

## Accounts

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# Consolidated income statement

for the year ended 31 December 2009

|                               | Notes | 2009             |                      |                | 2008             |                      |             |
|-------------------------------|-------|------------------|----------------------|----------------|------------------|----------------------|-------------|
|                               |       | Underlying<br>£m | Non-underlying<br>£m | Total<br>£m    | Underlying<br>£m | Non-underlying<br>£m | Total<br>£m |
| <b>Continuing operations:</b> |       |                  |                      |                |                  |                      |             |
| <b>Revenue</b>                | 3     | <b>2,686.8</b>   | <b>–</b>             | <b>2,686.8</b> | 2,441.4          | –                    | 2,441.4     |
| Cost of sales                 |       | <b>1,937.0</b>   | <b>–</b>             | <b>1,937.0</b> | 1,757.8          | –                    | 1,757.8     |
| Gross profit                  |       | <b>749.8</b>     | <b>–</b>             | <b>749.8</b>   | 683.6            | –                    | 683.6       |
| Administrative expenses       | 4     | <b>392.1</b>     | <b>58.1</b>          | <b>450.2</b>   | 362.7            | 18.6                 | 381.3       |
| <b>Operating profit</b>       | 8     | <b>357.7</b>     | <b>(58.1)</b>        | <b>299.6</b>   | 320.9            | (18.6)               | 302.3       |
| Net finance costs             | 10    | <b>(32.8)</b>    | <b>(1.4)</b>         | <b>(34.2)</b>  | (43.5)           | (32.0)               | (75.5)      |
| Investment gain/(loss)        | 6     | <b>0.2</b>       | <b>–</b>             | <b>0.2</b>     | (0.2)            | –                    | (0.2)       |
| Loss on business disposal     | 5     | <b>–</b>         | <b>(7.5)</b>         | <b>(7.5)</b>   | –                | –                    | –           |
| <b>Profit before tax</b>      |       | <b>325.1</b>     | <b>(67.0)</b>        | <b>258.1</b>   | 277.2            | (50.6)               | 226.6       |
| Income tax expense            | 11    | <b>(87.1)</b>    | <b>17.9</b>          | <b>(69.2)</b>  | (74.9)           | 14.1                 | (60.8)      |
| <b>Profit for the year</b>    |       | <b>238.0</b>     | <b>(49.1)</b>        | <b>188.9</b>   | 202.3            | (36.5)               | 165.8       |
| <b>Attributable to:</b>       |       |                  |                      |                |                  |                      |             |
| Equity holders of the parent  |       | <b>238.0</b>     | <b>(49.1)</b>        | <b>188.9</b>   | 202.3            | (36.5)               | 165.8       |
| <b>Earnings per share</b>     |       |                  |                      |                |                  |                      |             |
| – basic                       | 12    | <b>38.75p</b>    | <b>(7.99)p</b>       | <b>30.76p</b>  | 33.26p           | (6.00)p              | 27.26p      |
| – diluted                     |       | <b>38.42p</b>    | <b>(7.92)p</b>       | <b>30.50p</b>  | 32.96p           | (5.95)p              | 27.01p      |

# Consolidated statement of comprehensive income

for the year ended 31 December 2009

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

# Consolidated balance sheet

at 31 December 2009

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

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

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

**P R M Pindar**  
Chief Executive

**G M Hurst**  
Group Finance Director

# Consolidated statement of changes in equity

for the year ended 31 December 2009

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

**Share capital** – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2<sup>1/15</sup>p ordinary shares.

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

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

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

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

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

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

# Consolidated cash flow statement

for the year ended 31 December 2009

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

# Notes to the consolidated financial statements

for the year ended 31 December 2009

## 1 Corporate information

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

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

## 2 Summary of significant accounting policies

### *Underlying profit*

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

### *Significant accounting judgements, estimates and assumptions*

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

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

### *(a) Statement of compliance*

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

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

### *(b) Basis of preparation*

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

### *(c) Basis of consolidation*

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

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

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

### *(d) Changes in accounting policies*

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

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

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

## Notes to the consolidated financial statements

### 2 Summary of significant accounting policies (continued)

#### (d) Changes in accounting policies (continued)

The principal effects of these changes are as follows:

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

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

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

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

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

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

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

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

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

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

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

#### (e) Revenue

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

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### (f) Service contracts

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

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

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

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

### (g) Foreign currency translation

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

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

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

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

### (h) Property, plant and equipment

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

Freehold buildings and long leasehold property – over 50 years

Leasehold improvements – period of the lease

Plant and equipment – 3 – 10 years

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

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

### (i) Borrowing costs

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

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

## Notes to the consolidated financial statements

### 2 Summary of significant accounting policies (continued)

#### (j) Goodwill

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

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

#### (k) Intangible assets

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

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

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

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

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

#### (l) Recoverable amount of non-current assets

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

#### (m) Investments and other financial assets

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

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

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

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

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

#### (n) Trade and other receivables

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

#### (o) Cash and cash equivalents

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

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

#### (p) Interest-bearing loans and borrowings

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

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

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

## 2 Summary of significant accounting policies (continued)

### (q) Provisions

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

### (r) Surplus properties

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

### (s) Pre-contract costs

Pre-contract award bidding costs are expensed as incurred.

### (t) Pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement for the year when they are due.

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement, unless the changes are conditional on employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the average vesting period.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest cost element of the defined benefit pension charge represents a change in the present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on fair value of plan assets of contributions received and benefits paid during the year.

In respect of 3 of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

Actuarial gains and losses are fully recognised in equity through the statement of comprehensive income such that the balance sheet reflects the scheme's surplus or liability at the balance sheet date. Current and past service cost are charged to operating profit with the interest cost, net of expected return on assets in the plans, included within administrative expenses.

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

### (u) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement and are presented as non-underlying.

## Notes to the consolidated financial statements

### 2 Summary of significant accounting policies (continued)

#### (v) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and is concerned with whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**Group as a lessee:** Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Group as a lessor:** Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income arising from operating leases is recognised in the income statement on a straight-line basis over the lease term.

#### (w) Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### (x) Share based payments

The Group operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

## 2 Summary of significant accounting policies (continued)

### (y) Participation in Lloyd's Market Syndicate

Capita provides run-off administrative services to Lloyd's Syndicates. On occasion where there is a commercial driver to do so, the Group will take an equity holding in a Corporate Member (a limited liability company – operating in the Lloyd's market).

The Group has treated this arrangement as an investment in a joint venture, whereby the Group and the other venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group's investment in the joint venture is accounted for using the equity method of accounting. Under the equity method the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity. The income statement reflects, where material, the share of the results of operations of the joint venture. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The Corporate Member's share of the assets and liabilities of the Syndicate and the quota share arrangement are further disclosed in note 17 to these financial statements.

### (z) New standards and interpretations not applied

The IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

|  |  | Effective date                       |
|--|--|--------------------------------------|
| <b>International Accounting Standards (IAS/IFRSs)</b>                      |  |                                      |
| IFRS 3   | Business Combinations (Revised)  | Annual periods after 1 July 2009     |
| IAS 39   | Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) | Annual periods after 1 July 2009     |
| IAS 27   | Consolidated and Separate Financial Statements (Amendment)                             | Annual periods after 1 July 2009     |
| IFRS 2   | Group Cash-settled Share based Payment Arrangements                                    | 1 January 2010                       |
|  | Improvements to IFRSs (2009)   | 1 January 2010                       |
| IAS 32   | Amendment: Classifications of Rights Issues  | Annual periods after 1 February 2010 |
| IAS 24   | Related Party Disclosures (Revised)  | 1 January 2011                       |
| IFRS 9   | Financial Instruments  | 1 January 2013                       |
| <b>International Financial Reporting Interpretations Committee (IFRIC)</b> |  |                                      |
| IFRIC 17   | Distributions of Non-cash Assets to Owners   | Annual periods after 1 July 2009     |
| IFRIC 14   | Amendment: Prepayments of a Minimum Funding Requirement                                | 1 January 2011                       |

The Directors do not currently anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

## 3 Revenue

Revenue disclosed in the income statement is analysed as follows:

|   | Notes | 2009<br>£m | 2008<br>£m |
|---|-------|------------|------------|
| Rendering of services                   |       | 2,528.9    | 2,289.0    |
| Construction contracts                  | 22    | 157.9      | 152.4      |
| Revenue from operating activities       |       | 2,686.8    | 2,441.4    |
| Finance revenue                         | 10    | 1.9        | 5.7        |
| Total revenue in accordance with IAS 18 |       | 2,688.7    | 2,447.1    |

## 4 Administrative expenses

Included within Administrative expenses, disclosed in the column headed 'Non-underlying', are:

|                         | Notes | 2009<br>£m | 2008<br>£m |
|-------------------------|-------|------------|------------|
| Intangible amortisation | 15    | 28.1       | 18.6       |
| Arch cru costs          |       | 30.0       | –          |
| Total                   |       | 58.1       | 18.6       |

Arch cru Funds – dealings in 2 open ended investment companies (OEICs), for which Capita Financial Managers (CFM) is the authorised corporate director (ACD) and Arch Financial Products LLP was the delegated investment manager, were suspended on 13 March 2009, as a result of illiquidity in the underlying investments of the OEICs and an anticipated inability to meet future redemptions. This was exacerbated by unprecedented market turmoil post the collapse of Lehman Brothers. Since the suspension, CFM, has been working with specialist advisers to conduct a detailed review of the underlying assets of the OEICs and options for their future. This review was completed in December 2009. The underlying assets of the OEICs have fallen in value and remain illiquid. CFM has advised investors that the only feasible option in the best interests of investors as a whole is for the OEICs to be wound up, with the underlying assets being realised in an orderly manner over a period of time, and the proceeds being returned to investors in the OEICs.

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The detailed work undertaken since March 2009 has resulted in significant costs. We have set aside estimated costs of £30m (both incurred and potentially to be incurred) in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009. It is expected that an outcome will be reached in 2010.

## Notes to the consolidated financial statements

### 5 Loss on business disposal

In the year the Group disposed of the revenue and benefits software business that it had acquired in 2008 as part of its acquisition of IBS OPENSsystems (as directed by the Competition Commission). The table below gives a summary of the disposal:

|                                | Notes | 2009<br>£m |
|--------------------------------|-------|------------|
| Fixed assets                   |       | 0.4        |
| Debtors                        |       | 1.9        |
| Creditors                      |       | (2.2)      |
| Intangibles                    | 15    | 5.9        |
| Goodwill                       | 15    | 7.3        |
| Total net assets disposed of   |       | 13.3       |
| Transitional services provided |       | 2.2        |
| Net proceeds received          |       | (8.0)      |
| Loss on business disposal      |       | 7.5        |

### 6 Investment gain/(loss)

Investment gain/(loss) includes:

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| Loss on financial assets measured at fair value through the income statement | –          | (0.7)      |
| Investment in joint venture  | 0.2        | 0.5        |
| Net investment gain/(loss)   | 0.2        | (0.2)      |

The investment gain represents income recognised in relation to the Lloyd's Market Syndicates in which the Group has a joint venture arrangement as disclosed in note 17. During the year the Group received a dividend of £0.4m (2008: £0.1m) from the Syndicate which is reflected in the net assets recognised in the disclosure in note 17.

The investment loss in the comparative year is in recognition of negative returns on investments in units held in managed funds by the Group's insurance captives, as disclosed in note 17. At the date of the approval of these financial statements the Group no longer has any investment in these managed funds.

## 7 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the business review on pages 58 to 64. No operating segments have been aggregated to form the reportable operating segments below.

The comparative figures have been restated due to a reorganisation of the Group's business divisions during the year. The Directors decided this was necessary to better manage the growth in the business and to enhance service provision across the Group.

Before eliminating sales between business units on consolidation, the Group accounts for sales between business units as if they were to a third party at market rates.

The tables below present revenue, result and certain asset and liability information for the Group's business segments for the years 2009 and 2008. All operations in 2009 are continuing.

### Year ended 31 December 2009

| Underlying segment revenue                   | HR Solutions<br>£m | Property<br>Consultancy<br>£m | Insurance<br>Services<br>£m | Investor<br>Services<br>£m | Integrated<br>Services<br>£m | ICT, Health<br>& Business<br>Services<br>£m | Life &<br>Pensions<br>Services<br>£m | Professional<br>Services<br>£m | Total<br>£m |
|--|--------------------|-------------------------------|-----------------------------|----------------------------|------------------------------|---|--------------------------------------|--------------------------------|-------------|
| Total segment revenue                        | 312.4              | 272.7                         | 246.8                       | 179.8                      | 341.3                        | 734.9                                       | 581.2                                | 424.7                          | 3,093.8     |
| Inter-segment revenue                        | (31.8)             | (14.6)                        | –                           | (5.3)                      | (1.3)                        | (227.5)                                     | (60.5)                               | (66.0)                         | (407.0)     |
| Third party revenue                          | 280.6              | 258.1                         | 246.8                       | 174.5                      | 340.0                        | 507.4                                       | 520.7                                | 358.7                          | 2,686.8     |
| <b>Underlying segment result</b>             |                    |                               |                             |                            |                              |   |                                      |                                |             |
| Result after depreciation                    | 27.4               | 24.3                          | 30.1                        | 35.8                       | 57.4                         | 59.2  | 63.0                                 | 70.3                           | 367.5       |
| Share based payment                          | (1.2)              | (1.2)                         | (1.7)                       | (0.7)                      | (2.4)                        | (0.8)                                       | (0.9)                                | (0.9)                          | (9.8)       |
|  | 26.2               | 23.1                          | 28.4                        | 35.1                       | 55.0                         | 58.4  | 62.1                                 | 69.4                           | 357.7       |
| <b>Non-underlying</b>                        |                    |                               |                             |                            |                              |   |                                      |                                |             |
| Intangible amortisation                      | –                  | (1.7)                         | (4.8)                       | (4.6)                      | –                            | (6.2)                                       | (4.1)                                | (6.7)                          | (28.1)      |
| Arch cru                                     | –                  | –                             | –                           | (30.0)                     | –                            | –   | –                                    | –                              | (30.0)      |
|  | 26.2               | 21.4                          | 23.6                        | 0.5                        | 55.0                         | 52.2  | 58.0                                 | 62.7                           | 299.6       |
| Net finance costs<br>(before callable swaps) |                    |                               |                             |                            |                              |   |                                      |                                | (32.8)      |
| Callable swaps                               |                    |                               |                             |                            |                              |   |                                      |                                | 1.1         |
| Mark to market movement<br>on currency swaps |                    |                               |                             |                            |                              |   |                                      |                                | (2.5)       |
| Investment gain                              |                    |                               |                             |                            |                              |   |                                      |                                | 0.2         |
| Loss on business disposal                    |                    |                               |                             |                            |                              |   |                                      |                                | (7.5)       |
| Profit before tax                            |                    |                               |                             |                            |                              |   |                                      |                                | 258.1       |
| Corporation taxation                         |                    |                               |                             |                            |                              |   |                                      |                                | (69.2)      |
| Profit after tax                             |                    |                               |                             |                            |                              |   |                                      |                                | 188.9       |
| <b>Other segment information</b>             |                    |                               |                             |                            |                              |   |                                      |                                |             |
| <b>Assets by segment</b>                     |                    |                               |                             |                            |                              |   |                                      |                                |             |
| Assets                                       | 37.3               | 82.5                          | 98.3                        | 85.9                       | 108.3                        | 136.4                                       | 223.8                                | 122.8                          | 895.3       |
| Intangible assets                            | 84.1               | 76.5                          | 254.7                       | 196.4                      | 2.8                          | 233.9                                       | 135.1                                | 123.5                          | 1,107.0     |
|  | 121.4              | 159.0                         | 353.0                       | 282.3                      | 111.1                        | 370.3                                       | 358.9                                | 246.3                          | 2,002.3     |
| Liabilities                                  | (44.1)             | (49.0)                        | (124.7)                     | (72.6)                     | (113.9)                      | (197.4)                                     | (160.1)                              | (159.9)                        | (921.7)     |
| Net allocated assets                         | 77.3               | 110.0                         | 228.3                       | 209.7                      | (2.8)                        | 172.9                                       | 198.8                                | 86.4                           | 1,080.6     |
| Unallocated assets                           |                    |                               |                             |                            |                              |   |                                      |                                | 369.8       |
| Unallocated liabilities                      |                    |                               |                             |                            |                              |   |                                      |                                | (984.2)     |
| Total net assets                             |                    |                               |                             |                            |                              |   |                                      |                                | 466.2       |
| <b>Capital expenditure</b>                   |                    |                               |                             |                            |                              |   |                                      |                                |             |
| Tangible assets                              | 1.4                | 2.1                           | 2.4                         | 12.8                       | 6.8                          | 9.7   | 28.8                                 | 4.4                            | 68.4        |
| Depreciation charge                          | 1.7                | 3.2                           | 5.8                         | 3.8                        | 19.8                         | 6.6   | 9.1                                  | 5.6                            | 55.6        |
| Intangible assets                            | –                  | 15.7                          | 16.4                        | 23.1                       | –                            | 154.7                                       | 31.1                                 | 1.5                            | 242.5       |
| Intangible amortisation                      | –                  | 1.7                           | 4.8                         | 4.6                        | –                            | 6.2   | 4.1                                  | 6.7                            | 28.1        |

Unallocated assets include held for sale financial assets, financial assets held at fair value through the income statement, the cash flow hedge financial asset, cash in bank, currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, callable swaps, bonds and the pension liability.

