 1 year		
Bonds	215.7	325.7
Revolving credit facility	–	176.1
Term loan	185.0	–
Currency swaps	0.3	–
Fixed rate interest rate swaps	51.5	44.3
Provisions	–	4.0
Cash flow hedges	20.1	12.0
	472.6	562.1

The bonds are unsecured. The bank overdraft is guaranteed by cash held by other members of the Group.

10 Deferred taxation

	£m
At 1 January 2012	(16.7)
New provisions in the year	(4.3)
At 31 December 2012 – included in debtors note 8	(21.0)

11 Share capital

	2012 Million	2011 Million	2012 £m	2011 £m
Allotted, called up and fully paid				
Ordinary shares of 2 ¹ /15p each				
At 1 January	627.6	627.5	13.0	13.0
Issue of share capital	40.0	–	0.8	–
Issued on exercise of share options	0.8	0.1	–	–
At 31 December	668.4	627.6	13.8	13.0

During the year 0.8m (2011: 0.1m) ordinary 2¹/15p shares with an aggregate nominal value of £nil (2011: £nil) were issued under share option schemes for a total consideration of £4.8m (2011: £1.0m).

The Company completed a placing of shares in April 2012 for 40m ordinary shares at a price of 685p per share. The gross proceeds to the Company from the placing of the new ordinary shares were a non-cash consideration of £274.0m, (shares in a company which received the placing proceeds), which satisfied the requirements of s612 of the Companies Act 2006 for the excess of consideration above the nominal value to be treated as an unrealised reserve, and recorded in retained earnings as a realised reserve when it was redeemed. The new ordinary shares issued in the placing, representing approximately 6.5% of the Company's issued share capital prior to the placing, were credited as fully paid and rank pari passu in all respects with the existing ordinary shares.

Treasury shares

	2012 Million	2011 Million	2012 £m	2011 £m
Ordinary shares of 2 ¹ /15p each				
At 1 January	14.2	14.7	0.3	0.3
Shares allotted in the year	(0.8)	(0.5)	–	–
At 31 December	13.4	14.2	0.3	0.3

During the year the Group allotted 0.8m (2011: 0.5m) treasury shares with a nominal value of £nil (2011: £nil). The total consideration received in respect of these shares was £5.1m.

Employee benefit trust shares

	2012 Million	2011 Million	2012 £m	2011 £m
Ordinary shares of 2 ¹ /15p each				
At 1 January	5.1	7.2	0.1	0.2
Shares allotted in the year	(1.8)	(2.1)	–	(0.1)
At 31 December	3.3	5.1	0.1	0.1

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 1.8m ordinary 2¹/15p shares with an aggregate nominal value of £nil to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £1.1m.

The Company has an unexpired authority to repurchase up to 10% of its issued share capital.

12 Reserves

	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Employee benefit trust shares £m	Profit and loss account £m
At 1 January 2012	459.4	1.8	44.6	(0.4)	250.0
Shares issued	11.0	–	–	–	270.4
Share based payment	–	–	–	–	9.1
Equity dividends paid	–	–	–	–	(138.1)
Retained loss for the year	–	–	–	–	(92.1)
At 31 December 2012	470.4	1.8	44.6	(0.4)	299.3

Notes to the accounts

13 Reconciliation of movements in shareholders' funds

	2012 £m	2011 £m
Profit for the year	(92.1)	132.0
Dividends	(138.1)	(125.0)
	(230.2)	7.0
Share based payment	9.1	8.3
Shares issued	282.2	4.5
Net movement in shareholders' funds	61.1	19.8
Opening shareholders' funds	768.4	748.6
Closing shareholders' funds	829.5	768.4

14 Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows:

	2012		2011	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In less than one year	–	–	0.5	0.1
In 2 to 5 years inclusive	0.8	0.2	–	0.2
Over 5 years from the balance sheet date	–	–	0.9	–
	0.8	0.2	1.4	0.3

(b) The Company has overdraft and loan facilities of Group undertakings amounting to £425m (2011: £425m), of which £nil had been drawn down at 31 December 2012 (2011: £178m drawn down).

15 Borrowings

	2012 £m	2011 £m
Bonds	310.7	349.4
Rolling credit facility	–	176.1
	310.7	525.5
Repayments fall due as follows:		
Within 1 year:		
Bonds	95.0	23.7
	95.0	23.7
After more than 1 year:		
In more than 1 year but not more than 2 years	–	275.0
In more than 2 years but not more than 5 years	215.7	226.8
	215.7	501.8
Total borrowings	310.7	525.5

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005²				
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 2006^{1,2}

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	335.0
---------------------------------	-------

¹ 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.

² Subsequently, the Group has entered a series of fixed rate 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 fixed rate interest swaps.

In June 2012 the Group repaid bonds which reached maturity. These were US\$36m 2002 Series C bonds (GBP equivalent: £24.7m).

All series are unsecured.

Notes to the accounts

16 Related party transactions

In the following, figures for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year the Company sold goods/services in the normal course of business to Capita Gwent Consultancy Limited for £0.1m (2011: £0.1m). In addition the Company purchased goods/services in the normal course of business for £nil (2011: £nil). At the balance sheet date the net amount receivable from Capita Gwent Consultancy Limited was £nil (2011: £nil).

