CAPITA

Capita plc
Annual report and accounts 2015

Smarter services

Better outcomes

Contents

The Directors present the annual report for the year-ended 31 December 2015 which includes the strategic report, governance and audited accounts for this year. Pages 01 to 104 of this annual report comprise a report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where we refer in this report to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita plc information which may be of interest to the reader. Such additional materials do not form part of this report.

Throughout the report we have featured a number of our employees, showcasing the breadth of expertise across the company. Front cover: Zan, Administrator, CSR & Marketing; Bobby, Senior Comms Executive.

Business overview

Who we are

We are the UK's leading customer, business and professional support services organisation with a growing footprint in Northern Europe and internationally.

Capita creates and delivers smarter services in the growing customer and business process management (BPM) market, ensuring better outcomes for our clients, customers and citizens. We have created a sustainable business capable of delivering value to all our stakeholders.

Sarah, Sales Support Manager

Business overview continued

A look at our world

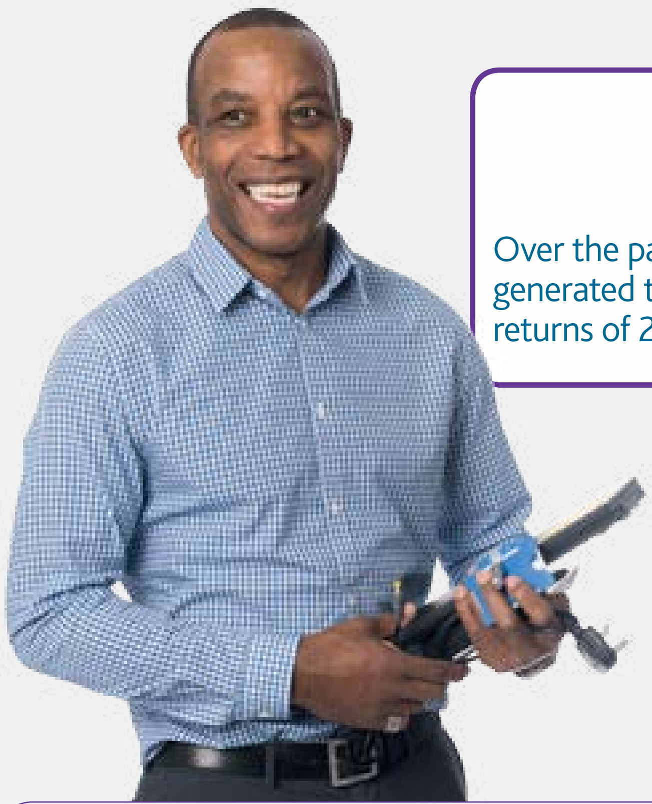
Our world is one of relentless connectivity. Citizens and customers can now buy, contract, query and make their views known publicly, 24 hours a day, 7 days a week. They're demanding much more in terms of consistency and quality of access across multiple, and particularly digital channels.

Organisations are increasingly turning to specialists, like Capita, in IT-enabled customer and professional services, to help create transformational service models that both more effectively meet the needs of their customers now, and future proof them against evolving innovations and customer demands.

Our clients' need to commercialise and maximise the value of their assets, the transformation and modernisation of services, digitisation, regulation and competition drives growth in our markets. These markets are growing at a rate of around 5% per annum (source: Ovum).

Ian, Group Acquisitions Director

Business overview continued



Over the past 10 years we have generated total shareholder returns of 266%.

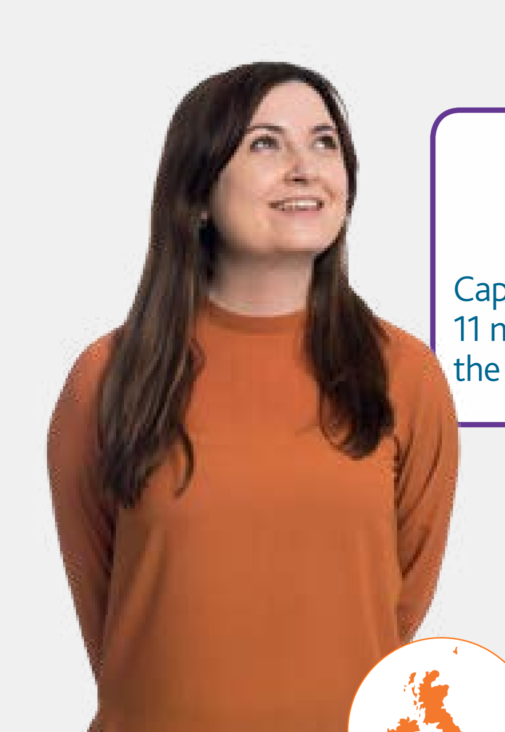
Hastings, Desktop Support Technician

What we create

Using technology, insight and analytics to underpin everything it does, Capita works across the private and public sectors playing a vital role in helping its clients deliver modern services efficiently, effectively and to a high standard.

Capita uses innovative, often unique, IT and software platforms, together with its wide and deep understanding of excellent, accessible customer services to help its clients grow and become more profitable.

Business overview continued



Capita works with clients in 11 market sectors primarily in the UK, Ireland and the EU.

Emma, Receptionist

Where we do business

Capita works with clients in 11 market sectors primarily in the UK, Ireland and the EU, where there is increasing demand for technology-led solutions to new and age-old business problems.

We also have operations and delivery centres to support our UK and wider European clientele in the Channel Islands, India, South Africa, North America and the Middle East.

Our business supports clients in telecoms, financial services, healthcare, defence, and across both local and central government. And we support them with expertise from across our business; in customer and property management, software and hardware, back and front office operations, recruitment and training, working together to provide a seamless, multidisciplinary solution.

Business overview continued

What enables our success

Our people

Our 75,000 employees and managers come from almost every business sector, bringing with them a wealth of specialisms, including regulated expertise. More than two-thirds of the people who now work for Capita have joined us through contract or acquisition and this, together with the unique Capita way of doing business, has helped to build the breadth and depth of our capability.

Our values

That Capita way is underpinned by our values which, working together, ensure our success:

Openness: we are honest and transparent, acting with integrity, embracing diversity and respecting our colleagues and clients.

Ingenuity: we have the courage to do things differently, think smart and look for new and innovative solutions.

Collaborative: we benefit from shared ideas and our clients do too; working in partnership to solve challenges and combining the talents of all our businesses and those of the organisations we support.

Effective: we deliver what we promise and believe that great service can always be better.

Elliot, Rail Director

Our goal

Our business goal is to create a sustainable business capable of delivering value directly and indirectly to all our stakeholders: shareholders, employees, clients, suppliers and the communities in which we work.

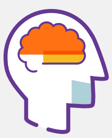
Our strategy

We will continuously develop and grow our capabilities, working with new and existing clients, we aim to transfer the skills and techniques we have developed in our current target industries to new ones.

We will continue our dual strategy of organic and acquisitive growth generating profitable organic growth from major contracts and divisional business growth, and continuing to invest in value-generating acquisitions which fuel further organic growth. Across both we will increase our focus on proprietary technology-led and platform-based solutions, and intelligence and insight-led, value-focused, flexible operating models.

We will remain UK-focused and gradually extend our geographic footprint across growth sectors and markets, moving into new territories with existing services and support existing clients into new territories. Our constant focus on developing and transferring our skills will allow us to move into new markets and territories without risking our wider business (for example in 2015 we successfully moved into the mortgage servicing and scientific research markets as well as territories such as Germany and Switzerland).

We will continue to grow and maintain a leading-edge workforce and infrastructure, developing new entry platforms in new market segments and sectors by investing in new and existing talent as well as acquiring specialist businesses that meet our return-on-investment criteria.



Claudette, Head Office Support

Business overview continued

Our business model

Inputs:

- people
- operational expertise
- technology
- client relationships
- market knowledge

How we do it:

Generating profitable, sustainable growth

See pages **18-33**

Targeting growth sectors and markets

See pages **18-25**

Fuelling organic growth through contracts and acquisitions

See pages **26-31**

Designing and delivering innovative services and solutions

See pages **32-33**

Investing in resources and delivery infrastructure to support growth

See pages **34-47**

Rigorous controls and reporting

See pages **48-55**

Delivering relevant value to our stakeholders:

- shareholders
- employees
- clients and their customers
- suppliers
- the communities in which we work

This strategic report explores our business strategy and model in greater depth and reports on how we are performing against our goal.