## Notes to the consolidated financial statements

### 7 Segmental information (continued)

The tables below present revenue by the geographical location of clients, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

|                                  | United Kingdom<br>£m | Non-United Kingdom<br>£m | Total<br>£m |
|----------------------------------|----------------------|--------------------------|-------------|
| <b>Revenue</b>                   |                      |                          |             |
| Total segment revenue            | 2,964.0              | 129.8                    | 3,093.8     |
| Inter-segment revenue            | (356.9)              | (50.1)                   | (407.0)     |
| Third party revenue              | 2,607.1              | 79.7                     | 2,686.8     |
| <b>Other segment information</b> |                      |                          |             |
| Assets                           | 866.3                | 29.0                     | 895.3       |
| Intangible assets                | 1,038.7              | 68.3                     | 1,107.0     |
| Unallocated assets               | 369.8                | –                        | 369.8       |
| Total assets                     | 2,274.8              | 97.3                     | 2,372.1     |
| <b>Capital expenditure</b>       |                      |                          |             |
| Tangible assets                  | 67.9                 | 0.5                      | 68.4        |
| Intangible assets                | 219.2                | 23.3                     | 242.5       |

### Year ended 31 December 2008

| Underlying segment revenue                   | HR Solutions<br>£m | Property Consultancy<br>£m | Insurance Services<br>£m | Investor Services<br>£m | Integrated Services<br>£m | ICT, Health & Business Services<br>£m | Life & Pensions Services<br>£m | Professional Services<br>£m | Total<br>£m |
|--|--------------------|----------------------------|--------------------------|-------------------------|---------------------------|---------------------------------------|--------------------------------|-----------------------------|-------------|
| Total segment revenue                        | 278.5              | 284.2                      | 263.6                    | 173.9                   | 344.7                     | 505.3                                 | 479.6                          | 396.5                       | 2,726.3     |
| Inter-segment revenue                        | (20.3)             | (22.0)                     | (17.4)                   | –                       | (5.2)                     | (123.1)                               | (25.6)                         | (71.3)                      | (284.9)     |
| Third party revenue                          | 258.2              | 262.2                      | 246.2                    | 173.9                   | 339.5                     | 382.2                                 | 454.0                          | 325.2                       | 2,441.4     |
| <b>Underlying segment result</b>             |                    |                            |                          |                         |                           |                                       |                                |                             |             |
| Result after depreciation                    | 25.3               | 24.0                       | 32.7                     | 40.3                    | 56.7                      | 37.8                                  | 54.7                           | 58.6                        | 330.1       |
| Share based payment                          | (1.1)              | (1.2)                      | (1.6)                    | (0.7)                   | (2.3)                     | (0.7)                                 | (0.8)                          | (0.8)                       | (9.2)       |
|  | 24.2               | 22.8                       | 31.1                     | 39.6                    | 54.4                      | 37.1                                  | 53.9                           | 57.8                        | 320.9       |
| <b>Non-underlying</b>                        |                    |                            |                          |                         |                           |                                       |                                |                             |             |
| Intangible amortisation                      | (0.2)              | (1.4)                      | (3.7)                    | (3.7)                   | –                         | (2.4)                                 | (3.8)                          | (3.4)                       | (18.6)      |
|  | 24.0               | 21.4                       | 27.4                     | 35.9                    | 54.4                      | 34.7                                  | 50.1                           | 54.4                        | 302.3       |
| Net finance costs<br>(before callable swaps) |                    |                            |                          |                         |                           |                                       |                                |                             | (43.5)      |
| Callable swaps                               |                    |                            |                          |                         |                           |                                       |                                |                             | (32.0)      |
| Investment loss                              |                    |                            |                          |                         |                           |                                       |                                |                             | (0.2)       |
| Profit before tax                            |                    |                            |                          |                         |                           |                                       |                                |                             | 226.6       |
| Corporation taxation                         |                    |                            |                          |                         |                           |                                       |                                |                             | (60.8)      |
| Profit after tax                             |                    |                            |                          |                         |                           |                                       |                                |                             | 165.8       |
| <b>Other segment information</b>             |                    |                            |                          |                         |                           |                                       |                                |                             |             |
| <b>Assets by segment</b>                     |                    |                            |                          |                         |                           |                                       |                                |                             |             |
| Assets                                       | 52.2               | 84.8                       | 126.4                    | 75.3                    | 121.0                     | 101.7                                 | 174.4                          | 102.3                       | 838.1       |
| Intangible assets                            | 84.3               | 62.5                       | 244.3                    | 178.1                   | 2.8                       | 85.3                                  | 107.9                          | 141.8                       | 907.0       |
|  | 136.5              | 147.3                      | 370.7                    | 253.4                   | 123.8                     | 187.0                                 | 282.3                          | 244.1                       | 1,745.1     |
| Liabilities                                  | (27.8)             | (48.8)                     | (136.0)                  | (42.0)                  | (108.8)                   | (121.7)                               | (102.0)                        | (168.5)                     | (755.6)     |
| Net allocated assets                         | 108.7              | 98.5                       | 234.7                    | 211.4                   | 15.0                      | 65.3                                  | 180.3                          | 75.6                        | 989.5       |
| Unallocated assets                           |                    |                            |                          |                         |                           |                                       |                                |                             | 419.2       |
| Unallocated liabilities                      |                    |                            |                          |                         |                           |                                       |                                |                             | (1,011.8)   |
| Total net assets                             |                    |                            |                          |                         |                           |                                       |                                |                             | 396.9       |
| <b>Capital expenditure</b>                   |                    |                            |                          |                         |                           |                                       |                                |                             |             |
| Tangible assets                              | 2.0                | 2.7                        | 8.0                      | 18.3                    | 8.9                       | 10.1                                  | 34.9                           | 6.0                         | 90.9        |
| Depreciation charge                          | 1.4                | 3.1                        | 5.8                      | 2.9                     | 19.0                      | 5.6                                   | 8.1                            | 5.6                         | 51.5        |
| Intangible assets                            | –                  | 9.5                        | 23.1                     | 7.7                     | –                         | 44.7                                  | 26.1                           | 70.3                        | 181.4       |
| Intangible amortisation                      | 0.2                | 1.4                        | 3.7                      | 3.7                     | –                         | 2.4                                   | 3.8                            | 3.4                         | 18.6        |

Unallocated assets include held for sale financial assets, financial assets held at fair value through the income statement, the cash flow hedge financial asset, cash in bank, currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, callable swaps, bonds and the pension liability.

## 7 Segmental information (continued)

The tables below present revenue by the geographical location of clients, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

|                                  | United Kingdom<br>£m | Non-United Kingdom<br>£m | Total<br>£m |
|----------------------------------|----------------------|--------------------------|-------------|
| <b>Revenue</b>                   |                      |                          |             |
| Total segment revenue            | 2,639.5              | 86.8                     | 2,726.3     |
| Inter-segment revenue            | (265.3)              | (19.6)                   | (284.9)     |
| Third party revenue              | 2,374.2              | 67.2                     | 2,441.4     |
| <b>Other segment information</b> |                      |                          |             |
| Assets                           | 806.7                | 31.4                     | 838.1       |
| Intangible assets                | 859.5                | 47.5                     | 907.0       |
| Unallocated assets               | 419.2                | –                        | 419.2       |
| Total assets                     | 2,085.4              | 78.9                     | 2,164.3     |
| <b>Capital expenditure</b>       |                      |                          |             |
| Tangible assets                  | 85.1                 | 5.8                      | 90.9        |
| Intangible assets                | 164.6                | 16.8                     | 181.4       |

## 8 Operating profit

This is stated after charging/(crediting):

|   | Notes | 2009<br>£m | 2008<br>£m |
|---|-------|------------|------------|
| Employee benefits expense   | 9     | 1,128.8    | 1,051.9    |
| Amortisation of intangible assets (as shown in the non-underlying column) | 15    | 28.1       | 18.6       |
| Depreciation  | 14    | 54.4       | 50.0       |
| Loss on sale of property, plant and equipment                             |       | 1.1        | 1.1        |
| Amortisation of other intangible assets (treated as depreciation)*        | 15    | 1.2        | 1.5        |
| Minimum lease payments recognised as an operating lease expense           |       | 75.5       | 70.6       |
| Foreign exchange differences  |       | (2.3)      | (1.6)      |

\*Included within operating activities before amortisation.

## UK fees paid to the auditors include fees in relation to:

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| Audit of financial statements           | 0.6        | 0.6        |
| Other UK fees:                          |            |            |
| Local statutory audits for subsidiaries | 0.3        | 0.3        |
| Further assurance services              | 0.3        | 0.2        |
| Other non-audit services**              | 0.8        | –          |
|   | 2.0        | 1.1        |

Other non audit services provided in the year are higher than previous years due to Ernst & Young providing services in relation to the Arch cru funds (see note 25).

\*\*There were no other amounts payable to the auditors requiring disclosure under Section 494 of the Companies Act 2006.

## 9 Employee benefits expense

|                       | Notes | 2009<br>£m | 2008<br>£m |
|-----------------------|-------|------------|------------|
| Wages and salaries    |       | 974.7      | 910.1      |
| Social security costs |       | 92.2       | 86.6       |
| Pension costs         | 32    | 52.1       | 46.0       |
| Share based payments  | 28    | 9.8        | 9.2        |
|                       |       | 1,128.8    | 1,051.9    |

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

|                | 2009<br>Number | 2008<br>Number |
|----------------|----------------|----------------|
| Sales          | 776            | 731            |
| Administration | 2,060          | 1,943          |
| Operations     | 31,789         | 29,927         |
|                | 34,625         | 32,601         |

Details of Directors' remuneration are contained within the Directors' remuneration report on pages 79 to 84.

## Notes to the consolidated financial statements

### 10 Net finance costs

|  | Notes | 2009<br>£m | 2008<br>£m |
|--|-------|------------|------------|
| Bank interest receivable                               |       | (0.5)      | (0.9)      |
| Other interest receivable                              |       | (1.4)      | (0.1)      |
| Loan note interest                                     |       | 0.7        | 0.8        |
| Bonds  |       | 26.2       | 39.9       |
| Callable swaps – realised                              |       | 5.0        | (4.7)      |
| Bank loans and overdrafts                              |       | 2.1        | 8.3        |
| Other interest payable                                 |       | 0.6        | 0.1        |
| Unwinding of interest on discounted property provision |       | 0.1        | 0.1        |
| Underlying net finance costs                           |       | 32.8       | 43.5       |
| Callable swaps – mark to market                        | 26    | (1.1)      | 32.0       |
| Mark to market movement on currency swaps*             | 26    | 2.5        | –          |
| Non-underlying net finance costs                       |       | 1.4        | 32.0       |
| Total net finance costs                                |       | 34.2       | 75.5       |

\*The mark to market movement on currency swaps represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US\$ denominated bonds (see note 26 – Hedges).

### 11 Income tax

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| <b>Consolidated income statement</b>              |            |            |
| <b>Current income tax</b>                         |            |            |
| Current income tax charge                         | 69.1       | 73.2       |
| Adjustment in respect of prior years              | (9.4)      | (3.1)      |
| <b>Deferred income tax</b>                        |            |            |
| Origination and reversal of temporary differences | 3.5        | (8.8)      |
| Adjustment in respect of prior years              | 6.0        | (0.5)      |
|   | 69.2       | 60.8       |

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| <b>Consolidated statement of comprehensive income</b>                                 |            |            |
| Deferred income tax on cash flow hedges   | (4.2)      | 5.6        |
| Deferred income tax movement in relation to actuarial losses on defined benefit plans | (16.3)     | (13.5)     |
|   | (20.5)     | (7.9)      |

### Income tax related to items (credited)/charged directly to equity:

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| <b>Consolidated statement of changes in equity</b>  |            |            |
| Current income tax deduction on exercise of stock options in excess of share based payments | (6.0)      | (17.6)     |
| Deferred income tax movement in relation to share based payment                             | 12.2       | 2.2        |
|   | 6.2        | (15.4)     |

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2009 and 2008 is as follows:

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| Accounting profit before tax                                    | 258.1      | 226.6      |
| Notional charge at UK corporation tax rate of 28% (2008: 28.5%) | 72.2       | 64.6       |
| Adjustments in respect of current income tax of prior years     | (9.4)      | (3.1)      |
| Adjustments in respect of deferred tax of prior years           | 6.0        | (0.5)      |
| Non-deductible expenses   | 4.2        | 2.4        |
| Attributable to lower tax rates in overseas jurisdictions       | (3.8)      | (2.6)      |
| At the effective tax rate of 26.8% (2008: 26.8%)                | 69.2       | 60.8       |
| Total tax expense reported in the income statement              | 69.2       | 60.8       |

The tax charge for the year ended 31 December 2009 was £69.2m (2008: charge of £60.8m) and is after a prior year net credit of £3.4m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an underlying effective tax rate of 26.8% (2008: 26.8%). The effective tax rate on underlying profit is 26.8% (2008: 27.0%). In addition, a net tax credit of £6.0m has been credited directly to equity in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2009.

**11 Income tax (continued)****Deferred income tax**

Deferred income tax at 31 December relates to the following:

|   | Consolidated balance sheet |            | Consolidated income statement |            |
|---|----------------------------|------------|-------------------------------|------------|
|   | 2009<br>£m                 | 2008<br>£m | 2009<br>£m                    | 2008<br>£m |
| <b>Deferred tax liabilities</b>                           |                            |            |                               |            |
| Accelerated capital allowances                            | (13.5)                     | (5.7)      | 11.6                          | 1.3        |
| Pension scheme's asset                                    | –                          | –          | –                             | 0.4        |
| Cash flow hedges  | (3.0)                      | (7.2)      | –                             | –          |
| Fair value adjustments on acquisition                     | (35.3)                     | (22.7)     | (9.0)                         | (4.8)      |
|   | (51.8)                     | (35.6)     |                               |            |
| <b>Deferred tax assets</b>                                |                            |            |                               |            |
| Share based payments                                      | 6.7                        | 16.1       | (2.7)                         | (2.6)      |
| Pension schemes' liability                                | 8.9                        | 6.9        | 14.2                          | 5.0        |
| Provisions  | 12.8                       | 6.7        | (4.9)                         | (1.5)      |
| Losses available for offset against future taxable income | 0.2                        | –          | 0.7                           | 1.8        |
| Mark to market movement on currency swaps                 | 0.7                        | –          | (0.7)                         | –          |
| Cash flow swaps   | 8.6                        | 8.9        | 0.3                           | (8.9)      |
|   | 37.9                       | 38.6       |                               |            |
| <b>Net deferred tax (liability)/asset</b>                 | (13.9)                     | 3.0        |                               |            |
| <b>Deferred income tax expense</b>                        |                            |            | 9.5                           | (9.3)      |

The Group has tax losses and other temporary differences of £55.2m (2008: £5.8m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £53.3m are related to losses incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance. Deferred tax assets have not been recognised in respect of £54.5m (2008: £5.8m) of these losses or other temporary differences, as their recoverability is uncertain.

**12 Earnings per share**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

|  | 2009<br>£m                | 2008<br>£m                |
|--|---------------------------|---------------------------|
| Net profit attributable to ordinary equity holders of the parent from operations                           | 188.9                     | 165.8                     |
|  |                           |                           |
|  | 2009<br>Number<br>million | 2008<br>Number<br>million |
| Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share        | 614.2                     | 608.3                     |
| Dilutive potential ordinary shares:  |                           |                           |
| Employee share options   | 5.2                       | 5.5                       |
| Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution | 619.4                     | 613.8                     |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

The following additional earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent of £238.0m (2008: £202.3m) and, after non-underlying costs, earnings of £188.9m (2008: £165.8m). They are included as they provide a better understanding of the underlying trading performance of the Group.

|   | 2009<br>p | 2008<br>p |
|---|-----------|-----------|
| Basic earnings per share – underlying   | 38.75     | 33.26     |
| – after non-underlying                  | 30.76     | 27.26     |
| Diluted earnings per share – underlying | 38.42     | 32.96     |
| – after non-underlying                  | 30.50     | 27.01     |

## Notes to the consolidated financial statements

### 13 Dividends paid and proposed

|  | 2009<br>£m  | 2008<br>£m  |
|--|-------------|-------------|
| <b>Declared and paid during the year</b>   |             |             |
| Ordinary shares (equity):  |             |             |
| Final for 2008 paid: 9.6p per share (2007: 8.0p per share)                         | 58.8        | 48.8        |
| Interim for 2009 paid: 5.6p per share (2008: 4.8p per share)                       | 34.4        | 29.2        |
|  | <b>93.2</b> | <b>78.0</b> |
| <b>Proposed for approval at AGM (not recognised as a liability at 31 December)</b> |             |             |
| Ordinary shares (equity):  |             |             |
| Final for 2009: 11.2p per share (2008: 9.6p per share)                             | 69.1        | 58.6        |

### 14 Property, plant and equipment

|                                    | Leasehold<br>improvements,<br>land and<br>buildings<br>£m | Plant and<br>machinery<br>£m | Total<br>£m  |
|------------------------------------|---|------------------------------|--------------|
| <b>Cost</b>                        |   |                              |              |
| At 1 January 2008                  | 50.1  | 245.1                        | 295.2        |
| Subsidiaries acquired              | 2.4   | 3.0                          | 5.4          |
| Additions                          | 17.1  | 73.8                         | 90.9         |
| Disposals                          | (5.3)   | (40.1)                       | (45.4)       |
| At 31 December 2008                | 64.3  | 281.8                        | 346.1        |
| Subsidiaries acquired              | 1.0   | 4.9                          | 5.9          |
| Additions                          | 6.7   | 61.7                         | 68.4         |
| Disposals                          | (2.7)   | (18.3)                       | (21.0)       |
| At 31 December 2009                | <b>69.3</b>   | <b>330.1</b>                 | <b>399.4</b> |
| <b>Depreciation and impairment</b> |   |                              |              |
| At 1 January 2008                  | 18.6  | 83.2                         | 101.8        |
| Provided during the year           | 8.1   | 41.9                         | 50.0         |
| Disposals                          | (4.3)   | (39.7)                       | (44.0)       |
| At 31 December 2008                | 22.4  | 85.4                         | 107.8        |
| Provided during the year           | 9.6   | 44.8                         | 54.4         |
| Disposals                          | (2.4)   | (17.0)                       | (19.4)       |
| At 31 December 2009                | <b>29.6</b>   | <b>113.2</b>                 | <b>142.8</b> |
| <b>Net book value</b>              |   |                              |              |
| At 1 January 2008                  | 31.5  | 161.9                        | 193.4        |
| At 31 December 2008                | 41.9  | 196.4                        | 238.3        |
| At 31 December 2009                | <b>39.7</b>   | <b>216.9</b>                 | <b>256.6</b> |

The net book value of plant and machinery includes an amount of £1.6m (2008: £nil) in respect of assets held under finance leases.