During the year the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £nil (2011: £0.1m). In addition the Company purchased goods/services in the normal course of business for £nil (2011: £nil). At the balance sheet date the net amount payable to Urban Vision Partnership Limited was £nil (2011: £1.0m).

During the year the Company sold goods/services in the normal course of business to Service Birmingham Limited for £0.6m (2011: £1.8m). In addition the Company purchased goods/services in the normal course of business for £0.1m (2011: £0.2m). At the balance sheet date the net amount receivable from Service Birmingham Limited was £0.1m (2011: £0.3m).

Nigel Wilson, who was Senior Independent Director until his resignation from the board on 31 December 2012, was Group Chief Financial Officer of Legal & General Group Plc until June 2012 when he was appointed as Chief Executive Officer of that group. The Legal & General Group Plc had an interest in 23,279,554 shares in Capita plc as at 20 February 2013 and has a contractual relationship with the Group. Nigel Wilson did not participate in any Legal & General board discussions or decisions in respect of that company's dealings with Capita plc which are conducted on an arm's length basis.

Pursuant to the Company's share placing which completed on 24 April 2012, funds managed by Invesco Limited, a substantial shareholder in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority), subscribed, pro rata to their previously existing holdings, for an additional 8,000,000 shares in the Company at the placing price of 685p representing an aggregate further investment of £54.8m. In addition, Invesco acquired a further 16,459,384 shares during the year at market value.

17 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £1.9m (2011: £1.7m).

18 Share based payment

The Company operates several share based payment plans and details of the schemes are disclosed in note 28 of the Group's consolidated financial statements on page 122.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2012 was £9.1m (2010: £8.3m), 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 £3.9m (2011: £3.4m).

Principal Group investments

Capita Holdings Limited

Holding and investment company.

Capita Business Services Limited

Providing an integrated range of business process and customer management services to clients in the UK and Ireland.

Capita Symonds Limited

Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services.

Bluefin Corporate Consulting Limited

Providing employee benefit advice, communication and administration services.

Capita Registrars Limited

Share registration and employee share scheme administration services.

Capita Trust Company Limited

Corporate trustees and providers of trust and administration services.

Capita Life & Pensions Limited

Administration and customer services for life and pensions operations.

Capita Life & Pensions Regulated Services Limited

Administration and customer services for life and pensions regulated operations.

BDML Connect Limited

Insurance intermediary and agent for the transaction of insurance business.

Capita Resourcing Limited

Employee recruitment services.

Capita IT Services Limited

Designing, providing and managing networked computing and communication systems.

Premier Medical Group Limited

Medical services administration provider.

Capita Hartshead Limited

Providing actuarial, pension consultancy and administrative services.

Capita Customer Management Limited

Providing business process outsourcing and customer management services.

Service Birmingham Limited

Providing ICT and business transformation outsourcing services to the public sector.

Capita Gwent Consultancy Limited

Providing transport consultancy services.

Fish Administration Limited

Providing the sale of insurance services.

Clinical Solutions International Limited

Providing clinical software solutions to the global healthcare industry.

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. Registering for e-communications 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.

Registering for e-communications is very straightforward. Go to www.capitashares.co.uk

Key dates for your diary

Annual General Meeting 14 May 2013

The AGM will be held at 11.00am on Tuesday 14 May 2013 at Deutsche Bank, 1 Great Winchester Street, London EC2N 2DB. The Notice of Meeting and proxy card for the meeting are enclosed with this report.

Final dividend payment: 28 May 2013

Half year results: 25 July 2013

Get in touch

Shareholder enquiries

We aim to communicate effectively with our shareholders, via our website www.capita.co.uk/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual 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 or dividend payments please contact the Company's registrar, Capita Registrars, by email: ssd@capitaregistrars.com or at the address below:

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
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

Other helpful shareholder services

Share dealing

A quick and easy share dealing service is now available for existing Capita shareholders to either sell or buy more Capita 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).

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 10528686). Find out more 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/investors 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

e-mail: ips@capitaregistrars.com

Registered office

Capita plc
71 Victoria Street
Westminster
London SW1H 0XA
Tel: 020 7799 1525
Fax: 020 7799 1526
Registered number: 2081330

Company Secretary

Gordon Hurst

Stockbrokers

Citi
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Deutsche Bank A G

1 Great Winchester Street
London EC2N 2DB

Auditors

KPMG
15 Canada Square
London E14 5GL

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Bankers

Barclays Bank plc
London Corporate Banking
PO Box 544
First Floor
154 Lombard Street
London EC3V 9EX

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

National Westminster Bank Plc
1 Princes Street
London EC2R 8PB

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.

Capita plc
71 Victoria Street
Westminster
London SW1H 0XA

T 020 7799 1525
F 020 7799 1526

www.capita.co.uk

Designed and produced by Radley Yeldar
Photography by David Hares
Printed by Capita Communications

This report is printed on Think⁴Bright which is made from 50% recovered fibre, diverting waste from landfill and contains material sourced from responsibly managed forests together with recycled fibre. Think⁴Bright is manufactured under strict environmental management systems, namely the international ISO 14001 standard.