2015 performance

Chief Executive's overview

We remain excited about the significant structural growth opportunities in our markets and will continue to manage the business to deliver strong EPS growth, cash flow and return on capital.

Continue to deliver shareholder value

Financial highlights	Underlying[1] 2015	Underlying[1] 2014	Underlying[1] YOY change	Reported
Revenue	**£4,674m**	£4,372m	+7%	£4,837m
Operating profit	**£639.0m**	£576.3m	+11%	£206.6m
Profit before tax	**£585.5m**	£535.7m	+9%	£112.1m
Earnings per share	**70.73p**	65.15p	+9%	7.96p
Total dividend per share	**31.7p**	29.2p	+9%	31.7p

Good financial and operating performance

11.8%
Underlying revenue growth on a like-for-like basis[2] including 4.3% organic growth, excluding businesses exited and held for sale from both 2015 and 2014.

13.7%
Underlying operating margin[1] (2014 on a like-for-like basis[2]: 13.5%).

£585.5m
Underlying profit before tax[1] up 9% (2014: £535.7m).

£112.1m
Reported profit before tax, impacted by business exits and impairment charges (2014: £292.4m).

See page **14-17** for financial review.

See page **27** for major contract wins.

See page **31** for acquisitions.

1 Excludes non-underlying items detailed in note 4 business exit, note 5 administrative expenses and note 9 net finance costs, in the notes to the financial accounts.

2 The impact of restating 2014 for business exits and other non-underlying items as detailed in note 6 segmental information, in the notes to the financial accounts.

2015 performance continued

Andy Parker
Chief Executive

Strategy for growth and value creation

We manage the business to deliver strong earnings per share (EPS) growth, cash flow and return on capital, by generating profitable organic growth from major sales and divisional businesses and investing in value-generating acquisitions, with a continued focus upon proprietary technology and platform-based solutions. Geographically, our strategy is to remain UK-centric with targeted expansion in international growth markets, either taking existing services or following existing clients into new geographies. We have a strong ethos and culture and our core values of openness, ingenuity, collaboration and effectiveness are designed to directly support our business strategy.

2015 performance overview

Capita delivered good financial results in 2015, including 4% organic growth, an improvement in our operating margin and a high level of cash generation. Our largest ever acquisition, avocis, provides a strong growth platform in Europe. In the year, we have moved the business away from certain non-core lower growth businesses and reviewed our delivery platforms to better position the Group for the future.

Delivering profitable organic growth

The aggregate value of new and extended major contracts secured in 2015 was £1.8bn (2014: £1.7bn), comprising 78% new business and 22% extensions and renewals. Our win rate remained strong at around two in three by value. Capita consolidated its position in the public healthcare support services market winning two major contracts with NHS England, Primary Care Support England (PCSE) and the Central London Community Healthcare NHS Trust. We also entered the science market, forming a joint venture with the Department for Environment, Food & Rural Affairs (Defra) to run the former Food and Environment Research Agency (now Fera Science Ltd).

We have made a solid start to 2016, securing contracts with an aggregate value of £251m in the year to date (2015: £1.1bn). The bid pipeline currently stands at £4.7bn (February 2015: £5.1bn), comprised of 37 bids with a weighted average contract length of six years (February 2015: eight years), including 89% new business and 11% renewals and extensions. We are seeing good levels of activity in the private sector (56% of the pipeline) and steady activity in the public sector (44% of the pipeline). We continue to have a large active prospect list of opportunities behind the pipeline.

Acquisitions to build capability and expand geographic reach

Capita invested £402m, excluding deferred and contingent consideration, in acquiring 17 businesses and in our Fera Science public sector subsidiary partnership in 2015. We also exited a number of small businesses, which either lacked strategic fit or had limited growth potential. We have three further businesses for sale of which one disposal was completed in January 2016. Acquired in February 2015, avocis has provided a strong platform to develop customer management in Europe and we are now realising significant growth opportunities in this new region. We continue to assess many acquisition opportunities and, as evidenced by our decision not to revise our cash offer of 160p for each share in Xchanging in late 2015, remain a disciplined buyer.

Our Board and people

Following nearly nine years as Non-Executive Director and latterly seven as Chairman, Martin Bolland has indicated to the Board that he intends to stand down by 31 December 2016, or on the earlier appointment of a successor. Martin has and continues to make an immense contribution to Capita and has built up and leads a strong Group Board. We are commencing a search process using external head hunters to identify and appoint a successor capable of providing the depth of commercial expertise and excellent leadership that we have received from Martin.

The Board would like to take this opportunity to thank all our people for their hard work and dedication which ensures that we can continue to deliver quality services for clients. Our employees join us through direct recruitment, contracts or acquisitions and their commitment and enthusiasm play a vital role in helping us to meet client expectations and sustain our growth.

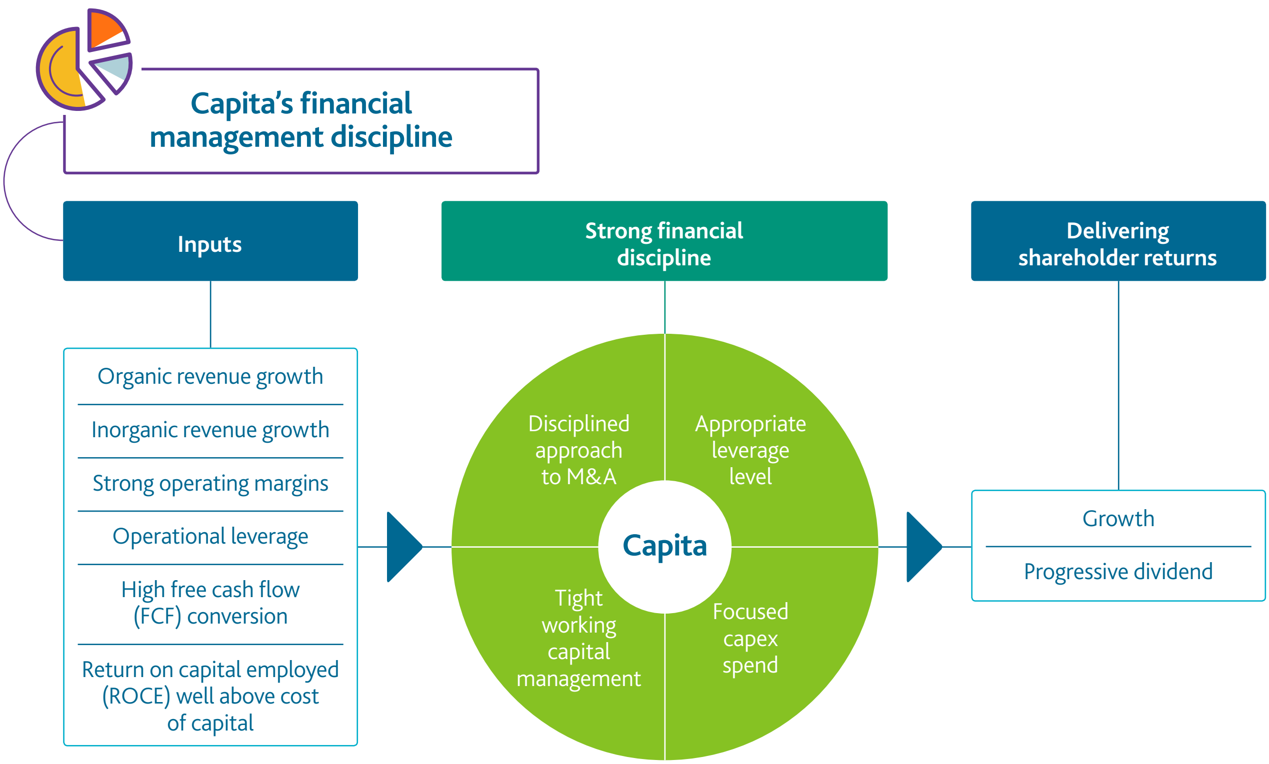
Prospects

We have re-positioned the business away from certain non-core lower growth businesses and enter the current year in a strong strategic and financial position, enabling us to raise our margin target range to between 13.0% and 14.0%. In 2016, we are targeting organic growth of at least 4%, driven by the combination of growth from our divisional businesses and conversion of our bid pipeline. In the longer term, we remain excited about the significant structural growth opportunities in our markets and will continue to manage the business to deliver strong EPS growth, cash flow and return on capital.