## 15 Intangible assets

|  | Brands<br>£m | Software and<br>licences<br>£m | Contracts and<br>committed<br>sales<br>£m | Client<br>lists and<br>relationships<br>£m | Goodwill<br>£m | Sub-total<br>£m | Other<br>intangibles<br>£m | Total<br>£m |
|--|--------------|--------------------------------|---|--|----------------|-----------------|----------------------------|-------------|
| <b>Cost</b>  |              |                                |   |  |                |                 |                            |             |
| At 1 January 2008                                    | 8.8          | 6.0                            | 11.9                                      | 46.2                                       | 704.8          | 777.7           | 13.4                       | 791.1       |
| Recognition of intangibles – prior year acquisitions | 0.1          | –                              | –   | 12.5                                       | (9.1)          | 3.5             | –                          | 3.5         |
| Subsidiaries acquired                                | 2.8          | 8.5                            | 8.3                                       | 23.6                                       | 134.7          | 177.9           | –                          | 177.9       |
| At 31 December 2008                                  | 11.7         | 14.5                           | 20.2                                      | 82.3                                       | 830.4          | 959.1           | 13.4                       | 972.5       |
| Recognition of intangibles – prior year acquisitions | 1.7          | (3.9)                          | –   | 12.2                                       | (9.1)          | 0.9             | –                          | 0.9         |
| Subsidiaries acquired                                | 6.4          | –                              | 13.1                                      | 62.8                                       | 159.3          | 241.6           | –                          | 241.6       |
| Disposals  | (0.7)        | (1.4)                          | –   | (5.3)                                      | (7.3)          | (14.7)          | –                          | (14.7)      |
| At 31 December 2009                                  | 19.1         | 9.2                            | 33.3                                      | 152.0                                      | 973.3          | 1,186.9         | 13.4                       | 1,200.3     |
| <b>Amortisation and impairment</b>                   |              |                                |   |  |                |                 |                            |             |
| At 1 January 2008                                    | 3.9          | 2.1                            | 4.7                                       | 12.2                                       | 12.0           | 34.9            | 10.5                       | 45.4        |
| Amortisation during the year                         | 2.1          | 2.1                            | 1.8                                       | 12.6                                       | –              | 18.6            | 1.5                        | 20.1        |
| At 31 December 2008                                  | 6.0          | 4.2                            | 6.5                                       | 24.8                                       | 12.0           | 53.5            | 12.0                       | 65.5        |
| Amortisation during the year                         | 2.7          | 1.4                            | 2.0                                       | 22.0                                       | –              | 28.1            | 1.2                        | 29.3        |
| Disposals  | (0.1)        | (0.3)                          | –   | (1.1)                                      | –              | (1.5)           | –                          | (1.5)       |
| At 31 December 2009                                  | 8.6          | 5.3                            | 8.5                                       | 45.7                                       | 12.0           | 80.1            | 13.2                       | 93.3        |
| <b>Net book value</b>                                |              |                                |   |  |                |                 |                            |             |
| At 1 January 2008                                    | 4.9          | 3.9                            | 7.2                                       | 34.0                                       | 692.8          | 742.8           | 2.9                        | 745.7       |
| At 31 December 2008                                  | 5.7          | 10.3                           | 13.7                                      | 57.5                                       | 818.4          | 905.6           | 1.4                        | 907.0       |
| At 31 December 2009                                  | 10.5         | 3.9                            | 24.8                                      | 106.3                                      | 961.3          | 1,106.8         | 0.2                        | 1,107.0     |

During the year a total of £10.0m (2008: £12.6m) of intangible assets was recognised or derecognised in respect of prior year acquisitions for which the provisional intangible valuations performed in the previous year have now been completed. This has resulted in a reduction in the value of goodwill. As required by IAS 12, deferred taxation is recognised in respect of these items, the impact of this was to increase goodwill in 2009 by £0.9m (2008: £3.5m) and to create a deferred tax liability of the same amount.

The amount in 'other intangibles' represents the consideration paid to AON to acquire the contract for the administration of the miners' personal injury liability claims on behalf of the Department of Energy and Climate Change.

## 16 Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash generating units (CGUs) listed below. These represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

The significant groups of CGUs identified are Local government software and partnerships, Property Consultancy, HR Solutions, Insurance Services, Registrar Services, Financial Services, Life & Pensions and IT & Software Services. The remaining groups of CGUs are included in the 'balance of non-significant CGUs' column.

The recoverable amount of all the CGUs is based on a value in use calculation using cash flow projections based on the latest 1 year budget forecast extrapolated for 4 future years by a growth rate applicable to each unit; an appropriate terminal value based on a perpetuity calculation using nil real growth is then added. A discount rate of 10.5% (2008: 10.0%) is then applied to these projections.

| Compound growth rates (years 2–5)                              | %   |
|--|-----|
| Local Government Software and Partnerships                     | 8.1 |
| Property Consultancy   | 8.1 |
| HR Solutions   | 8.1 |
| Insurance Services   | 5.1 |
| Registrar Services   | 7.2 |
| Financial Services   | 7.6 |
| Life & Pensions Services                                       | 7.5 |
| IT & Software Services   | 8.1 |
| Balance of non-significant CGUs (weighted average growth rate) | 6.3 |

## Notes to the consolidated financial statements

### 16 Impairment of goodwill (continued)

#### Carrying amount of goodwill allocated to groups of cash generating units

|          | Local<br>Government<br>Software &<br>Partnerships<br>£m | Property<br>Consultancy<br>£m | HR Solutions<br>£m | Insurance<br>Services<br>£m | Registrar<br>Services<br>£m | Financial<br>Services<br>£m | Life &<br>Pensions<br>Services<br>£m | IT & Software<br>Services<br>£m | Balance<br>of non-<br>significant<br>CGUs<br>£m | Total<br>£m |
|----------|---|-------------------------------|--------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------------|---------------------------------|---|-------------|
| 2009     |   |                               |                    |                             |                             |                             |                                      |                                 |   |             |
| Goodwill | 81.5  | 62.3                          | 91.3               | 244.8                       | 123.5                       | 57.2                        | 90.4                                 | 141.0                           | 69.3  | 961.3       |
| 2008     |   |                               |                    |                             |                             |                             |                                      |                                 |   |             |
| Goodwill | 97.4  | 49.7                          | 91.3               | 231.1                       | 114.8                       | 56.9                        | 78.0                                 | 41.6                            | 57.6  | 818.4       |

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

- profit before interest and taxation
- discount rates
- rates of growth in CGUs for the years 2 to 5.

#### Profit before interest and taxation

The profit before interest and taxation is based on the assumption that future margins will remain at the levels currently being achieved.

#### Discount rate

The discount rate reflects management's estimate of the gross cost of capital employed for the groups of CGUs listed above. This is the benchmark established to assess operating performance and to evaluate future capital investment proposals. The rate applied to all CGUs is the same across all units, this reflects the Group's funding arrangements where all units have equal access to the Group's treasury functions and borrowing lines to fund their operations. None of the Group's CGUs demonstrates levels of risk that are significantly different to that experienced by the Group generally and all have similar funding profiles and therefore the discount rate applied is deemed to be justified.

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

Growth rate assumptions are based on, as far as possible, published industry research (Ovum 2009). Where the cash-generating unit does not correspond directly with the research undertaken then the growth rate used is that of the nearest possible match in relation to the risks experienced within the associated market. The rates used are further cross-checked with the senior operational management of the units in question.

#### Goodwill impairment

Management believes that no reasonably possible change in the key assumptions above would cause any of the identified CGUs to become impaired.

### 17 Financial assets

|  | 2009<br>£m         | 2008<br>£m         |
|--|--------------------|--------------------|
| <b>Current</b>   |                    |                    |
| Cash flow hedges <sup>4</sup>  | 2.0                | 4.1                |
| Currency swaps in relation to US\$ denominated bonds <sup>5</sup>        | –                  | 0.4                |
| Interest rate swaps in relation to GBP denominated bonds <sup>5</sup>    | –                  | 0.7                |
|  | <b>2.0</b>         | <b>5.2</b>         |
|  |                    |                    |
|  | <b>2009<br/>£m</b> | <b>2008<br/>£m</b> |
| <b>Non-current financial assets</b>                                      |                    |                    |
| Available for sale assets <sup>1</sup>                                   | 0.7                | 0.3                |
| Investment loan <sup>2</sup>   | 36.7               | 35.3               |
| Financial assets at fair value through the income statement <sup>3</sup> | –                  | 1.6                |
| Cash flow hedges <sup>4</sup>  | 8.8                | 21.6               |
| Currency swaps in relation to US\$ denominated bonds <sup>5</sup>        | 136.6              | 269.2              |
| Interest rate swap in relation to GBP denominated bonds <sup>5</sup>     | 3.3                | 4.0                |
| Investment in a joint venture <sup>6</sup>                               | 0.2                | 0.4                |
|  | <b>186.3</b>       | <b>332.4</b>       |

<sup>1</sup> 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.

<sup>2</sup> The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) and during the year has provided it with an additional £1.4m (2008: £6.2m) to fund that company's acquisition of further volume legal services businesses. In addition, the Group has entered into an option agreement to acquire the shares of OLSL for £1 in the event that Law Society rules are amended to allow the Group to own the shares in this type of legal services company. The Group believes that the option should be held at the fair value of £1 as the change in Law Society rules in favour of the Group is uncertain.

<sup>3</sup> Financial assets at fair value through the income statement include investments in units, held in the Group's insurance captives. The units are held in managed funds (comprising units of equities and other assets) which are traded with a quoted market price in an active market. An explanation of the Group's accounting policy with regard to these assets is contained in note 2(m) on page 94. During the year the Group made the decision to withdraw the funds invested in these assets, the remaining units were sold early in 2009, the Group therefore no longer holds units in these funds.

<sup>4</sup> 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.

<sup>5</sup> The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US\$ denominated bonds. The uplift in the fair value of the underlying bonds due to changes in interest and currency rates is equivalent to the fair value of the currency swaps recognised above. The interest rate swaps are used to hedge the fair value of the Group's GBP denominated bonds and the uplift in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swap, currency swaps and cash flow hedges are contained in note 26.

<sup>6</sup> The investment in a joint venture disclosed represents the Group's interest in a Syndicate (for which the Group provides administrative outsourcing services) operating in the Lloyd's Market, through its joint venture ownership of Cobex Corporate Member No 1 Limited (Cobex) in conjunction with the Group's insurance partners. The Group's share of the net assets and liabilities of this Syndicate are set out in the following table.

**17 Financial assets (continued)**

|                              | 2009<br>£m  | 2008<br>£m  |
|------------------------------|-------------|-------------|
| Investments                  | 16.4        | 8.9         |
| Reinsurance assets           | 7.0         | 9.6         |
| Other debtors                | 2.7         | 2.8         |
| Cash and cash equivalents    | 0.7         | 10.0        |
| <b>Total assets</b>          | <b>26.8</b> | <b>31.3</b> |
| Technical provisions         | 22.0        | 23.6        |
| Other creditors              | 4.3         | 6.9         |
| Accruals and deferred income | 0.3         | 0.4         |
| <b>Total liabilities</b>     | <b>26.6</b> | <b>30.9</b> |
| <b>Net position</b>          | <b>0.2</b>  | <b>0.4</b>  |

The Group, through Capita Commercial Insurance Services Limited (CCIS), a wholly owned subsidiary, has a 50.1% holding in Cobex Corporate Member No 1 Limited (Cobex). In addition to the assets and liabilities of the underlying Syndicate, Cobex has in place a quota share arrangement with its insurance partners such that only 8.86% of any profit or loss declared by the Syndicate, in respect of Cobex, would be attributable to the Group.

The Group has no rights over the assets or liabilities of the Syndicate other than to the extent that it will receive distributed profits or contribute to relieve losses. The Group has in place a letter of credit amounting to £1.0m (2008: £1.0m) which is the maximum exposure that the Group has to losses generated within the Syndicate.

**18 Business combinations**

The Group made a number of acquisitions in 2009 which are shown in aggregate. The book and fair values of the assets acquired are disclosed in the table below:

|                                 | Book values<br>£m | Fair value<br>adjustments<br>£m | Fair value<br>to Group<br>£m |
|---------------------------------|-------------------|---------------------------------|------------------------------|
| Intangible assets               | 10.1              | 72.2                            | 82.3                         |
| Property, plant and equipment   | 5.9               | –                               | 5.9                          |
| Deferred tax                    | 5.9               | (20.9)                          | (15.0)                       |
| Debtors                         | 59.6              | (0.4)                           | 59.2                         |
| Cash and short term deposits    | 24.2              | –                               | 24.2                         |
| Creditors                       | (96.7)            | (0.5)                           | (97.2)                       |
| Long term debt                  | (9.1)             | –                               | (9.1)                        |
| Provisions                      | –                 | (2.2)                           | (2.2)                        |
| Corporation tax                 | (1.9)             | –                               | (1.9)                        |
| <b>Net assets</b>               | <b>(2.0)</b>      | <b>48.2</b>                     | <b>46.2</b>                  |
| Goodwill arising on acquisition |                   |                                 | 159.3                        |
|                                 |                   |                                 | <b>205.5</b>                 |
| Discharged by:                  |                   |                                 |                              |
| Cash                            |                   |                                 | 196.4                        |
| Deferred consideration paid     |                   |                                 | 0.7                          |
| Deferred consideration accrued  |                   |                                 | 8.4                          |
|                                 |                   |                                 | <b>205.5</b>                 |

Included within the table above are the net assets of Synetrix (Holdings) Limited of £7.1m, including provisionally recognised intangible assets of £28.1m. The cash consideration paid was £77.6m with resulting goodwill of £70.5m. Intangible valuations relating to this acquisition have been performed on a provisional basis and the exercise will be completed in the subsequent year.

The performance of these acquisitions post their inclusion in the Group cannot be ascertained as they have been fully integrated within existing offerings.

Acquisitions in the year included FMS (Netherlands) B.V., CHKS Limited, Hero Insurance Services Limited, MMB Associates Limited, Gissings Holdings Limited, Carillion IT Services Limited (now known as Capita IT Services Limited), Fidei Fiduciaire S.à.r.l, IMMO Guillaume Schneider S.A., IMMO J.A S.A., Multi-Tech Group Limited and Synetrix (Holdings) Limited.

For all acquisitions in the year the Group acquired 100% of the issued share capital of the acquired company.

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably. These items include client loyalty and the assembled workforce.

## Notes to the consolidated financial statements

### 18 Business combinations (continued)

#### 2008 acquisitions

The Group made a number of acquisitions in 2008 which are shown in aggregate. The book and fair values of the assets acquired are disclosed in the table below:

|                                 | Book values<br>£m | Fair value<br>adjustments<br>£m | Fair value<br>to Group<br>£m |
|---------------------------------|-------------------|---------------------------------|------------------------------|
| Intangible assets               | –                 | 43.2                            | 43.2                         |
| Property, plant and equipment   | 5.9               | (0.5)                           | 5.4                          |
| Deferred tax                    | 1.5               | (11.4)                          | (9.9)                        |
| Debtors                         | 32.4              | (2.8)                           | 29.6                         |
| Cash and short term deposits    | 8.9               | –                               | 8.9                          |
| Creditors                       | (23.1)            | (2.3)                           | (25.4)                       |
| Provisions                      | (0.5)             | (2.2)                           | (2.7)                        |
| Net assets                      | 25.1              | 24.0                            | 49.1                         |
| Goodwill arising on acquisition |                   |                                 | 135.0                        |
|                                 |                   |                                 | 184.1                        |
| Discharged by:                  |                   |                                 |                              |
| Cash                            |                   |                                 | 180.6                        |
| Loan notes issued               |                   |                                 | 3.5                          |
|                                 |                   |                                 | 184.1                        |

Included within the table above are net assets of IBS OPENSsystems Limited of £21.5m, including recognised intangible assets of £13.1m. The cash consideration paid was £74.9m with resulting goodwill of £53.4m. Intangible valuations relating to this acquisition had been performed on a provisional basis and the exercise was completed in the subsequent year.

During the year deferred consideration of £9.1m was settled in respect of acquisitions made in prior years, £7.8m was paid in cash and the remainder of £1.3m through the issue of loan notes, of which £9.4m had been previously provided; the impact of this was to reduce goodwill by £0.3m.

As a result of the above total goodwill of £134.7m was recognised in the year.