2015 performance continued

Group Finance Director's overview

We have a long track record of delivering leading capital growth, combined with progressive dividend pay-outs.



2015 performance continued

Nick Greatorex
Group Finance Director

I was appointed to serve as your Group Finance Director on 1 March 2015. Key strategic highlights of the year included the introduction of enhancements in monthly financial and risk reporting, the completion of work to introduce monthly reporting of return on capital employed across the divisions and a new capital approval process more closely linked to the business benefits from investment. Looking forward to 2016, we plan to make a number of changes which should be of benefit to the Group over the medium term. These include centralising more of our procurement, an increasingly strategic approach to our property portfolio and enhancements to our financial reporting systems.

Summary of financial performance

In 2015, the Group increased underlying revenue[1] by 7% to £4,674m[2] (2014: £4,372m[2]) and underlying revenue on a like-for-like[3] basis by 11.8%, comprised 4.3% organic growth and 7.5% from acquisitions. Organic growth was driven by the full benefit from 2014's contract gains, new contracts started in the second half of 2015 and good underlying performances from our Asset Services and Digital and Software Solutions divisions. Underlying operating profit[1] rose by 11% to £639.0m[2] (2014: £576.3m[2]) and underlying operating margin on a like-for-like[3] basis increased by 20bps to 13.7% (2014: 13.5%). We now expect underlying Group operating margin to be maintained in the higher range of 13.0% to 14.0% (previously 12.5% to 13.5%) for the foreseeable future. Underlying profit before tax[1] increased by 9% to £585.5m[2] (2014: £535.7m[2]) and underlying earnings per share[1] rose by 9% to 70.73p[2] (2014: 65.15p[2]). We increased our dividend for the full year by 9% to 31.7p (2014: 29.2p).

Underlying cash flow from operations[1] was £687m[2] (2014: £644m[2]), with an underlying operating profit[1] to cash conversion ratio of 108% (2014: 112%). We continue to pro-actively manage working capital across the Group and expect our annual cash conversion ratio to remain at or above 100% for the foreseeable future. Net debt at end December 2015 was £1,839m (2014: £1,491m) including deferred consideration and fixed rate swaps.

Our annualised net debt to EBITDA[1] ratio in 2015 was 2.5 (2014: 2.2) and interest cover[1] was 14 times (2014: 16 times). Our aim continues to be to keep the ratio of net debt to EBITDA in the range of 2 to 2.5 over the long-term. Our post-tax return on average capital employed[1] (ROCE) in 2015 was 14.3% (2014: 14.8%), which compares to our estimated post-tax WACC of 7.3%. ROCE on a continuing basis, excluding businesses exited and being held for sale, was 15.0% in 2015.

Finally, our statutory results in 2015 were impacted by a number of non-underlying items and our reported profit before tax was £112.1m (2014: £292.4m). Non-underlying items included the annual amortisation charge relating to the Group's intangible assets of £165.0m (2014: £147.1m), losses on businesses disposed or held for sale of £164.4m, an impairment of assets in life and pensions of £76.7m, a £28.3m impairment of goodwill in relation to the Group's insurance business and a further £17.2m provision in relation to Asset Services settlements.

1 Excludes non-underlying items as detailed in note 2 on page 110.
2 Excludes businesses exited and held for sale as detailed in note 4 on page 117.
3 The impact of restating 2014 for business exits and other non-underlying items.

2015 performance continued

Financial Key Performance Indicators

KPI

Key performance indicator	Aim	Context	Progress in 2015
Operating margin[1] See page 14	Consistently maintain underlying operating margins	We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective	13.7% 2014: 13.2%
Profit before tax[1]	Achieve long-term, consistent growth in profits	Excludes non-underlying items	£585.5m 2014: £535.7m
Reported profit before tax	Achieve long-term, consistent growth in profits	Includes non-underlying items	£112.1m 2014: £292.4m
Earnings per share (EPS)[1] See page 14	Achieve long-term, consistent growth in EPS	Long-term growth in EPS is a fundamental driver of shareholder value. Board of Directors' incentive schemes have EPS targets to align their interests with those of our shareholders	70.73p 2014: 65.15p
Free cash flow[1] See page 15	Maintain an operating cash conversion ratio of at least 100% and high level of free cash flow	We focus on securing timely payment terms and cash conversion underpinned by providing valued services and maintaining an efficient finance operation	£348m 2014: £368m
Capital expenditure as % of revenue See page 16	Invest capital expenditure (capex) to generate good returns for our shareholders	We focus investment on opportunities that generate the best return for shareholders and avoid tying up too much capital in long-term projects	4.2% 2014: 3.3%
Return on capital employed (ROCE)[1] See page 16	Deliver ROCE which is well in excess of our cost of capital	ROCE reflects how productively we deploy capital. It is incorporated in senior managements' long-term incentive schemes, which are 25% based upon performance against ROCE targets	14.3% 2014: 14.8%
Gearing – interest cover See page 16	Maintain an efficient capital structure, with an appropriate level of gearing	It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf	13.7x 2014: 16.3x
Economic profit[1] See page 16	Deliver value for shareholders through positive and steadily growing economic profit	Group economic profit allows us to assess the value created in excess of the required return of the Company's investors (equity shareholders and debt holders)	£255m 2014: £240m

KPI This symbol is used to indicate our KPIs throughout the report.

1 Excludes non-underlying items detailed in note 2 on page 110. 2015 numbers exclude businesses exited and held for sale as detailed in note 4 on page 117. 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 117.

2015 performance continued

Non-financial Key Performance Indicators

KPI

Key performance indicator	Aim	Context	Progress in 2015
Shareholder value See page 17	**Steadily grow ordinary dividends in line with profits (annual growth of total dividends)**	Demonstrates the financial health of the business and commitment to creating shareholder value	**9%** 2014: 10%
Client resources See page 37	**Continue to develop our infrastructure of business centres to meet the needs of our business**	Reflects the scale and breadth of our offering for clients	**94 multi-service delivery centres** 2014: 80 multi-service delivery centres
Create successful supplier relationships See page 38	**Annually audit all strategic suppliers against Capita's standards of business**	A proactive approach to procurement helps us secure best value goods and services, which can improve our performance and that of our clients	**100%** 2014: 100%
Employee resources – leadership See page 34	**Maintain high retention rate for senior managers (Executive Directors and senior management teams)**	We need to have the right leadership and skills to deliver the Group's long-term growth strategy	**98%** 2014: 97%
Employee resources – skills & flexibility See page 34	**Maintain overall employee retention at or above industry average[1]**	Our people are vital to our success in delivering high quality, efficient services to our clients	**81%** 2014: 78%
Controlling our environmental impacts See page 57	**Continue to measure and assess our carbon footprint[2] and minimise wherever possible**	Although we are a low impact organisation, our aim is to manage and reduce our environmental impacts and use our resources efficiently	**124,329** 2014: 139,672 (tonnes CO_2eq)
Supporting our communities See page 60	**Continue to grow and measure our community investment annually, using London Benchmarking Group methodology**	Our business places us at the heart of the communities that we operate in and positive relationships are therefore vital to the long-term health of the business	**£2.3m** 2014: £2.2m

KPI This symbol is used to indicate our KPIs throughout the report.

1 CIPD 2014 (86.4%).
2 Based on latest available greenhouse emission factors from the Department for Environment, Food & Rural Affairs.

Financial review

The financial statements have been prepared under IFRS and the Group's accounting policies are set out on pages 110 to 117. Management also presents revenue, operating profit, profit before tax and earnings per share excluding non-underlying items to provide additional useful information on underlying trends to shareholders. Capita's focus upon creating value for shareholders is supported by strong financial controls and effective governance across the Group and we monitor performance against KPIs, for which we have clear aims:

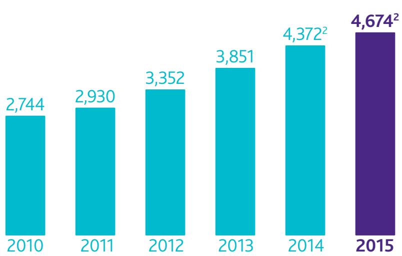
Underlying revenue

Aim: drive profitable, sustainable growth through a combination of organic growth and acquisitions.

Underlying revenue[1] increased by 7% to £4,674m[2] in 2015 (2014: £4,372m[2]). Underlying revenue on a like-for-like basis[3], excluding results from business exits and assets held for sale in both years, increased by 11.8% including 4.3% organic growth and 7.5% from acquisitions completed in 2014 (2.4%) and 2015 (5.1%).