Acquisitions in the year included IBS OPENSsystems plc (now known as IBS OPENSsystems Limited), ComputerLand UK PLC (now known as ComputerLand UK Limited), Lancaster Insurance Services Limited, Nieuwenhuis Services BV (now known as Capita Fiduciary BV), and ABS Network Solutions Limited. For all acquisitions in the year the Group acquired 100% of the issued share capital of the acquired company.

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably. These items include client loyalty and the assembled workforce.

The Group's acquisition in 2008 of IBS OPENSsystems Limited (IBS) was the subject of a referral to the Competition Commission (CC) under Section 22(1) of the Enterprise Act 2002. On 4 June 2009 the CC announced its decision. The CC determined that the acquisition by the Group of IBS resulted in a lessening of competition in the market for revenue and benefits software systems and that the corrective measure required was the sale of the element of IBS that provides this product and service. Consequently, the Group disposed of this part of the business – see note 5.

### 19 Trade and other receivables

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| <b>Current</b>   |            |            |
| Trade receivables  | 308.1      | 306.6      |
| Other receivables  | 38.9       | 37.2       |
| Gross amounts due from customers on construction contracts | 25.4       | 17.8       |
| Prepayments and accrued income                             | 246.0      | 222.0      |
|  | 618.4      | 583.6      |
| <b>Non-current</b>   |            |            |
| Other receivables  | 9.2        | 1.8        |
| Prepayments and accrued income                             | 11.1       | 6.3        |
|  | 20.3       | 8.1        |

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

At 31 December 2009, trade receivables at a nominal value of £10.5m (2008: £7.1m) were impaired and fully provided for.

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

|                         | 2009<br>£m | 2008<br>£m |
|-------------------------|------------|------------|
| At 1 January            | 7.1        | 4.2        |
| Charge for year         | 7.3        | 5.7        |
| Amounts written off     | (1.9)      | (1.0)      |
| Unused amounts reversed | (2.0)      | (1.8)      |
|                         | 10.5       | 7.1        |

### 19 Trade and other receivables (continued)

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

|      | Total<br>£m | Neither past<br>due nor<br>impaired<br>£m | Past due but not impaired |                  |                   |                              |
|------|-------------|---|---------------------------|------------------|-------------------|------------------------------|
|      |             |   | 0–3 months<br>£m          | 4–6 months<br>£m | 7–12 months<br>£m | More than<br>12 months<br>£m |
| 2009 | 308.1       | 245.3                                     | 56.5                      | 6.3              | –                 | –                            |
| 2008 | 306.6       | 245.6                                     | 52.6                      | 8.4              | –                 | –                            |

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

### 20 Cash at bank and in hand

|                          | 2009<br>£m | 2008<br>£m |
|--------------------------|------------|------------|
| Cash at bank and in hand | 181.5      | 86.7       |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash is the same as the carrying amount above.

### 21 Trade and other payables

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| <b>Current</b>   |            |            |
| Trade payables   | 96.2       | 111.3      |
| Other payables   | 76.2       | 87.3       |
| Other taxes and social security                          | 64.1       | 60.8       |
| Gross amounts due to customers on construction contracts | 7.2        | 6.2        |
| Accruals and deferred income                             | 542.4      | 424.8      |
| Deferred consideration payable                           | 8.4        | –          |
|  | 794.5      | 690.4      |
| <b>Non-current</b>                                       |            |            |
| Accruals and deferred income                             | 9.0        | 9.6        |
|  | 9.0        | 9.6        |

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

### 22 Construction contracts

Presented in the table below are disclosures with regard to the Group's property consultancy business where the provision, as a sub-contractor, is architectural, structural or another service that results in the construction of a new asset.

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| Contract revenue recognised in relation to construction contracts in the year | 157.9      | 152.4      |
| Aggregate costs incurred and recognised profits (less losses) to date         | 201.9      | 180.5      |
| Gross amount due from customers for construction contracts                    | 25.4       | 17.8       |
| Gross amount due to customers on construction contracts                       | 7.2        | 6.2        |

### 23 Financial liabilities

|  | Notes | 2009<br>£m | 2008<br>£m |
|--|-------|------------|------------|
| <b>Current</b>                                       |       |            |            |
| Obligations under finance leases                     | 24    | 0.1        | –          |
| Bonds  |       | –          | 101.3      |
| Unsecured loan notes                                 |       | 2.6        | 3.7        |
| Asset-based securitised financing (see below)        |       | 17.1       | 10.4       |
| Callable swaps                                       |       | –          | 1.1        |
|  |       | 19.8       | 116.5      |
| <b>Non-current</b>                                   |       |            |            |
| Obligations under finance leases                     | 24    | 1.3        | –          |
| Bonds  |       | 720.5      | 851.8      |
| Term debt  |       | 198.0      | –          |
| Currency swaps in relation to US\$ denominated bonds |       | 0.6        | –          |
| Callable swaps                                       |       | 30.9       | 30.9       |
|  |       | 951.3      | 882.7      |

The aggregate bond value stated above of £720.5m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2009. To remove the Group's exposure to interest rate and currency fluctuations it has entered into interest rate swaps and currency swaps which effectively hedge any movement in the underlying bond fair value. The fair value of the currency swaps is disclosed in note 17 – Financial assets and note 23 – Financial liabilities in the current year (2008: Financial assets – note 17).

## Notes to the consolidated financial statements

### 23 Financial liabilities (continued)

On the 20 June 2009 the Group repaid bonds, which reached maturity, including £55m 2002 Series B bonds and US\$66m 2002 Series A bonds (sterling equivalent: £45.3m) giving an aggregate repayment of £100.3m in the year.

On 15 July 2009 the Group secured £200m of term debt (shown above net of issue costs) for which it pays a rate of interest based on LIBOR and which matures on the second anniversary of issuance. The debt has an extension option of one year, at the Group's request, subject to the lenders' agreement.

The Group has insurance debtors which are subject to a securitisation agreement. The purpose of this arrangement is to securitise client receivables, derived through the provision of instalment credit facilities to insurance clients of the Group. The Group sells these receivables, with no immediate effect on the income statement, for cash to a third party. The third party takes on the rights and responsibilities of these receivables such that the terms of this agreement dictate that it has no recourse to the Group beyond 14% of the total receivable securitised.

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. The bonds effectively bear a floating interest charge at a rate based on 6 month LIBOR.

Loan notes issued during the year amounted to £nil (2008: £5.3m) and £1.4m (2008: £3.3m) were repaid. The interest rates attributable to the loan notes are fixed for each new issue. The rates attributable to these remaining loan notes ranged from 0.87% to 5.00%. The outstanding loan notes totalling £2.6m are repayable on demand and have a final weighted average maturity of less than 1 year.

The Group has issued guaranteed unsecured bonds as follows:

| Bond                                | Interest rate %          | Denomination | Value £m | Maturity          |
|-------------------------------------|--------------------------|--------------|----------|-------------------|
| <b>Issued 2005***</b>               |                          |              |          |                   |
| 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 |
| <b>Issued 2008*</b>                 |                          |              |          |                   |
| Series C                            | 7.19                     | GBP          | 32.0     | 13 September 2015 |
| Total of sterling denominated bonds |                          |              | 107.0    |                   |
|                                     |                          |              | US\$m    |                   |
| <b>Issued 2002***</b>               |                          |              |          |                   |
| Series C                            | 6.47                     | US\$**       | 36.0     | 20 June 2012      |
| <b>Issued 2006***</b>               |                          |              |          |                   |
| 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 |
| <b>Issued 2007***</b>               |                          |              |          |                   |
| Series A                            | 5.57                     | US\$**       | 21.0     | 11 October 2014   |
| Series B                            | 5.88                     | US\$**       | 179.0    | 11 October 2017   |
| <b>Issued 2008**</b>                |                          |              |          |                   |
| Series A                            | 6.04                     | US\$**       | 80.0     | 13 September 2015 |
| Series B                            | 6.51                     | US\$**       | 256.0    | 13 September 2018 |
| Total of US\$ denominated bonds     |                          |              | 907.0    |                   |

All series are unsecured and rank pari passu in all respects.

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

\*\* The Group has entered into currency swaps for the US\$ issues to achieve a floating rate of interest based on 6 month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 26 commencing on page 111.

\*\*\*Subsequently, the Group has entered a series of callable interest rate swaps to convert these issues from paying a floating rate based on 6 month LIBOR to fixed rates. See note 26 for further details of these callable swaps.

The issue costs incurred on the issue of the term debt during the year amounted to £2.6m (2008: Bond issue costs £0.7m). Issue costs on the bonds and term debt are spread over the life of the bonds and term debt to their maturity. The unamortised balance of issue costs at the year end totalled £3.1m (2008: £1.4m).

## 24 Obligations under leases and hire purchase contracts

### Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal and purchase options but no escalation clauses. Renewals are at the option of the lessee.

The value of future minimum lease payments and their present value, which are the same, is analysed as follows:

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| Not later than 1 year                       | 0.1        | –          |
| Later than 1 year but not more than 5 years | 1.3        | –          |
|   | 1.4        | –          |

### Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and machinery. These leases have an average duration of between 3 and 10 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| Not later than 1 year                        | 59.3       | 59.2       |
| Later than 1 year but not later than 5 years | 128.5      | 158.0      |
| Later than 5 years                           | 53.9       | 23.0       |
|  | 241.7      | 240.2      |

## 25 Provisions

|  | Insurance<br>provision<br>£m | Property<br>provision<br>£m | Arch cru<br>£m | Other<br>£m \ | Total<br>£m |
|--|------------------------------|-----------------------------|----------------|---------------|-------------|
| At 1 January 2009                              | –                            | 3.3                         | –              | –             | 3.3         |
| Transfer from accruals in the year             | –                            | –                           | –              | 3.0           | 3.0         |
| Transfer from other payables in the year       | 14.2                         | –                           | –              | –             | 14.2        |
| Utilisation                                    | –                            | (0.6)                       | –              | –             | (0.6)       |
| Additional provisions in the year              | 0.8                          | 2.4                         | 20.0           | 2.6           | 25.8        |
| Provisions acquired                            | –                            | 2.2                         | –              | –             | 2.2         |
| Unwinding of interest on discounted provisions | –                            | 0.1                         | –              | –             | 0.1         |
| At 31 December 2009                            | 15.0                         | 7.4                         | 20.0           | 5.6           | 48.0        |

Certain liabilities previously held within accruals and other payables have been reclassified as provisions as it is considered that the classification is more appropriate given the nature of the balances.

The property provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 6 years.

Arch cru Funds – dealings in 2 open ended investment companies (OEICs), for which Capita Financial Managers (CFM) is the authorised corporate director (ACD) and Arch Financial Products LLP was the delegated investment manager, were suspended on 13 March 2009, as a result of illiquidity in the underlying investments of the OEICs and an anticipated inability to meet future redemptions. This was exacerbated by unprecedented market turmoil post the collapse of Lehman Brothers. Since the suspension, CFM, has been working with specialist advisers to conduct a detailed review of the underlying assets of the OEICs and options for their future. This review was completed in December 2009. The underlying assets of the OEICs have fallen in value and remain illiquid. CFM has advised investors that the only feasible option in the best interests of investors as a whole is for the OEICs to be wound up, with the underlying assets being realised in an orderly manner over a period of time, and the proceeds being returned to investors in the OEICs.

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The detailed work undertaken since March 2009 has resulted in significant costs. We have provided estimated costs of £20m in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009. It is expected that an outcome will be reached in 2010.

Insurance provisions relate to provisions held by the Group's captive insurer. Such provisions are held until utilised or such time as further claims are considered unlikely under the respective insurance policies.

## 26 Financial instruments

### Financial risk management objectives and policies

The Group's principal financial instruments are comprised of cash, bank loans, bond issues, loan notes, finance leases and derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations and to manage the Group's financial risks. The Group also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

The Group also enters into derivative transactions. These are interest rate swaps, currency swaps, callable interest rate swaps and forward currency contracts. Their purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

## Notes to the consolidated financial statements

### 26 Financial instruments (continued)

#### Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors and cash in hand) that are carried in the financial statements. The values represent both the carrying amounts and the fair values.

|  | Available for sale<br>£m | At fair value through the income statement<br>£m | Loans and receivables<br>£m | Derivatives used for hedging<br>£m | Other financial liabilities<br>£m | Total<br>£m |
|--|--------------------------|--|-----------------------------|------------------------------------|-----------------------------------|-------------|
| <b>At 31 December 2009</b>                               |                          |  |                             |                                    |                                   |             |
| <b>Financial assets</b>                                  |                          |  |                             |                                    |                                   |             |
| Unlisted equity securities                               | 0.7                      | –  | –                           | –                                  | –                                 | 0.7         |
| Investment loan  | –                        | –  | 36.7                        | –                                  | –                                 | 36.7        |
| Cash flow hedges   | –                        | –  | –                           | 10.8                               | –                                 | 10.8        |
| Interest rate swaps in relation to GBP denominated bonds | –                        | –  | –                           | 3.3                                | –                                 | 3.3         |
| Currency swaps in relation to US\$ denominated bonds     | –                        | –  | –                           | 136.6                              | –                                 | 136.6       |
| Investment in joint venture                              | –                        | –  | 0.2                         | –                                  | –                                 | 0.2         |
|  | 0.7                      | –  | 36.9                        | 150.7                              | –                                 | 188.3       |
| <b>Financial liabilities</b>                             |                          |  |                             |                                    |                                   |             |
| Unsecured loan notes                                     | –                        | –  | –                           | –                                  | 2.6                               | 2.6         |
| Bonds  | –                        | –  | –                           | –                                  | 720.5                             | 720.5       |
| Currency swaps in relation to US\$ denominated bonds     | –                        | –  | –                           | 0.6                                | –                                 | 0.6         |
| Term debt  | –                        | –  | –                           | –                                  | 198.0                             | 198.0       |
| Asset-based securitised financing                        | –                        | –  | –                           | –                                  | 17.1                              | 17.1        |
| Obligations under finance leases                         | –                        | –  | –                           | –                                  | 1.4                               | 1.4         |
| Callable swaps   | –                        | 30.9   | –                           | –                                  | –                                 | 30.9        |
|  | –                        | 30.9   | –                           | 0.6                                | 939.6                             | 971.1       |

The aggregate bond value above of £720.5m includes the GBP value of the US\$ denominated bonds at 31 December 2009. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the bonds' fair value due to changes in prevailing foreign exchange and interest rates. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The fair value of the currency and interest swaps are disclosed in note 17 – Financial assets and in note 23 – Financial liabilities in the current year.

|  | Available for sale<br>£m | At fair value through the income statement<br>£m | Loans and receivables<br>£m | Derivatives used for hedging<br>£m | Other financial liabilities<br>£m | Total<br>£m |
|--|--------------------------|--|-----------------------------|------------------------------------|-----------------------------------|-------------|
| <b>At 31 December 2008</b>                               |                          |  |                             |                                    |                                   |             |
| <b>Financial assets</b>                                  |                          |  |                             |                                    |                                   |             |
| Investments in units                                     | –                        | 1.6  | –                           | –                                  | –                                 | 1.6         |
| Unlisted equity securities                               | 0.3                      | –  | –                           | –                                  | –                                 | 0.3         |
| Investment loan  | –                        | –  | 35.3                        | –                                  | –                                 | 35.3        |
| Cash flow hedges   | –                        | –  | –                           | 25.7                               | –                                 | 25.7        |
| Interest rate swaps in relation to GBP denominated bonds | –                        | –  | –                           | 4.7                                | –                                 | 4.7         |
| Currency swaps in relation to US\$ denominated bonds     | –                        | –  | –                           | 269.6                              | –                                 | 269.6       |
| Investment in joint venture                              | –                        | –  | 0.4                         | –                                  | –                                 | 0.4         |
|  | 0.3                      | 1.6  | 35.7                        | 300.0                              | –                                 | 337.6       |
| <b>Financial liabilities</b>                             |                          |  |                             |                                    |                                   |             |
| Unsecured loan notes                                     | –                        | –  | –                           | –                                  | 3.7                               | 3.7         |
| Bonds  | –                        | –  | –                           | –                                  | 953.1                             | 953.1       |
| Asset-based securitised financing                        | –                        | –  | –                           | –                                  | 10.4                              | 10.4        |
| Callable swaps   | –                        | 32.0   | –                           | –                                  | –                                 | 32.0        |
|  | –                        | 32.0   | –                           | –                                  | 967.2                             | 999.2       |

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities and investment loans. The valuation models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and volatility surfaces. Unlisted equity securities and investment loans are held at amortised cost. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**26 Financial instruments (continued)**

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

| At 31 December 2009                                      | Level 2<br>£m |
|--|---------------|
| <b>Assets measured at fair value</b>                     |               |
| Cash flow hedges   | 10.8          |
| Interest rate swaps in relation to GBP denominated bonds | 3.3           |
| Currency swaps in relation to US\$ denominated bonds     | 136.6         |
| <b>Liabilities measured at fair value</b>                |               |
| Bonds  | 720.5         |
| Currency swaps in relation to US\$ denominated bonds     | 0.6           |
| Callable swaps   | 30.9          |

During the year the Group only had Level 2 assets or liabilities measured at fair value. During the year ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates arises primarily from the Group's long term debt.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate financial instruments to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations.

The Group has primarily issued fixed rate coupon US\$ denominated bonds, which have been swapped to floating rate GBP liabilities at the date of issuance using currency swaps. These currency swaps are designated as fair value hedges against changes in fair value of the bonds due to changes in prevailing foreign currency exchange and interest rates.

In February 2008, Capita executed a series of callable interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. The counterparty holds the option to cancel these swaps on each semi-annual coupon payment date. These callable interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 10 – Net finance cost.

Following the fall in interest rates at the end of 2008 and an increase in the implied volatilities, these callable swaps show a negative mark to market value of £30.9m at 31 December 2009 (2008: negative mark to market value of £32m). This movement results in a non-cash accounting profit in the year of £1.1m (2008: loss of £32m). The callable swap will reverse through the income statement as the mark to market valuation will tend towards zero as the swaps approach maturity or cancellation.

In addition to the fixed rate bonds of £380m issued as at 31 December 2009 (underlying value – not adjusted for the impact of the swaps), the Group had a further £200.2m of swapped bonds, and a £245m revolving credit facility, both paying floating rate interest. On 15 July 2009 the Group took £200m of bank term debt maturing on the second anniversary of the issue date paying a floating rate of interest. This gives the Group as a whole a balanced interest rate risk profile through the use of both fixed and floating rate financial instruments.

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

| At 31 December 2009  | Within<br>1 year<br>£m | Between<br>1-2 years<br>£m | Between<br>2-3 years<br>£m | Between<br>3-4 years<br>£m | Between<br>4-5 years<br>£m | More than<br>5 years<br>£m | Total<br>£m |
|--|------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| <b>Fixed rate</b>  |                        |                            |                            |                            |                            |                            |             |
| Loan notes   | 2.6                    | -                          | -                          | -                          | -                          | -                          | 2.6         |
| Bonds  | -                      | -                          | 24.1                       | 98.1                       | 13.9                       | 328.4                      | 464.5       |
| Obligations under finance leases                             | 0.1                    | 1.3                        | -                          | -                          | -                          | -                          | 1.4         |
| Foreign currency swaps in relation to US\$ denominated bonds | -                      | -                          | 0.6                        | (10.1)                     | (3.5)                      | (71.4)                     | (84.4)      |
| Callable swaps   | -                      | -                          | 1.6                        | 6.4                        | 0.8                        | 22.1                       | 30.9        |
| <b>Floating rate</b>   |                        |                            |                            |                            |                            |                            |             |
| Cash in hand   | (181.5)                | -                          | -                          | -                          | -                          | -                          | (181.5)     |
| Term debt  | -                      | 198.0                      | -                          | -                          | -                          | -                          | 198.0       |
| Investment loan  | -                      | -                          | -                          | -                          | -                          | (36.7)                     | (36.7)      |
| Assets available for sale                                    | (0.4)                  | -                          | -                          | -                          | -                          | (0.3)                      | (0.7)       |
| Bonds  | -                      | -                          | -                          | -                          | -                          | 256.0                      | 256.0       |
| Asset-based securitised financing                            | 17.1                   | -                          | -                          | -                          | -                          | -                          | 17.1        |
| Cash flow hedges   | (2.0)                  | (2.4)                      | (1.4)                      | (1.4)                      | (0.6)                      | (3.0)                      | (10.8)      |
| Interest rate swap in relation to GBP denominated bonds      | -                      | -                          | -                          | -                          | -                          | (3.3)                      | (3.3)       |
| Foreign currency swaps in relation to US\$ denominated bonds | -                      | -                          | -                          | -                          | -                          | (51.6)                     | (51.6)      |

## Notes to the consolidated financial statements

### 26 Financial instruments (continued)

| At 31 December 2008   | Within<br>1 year<br>£m | Between<br>1-2 years<br>£m | Between<br>2-3 years<br>£m | Between<br>3-4 years<br>£m | Between<br>4-5 years<br>£m | More than<br>5 years<br>£m | Total<br>£m |
|---|------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| <b>Fixed rate</b>   |                        |                            |                            |                            |                            |                            |             |
| Loan notes  | 3.7                    | –                          | –                          | –                          | –                          | –                          | 3.7         |
| Bonds   | 101.3                  | –                          | –                          | 27.2                       | 105.0                      | 408.9                      | 642.4       |
| Interest rate swap in relation<br>to GBP denominated bonds      | (0.7)                  | –                          | –                          | –                          | –                          | –                          | (0.7)       |
| Foreign currency swaps in relation to<br>US\$ denominated bonds | (0.4)                  | –                          | –                          | (2.6)                      | (16.9)                     | (142.5)                    | (162.4)     |
| Callable swaps  | 1.1                    | –                          | –                          | 1.5                        | 5.9                        | 23.5                       | 32.0        |
| <b>Floating rate</b>  |                        |                            |                            |                            |                            |                            |             |
| Cash in hand  | (86.7)                 | –                          | –                          | –                          | –                          | –                          | (86.7)      |
| Investment loan   | –                      | –                          | –                          | –                          | –                          | 35.3                       | 35.3        |
| Assets available for sale                                       | –                      | –                          | –                          | –                          | –                          | (0.3)                      | (0.3)       |
| At fair value through income statement                          | (1.6)                  | –                          | –                          | –                          | –                          | –                          | (1.6)       |
| Bonds   | –                      | –                          | –                          | –                          | –                          | 310.7                      | 310.7       |
| Asset-based securitised financing                               | 10.4                   | –                          | –                          | –                          | –                          | –                          | 10.4        |
| Cash flow hedges  | (4.1)                  | (1.6)                      | (3.5)                      | (2.3)                      | (2.7)                      | (11.5)                     | (25.7)      |
| Interest rate swap in relation<br>to GBP denominated bonds      | –                      | –                          | –                          | –                          | –                          | (4.0)                      | (4.0)       |
| Foreign currency swaps in relation<br>to US\$ denominated bonds | –                      | –                          | –                          | –                          | –                          | (107.2)                    | (107.2)     |

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

|             | Increase/<br>(decrease) in<br>basis points | Effect on profit<br>before tax<br>£m |
|-------------|--|--------------------------------------|
| <b>2009</b> | <b>16/(16)</b>                             | <b>(0.3)/0.3</b>                     |
| 2008        | 146/(146)                                  | (2.8)/2.8                            |

#### Foreign currency risk

The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions in UK operations which are affected by foreign exchange movements. The Group is not generally exposed to significant foreign currency risk except in respect of its cash flows in overseas operations in India which generate exposure to movements in the INR/GBP exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency contracts (in the form of Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable forecast transactions denominated in INR.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the underlying cash flows in order to maximise hedge effectiveness.

At 31 December 2009, the Group had cash flow hedges in place against forecast monthly INR costs in 2010 and each year up to and including 2019. These forecast INR costs have been determined on the basis of the underlying cash flows, associated with the delivery of services under signed contracts which run to 2019.

The following table demonstrates the sensitivity to a reasonably possible change in the INR/GBP exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of the Group's forward exchange contracts.

|             | Increase/<br>(decrease)<br>in INR<br>exchange rate | Effect on profit<br>before tax<br>£m | Effect on<br>equity<br>£m |
|-------------|--|--------------------------------------|---------------------------|
| <b>2009</b> | <b>4.1%</b>  | <b>–</b>                             | <b>9.9</b>                |
| 2008        | 2.5%   | –                                    | 6.3                       |

#### Hedges

##### Fair value hedges

The Group has in issue fixed rate dollar and sterling bonds which it has hedged through a combination of interest rate and currency swaps.

The Group had an interest rate swap in place with a notional amount of £32.0m (2008: £87.0m) whereby it receives a fixed rate of interest of 7.19% (2008: weighted average fixed rate of interest 6.71%) and pays a variable rate based on 6 month LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £32.0m (2008: £87.0m) of the Group's 7.19% (2008: weighted average fixed rate of interest 6.71%) bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6 month LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £472.8m (2008: £518.2m) of the Group's bonds, which have coupon rates ranging from 5.57% to 6.51%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar issued bonds. The bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 23).

## 26 Financial instruments (continued)

The mark to market movement on currency swaps represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US\$ denominated bonds.

The Group may, at its option, upon notice of not less than 30 days and not more than 60 days, repay at any time all or part of the notes at no more than the present value of future payments.

### Cash flow hedges

As noted above, the Group holds a series of forward exchange currency contracts in the form of NDFs designated as hedges of highly probable forecast transactions in INR of the Group's Indian operations.

|                                   | Assets<br>£m | 2009<br>Liabilities<br>£m | Assets<br>£m | 2008<br>Liabilities<br>£m |
|-----------------------------------|--------------|---------------------------|--------------|---------------------------|
| <b>Forward exchange contracts</b> |              |                           |              |                           |
| Fair value                        | 10.8         | –                         | 25.7         | –                         |

The terms of the forward currency contracts have been negotiated to match the terms of the commitments.

The cash flow hedges are in respect of highly probable forecast monthly costs, based on long term contracts that the Group has in place, denominated in INR up to 2019. These were assessed to be highly effective as at 31 December 2009 and a net unrealised gain of £10.8m (2008: £25.7m) less deferred tax of £3.0m (2008: £7.2m) was recognised in equity. The net loss recognised on cash flow hedges during the year was £10.8m (2008: net gain £20.9m) whilst net gains of £4.1m (2008: £0.8m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a credit of £4.2m (2008: charge of £5.6m).

### Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents, available for sale financial investments, investment loan, financial assets at fair value through the income statement, investment in a joint venture and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

The Group has netting arrangements in respect of its transactional banking facilities resulting in the legal right of set-off for its overdraft and cash balances.

### Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2018.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual payments.

| <b>At 31 December 2009</b>        | Within<br>1 year<br>£m | Between<br>1-2 years<br>£m | Between<br>2-3 years<br>£m | Between<br>3-4 years<br>£m | Between<br>4-5 years<br>£m | More than<br>5 years<br>£m | Total<br>£m |
|-----------------------------------|------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Loan notes                        | 2.6                    | –                          | –                          | –                          | –                          | –                          | 2.6         |
| Bonds                             | –                      | –                          | 24.1                       | 98.2                       | 14.1                       | 585.2                      | 721.6       |
| Interest on above bonds           | 37.3                   | 37.3                       | 36.6                       | 34.8                       | 32.7                       | 83.1                       | 261.8       |
| Term debt                         | –                      | 200.0                      | –                          | –                          | –                          | –                          | 200.0       |
| Interest on term debt             | 6.7                    | 3.6                        | –                          | –                          | –                          | –                          | 10.3        |
| Asset-based securitised financing | 17.1                   | –                          | –                          | –                          | –                          | –                          | 17.1        |
| Obligations under finance leases  | 0.1                    | 1.3                        | –                          | –                          | –                          | –                          | 1.4         |
| Currency swaps                    | –                      | –                          | 0.6                        | –                          | –                          | –                          | 0.6         |
| Callable swaps                    | –                      | –                          | 1.6                        | 6.4                        | 0.8                        | 22.1                       | 30.9        |
|                                   | 63.8                   | 242.2                      | 62.9                       | 139.4                      | 47.6                       | 690.4                      | 1,246.3     |

## Notes to the consolidated financial statements

### 26 Financial instruments (continued)

| At 31 December 2008               | Within 1 year<br>£m | Between 1-2 years<br>£m | Between 2-3 years<br>£m | Between 3-4 years<br>£m | Between 4-5 years<br>£m | More than 5 years<br>£m | Total<br>£m |
|-----------------------------------|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------|
| Loan notes                        | 3.7                 | –                       | –                       | –                       | –                       | –                       | 3.7         |
| Bonds                             | 101.3               | –                       | –                       | 27.3                    | 105.0                   | 720.8                   | 954.4       |
| Interest on above bonds           | 38.9                | 38.9                    | 38.2                    | 36.4                    | 33.2                    | 83.6                    | 269.2       |
| Asset-based securitised financing | 10.4                | –                       | –                       | –                       | –                       | –                       | 10.4        |
| Callable swaps                    | 1.1                 | –                       | –                       | 1.5                     | 5.9                     | 23.5                    | 32.0        |
|                                   | 155.4               | 38.9                    | 38.2                    | 65.2                    | 144.1                   | 827.9                   | 1,269.7     |

In addition to the above the Group has available to it a Rolling Credit Facility (RCF) of £245m, of which £nil had been drawn down as at 31 December 2009 (2008: £nil drawn down). These funds are available for the Group's immediate use.

#### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group has covenanted to maintain a specified consolidated leverage ratio and a consolidated net interest expense coverage ratio, the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

The Group does not set a target level of gearing but uses capital opportunistically to add value for shareholders. The key discipline adopted by the Group is to widen the margin between the return on capital employed and the cost of that capital as shown in the business review on pages 25 and 33.

The table below presents quantitative data for the components the Group manages as capital:

|                                  | 2009<br>£m | 2008<br>£m |
|----------------------------------|------------|------------|
| Shareholders' funds              | 466.2      | 396.9      |
| Bank overdraft                   | –          | –          |
| Cash in hand                     | (181.5)    | (86.7)     |
| Unsecured loan notes             | 2.6        | 3.7        |
| Obligations under finance leases | 1.4        | –          |
| Bonds                            | 720.5      | 953.1      |
| Term debt                        | 198.0      | –          |
| Currency and interest rate swaps | (139.3)    | (274.3)    |
| At 31 December                   | 1,067.9    | 992.7      |

### 27 Authorised and issued share capital

|  | 2009<br>Million | 2008<br>Million | 2009<br>£m | 2008<br>£m |
|--|-----------------|-----------------|------------|------------|
| <b>Authorised</b>  |                 |                 |            |            |
| Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p      | 967.7           | 967.7           | 20.0       | 20.0       |
| <b>Allotted, called up and fully paid</b>                |                 |                 |            |            |
| Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p each |                 |                 |            |            |
| At 1 January   | 621.2           | 609.0           | 12.8       | 12.6       |
| Issued on exercise of share options                      | 3.4             | 12.2            | 0.1        | 0.2        |
| At 31 December   | 624.6           | 621.2           | 12.9       | 12.8       |

During the year 3.4m (2008: 12.2m) ordinary 2<sup>1</sup>/<sub>15</sub>p shares with an aggregate nominal value of £0.1m (2008: £0.2m) were issued under share option schemes for a total consideration of £15.1m (2008: £35.7m).

|   | 2009<br>Million | 2008<br>Million | 2009<br>£m | 2008<br>£m |
|---|-----------------|-----------------|------------|------------|
| <b>Treasury shares</b>                              |                 |                 |            |            |
| Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p |                 |                 |            |            |
| At 1 January  | –               | –               | –          | –          |
| Shares repurchased                                  | –               | 10.4            | –          | 0.2        |
| Shares transferred to Employee Benefit Trust        | –               | (10.4)          | –          | (0.2)      |
| At 31 December                                      | –               | –               | –          | –          |

In 2008, the Group purchased 10.4m ordinary 2<sup>1</sup>/<sub>15</sub>p shares with an aggregate nominal value of £0.2m at a total cost of £68.4m for which it paid cash at an average cost per share of £6.58. There were additional expenses of acquiring the shares of £0.4m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

**27 Authorised and issued share capital (continued)**

| <b>Employee Benefit Trust shares</b>                | <b>2009<br/>Million</b> | <b>2008<br/>Million</b> | <b>2009<br/>£m</b> | <b>2009<br/>£m</b> |
|---|-------------------------|-------------------------|--------------------|--------------------|
| Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p |                         |                         |                    |                    |
| At 1 January  | 10.4                    | –                       | 0.2                | –                  |
| Shares transferred from treasury                    | –                       | 10.4                    | –                  | 0.2                |
| Shares allotted in the year                         | (2.5)                   | –                       | –                  | –                  |
| At 31 December                                      | 7.9                     | 10.4                    | 0.2                | 0.2                |

The Group will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.5m ordinary 2<sup>1</sup>/<sub>15</sub>p shares with an aggregate nominal value of £0.05m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £9.8m.

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

**28 Share based payment plans**

The Group operates several share based payment plans as follows:

**Deferred Annual Bonus Plan**

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares. The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The Committee has considered the targets that were set for previous awards made under this scheme and believe in light of current market conditions and the further challenges that this represents that the vesting conditions for matching awards made in 2010 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

**Long Term Incentive Plan (2008 LTIP)**

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards made during 2009 will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

**Long Term Indexed Share Appreciation Scheme (LTISAS)**

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows:

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

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

**Long Term Investment Plan (LTIP)**

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights (IPSARs). The last Restricted Share Awards and awards of IPSARs vested in full in May 2001 and 2003 respectively. The performance requirements were met in full on those dates and the IPSARs are exercisable at £1.69. No further awards were made under the LTIP and only 1 award of IPSARs was made.

**1997 Executive Share Option Scheme**

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

**Capita Sharesave Scheme**

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2008: nil; 2007: nil; 2006: nil; 2005: 10% and 20% prior to 2005). The options become exercisable for a 6 month period following completion of a 3 or 5 year savings period. There are no performance conditions attached to these options.

The expense recognised for share based payments in respect of employee services received during the year to 31 December 2009 was £9.8m (2008: £9.2m), all of which arises from equity-settled share based payment transactions.

## Notes to the consolidated financial statements

### 28 Share based payment plans

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and IPSARS), which are shown separately.

#### Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

|  | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|--|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January                | 14.1            | £5.05        | 20.6            | £4.54        |
| Granted during the year                    | 2.0             | £6.77        | 1.6             | £7.04        |
| Exercised                                  | (5.5)           | £4.11        | (6.7)           | £3.88        |
| Forfeited                                  | (0.7)           | £6.28        | (1.3)           | £5.65        |
| Expired during the year                    | (0.1)           | £4.53        | (0.1)           | £4.57        |
| Outstanding as at 31 December <sup>1</sup> | 9.8             | £6.18        | 14.1            | £5.05        |
| Exercisable at 31 December                 | 2.3             | £3.60        | 3.3             | £3.29        |

<sup>1</sup>Included within this balance are options over 0.1m (2008: 0.8m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.16 (2008: £6.76).