Underlying revenue (£m)[1]

5 year compound growth 11.2%



Underlying operating profit and margin

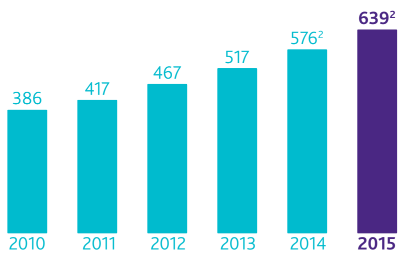
Aim: consistently maintain underlying operating margins.

We closely manage operating costs to ensure that the business is growing profitably, leverage our scale and shared service infrastructure, maintain effective procurement processes and a lean corporate structure.

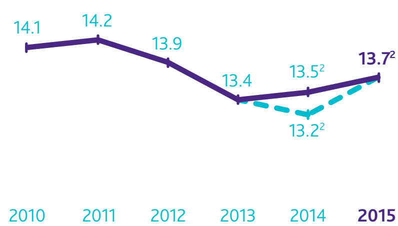
Underlying operating profit[1] increased by 11% to £639m[2] in 2015 (2014: £576.3m[2]). Our underlying operating margin[1] was 13.7%[2] (2014: 13.2%[2]), reflecting the positive impact on our margin of assets held for sale and exiting businesses which lacked strategic fit. Underlying operating margin on a like-for-like basis[3], excluding results from businesses exited and assets held for sale in both years, increased by 20bps to 13.7% (2014: 13.5%). The 2014 consolidated income statement has not been restated for the impact of business exits and other non-underlying items. If the 2014 underlying consolidated income statement was restated, revenue would be reduced by £192.8m and profit before tax would reduce by £10.9m. We expect underlying Group operating margin[1] to be maintained in the higher range of between 13.0% and 14.0% (previously 12.5% to 13.5%) for the foreseeable future.

Underlying operating profit (£m)[1]

5 year compound growth 10.6% KPI



Underlying operating margin (%)[1]



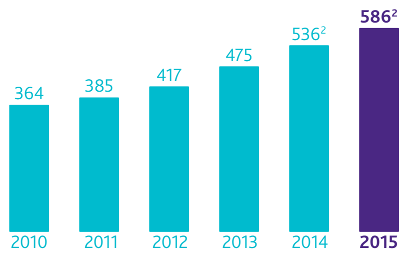
The 2014 comparatives in the above chart show the value on a continuing basis (13.5%) and including the results from businesses disposed or held for disposal in 2015 (13.2%). The 2015 values are on a continuing basis i.e. excluding the businesses disposed of or held for disposal in 2015.

Underlying profit before tax

Aim: achieve long-term, consistent growth in profits.

Underlying profit before tax[1] increased by 9% to £585.5m[2] (2014: £535.7m[2]).

Underlying profit before tax (£m)[1]



Earnings per share (EPS)

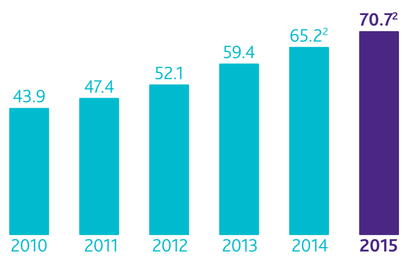
Aim: achieve long-term, consistent growth in EPS.

Long-term growth in EPS is a fundamental driver of shareholder value. To align their interests with shareholders, 75% of Board Directors' long-term incentive remuneration is based upon EPS targets.

Underlying earnings per share[1] increased by 9% to 70.73p[2] in 2015 (2014: 65.15p[2]). The Group's EPS has grown at a compound annual rate of 10% over the five years to 31 December 2015.

Underlying earnings per share (p)[1]

5 year compound growth 10% KPI



1 Excludes non-underlying items as detailed in note 2 on page 110.
2 Excludes businesses exited and held for sale as detailed in note 4 on page 117.
3 The impact of restating 2014 for business exits and other non-underlying items.
4 Before one-off settlements of £17.9m for Arch Cru and £10.0m pension contribution for transfer back to Cumbria County Council pension scheme.

Financial review continued

Business exits

We exited a small number of non-core and low growth businesses, including the disposal of National Dental Plan in 2015 and a health business since the year end, and are in an active process to sell a further specialist insurance business and a justice business. These businesses generated revenue of £162.6m and a trading loss of £1.2m in 2015. Non-underlying charges in relation to these business exits include a £110.1m impairment of goodwill and other assets, a £26.8m provision in relation to disposal and closure costs and £26.3m loss on disposal. The net cash outflow from these business exits was £0.8m.

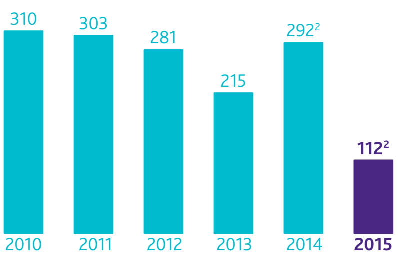
Other non-underlying charges

Other non-underlying charges in 2015 were £309m (2014: £218.4m), including the annual amortisation charge relating to the Group's intangible assets of £165m (2014: £147.1m), an impairment of assets in life and pensions of £76.7m as detailed in note 5 on page 119, a £28.3m impairment of goodwill in relation to the Group's insurance business as detailed in note 15 on page 130 and a further £17.2m provision in relation to Asset Services settlements as detailed in note 25 on page 138.

Reported profit before tax

Reported profit before tax in 2015 was £112.1m (2014: £292.4m), reflecting the impact of non-underlying charges outlined above.

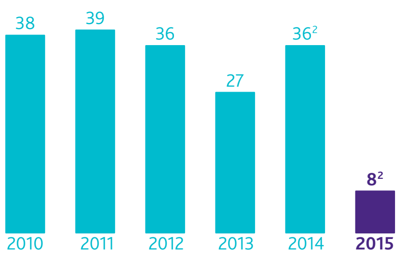
Reported profit before tax (£m)



Reported earnings per share

Reported earnings per share in 2015 was 8.0p (2014: 35.8p), reflecting the impact of non-underlying charges outlined above.

Reported earnings per share (p)[1]



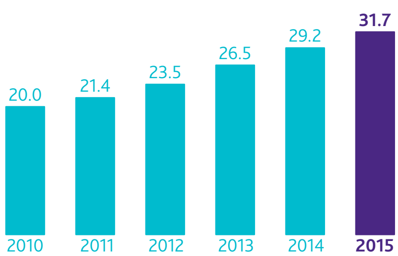
Dividends

Aim: sustain a progressive dividend policy.

Capita aims to drive value for shareholders through the payment of progressive dividends and, when appropriate, capital returns.

The Board is recommending a final dividend of 21.2p per ordinary share (2014: 19.6p), making a total of 31.7p for the year (2014: 29.2p), representing an increase of 9%. Dividend cover[1] is 2.23x[2] for 2015. The final dividend will be payable on 31 May 2016 to shareholders on the register at the close of business on 22 April 2016. The Group's total dividend has grown at a compound annual rate of 10% over the five years to 31 December 2015.

Total dividend per share (p)
5 year compound growth 10%



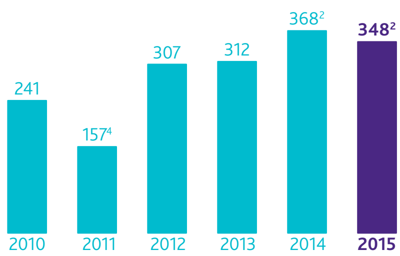
Cash flow

Aim: maintain a cash conversion ratio of at least 100%.

The Group is focused upon generating cash, actively managing working capital and capital expenditure, to fund organic growth, dividends and acquisitions. We believe that we can achieve annual cash conversion (defined as underlying cash generated from operations[1] divided by underlying operating profit[1] for the year) at or above 100% for the foreseeable future.

In 2015, £687m[2] (2014: £644m[2]) of underlying cash flow[1] was generated by operations, representing a cash conversion ratio of 108% (2014: 112%). Underlying free cash flow[1] (defined as operating cash flow less net capital expenditure, interest and taxation) was £348m[2] (2014: £368m[2]).

Free cash flow (m)[1]



1 Excludes non-underlying items as detailed in note 2 on page 110.
2 Excludes businesses exited and held for sale as detailed in note 4 on page 117.
3 The impact of restating 2014 for business exits and other non-underlying items.
4 Before one-off settlements of £17.9m for Arch Cru and £10.0m pension contribution for transfer back to Cumbria County Council pension scheme.

Financial review continued

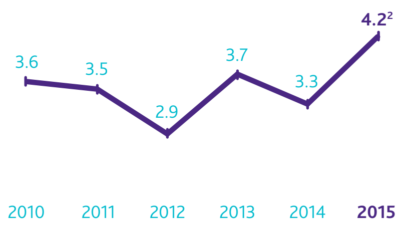
Capital expenditure

Aim: invest capital to generate the best return for our shareholders.

We aim to allocate capital efficiently, focusing upon opportunities that generate the best return for shareholders and avoiding tying up too much capital in long-term projects.

In 2015, net capital expenditure was £198m, 4.2% of underlying revenue (2014: £146m), reflecting an increase in spend on software development, primarily regarding two contract related new systems. Investment will continue to be made on the basis of returns on the value of capital being deployed.

Capex as % of turnover



Gearing

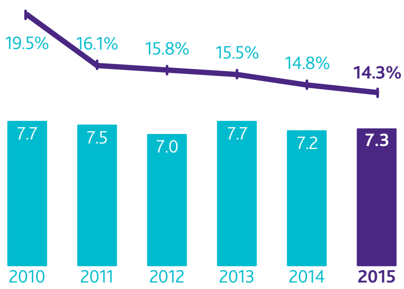
Aim: maintain an efficient capital structure, with an appropriate level of gearing.

It is important to our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf. We aim to keep the ratio of net debt to EBITDA in the range of 2.0 to 2.5 over the long-term and would be unlikely to reduce interest cover below seven times.

As at 31 December 2015, we had £1,529m of private placement bond debt of which £141m matures in 2016 and the remainder gradually matures over the period up to 2027. In addition, we have £300m of bank debt, a £600m credit facility maturing in June 2017 and a £600m revolving credit facility which matures in August 2020. The latter facilities were unutilised at 31 December 2015.

In 2015, our annualised net debt to EBITDA ratio[1] 2.5 times[2] (2014: 2.2 times[3]) and interest cover[1] was 14 times[2] (2014: 16 times[3]).

Net return on capital (%)[1]



Return on capital employed (ROCE)

Aim: deliver ROCE which is well in excess of our cost of capital.

ROCE reflects how productively we deploy capital and is incorporated into senior management's long-term incentive schemes, which are 25% based upon performance against ROCE targets.

ROCE is calculated as underlying net operating profit after tax[1] (NOPAT) divided by average capital employed. Capital employed (CE) is the total of equity shareholders' funds, net debt, pension deficit and cumulative equity impact from non-underlying items such as amortisation.

In the table below, the post-tax weighted average cost of capital (WACC) indicates the return which could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our WACC assuming a risk-free rate of 1.8%, a market risk premium of 8.5% and a beta of 0.8 times.

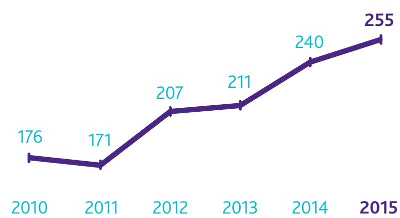
In 2015, our ROCE[1] was 14.3%[2] (2014: 14.8%[3]), which compares to our estimated post-tax WACC of 7.3%. ROCE on a continuing basis, excluding businesses exited and being held for sale, was 15.0% in 2015.

Economic profit

Aim: deliver value for shareholders through positive and steadily growing economic profit.

Economic profit is the value created in excess of the required return of the Company's investors (equity shareholders and debt holders) and reflects the monetary difference between our net operating profit after tax and capital employed multiplied by WACC. Capita has consistently generated positive economic profit over time.

Group economic profit (£)



Group economic profit

	2015	2014	2013	2012	2011	2010
Underlying operating profit (£m)[1]	**639**	576[3]	517	467	417	386
Average capital (£m)	**3,641**	3,180	2.701	2,348	1,976	1,491
Tax (%)	**18.5**	18.5	19.0	20.5	23.5	24.5
Post-tax WACC (%)	**7.3**	7.2	7.7	7.0	7.5	7.7
Capital charge (£m)	**(266)**	(229)	(208)	(164)	(148)	(115)
Tax (£m)	**(118)**	(107)	(98)	(96)	(98)	(95)
Economic profit (£m)	**255**	240	211	207	171	176

1 Excludes non-underlying items detailed in note 4 business exit, note 5 administrative expenses and note 9 net finance costs, in the notes to the financial accounts.
2 2015 numbers exclude businesses exited and held for sale as detailed in note 4 on page 117.
3 2014 numbers exclude the sale of our Occupational Health business.

Financial review continued

Delivering shareholder value

Over the ten-year period to 31 December 2015, Capita has delivered £1.7bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and special dividend. Capita's total shareholder return over the same period is 266% compared to 72% for the FTSE All-Share Index.

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

- Distribution to shareholders through progressive dividends: a key element in the creation of shareholder value is a progressive dividend policy.
- Funding acquisitions to add value: securing small- to medium-sized acquisitions is integral to Capita's future growth.
- Share buybacks: opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long-term cost of capital. We did not complete any share buybacks in 2015; however, shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our Annual General Meeting.

Taxation

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

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

Capita's contribution of £82.6m through UK corporation tax paid in 2015 (2014: £80.1m) is only part of our total tax contribution. Capita is a significant contributor to the UK Exchequer, paying and collecting a wide range of taxes on behalf of the UK Government. Each year, Capita contributes to The Hundred Group survey quantifying the total tax contribution of the FTSE 100 companies. During 2015, £230.9m (2014: £205.2m) of other UK taxes were borne by the Group including business rates, import duties, irrecoverable VAT, employers' NIC, and environmental taxes. In addition, Capita collected and remitted to the UK Government £487.3m (2014: £423.8m) of VAT and £405.3m (2014: £377.0m) of PAYE and employee NIC.

Performance summary

	2015	2014	2013	2012	2011	2010
Dividends per share						
Interim dividend (p)	**10.5**	9.6	8.7	7.9	7.2	6.6
Final dividend (p)	**21.2**	19.6	17.8	15.6	14.2	13.4
Total ordinary dividend (p)	**31.7**	29.2	26.5	23.5	21.4	20.0
Dividend cover	**2.23x**	2.23x	2.24x	2.26x	2.27x	2.25x
Totals						
Interim dividend (£m)	**70**	63	57	51	44	40
Final dividend (£m)	**140**	130	117	102	87	81
Total ordinary dividend (£m)	**210**	193	174	153	131	121
Share buybacks						
% of share capital authorised to repurchase	**10%**	10%	10%	10%	10%	10%
% of share capital repurchased	**–**	–	–	–	–	3%
Issued share capital at year-end (m)	**662**	659	656	652	608	606
No. of shares repurchased (m)	**–**	–	–	–	–	15
Average price (p)	**–**	–	–	–	–	751
Total cost (£m)	**–**	–	–	–	–	116
Shareholder returns						
Total return to shareholders (£m)	**210**	193	174	153	131	237