#### 2008 LTIP

|                               | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|-------------------------------|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January   | 1.8             | –            | –               | –            |
| Awarded during the year       | 2.0             | –            | 1.9             | –            |
| Forfeited                     | (0.2)           | –            | (0.1)           | –            |
| Outstanding as at 31 December | 3.6             | –            | 1.8             | –            |
| Exercisable at 31 December    | –               | –            | –               | –            |

#### LTISAS

|                               | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|-------------------------------|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January   | 1.1             | £4.74        | 3.5             | £4.32        |
| Exercised                     | –               | £4.74        | (2.4)           | £4.12        |
| Outstanding as at 31 December | 1.1             | £4.74        | 1.1             | £4.74        |
| Exercisable at 31 December    | 1.1             | £4.74        | 1.1             | £4.74        |

The weighted average price of options exercised in 2008 was £7.16.

Under the LTISAS scheme two tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11.

#### IPSARS

|                               | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|-------------------------------|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January   | –               | –            | 2.4             | £1.69        |
| Exercised                     | –               | –            | (2.4)           | £1.69        |
| Outstanding as at 31 December | –               | –            | –               | –            |
| Exercisable at 31 December    | –               | –            | –               | –            |

The last of these options were exercised at a weighted average price of £6.81 in 2008.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2008: £1.7m). The Matching Shares allocation in respect of the 2008 awards under this plan charged in 2009 was £0.5m (2008: £0.6m).

The weighted average fair value of options granted during the year was £2.62 (2008: £2.69). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2008: £1.88 to £7.33).

**28 Share based payment plans (continued)**

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2009 and 31 December 2008.

|   | 2009  | 2008  |
|---|-------|-------|
| Dividend yield (%)  | 2.11  | 1.88  |
| Expected share price volatility (%)                             | 26.53 | 22.38 |
| Risk free interest rate (%)                                     | 2.25  | 4.62  |
| Expected life of option (years)                                 | 3.12  | 3.10  |
| Weighted average share price of options granted during the year | £3.20 | £2.74 |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

**29 Additional cash flow information****Reconciliation of net cash flow to movement in net funds/(debt)**

|   | Net debt at<br>1 January<br>2009<br>£m | Acquisitions<br>in 2009<br>(exc. cash)<br>£m | Cash flow<br>movements<br>£m | Non-cash flow<br>movements<br>£m | Net debt at<br>31 December<br>2009<br>£m |
|---|--|--|------------------------------|----------------------------------|--|
| Cash and cash equivalents                                 | 86.7                                   | –  | 94.8                         | –                                | 181.5                                    |
| Cash  | 86.7                                   | –  | 94.8                         | –                                | 181.5                                    |
| Loan notes  | (3.7)                                  | –  | 1.4                          | (0.3)                            | (2.6)                                    |
| Bonds†  | (953.1)                                | –  | 100.3                        | 132.3                            | (720.5)                                  |
| Term debt   | –                                      | –  | (197.4)                      | (0.6)                            | (198.0)                                  |
| Currency swaps in relation to US\$ denominated bonds†     | 269.6                                  | –  | –                            | (133.6)                          | 136.0                                    |
| Interest rate swaps in relation to GBP denominated bonds† | 4.7                                    | –  | –                            | (1.4)                            | 3.3                                      |
| Long term debt  | –                                      | (9.1)  | 6.3                          | –                                | (2.8)                                    |
| Finance leases  | –                                      | (1.4)  | –                            | –                                | (1.4)                                    |
| Sub-total net debt  | (595.8)                                | (10.5)                                       | 5.4                          | (3.6)                            | (604.5)                                  |
| Asset based securitised finance*                          | (10.4)                                 | –  | (6.7)                        | –                                | (17.1)                                   |
| Callable swaps  | (32.0)                                 | –  | –                            | 1.1                              | (30.9)                                   |
|   | (638.2)                                | (10.5)                                       | (1.3)                        | (2.5)                            | (652.5)                                  |

†The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £581.2m (2008: £678.8m).

\*The asset based securitised finance movement represents the net movement on the underlying balances with clients.

The aggregate bond fair value above of £720.5m (2008: £953.1m) (disclosed in note 23 – Financial liabilities) includes the GBP value of the US\$ denominated bonds at 31 December 2009. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying bond fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds.

The combined fair value of the interest and currency swaps, of £139.3m (2008: £274.3m), is disclosed in note 17 – Financial assets, and in note 23 – Financial liabilities.

|   | Net debt at<br>1 January<br>2008<br>£m | Acquisitions<br>in 2008<br>(exc. cash)<br>£m | Cash flow<br>movements<br>£m | Non-cash flow<br>movements<br>£m | Net debt at<br>31 December<br>2008<br>£m |
|---|--|--|------------------------------|----------------------------------|--|
| Cash and cash equivalents                                 | 0.8                                    | –  | 85.9                         | –                                | 86.7                                     |
| Overdrafts  | (46.1)                                 | –  | 46.1                         | –                                | –  |
| Cash  | (45.3)                                 | –  | 132.0                        | –                                | 86.7                                     |
| Loan notes  | (1.7)                                  | –  | 3.3                          | (5.3)                            | (3.7)                                    |
| Bonds†  | (461.1)                                | –  | (199.5)                      | (292.5)                          | (953.1)                                  |
| Currency swaps in relation to US\$ denominated bonds†     | (18.1)                                 | –  | –                            | 287.7                            | 269.6                                    |
| Interest rate swaps in relation to GBP denominated bonds† | 0.1                                    | –  | –                            | 4.6                              | 4.7                                      |
| Finance leases  | (0.2)                                  | –  | 0.2                          | –                                | –  |
| Sub-total net debt  | (526.3)                                | –  | (64.0)                       | (5.5)                            | (595.8)                                  |
| Asset based securitised finance*                          | (9.7)                                  | –  | (0.7)                        | –                                | (10.4)                                   |
| Callable swaps  | –                                      | –  | –                            | (32.0)                           | (32.0)                                   |
|   | (536.0)                                | –  | (64.7)                       | (37.5)                           | (638.2)                                  |

## Notes to the consolidated financial statements

### 30 Capital commitments

At 31 December 2009, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £8.8m (2008: £0.7m).

### 31 Contingent liabilities

- (a) The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £41.7m (2008: £51.4m).
- (b) Further consideration may be due, dependent on certain performance criteria, on acquisitions completed by the Group in 2008 up to a maximum of £8.2m.
- (c) Further consideration may be due, dependent on certain performance criteria, on acquisitions completed by the Group in 2009 up to a maximum of £15.1m.

The Group expects that these payments, if ultimately due, will be satisfied by the end of 2012.

### 32 Pensions

The Group operates both defined benefit and defined contribution pension schemes. These pension schemes are funded and contributions are made to separate trustee-administered funds. The assets of the pension schemes are held separately from the Group.

The pension charge for the defined contribution pension schemes for the year is £30.9m (2008: £26.7m).

In 2009 there was one main defined benefit pension scheme where the Group was the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: 1 scheme where the Group is the sole employing sponsor; allocated sections of 2 multi-employer schemes in which the Group is a participating employer; an allocated section in an industry wide scheme; and several schemes to which the Group makes contributions under Admitted Body status to our clients' defined benefit pension schemes in respect of certain TUPE employees.

For the Admitted Body schemes, which are all part of the Local Government Pension Scheme, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each schemes' Schedule of Contributions. In addition, for some schemes, the Group will be required to pay any deficit (as determined by the respective Scheme Actuary) that is remaining for the notional section of the scheme at the end of the contract.

The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

|  | Capita<br>scheme<br>£m | Other<br>schemes<br>£m | Group total<br>£m |
|--|------------------------|------------------------|-------------------|
| <b>At 31 December 2009</b>                 |                        |                        |                   |
| <b>Scheme assets at fair value:</b>        |                        |                        |                   |
| Equities/hedge funds/absolute returns      | 301.7                  | 84.7                   | 386.4             |
| Bonds                                      | 103.6                  | 33.4                   | 137.0             |
| Property                                   | 13.5                   | 6.4                    | 19.9              |
| Insurance contracts                        | 4.5                    | –                      | 4.5               |
| Cash/other                                 | 27.0                   | 3.8                    | 30.8              |
| Total                                      | 450.3                  | 128.3                  | 578.6             |
| <b>Present value of scheme liabilities</b> | <b>(457.1)</b>         | <b>(153.4)</b>         | <b>(610.5)</b>    |
| <b>Net liability</b>                       | <b>(6.8)</b>           | <b>(25.1)</b>          | <b>(31.9)</b>     |

|  | Capita<br>scheme<br>£m | Other<br>schemes<br>£m | Group total<br>£m |
|--|------------------------|------------------------|-------------------|
| <b>At 31 December 2008</b>                 |                        |                        |                   |
| <b>Scheme assets at fair value:</b>        |                        |                        |                   |
| Equities/hedge funds/absolute returns      | 206.6                  | 68.3                   | 274.9             |
| Bonds                                      | 66.7                   | 29.9                   | 96.6              |
| Property                                   | 15.9                   | 6.5                    | 22.4              |
| Insurance contracts                        | 3.2                    | 0.2                    | 3.4               |
| Cash/other                                 | 25.4                   | 4.7                    | 30.1              |
| Total                                      | 317.8                  | 109.6                  | 427.4             |
| <b>Present value of scheme liabilities</b> | <b>(320.2)</b>         | <b>(131.7)</b>         | <b>(451.9)</b>    |
| <b>Net liability</b>                       | <b>(2.4)</b>           | <b>(22.1)</b>          | <b>(24.5)</b>     |

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

**32 Pensions (continued)**

The amounts recognised in the consolidated income statement and in the consolidated statement of comprehensive income for the year are analysed as follows:

|  | Capita<br>scheme<br>£m | Other<br>schemes<br>£m | Group total<br>£m |
|--|------------------------|------------------------|-------------------|
| <b>Year ended 31 December 2009</b>                                   |                        |                        |                   |
| <b>Recognised in the income statement:</b>                           |                        |                        |                   |
| Current service cost   | 20.5                   | 2.7                    | 23.2              |
| Past service cost  | 0.6                    | –                      | 0.6               |
| Recognised in arriving at operating profit                           | 21.1                   | 2.7                    | 23.8              |
| Expected return on scheme assets                                     | (23.9)                 | (7.1)                  | (31.0)            |
| Interest cost on scheme liabilities                                  | 20.2                   | 8.2                    | 28.4              |
| Net finance cost included in administrative expenses                 | (3.7)                  | 1.1                    | (2.6)             |
| Total defined benefit charge   | 17.4                   | 3.8                    | 21.2              |
| <b>Taken to the statement of comprehensive income:</b>               |                        |                        |                   |
| Actual return on scheme assets                                       | 75.4                   | 16.3                   | 91.7              |
| Less: expected return on scheme assets                               | (23.9)                 | (7.1)                  | (31.0)            |
|  | 51.5                   | 9.2                    | 60.7              |
| Other actuarial losses   | (106.0)                | (12.9)                 | (118.9)           |
| Actuarial losses recognised in the statement of comprehensive income | (54.5)                 | (3.7)                  | (58.2)            |

Of the total service cost charge of £23.8m in 2009, £18.4m was included in cost of sales and £5.4m was included in administrative expenses.

|  | Capita<br>scheme<br>£m | Other<br>schemes<br>£m | Group total<br>£m |
|--|------------------------|------------------------|-------------------|
| <b>Year ended 31 December 2008</b>                                   |                        |                        |                   |
| <b>Recognised in the income statement:</b>                           |                        |                        |                   |
| Current service cost   | 21.6                   | 3.2                    | 24.8              |
| Past service cost  | 0.7                    | –                      | 0.7               |
| Recognised in arriving at operating profit                           | 22.3                   | 3.2                    | 25.5              |
| Expected return on scheme assets                                     | (25.6)                 | (9.5)                  | (35.1)            |
| Interest cost on scheme liabilities                                  | 19.8                   | 9.1                    | 28.9              |
| Net finance cost included in administrative expenses                 | (5.8)                  | (0.4)                  | (6.2)             |
| Total defined benefit charge   | 16.5                   | 2.8                    | 19.3              |
| <b>Taken to the statement of comprehensive income:</b>               |                        |                        |                   |
| Actual return on scheme assets                                       | (67.1)                 | (30.6)                 | (97.7)            |
| Less: expected return on scheme assets                               | (25.6)                 | (9.5)                  | (35.1)            |
|  | (92.7)                 | (40.1)                 | (132.8)           |
| Other actuarial gains  | 52.1                   | 32.6                   | 84.7              |
| Actuarial losses recognised in the statement of comprehensive income | (40.6)                 | (7.5)                  | (48.1)            |

Of the total service cost charge of £25.5m in 2008, £19.8m was included in cost of sales and £5.7m was included in administrative expenses.

Pension contributions are determined based on the advice of independent qualified actuaries. The Group made a special additional cash contribution to the Capita scheme of £40m in January 2009 as a result of the outcome of the full formal valuation. This was in addition to a special additional cash contribution of £10m made in December 2008.

Formal valuations of the Capita scheme and the FPS scheme were carried out as at 6 April 2008 and 31 March 2008 respectively. For the other schemes, the latest formal valuations were carried out as at either 1 April 2004, 31 December 2006 or 31 March 2007. These valuations are updated by independent qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

The assumption for the expected long term rate of return on assets has been derived by considering the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset was then weighted based on the target asset allocation to develop the assumption for the expected long term rate of return on assets for the portfolio.

## Notes to the consolidated financial statements

## 32 Pensions (continued)

|   | Capita scheme |            | Other schemes |                   |
|---|---------------|------------|---------------|-------------------|
|   | 2009<br>%     | 2008<br>%  | 2009<br>%     | 2008<br>%         |
| <b>Main assumptions:</b>  |               |            |               |                   |
| Rate of price inflation   | 3.5           | 2.7        | 3.5           | 2.7               |
| Rate of salary increase   | 4.5           | 3.7        | 4.5           | 3.7               |
| Rate of increase of pensions in payment <sup>1</sup> :                        |               |            |               |                   |
| – inflation capped at 5%  | 3.3           | 2.6        | 3.3           | 2.6               |
| – inflation capped at 2.5%  | 2.3           | 2.0        | 2.3           | 2.0               |
| Discount rate   | 5.7           | 6.2        | 5.7           | 6.2               |
| Expected rates of return on scheme assets (net of scheme expenses):           |               |            |               |                   |
| Equities/hedge funds/absolute returns   | 5.8 to 7.9    | 5.6 to 7.7 | 5.8 to 7.9    | 5.6 to 7.7        |
| Bonds   | 5.6           | 5.7        | 4.9 to 5.7    | 4.6 to 6.2        |
| Property  | 5.1           | 4.6        | 5.1           | 4.6               |
| Insurance contracts   | 5.7           | 6.2        | 5.7           | 6.2               |
| Cash/other  | 0.9           | 2.0        | 0.5 to 0.9    | 2.0               |
| Expected take up of extended limits of tax free cash due to A day legislation | 50.0          | 50.0       | 50.0          | 50.0 <sup>2</sup> |

| Post retirement mortality | Capita scheme   |  | Other schemes <sup>3</sup>  |  |
|---------------------------|---|--|---|--|
|                           | 2009  | 2008   | 2009  | 2008   |
| – Current pensioners      | PA92 MC (YOB)<br>rated up 2 years, 0.5% p.a.<br>minimum improvement | PA92 MC (YOB)<br>rated up 1 year, 0.5% p.a.<br>minimum improvement | PA92 MC (YOB)<br>rated up 2 years, 0.5% p.a.<br>minimum improvement | PA92 MC (YOB)<br>rated up 1 year, 0.5% p.a.<br>minimum improvement |
| – Future pensioners       | PA92 MC (YOB)<br>rated up 2 years, 0.5% p.a.<br>minimum improvement | PA92 MC (YOB)<br>rated up 1 year, 0.5% p.a.<br>minimum improvement | PA92 MC (YOB)<br>rated up 2 years, 0.5% p.a.<br>minimum improvement | PA92 MC (YOB)<br>rated up 1 year, 0.5% p.a.<br>minimum improvement |

Mortality tables above are independently prepared and published.

<sup>1</sup>There are other levels of pension increase which apply to particular periods of membership.

<sup>2</sup>This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken.

<sup>3</sup>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<br>scheme<br>£m | Other<br>schemes<br>£m | Group total<br>£m |
|---|------------------------|------------------------|-------------------|
| As at 1 January 2008                                      | 330.2                  | 153.5                  | 483.7             |
| Current service cost                                      | 21.6                   | 3.2                    | 24.8              |
| Past service cost   | 0.7                    | –                      | 0.7               |
| Interest cost   | 19.8                   | 9.1                    | 28.9              |
| Benefits paid   | (9.5)                  | (2.8)                  | (12.3)            |
| Actuarial gains and losses                                | (52.1)                 | (32.6)                 | (84.7)            |
| Contributions by employees                                | 0.3                    | 1.3                    | 1.6               |
| Contract bulk transfers/change in classification of plans | 9.2                    | –                      | 9.2               |
| As at 31 December 2008                                    | 320.2                  | 131.7                  | 451.9             |
| Current service cost                                      | 20.5                   | 2.7                    | 23.2              |
| Past service cost   | 0.6                    | –                      | 0.6               |
| Interest cost   | 20.2                   | 8.2                    | 28.4              |
| Benefits paid   | (10.6)                 | (3.3)                  | (13.9)            |
| Actuarial gains and losses                                | 106.0                  | 12.9                   | 118.9             |
| Contributions by employees                                | 0.3                    | 1.2                    | 1.5               |
| Contract bulk transfers/change in classification of plans | (0.1)                  | –                      | (0.1)             |
| As at 31 December 2009                                    | 457.1                  | 153.4                  | 610.5             |

The defined benefit obligation comprises £610.5m (2008: £451.9m) arising from schemes that are wholly or partly funded.