Generating profitable, sustainable growth

Targeting growth sectors and markets

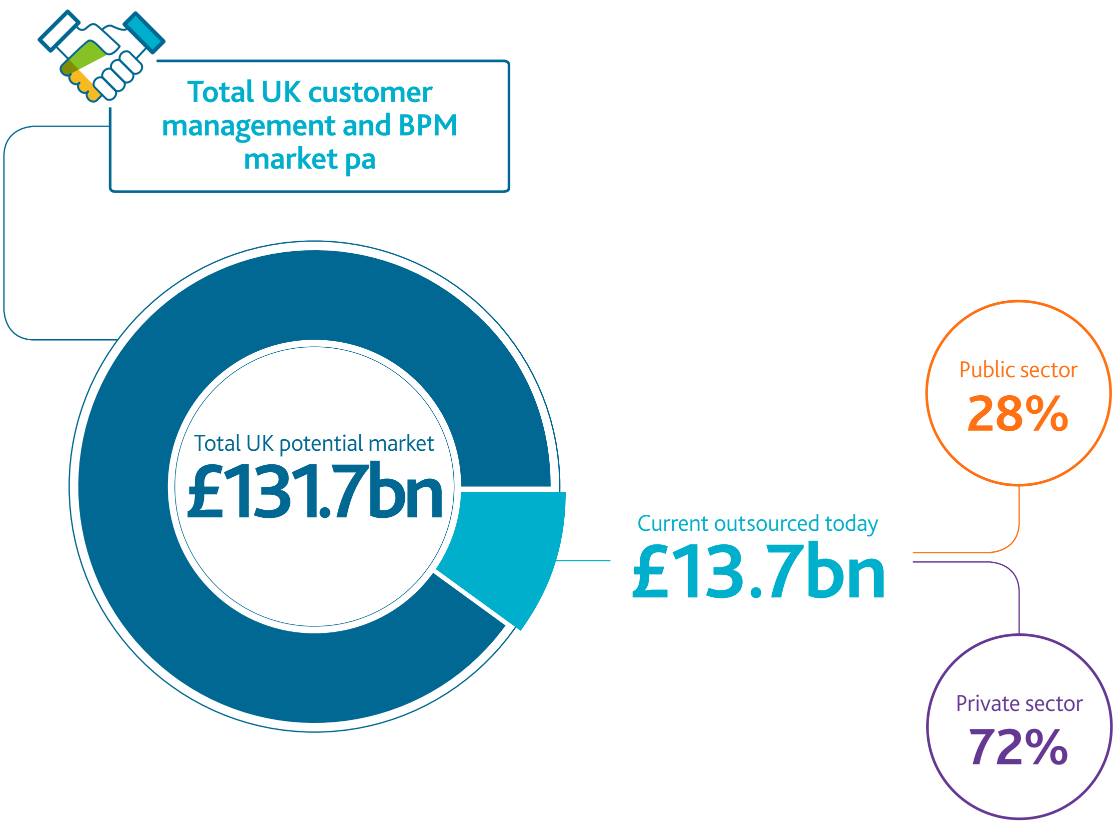
Exploring the drivers across the customer and business process management market and the growth sectors within it.

Capita is the UK's leading provider of technology-enabled customer and business process transformation and integrated professional support services, with an increasing footprint in Western & Northern Europe. Our innovative, technology-led approach puts us at the forefront of the digital revolution currently sweeping through the business process services sector, enabling our clients to benefit from our investment in digital technologies, big data and analytics, innovative software and skilled people.

United Kingdom

The outsourcing market is well established in the UK and there is considerable headroom for growth. In 2015 we commissioned Ovum to review the total addressable UK market for customer management and BPM. Ovum's research estimates that Capita's total UK addressable market is £131.7bn per year, of which only £13.7bn was outsourced in 2015 (2014: £13bn). Of this £13.7bn, 72% was in the private sector and 28% in the public sector[1].

Our transformational capabilities are in strong demand which has led Ovum to again rank Capita as the number one BPM vendor by revenue, with 28.4% market share in 2015 (2014: 26.9%), a greater share than the rest of the top ten vendors combined.



1 Source: Nelson Hall.

Generating profitable, sustainable growth continued

German customer management and BPO market forecast

Estimated market size 2015[1]

€22.2bn

Estimated annual growth by 2019[1]

5.5%

Western & Northern Europe

In 2015 Capita took a major new step into the German and Swiss market through the acquisition of avocis, a leading provider of customer contact management services in Germany, Switzerland and Austria. The German outsourced Customer Management and BPM market alone in 2015 was estimated to be worth €22.2bn and is expected to grow by 5.5% annually to 2019[1].

Avocis, along with our existing nearshore operation in Poland, tricontes and Scholand & Beiling now form Capita Europe, a new division, with one management team and a shared support infrastructure, targeting growth in the region.

Other territories

Our global delivery network has long been supporting our UK and global clients, particularly across customer management and financial services. Increasingly we will support existing clients who want to work in new territories outside our traditional UK base, as well as look at new geographies where outsourcing is well established and has synergies with the UK market and where we can replicate the success of services we run in the UK.

Growing in the digital age

We have a diverse reach across 11 key vertical markets and deliver a vast range of services, but our plan for growth is underpinned by a clear vision of our core capabilities:

- to use technology to enable organisations to deliver their services better and at lower cost
- to leverage our expertise to commercialise government intellectual property (IP) and generate revenues from under-performing assets
- to deliver a step-change in customer experience through digital transformation.

Our business model means we can bring together the right resources and capabilities to meet the demands of our clients across a wide range of sectors. This approach has allowed us to grow from a Company with 320 employees and a revenue of £25m in 1991 to a FTSE 100 Company with over 75,000 employees and underlying revenue of £4,674m in 2015. We have experts in our business development teams who understand the unique challenges facing the particular sectors we work in and we regularly talk with existing and potential clients, listening to their needs and developing potential solutions. These market experts are supported by our specialist practices who provide expertise in areas including digital, behavioural science, analytics, user experience and service design, which all help to keep us and our customers at the forefront of their markets.

As we move through 2016 we expect that overall there will be more opportunities in the private sector than the public sector, reflecting the relative sizes of those two markets and the factors that are currently driving change in each of them. Importantly, we're well equipped to respond to the needs of clients across both.

Given the pressure on government spending, there will continue to be opportunities to help public sector organisations do things differently. This will include the ability to help local authorities commercialise their operations and enable them to generate income, as we are already doing in Barnet.

Through our recent success in building effective partnerships where we work with our clients to commercialise and grow their businesses, we are now experts in transforming businesses into success stories, generating new sources of income and creating jobs.

Across the private sector there is continued pressure to drive down costs and both improve and digitise their services. Again across all these areas we are ideally placed to help.

Our revenue split continues to be spread between public and private sectors at 47% and 53% respectively. As we continue to secure further growth in the private sector, we expect that Capita's revenues will move to reflect the current market opportunity over time.

Capita operates in a large addressable market with scope to increase penetration due to our own competitive advantages and a number of structural factors such as fiscal pressure, digitisation, regulation and changing demographics. With good growth in our existing markets, an increasing footprint in health and new platforms in science, financial services and Western & Northern Europe, we are well placed to deliver sustainable growth in the digital era.

1 Source: Nelson Hall.

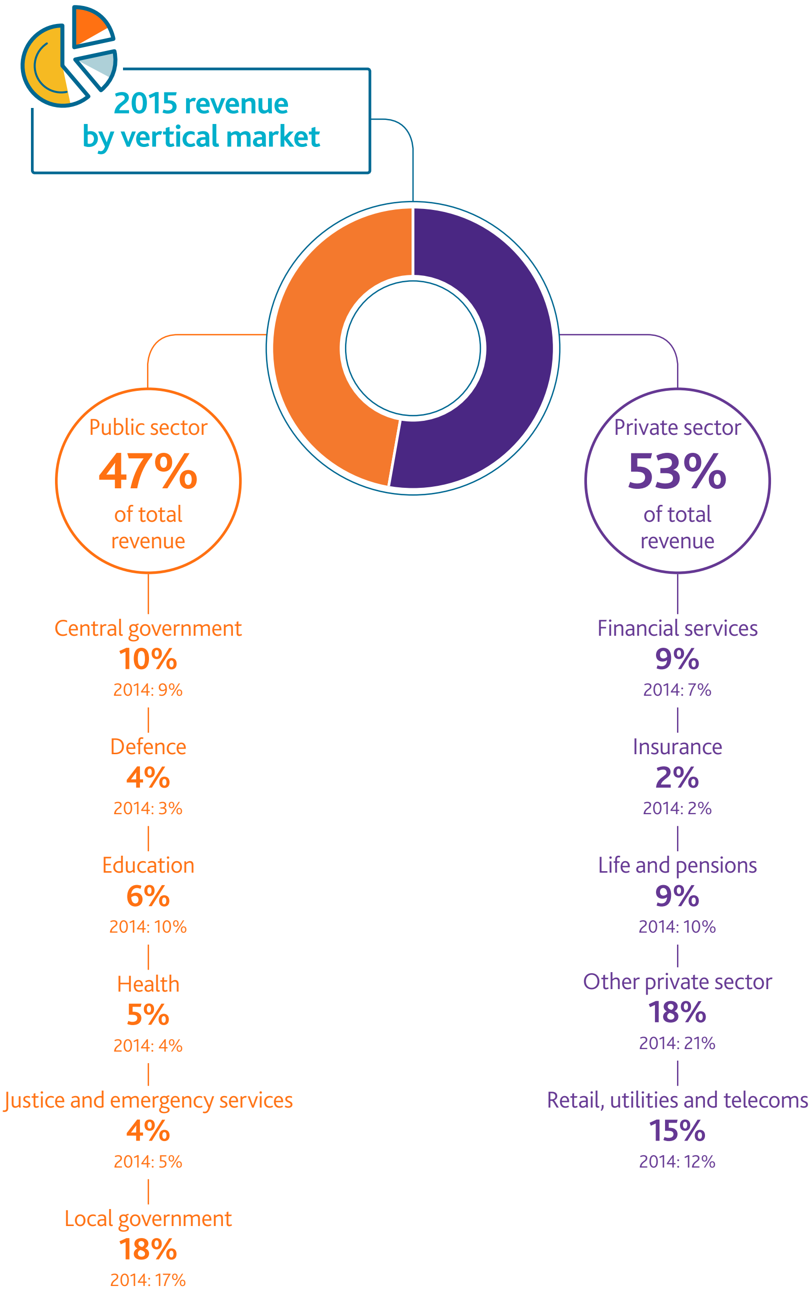
Generating profitable, sustainable growth continued