**32 Pensions (continued)**

Changes in the fair value of scheme assets are analysed as follows:

|   | Capita scheme<br>£m | Other schemes<br>£m | Group total<br>£m |
|---|---------------------|---------------------|-------------------|
| As at 1 January 2008                          | 350.5               | 137.6               | 488.1             |
| Expected return on scheme assets              | 25.6                | 9.5                 | 35.1              |
| Contract bulk transfers/business combinations | 9.2                 | –                   | 9.2               |
| Employer contributions                        | 34.4                | 4.1                 | 38.5              |
| Contributions by employees                    | 0.3                 | 1.3                 | 1.6               |
| Benefits paid                                 | (9.5)               | (2.8)               | (12.3)            |
| Actuarial gains and losses                    | (92.7)              | (40.1)              | (132.8)           |
| As at 31 December 2008                        | 317.8               | 109.6               | 427.4             |
| Expected return on scheme assets              | 23.9                | 7.1                 | 31.0              |
| Contract bulk transfers/business combinations | (0.1)               | –                   | (0.1)             |
| Employer contributions                        | 67.5                | 4.5                 | 72.0              |
| Contributions by employees                    | 0.3                 | 1.2                 | 1.5               |
| Benefits paid                                 | (10.6)              | (3.3)               | (13.9)            |
| Actuarial gains and losses                    | 51.5                | 9.2                 | 60.7              |
| As at 31 December 2009                        | 450.3               | 128.3               | 578.6             |

The total employer contributions to the defined benefit pension schemes in 2010 are estimated to be £27.6m in respect of the Capita scheme and £4.8m in respect of the 'Other' schemes.

History of experience gains and losses:

|  | 2009<br>£m | 2008<br>£m | 2007<br>£m | 2006<br>£m | 2005<br>£m |
|--|------------|------------|------------|------------|------------|
| <b>Capita scheme</b>                                 |            |            |            |            |            |
| Fair value of scheme assets                          | 450.3      | 317.8      | 350.5      | 321.4      | 286.1      |
| Present value of defined benefit obligation          | (457.1)    | (320.2)    | (330.2)    | (328.8)    | (308.1)    |
| Scheme surplus/(deficit)                             | (6.8)      | (2.4)      | 20.3       | (7.4)      | (22.0)     |
| Experience adjustments arising on scheme liabilities | –          | 3.5        | –          | 3.6        | (29.3)     |
| Experience adjustments arising on scheme assets      | 51.5       | (92.7)     | (4.3)      | 9.8        | 26.4       |
| <b>Other schemes</b>                                 |            |            |            |            |            |
| Fair value of scheme assets                          | 128.3      | 109.6      | 137.6      | 122.4      | 109.3      |
| Present value of defined benefit obligation          | (153.4)    | (131.7)    | (153.5)    | (141.8)    | (130.3)    |
| Scheme deficit                                       | (25.1)     | (22.1)     | (15.9)     | (19.4)     | (21.0)     |
| Experience adjustments arising on scheme liabilities | –          | 28.7       | 0.1        | (3.9)      | (13.1)     |
| Experience adjustments arising on scheme assets      | 9.1        | (40.1)     | (0.3)      | 3.5        | 12.5       |

The cumulative amount of actuarial losses recognised since 1 January 2004 in the consolidated statement of comprehensive income is £91.3m (2008: cumulative actuarial losses of £33.1m). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £77.8m (of which an IFRS transitional adjustment of £67.7m was taken directly to equity) is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of comprehensive income before 1 January 2004.

**33 Related party transactions**

Other than the information disclosed in the Directors' report and the Directors' remuneration report (pages 1 to 84), the only other related party transactions requiring disclosure are details of key management personnel compensation. These details are set out in the table below.

**Compensation of key management personnel (excluding Directors of parent company)**

|                                | 2009<br>£m | 2008<br>£m |
|--------------------------------|------------|------------|
| Short term employment benefits | 2.5        | 2.1        |
| Share based payments           | 1.0        | 1.2        |
|                                | 3.5        | 3.3        |

Gains on share options exercised in the year by key management personnel totalled £1.1m (2008: £2.5m).

## Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge:

- a) the consolidated financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole: and
- b) the parent company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- c) the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

**P R M Pindar**  
Chief Executive

24 February 2010

**G M Hurst**  
Group Finance Director

# Independent auditors' report to the members of The Capita Group Plc

We have audited the Group financial statements of The Capita Group Plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 78, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate governance statement set out on pages 72-78 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- we have not received all the information and explanations we require for our audit; or
- a Corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 77, in relation to going concern; and
- the part of the Corporate governance statement on pages 72 to 78 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## Other matter

We have reported separately on the parent company financial statements of The Capita Group Plc for the year ended 31 December 2009 and on the information in the Directors' remuneration report that is described as having been audited.

## Nick Gomer (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

24 February 2010

## Notes:

<sup>1</sup> The maintenance and integrity of the Capita Group Plc's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

<sup>2</sup> Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Five year summary

for the year ended 31 December 2009

|   | 2009<br>£m       | 2008<br>£m | 2007<br>£m | 2006<br>£m | 2005<br>£m |
|---|------------------|------------|------------|------------|------------|
| <b>Group balance sheet</b>                        |                  |            |            |            |            |
| Non-current assets                                | <b>1,570.2</b>   | 1,488.8    | 1,032.5    | 862.5      | 783.5      |
| Current assets                                    | <b>801.9</b>     | 675.5      | 458.1      | 404.6      | 343.8      |
|   | <b>2,372.1</b>   | 2,164.3    | 1,490.6    | 1,267.1    | 1,127.3    |
| Liabilities                                       | <b>(1,857.9)</b> | (1,764.1)  | (1,156.2)  | (939.6)    | (726.4)    |
| Provision for liabilities and charges             | <b>(48.0)</b>    | (3.3)      | (2.6)      | (1.7)      | (3.3)      |
|   | <b>466.2</b>     | 396.9      | 331.8      | 325.8      | 397.6      |
| Capital and reserves                              | <b>466.2</b>     | 396.9      | 331.8      | 325.7      | 397.4      |
| Minority interests                                | <b>-</b>         | -          | -          | 0.1        | 0.2        |
|   | <b>466.2</b>     | 396.9      | 331.8      | 325.8      | 397.6      |
| <b>Group income statement</b>                     |                  |            |            |            |            |
| Turnover  | <b>2,686.8</b>   | 2,441.4    | 2,073.3    | 1,738.5    | 1,435.5    |
| Underlying operating profit                       | <b>357.7</b>     | 320.9      | 271.3      | 225.1      | 183.1      |
| Other operating income/(expense)                  | <b>0.2</b>       | (0.2)      | 1.2        | -          | -          |
| Net interest payable                              | <b>(32.8)</b>    | (43.5)     | (34.1)     | (25.0)     | (13.5)     |
| Underlying profit before taxation                 | <b>325.1</b>     | 277.2      | 238.4      | 200.1      | 169.6      |
| Intangible amortisation                           | <b>(28.1)</b>    | (18.6)     | (9.7)      | (6.9)      | (4.5)      |
| Arch cru costs                                    | <b>(30.0)</b>    | -          | -          | -          | -          |
| Impairment  | <b>-</b>         | -          | -          | -          | (12.0)     |
| Callable swaps                                    | <b>1.1</b>       | (32.0)     | -          | -          | -          |
| Currency swaps                                    | <b>(2.5)</b>     | -          | -          | -          | -          |
| Loss on business disposal                         | <b>(7.5)</b>     | -          | -          | -          | -          |
| Taxation  | <b>(69.2)</b>    | (60.8)     | (62.5)     | (53.5)     | (45.8)     |
| Minority interests                                | <b>-</b>         | -          | -          | 0.1        | 0.2        |
| Profit after taxation                             | <b>188.9</b>     | 165.8      | 166.2      | 139.8      | 107.5      |
| Basic earnings per share – underlying             | <b>38.75p</b>    | 33.26p     | 28.10p     | 23.10p     | 18.60p     |
| Basic earnings per share – after non-underlying   | <b>30.76p</b>    | 27.26p     | 27.09p     | 22.32p     | 16.28p     |
| Diluted earnings per share – underlying           | <b>38.42p</b>    | 32.96p     | 27.63p     | 22.56p     | 18.33p     |
| Diluted earnings per share – after non-underlying | <b>30.50p</b>    | 27.01p     | 26.64p     | 21.80p     | 16.05p     |
| Special dividend                                  | <b>-</b>         | -          | 25.00p     | -          | -          |
| Dividend per ordinary share                       | <b>16.80p</b>    | 14.40p     | 12.00p     | 9.00p      | 7.00p      |

# Company balance sheet

at 31 December 2009

|  | Notes | 2009<br>£m     | 2008<br>£m |
|--|-------|----------------|------------|
| <b>Fixed assets</b>  |       |                |            |
| Tangible assets  | 5     | 21.5           | 18.8       |
| Investments  | 7     | 484.0          | 473.8      |
| Financial assets   | 6     | 8.9            | 21.6       |
|  |       | <b>514.4</b>   | 514.2      |
| <b>Current assets</b>  |       |                |            |
| Trade investments  | 7     | 0.1            | 0.1        |
| Financial assets   | 6     | 2.0            | 4.1        |
| Debtors due within 1 year                                    | 8     | 372.9          | 435.8      |
| Debtors due after more than 1 year                           | 8     | 116.1          | 212.8      |
| Cash   |       | 136.5          | 14.9       |
|  |       | <b>627.6</b>   | 667.7      |
| <b>Creditors: amounts falling due within 1 year</b>          | 9     | <b>23.8</b>    | 125.7      |
| <b>Net current assets</b>                                    |       | <b>603.8</b>   | 542.0      |
| <b>Total assets less current liabilities</b>                 |       | <b>1,118.2</b> | 1,056.2    |
| <b>Creditors: amounts falling due after more than 1 year</b> | 9     | <b>357.1</b>   | 404.3      |
|  |       | <b>761.1</b>   | 651.9      |
| <b>Capital and reserves</b>                                  |       |                |            |
| Called up share capital                                      | 11    | 12.9           | 12.8       |
| Employee benefit trust                                       | 12    | (0.2)          | (0.2)      |
| Share premium account  | 12    | 435.2          | 410.4      |
| Capital redemption reserve                                   | 12    | 1.8            | 1.8        |
| Merger reserve   | 12    | 44.6           | 44.6       |
| Profit and loss account                                      | 12    | 266.8          | 182.5      |
|  |       | <b>761.1</b>   | 651.9      |

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

**P R M Pindar**  
Chief Executive

**G M Hurst**  
Group Finance Director

# Notes to the accounts

for the year ended 31 December 2009

## 1 Accounting policies

### (a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply with the following new Financial Reporting Standards and Urgent Issues Task Force abstracts issued by the UK Accounting Standards Board (ASB). Adoption of these standards did not have any effect on the financial position of the Company although in some instances they did give rise to additional disclosures.

#### **Improvements to Financial Reporting Standards (2008)**

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments were adopted by the ASB and issued in December 2008. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Company.

#### **Amendments to FRS 8: Related Party Disclosures**

This standard was amended to reflect international accounting developments and UK legal changes introduced by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The definition of a related party has been amended and an exemption is only allowed for transactions entered into between two or more members of a group, provided that any subsidiary undertaking that is a party to the transaction is wholly owned by such a member.

#### **Amendments to FRS 29: Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments**

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the opening and closing balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. This has had no effect on the financial statements of the Company as the Company takes advantage of the exemption allowed by paragraph 2D (b) of FRS 29 not to make these disclosures in its own entity's financial statements as the consolidated financial statements include the required disclosures for the Group.

#### **Amendments to UITF Abstract 42 (IFRIC 9): Reassessment of Embedded Derivatives and FRS 26 (IAS 39): Financial Instruments: Recognition and Measurement – Embedded Derivatives**

These amendments have been issued to ensure that the UK standards are kept in line with the equivalent IFRSs and IFRICs. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Company.

#### **UITF Abstract 46 (IFRIC 16): Hedges of a Net Investment in a Foreign Operation**

This has the effect of implementing the International Accounting Standards Board's IFRIC 16 into UK GAAP. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Company has no hedges of net investments in foreign operations and consequently the adoption of this interpretation did not have any impact on the financial position or performance of the Company.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by Section 408 of the Companies Act 2006.

### (b) Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight-line basis over the expected useful lives of the assets concerned, as follows:

|                                   |                              |
|-----------------------------------|------------------------------|
| Computer equipment                | 3 – 10 years                 |
| Furniture, fixtures and equipment | 4 – 5 years                  |
| Leasehold improvements            | over the period of the lease |

### (c) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

Investments held as current assets are stated at the lower of cost and net realisable value.

The carrying value of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

### (d) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the Company, which pays the Group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that company.

### (e) Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

## 1 Accounting policies (continued)

### (f) *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation, with the following exceptions:

- provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold
- provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date.

### (g) *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

### (h) *National Insurance on share option gains*

National Insurance on outstanding share options at the year end has been grossed up and shown as a provision and a receivable on the balance sheet.

### (i) *Financial instruments: disclosure and presentation*

A separate note dealing with the disclosures of FRS 29 has not been presented as provided by paragraph 2D (b) of FRS 29. The consolidated financial statements include the required disclosures of IFRS 7 for the Group.

### (j) *Derivative financial instruments*

The Company uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account.

### (k) *Share based payments*

The Company operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Subsidiary undertakings of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share schemes.

## Notes to the accounts

### 2 Deferred taxation

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| The deferred taxation included in the balance sheet is as follows: |            |            |
| Accelerated capital allowances                                     | (2.0)      | (1.9)      |
| Share based payments   | 3.9        | 3.4        |
| Cash flow hedges   | (3.0)      | (7.2)      |
| Callable swaps   | 8.7        | 8.9        |
| Provisions   | 0.1        | 0.6        |
| Included in debtors note 8   | 7.7        | 3.8        |

### 3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £167.7m (2008: loss of £41.5m).

### 4 Dividends

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| <b>Declared and paid during the year</b>   |            |            |
| Ordinary shares (equity):  |            |            |
| Final for 2008 paid: 9.6p per share (2007: 8.0p per share)                         | 58.8       | 48.8       |
| Interim for 2009 paid: 5.6p per share (2008: 4.8p per share)                       | 34.4       | 29.2       |
|  | 93.2       | 78.0       |
| <b>Proposed for approval at AGM (not recognised as a liability at 31 December)</b> |            |            |
| Ordinary shares (equity):  |            |            |
| Final for 2009: 11.2p per share (2008: 9.6p per share)                             | 69.1       | 58.6       |

### 5 Tangible fixed assets

|                           | Computer<br>equipment<br>£m | Furniture,<br>fixtures and<br>equipment<br>£m | Short term<br>leasehold<br>improvements<br>£m | Total<br>£m |
|---------------------------|-----------------------------|---|---|-------------|
| <b>Cost</b>               |                             |   |   |             |
| 1 January 2009            | 27.5                        | 0.8   | 3.2   | 31.5        |
| Additions                 | 6.4                         | 0.1   | 0.1   | 6.6         |
| Disposals                 | (1.4)                       | (0.1)   | (0.1)   | (1.6)       |
| 31 December 2009          | 32.5                        | 0.8   | 3.2   | 36.5        |
| <b>Depreciation</b>       |                             |   |   |             |
| 1 January 2009            | 10.2                        | 0.6   | 1.9   | 12.7        |
| Charge for year           | 3.1                         | 0.1   | 0.3   | 3.5         |
| Disposals                 | (1.0)                       | (0.1)   | (0.1)   | (1.2)       |
| 31 December 2009          | 12.3                        | 0.6   | 2.1   | 15.0        |
| <b>Net book value at:</b> |                             |   |   |             |
| 1 January 2009            | 17.3                        | 0.2   | 1.3   | 18.8        |
| 31 December 2009          | 20.2                        | 0.2   | 1.1   | 21.5        |

**6 Financial assets**

|                    | 2009<br>£m | 2008<br>£m |
|--------------------|------------|------------|
| <b>Current</b>     |            |            |
| Cash flow hedges   | 2.0        | 4.1        |
|                    | <b>2.0</b> | 4.1        |
|                    |            |            |
|                    | 2009<br>£m | 2008<br>£m |
| <b>Non-current</b> |            |            |
| Cash flow hedges   | 8.9        | 21.6       |
|                    | <b>8.9</b> | 21.6       |

**7 Investments****(a) Fixed asset investments**

|                                      | Shares in<br>subsidiary<br>undertakings<br>£m |
|--------------------------------------|---|
| <b>Cost</b>                          |   |
| 1 January 2009                       | 473.8   |
| Additions                            | 35.8  |
| Transfers to subsidiary undertakings | (25.6)  |
| 31 December 2009                     | <b>484.0</b>                                  |

During the year the Company completed an intragroup transfer as follows: it disposed of Capita Hartshead Limited to Capita Life & Pensions Regulated Services Limited and settled the transaction via intercompany for a consideration of £7.9m. It also disposed of Capita Hartshead Solutions Limited to Capita Hartshead Limited and settled the transaction via intercompany for a consideration of £17.7m.

During the year the Company subscribed to 2.8 million £1 ordinary shares at a premium of £25.2m in Capita Fiduciary Group Limited, a subsidiary undertaking. During the year additional fees of £0.9m were paid in respect of previous acquisitions.

The Company made the following acquisitions during the year for respective considerations of £5.9m (€6.6m) and £1m: Capita Fiduciary UK Holdings Limited and Capita Financial Administrators (Guernsey) Limited.

| Principal investments  | Country of registration<br>and operation | Proportion of nominal<br>value of issued shares<br>held by the company | Description of<br>shares held |
|--|--|--|-------------------------------|
| Capita Holdings Limited  | England                                  | 100%   | Ordinary £1 shares            |
| Capita Business Services Limited*                                    | England                                  | 100%   | Ordinary 1p shares            |
| Capita Trust Company Limited   | England                                  | 100%   | Ordinary £1 shares            |
| Capita Commercial Insurance Services Limited*                        | England                                  | 100%   | Ordinary £1 shares            |
| BDML Connect Limited*  | England                                  | 100%   | Ordinary £1 shares            |
| Capita Registrars Limited*   | England                                  | 100%   | Ordinary £1 shares            |
| Capita Resourcing Limited*   | England                                  | 100%   | Ordinary £1 shares            |
| Capita Symonds Limited*  | England                                  | 100%   | Ordinary £1 shares            |
| Capita Life & Pensions Limited                                       | England                                  | 100%   | Ordinary £1 shares            |
| Capita Life & Pensions Regulated Services Limited                    | England                                  | 100%   | Ordinary £1 shares            |
| Evolvi Rail Systems Limited  | England                                  | 100%   | Ordinary £1 shares            |
| Service Birmingham Limited*  | England                                  | 100%   | Ordinary £1 shares            |
| ComputerLand UK Limited  | England                                  | 100%   | Ordinary £0.02 shares         |
| IBS OPENSsystems (UK) Limited  | England                                  | 100%   | Ordinary £1 shares            |
| Synetrix Limited*  | England                                  | 100%   | Ordinary 10p shares           |
| Capita IT Services Limited (formerly Carillion IT Services Limited)* | England                                  | 100%   | Ordinary 1p shares            |

\*Indirectly held.

The activities of The Capita Group Plc undertakings are given on page 138.

**(b) Trade investments**

|  | £m         |
|--|------------|
| At 1 January 2009 and 31 December 2009 | <b>0.1</b> |

## Notes to the accounts

### 8 Debtors

|   | 2009<br>£m   | 2008<br>£m   |
|---|--------------|--------------|
| <b>Debtors due within 1 year</b>        |              |              |
| Amounts owed by subsidiary undertakings | 323.7        | 377.6        |
| Taxation recoverable                    | 46.8         | 52.2         |
| Other taxes and social security         | 0.3          | –            |
| Other debtors                           | 0.7          | 1.7          |
| Currency swap                           | –            | 0.4          |
| Interest rate swap                      | –            | 0.7          |
| Prepayments and accrued income          | 1.4          | 3.2          |
|   | <b>372.9</b> | <b>435.8</b> |

|                                  | 2009<br>£m   | 2008<br>£m   |
|----------------------------------|--------------|--------------|
| <b>Debtors due beyond 1 year</b> |              |              |
| Prepayments and accrued income   | 2.1          | 1.8          |
| Deferred taxation                | 7.7          | 3.8          |
| Currency swap                    | 103.0        | 203.1        |
| Interest rate swap               | 3.3          | 4.1          |
|                                  | <b>116.1</b> | <b>212.8</b> |

### 9 Creditors

|  | 2009<br>£m  | 2008<br>£m   |
|--|-------------|--------------|
| <b>Amounts falling due within 1 year</b> |             |              |
| Trade creditors                          | 2.3         | 2.9          |
| Other creditors                          | 0.1         | 0.2          |
| Bonds                                    | –           | 101.3        |
| Callable swaps                           | –           | 1.0          |
| Cash flow hedges                         | 0.1         | –            |
| Accruals and deferred income             | 21.3        | 20.3         |
|  | <b>23.8</b> | <b>125.7</b> |

|   | 2009<br>£m   | 2008<br>£m   |
|---|--------------|--------------|
| <b>Amounts falling due after more than 1 year</b> |              |              |
| Bonds   | 325.5        | 373.4        |
| Interest rate swap                                | 0.6          | –            |
| Callable swaps                                    | 30.9         | 30.9         |
| Cash flow hedges                                  | 0.1          | –            |
|   | <b>357.1</b> | <b>404.3</b> |

The bank overdraft and the bonds are unsecured.

### 10 Deferred taxation

|  | £m           |
|--|--------------|
| At 1 January 2009                                | (3.8)        |
| New provisions in the year                       | <b>(3.9)</b> |
| At 31 December 2009 – included in debtors note 8 | <b>(7.7)</b> |

**11 Share capital**

|   | 2009<br>Million | 2008<br>Million | 2009<br>£m | 2008<br>£m |
|---|-----------------|-----------------|------------|------------|
| <b>Authorised</b>                         |                 |                 |            |            |
| Ordinary shares of 2 1/15p each           | 967.7           | 967.7           | 20.0       | 20.0       |
| <b>Allotted, called up and fully paid</b> |                 |                 |            |            |
| Ordinary shares of 2 1/15p each           |                 |                 |            |            |
| At 1 January                              | 621.2           | 609.0           | 12.8       | 12.6       |
| Issued on exercise of share options       | 3.4             | 12.2            | 0.1        | 0.2        |
| At 31 December                            | 624.6           | 621.2           | 12.9       | 12.8       |

During the year 3.4m (2008: 12.2m) ordinary 2 1/15p shares with an aggregate nominal value of £0.1m (2008: £0.2m) were issued under share option schemes for a total consideration of £15.1m (2008: £35.7m).

**Treasury shares**

|   | 2009<br>Million | 2008<br>Million | 2009<br>£m | 2008<br>£m |
|---|-----------------|-----------------|------------|------------|
| Ordinary shares of 2 1/15p each                     |                 |                 |            |            |
| At 1 January  | -               | -               | -          | -          |
| Shares repurchased                                  | -               | 10.4            | -          | 0.2        |
| Shares transferred to Capita Employee benefit trust | -               | (10.4)          | -          | (0.2)      |
| At 31 December                                      | -               | -               | -          | -          |

In 2008, the Company purchased 10.4m ordinary 2 1/15p shares with an aggregate nominal value of £0.2m at a total cost of £68.4m for which it paid cash at an average cost per share of £6.58. There were additional expenses of acquiring the shares of £0.4m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

**Employee Benefit Trust shares**

|                                  | 2009<br>Million | 2008<br>Million | 2009<br>£m | 2008<br>£m |
|----------------------------------|-----------------|-----------------|------------|------------|
| Ordinary shares of 2 1/15p each  |                 |                 |            |            |
| At 1 January                     | 10.4            | -               | 0.2        | -          |
| Shares transferred from treasury | -               | 10.4            | -          | 0.2        |
| Shares allotted in the year      | (2.5)           | -               | -          | -          |
| At 31 December                   | 7.9             | 10.4            | 0.2        | 0.2        |

The Company will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.5m ordinary 2 1/15p shares with an aggregate nominal value of £0.05m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £9.8m.

The Company has an unexpired authority to repurchase up to 10% of its issued share capital.

**12 Reserves**

| <b>Company</b>               | Share<br>premium<br>£m | Capital<br>redemption<br>reserve<br>£m | Merger<br>reserve<br>£m | Employee benefit<br>trust<br>shares<br>£m | Profit and<br>loss account<br>£m |
|------------------------------|------------------------|--|-------------------------|---|----------------------------------|
| At 1 January 2009            | 410.4                  | 1.8                                    | 44.6                    | (0.2)                                     | 182.5                            |
| Shares issued                | 24.8                   | -                                      | -                       | -   | -                                |
| Share based payment          | -                      | -                                      | -                       | -   | 9.8                              |
| Equity dividends paid        | -                      | -                                      | -                       | -   | (93.2)                           |
| Retained profit for the year | -                      | -                                      | -                       | -   | 167.7                            |
| At 31 December 2009          | 435.2                  | 1.8                                    | 44.6                    | (0.2)                                     | 266.8                            |

**13 Reconciliation of movements in shareholders' funds**

|                                     | 2009<br>£m | 2008<br>£m |
|-------------------------------------|------------|------------|
| Profit/(loss) for the year          | 167.7      | (41.5)     |
| Dividends                           | (93.2)     | (78.0)     |
|                                     | 74.5       | (119.5)    |
| Share based payment                 | 9.8        | 9.2        |
| Shares issued                       | 24.9       | 35.7       |
| Share transaction costs             | -          | (0.4)      |
| Shares purchased                    | -          | (68.4)     |
| Net movement in shareholders' funds | 109.2      | (143.4)    |
| Opening shareholders' funds         | 651.9      | 795.3      |
| Closing shareholders' funds         | 761.1      | 651.9      |

## Notes to the accounts

### 14 Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows:

|  | 2009           |             | 2008           |             |
|--|----------------|-------------|----------------|-------------|
|  | Property<br>£m | Other<br>£m | Property<br>£m | Other<br>£m |
| Operating leases which expire:           |                |             |                |             |
| In 2 to 5 years inclusive                | 0.5            | –           | 0.5            | 0.6         |
| Over 5 years from the balance sheet date | 0.8            | –           | 0.8            | –           |
|  | 1.3            | –           | 1.3            | 0.6         |

(b) The Company has guaranteed overdraft and loan facilities of Group undertakings amounting to £245.0m (2008: £245.0m).

### 15 Borrowings

|  | 2009<br>£m | 2008<br>£m |
|--|------------|------------|
| Bank overdraft payable on demand               | –          | –          |
| Bonds  | 277.6      | 377.7      |
|  | 277.6      | 377.7      |
| Repayments fall due as follows:                |            |            |
| Within 1 year:                                 |            |            |
| Bonds  | –          | 100.3      |
| Bank overdraft payable on demand               | –          | –          |
|  | –          | 100.3      |
| After more than 1 year:                        |            |            |
| In more than 1 year but not more than 2 years  | –          | –          |
| In more than 2 years but not more than 5 years | 112.5      | 112.7      |
| In more than 5 years                           | 165.1      | 164.7      |
|  | 277.6      | 277.4      |
| Total borrowings and finance leases            | 277.6      | 377.7      |

The Company has issued guaranteed unsecured bonds as follows:

| Bond                                | Interest rate<br>%   | Denomination | Value<br>£m | Maturity          |
|-------------------------------------|----------------------|--------------|-------------|-------------------|
| <b>Issued 2005</b>                  |                      |              |             |                   |
| Series A                            | 0.525 above 6m LIBOR | GBP          | 50.0        | 28 September 2013 |
| Series B                            | 0.525 above 6m LIBOR | GBP          | 25.0        | 28 September 2015 |
| Total of sterling denominated bonds |                      |              | 75.0        |                   |

US\$m

#### Issued 2002

|          |      |        |      |              |
|----------|------|--------|------|--------------|
| Series C | 6.47 | US\$** | 36.0 | 20 June 2012 |
|----------|------|--------|------|--------------|

#### Issued 2006

|          |      |        |       |                   |
|----------|------|--------|-------|-------------------|
| Series A | 5.74 | US\$** | 60.0  | 28 June 2013      |
| Series B | 5.88 | US\$** | 130.0 | 28 June 2016      |
| Series A | 5.66 | US\$** | 11.0  | 13 September 2013 |
| Series B | 5.81 | US\$** | 74.0  | 13 September 2016 |
| Series C | 5.77 | US\$** | 60.0  | 13 September 2016 |

Total of US\$ denominated bonds 371.0

\*\*The Company has entered into currency swaps for the US\$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 26 commencing on page 111.

All series are unsecured.

## 16 Related party transactions

There were no related party transactions that require disclosure in the year.

## 17 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £1.2m (2008: £1.3m).

## 18 Share based payment

The Company operates several share based payment plans as follows:

### *Deferred Annual Bonus Plan*

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares. The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

### *Long Term Incentive Plan (2008 LTIP)*

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards made during 2009 will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

### *Long Term Indexed Share Appreciation Scheme (LTISAS)*

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows:

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

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

### *Long Term Investment Plan (LTIP)*

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights (IPSARs). The last Restricted Share Awards and awards of IPSARs vested in full in May 2001 and 2003 respectively. The performance requirements were met in full on those dates and the IPSARs are exercisable at £1.69. No further awards were made under the LTIP and only 1 award of IPSARs was made.

### *1997 Executive Share Option Scheme*

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

### *Capita Sharesave Scheme*

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2008: nil; 2007: nil; 2006: nil; 2005 10% and 20% prior to 2006). The options become exercisable for a 6 month period following completion of a 3 or 5 year savings period. There are no performance conditions attached to these options.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2009 was £9.8m (2008: £9.2m), all of which arises from equity-settled share based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of FRS 20 'Share based payment' was £4.0m (2008: £2.9m).

## Notes to the accounts

### 18 Share based payment (continued)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and IPSARS), which are shown separately.

#### Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

|  | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|--|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January                | 14.1            | £5.05        | 20.6            | £4.54        |
| Granted during the year                    | 2.0             | £6.77        | 1.6             | £7.04        |
| Exercised                                  | (5.5)           | £4.11        | (6.7)           | £3.88        |
| Forfeited                                  | (0.7)           | £6.28        | (1.3)           | £5.65        |
| Expired during the year                    | (0.1)           | £4.53        | (0.1)           | £4.57        |
| Outstanding as at 31 December <sup>1</sup> | 9.8             | £6.18        | 14.1            | £5.05        |
| Exercisable at 31 December                 | 2.3             | £3.60        | 3.3             | £3.29        |

<sup>1</sup>Included within this balance are options over 0.1m (2008: 0.8m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.16 (2008: £6.76).

#### 2008 LTIP

|                               | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|-------------------------------|-----------------|--------------|-----------------|--------------|
| Outstanding at 1 January      | 1.8             | –            | 1.9             | –            |
| Awarded during the year       | 2.0             | –            | –               | –            |
| Forfeited                     | (0.2)           | –            | (0.1)           | –            |
| Outstanding as at 31 December | 3.6             | –            | 1.8             | –            |
| Exercisable at 31 December    | –               | –            | –               | –            |

#### LTISAS

|                               | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|-------------------------------|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January   | 1.1             | £4.74        | 3.5             | £4.32        |
| Exercised                     | –               | £4.74        | (2.4)           | £4.12        |
| Outstanding as at 31 December | 1.1             | £4.74        | 1.1             | £4.74        |
| Exercisable at 31 December    | 1.1             | £4.74        | 1.1             | £4.74        |

The weighted average price of options exercised in 2008 was: £7.16.

Under the LTISAS scheme 2 tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11.

**18 Share based payment (continued)****IPSARS**

|                               | 2009<br>Million | 2009<br>WAEP | 2008<br>Million | 2008<br>WAEP |
|-------------------------------|-----------------|--------------|-----------------|--------------|
| Outstanding as at 1 January   | -               | -            | 2.4             | £1.69        |
| Exercised                     | -               | -            | (2.4)           | £1.69        |
| Outstanding as at 31 December | -               | -            | -               | -            |
| Exercisable at 31 December    | -               | -            | -               | -            |

The last of these options were exercised at a weighted average price of £6.81 in 2008.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2008: £1.7m). The Matching Shares allocation in respect of the 2008 awards under this plan charged in 2009 was £0.5m (2008: £0.6m).

The weighted average fair value of options granted during the year was £2.62 (2008: £2.69). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2008: £1.88 to £7.33).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2009 and 31 December 2008.

|   | 2009  | 2008  |
|---|-------|-------|
| Dividend yield (%)  | 2.11  | 1.88  |
| Expected share price volatility (%)                             | 26.53 | 22.38 |
| Risk free interest rate (%)                                     | 2.25  | 4.62  |
| Expected life of option (years)                                 | 3.12  | 3.10  |
| Weighted average share price of options granted during the year | £3.20 | £2.74 |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

# Principal Group investments

**Capita Business Services**

Providing an integrated range of business process outsourcing and professional services to clients in the UK and Ireland.

**Capita Commercial Services**

Market leader in providing outsourced administration and support services to the general insurance sector and affinity partnerships.

**Capita Symonds**

Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services.

**Capita Registrars**

Share registration and employee share scheme administration services.

**Capita Trust Company**

Corporate trustees and providers of trust and administration services.

**Capita Life & Pensions**

Administration and customer services for life and pensions operations.

**Capita Life & Pensions Regulated Services**

Administration and customer services for life and pensions regulated operations.

**Service Birmingham**

Joint venture set up to support Birmingham City Council's transformation plan.

**Capita Resourcing**

Employee recruitment services.

**Evolvi Rail Systems Limited**

Business travel software provider.

**CMGL Group Limited**

A leading provider of outsourced claims and insurance management services.

**Synetrix (Holdings) Limited**

Providing managed, high bandwidth network services.

**Capita IT Services**

Designing, providing and managing networked computing and communication systems.

# Independent auditors' report to the members of The Capita Group Plc

We have audited the parent company financial statements of The Capita Group Plc for the year ended 31 December 2009 which comprise the Company balance sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 78, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

## Matters on which we are required to report by exception

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

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

## Other matter

We have reported separately on the Group financial statements of The Capita Group Plc for the year ended 31 December 2009.

## Nick Gomer (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London  
24 February 2010

## Notes:

<sup>1</sup> The maintenance and integrity of the Capita Group Plc's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

<sup>2</sup> Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.