Market trends & opportunities – UK & Ireland

Capita operates across a range of markets and sectors all of which are impacted by rapidly evolving technology, changing customer expectations and, despite the economic recovery, ongoing financial pressures on investment. This combined with a political desire to reshape public finances is driving change across all of our markets.

Consumer expectations continue to rise. We are seeing the digitisation and automation of manual processes, the use of new, and increasingly self-service, platforms and new data-led insights from analytics. This impacts on how services are delivered and raises the prospect that traditional commercial models will be disrupted by innovative approaches that utilise new technology.

All this is opening new opportunities for Capita in both the private and public sector.



Local government

Demographic change and, in particular the need for more adult social care, is challenging the public sector.

Pressure on budgets continues to be a major factor in local government with a resulting focus on cost reduction in service delivery. Local authorities have been forced to reduce spending dramatically over the last five years, with a July 2015 study by the Financial Times estimating that budgets have been cut by £18bn since 2010, with further reductions of at least £9.5bn expected by the end of the decade[1].

There is a move away from generic grants for local authorities towards payment based on achieving results. The local government finance settlement for 2016 to 2017 mandates that local government will be 100% funded by council tax, business rates and other local revenues by 2020 and allows local authorities to spend 100% of capital receipts from asset sales to fund cost-saving reforms.

As councils look to reconcile shrinking budgets and growing demand for services there is increased recognition of the value of commercialisation of council assets and services to develop revenue streams. This will lead to more joint activity and new delivery models with commercial organisations who can bring investment, specialist expertise, product, pricing, sales and marketing knowledge to bear.

Similarly, councils are expected to continue to form partnerships in order to procure services. Instances of collaboration include the West London Alliance (made up of six West London councils – Barnet, Brent, Ealing, Harrow, Hillingdon, and Hounslow) and the five councils (South Oxfordshire, Vale of White Horse, Hart, Havant and Mendip District Council) to which Capita will be supplying a shared service platform.

1 Assessing the State of the UK BPO Industry in 2015, Ovum, October 2015.

Generating profitable, sustainable growth continued

Central government
The Government is committed to reducing the role of the state and cutting public sector spending. Ring-fencing of some budgets (health, overseas aid, defence equipment and schools) means that spending cuts will fall disproportionately on the other departments.

The cuts in the 2015 spending review suggest that a fundamental re-engineering of public services through technology-enabled transformation and innovation in delivery models will be required if the state is to continue to meet citizens' demands. A key challenge will be to streamline the multiple interactions between and within departments, their agencies and the wider public sector. This process will require digital transformation not just at the technology level, but at the organisational, cultural, process, function and data level[1].

The Government's announcement in the most recent budget that it would invest £1.3bn to transform HMRC into one of the most digitally-advanced tax administrations in the world is an indication of the direction of travel and further initiatives are likely, creating opportunities where Capita can provide innovative solutions with a track record of delivery.

Education
We anticipate significant changes in this market starting this year, driven by policy and funding changes, and the planned apprenticeship levy.

The process of area-based reviews, and the savings that will be realised as part of that, will result in major consolidation among colleges and other further education establishments. Government's plans to introduce an apprenticeship levy will mean that further education colleges will need to be more commercial in their approach to apprenticeship provision, particularly when dealing with large employers.

The combination of significant consolidation and the need for transformational improvements across customer contact, business support, and educational support and asset commercialisation capabilities are an ideal fit for our transformational capabilities and expertise making this a potential growth market for Capita in 2016.

There are certain common drivers across the markets in which we operate.

Victoria, Assessment and Development Coordinator

1 UK Public Sector SITS Market Trends & Forecasts, TechMarketView – September 2015.

Generating profitable, sustainable growth continued

Health

Looking forward the nature of the challenges facing the health service are becoming clear. The NHS 'Five Year Forward View' has set a clear direction, defining new models of care and setting out a savings challenge of £22bn. While the spending review provided welcome additional funding for the NHS, it also established additional challenges, especially for those central bodies outside the NHS 'ring-fence'.

Vitally, too, the Government's priority to deliver seven-day working requires staff and resources to be deployed differently, and much greater use to be made of new technology to support resource planning, appointment booking and the like.

As a result of these pressures NHS providers are having to transform the way they deliver services, including working across organisational boundaries to provide the new models of clinical care. Clinical Commissioning Groups (CCGs) will also need to radically change the way they work and commission the new models of care in new ways.

As these future requirements for the NHS have become clearer the pace of change has increased, and this has afforded Capita the opportunity to bring our transformational experience and technologies to bear.

We grew our business with the sector during 2015 with significant wins with the 7 to 10-year primary care support services contract with NHS England and the £80m, 10-year strategic partnership with the Central London Community Healthcare NHS Trust.

Justice and emergency services

Anticipated cuts in police forces were not included in the comprehensive spending review (CSR), but policing budgets remain under pressure. This means there is a continued impetus for collaboration in and between services as they seek cost savings and operational efficiencies, with Capita well placed to support the collaborative and transformation agenda.

The Government has already invested £70m in projects aimed at encouraging greater collaboration between police, fire and rescue, and ambulance services. Further measures were announced in September 2015, including imposing a statutory duty on all three emergency services to look at opportunities to work together.

The Ministry of Justice has been tasked with cutting 50% of its administrative budget by 2019-20, which should open up further opportunities for us to provide transformational services.

As future requirements for the NHS have become clearer, Capita has the opportunity to bring its transformational experience and technologies to bear.

Ollie, Digital Solutions Architect

Generating profitable, sustainable growth continued

Defence
The CSR and 2015 strategic defence spending review (SDSR) saw positive developments for the Ministry of Defence (MoD), which saw its budget increase by 3.1% in real terms to 2019-20, with the focus firmly on improved equipment, cyber and intelligence capabilities.

However, this increase is somewhat offset by the ongoing need for the department to make £9.2bn in efficiency savings as part of the overall reduction in Government spending. £1bn of this will come from selling estate assets, £2bn from equipment plan savings, and £2bn in pay restraints. Significant savings will be achieved through cuts to civilian staffing levels, with a target of 30% reduction by 2025.

Industry analysts Kable suggest that the civilian staff level cuts will be difficult to effect. This will also significantly pressure contingent labour and consultancy within the Ministry, already marked for cuts since January 2015[1].

Capita is positioned as a strong partner in the defence industry and our expertise in resourcing means that we are well positioned to support further transformation within the MoD and armed forces.

Life and pensions
The life and pensions industry is going through structural change as a result of continued regulation. The pensions reforms introduced in April 2015 included substantive regulatory changes which cannot be fully supported by existing systems. We are responding to these changes by providing our clients with new flexible platforms and are moving them from legacy systems.

Automatic enrolment into workplace pension schemes has had a significant impact on the pensions industry. According to The Pensions Regulator the total number of UK employees automatically enrolled in a UK workplace pension scheme reached 5.2 million in 2015, an increase of 73% over 2014[2].

However the pensions freedom reforms have resulted in a significant drop in sales of annuities, previously the industry's most popular products, pushing companies to look for ways to offset the decline of this market. Both of these trends have given rise to online portal projects for many life insurers. These projects are enablers for a different kind of relationship with customers as well as being a way to drive process efficiency and reduce operational costs.

The investment platform industry is also showing signs of strain. Platforms have become the de facto standard for retail, advised and workplace investments. However, the market is saturated and many providers are now either seeking greater efficiency or considering divesting their platform capability. Capita sees significant opportunity to support organisations as this market consolidates.

Retail, telecoms and utilities
In the telecoms industry the main area of demand for BPO services in recent years has come from operators looking for customer-facing support services, driven by the highly competitive nature of the market and the relative ease with which customers are able to switch providers. Technology products are becoming more pervasive and more complex, driving growth in support requirements across a range of devices. Telecommunication operators are also increasingly facing a challenge from handset manufacturers who are competing with mobile network operators (MNO) for the customer relationship.

As a result of these pressures, operators in the UK and across our key markets in Europe are looking for BPO firms to manage customer engagement across a number of channels, which creates an opportunity for us to leverage our technology leadership, customer experience transformation and revenue generation capabilities.

Our ability to create value for our customers in the UK by lowering support costs, improving customer experience and increasing revenue puts us in an excellent position to take advantage of the changing media and telecoms environment in 2016. We are taking this transformation model to existing and new clients in Germany and Switzerland who are very interested in the value this can create for them in a highly competitive market.

Given the competitive environment, retailers (both high street and online) are more focused than ever on customer retention, with many turning to third parties to deliver improvements in customer services. The era of e-commerce has commoditised many retail brands and the way customers interact with retailers has also changed: showrooming, click and collect and rapid delivery has changed customer expectations about how and when they can interact with retailers – mobile, social and web-based channels are all 'must haves'.

The utilities market continues to change while it is still struggling to cope with existing complexities. Industry initiatives such as Smart Meter roll-out, increasing competition for customers (and new competitive markets) and gas market changes (Nexus) are happening in parallel with an industry area that already is struggling to deliver in complex and demanding operating environments. This gives us opportunities to provide BPO offerings and optimised solutions to help deal with areas of greatest pressure and cost.

Customer behaviour has shifted dramatically over the last few years, driven by the rapid adoption of mobile technology and social media. Utilities are under pressure to be more accountable, demonstrate value for money, respond to outages more quickly, improve the quality of customer-facing services, and develop more sophisticated communication channels.

1 Defence: SDSR and the Spending Review, Kable, 27 November 2015.
2 Automatic enrolment Commentary and analysis: April 2014 – March 2015, The Pensions Regulator.

Generating profitable, sustainable growth continued

Financial services

Customer expectations in financial services are changing rapidly, partly driven by the seamless and frictionless experience on offer in other sectors. This shift is generally recognised by incumbent financial services providers, but legacy IT systems and the hangover from the financial crisis mean major institutions are often constrained in their ability to transform their in-house operations to leverage new technology and meet customer expectations.

Retail banking is being buffeted by multiple crosswinds. In addition to the emergence of the 'challenger banks' the growing customer preference for mobile banking will be a major theme in 2016. Banks are also being faced with non-traditional competitors in both payments and lending.

Improving cross-channel integration and enhancing functionality are key aims for many financial services organisations, with moves towards digital services that fit more seamlessly into their customers' lifestyles critical if they are to avoid disintermediation.

As a result of the digitisation of the banking service, contact centres will increasingly need to provide greater (and, in many cases, more "human") support for online and mobile channels, particularly around instant messaging, web chat, or video calls with agents.

These challenges are taking place against a backdrop where larger financial service companies have had to devote a significant proportion of their IT investment budgets (estimates vary widely, from 33% to >70%) to adapting to new regulatory requirements[1] and retail banks, in particular, are struggling with the prioritisation of their technology expenditure. This creates an opportunity for service providers to take a more partnering role: committing to the delivery of business outcomes and relieving some of the pressure on internal functions as a result.

Capita is seeing a number of different types of demand in relation to this. Some organisations are seeking to establish a more nimble and more digital customer service model without replacing their core legacy IT. Others are seeking end-to-end transformation of IT and operations for one or more product lines. Meanwhile new entrants to the market are seeking an operations and IT partner to mitigate the need to establish an expensive and inflexible in-house capability.

Like other financial services the mortgage market has undergone significant regulatory change in recent years. Lenders face a number of compliance challenges, including the mortgage market review (MMR), Conduct Agenda, the EU Mortgage Credit Directive, and Basel III capital requirements. The costs of compliance can be significant, so lenders will be looking to reduce overheads in other areas.

Established lenders are also facing a challenge from new providers entering the market, forcing them to invest in order to protect market share. With improved customer experience high on the agenda, BPO analysts Ovum expect to see major investment in customer analytics. This will allow lenders to create a personalised experience to retain customers and enable contextual digital marketing in order to attract new business.

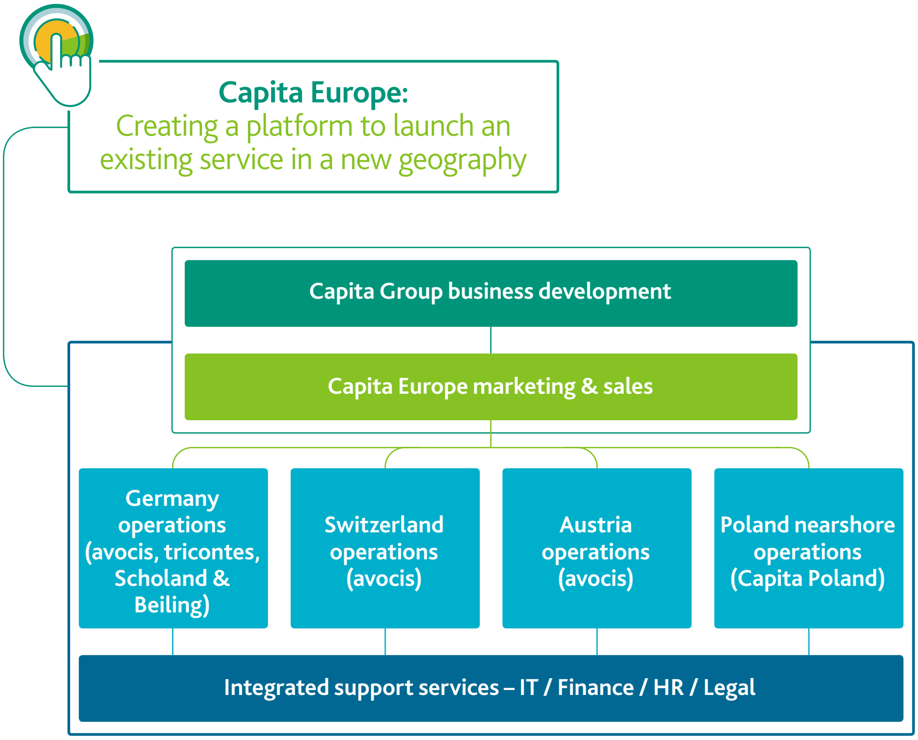
At Capita we have long-standing expertise in regulatory compliance, risk management, horizon scanning and process automation, all of which make us ideally suited to support lenders, and we have continued to build a specific capability in mortgage administration this year.

Improving cross-channel integration and enhancing functionality are key aims for many financial services organisations.

Debbie, Employee Benefits Consultant

1 Financial Services Market Trends and Forecasts 2015, TechMarketView 2015.

Generating profitable, sustainable growth continued



Insurance

Insurance organisations continue to operate in a highly competitive and price-sensitive market. Consequently, many insurers are seeking to improve customer experience to aid retention. Effective claims resolution is seen by many as the most important interaction with regards to delivering a good customer experience. Therefore, a significant number of insurers are looking to improve their claims processing systems and capabilities.

Alongside this, insurers are investing in analytics to improve pricing and the ability to target offers at both new and existing customers. However, a number of barriers are preventing widespread adoption of this, including: the difficulty of accessing data from multiple, often incompatible, data sources; poor quality and error-prone source data; and lack of in-house skills. This represents a clear opportunity for third-party vendors with experience of tackling these types of issues.

A number of insurers are also seeking to develop new product lines in order to access different parts of the market. Given its managing general agent (MGA) capability, Capita is well-positioned for this trend: the insurer focuses on product design, pricing and marketing whilst Capita takes responsibility for establishing and running the operations and IT that underpin the new products. Following a strategic review of our insurance portfolio during the year, we have decided to move away from niche specialist insurance broking operations. These no longer fit into our future strategy of focusing on purely delivering BPO services to our general insurance clients – including our Capita Managing Agency business.

Trends and opportunities – Western & Northern Europe

Private sector

In our core markets of Germany and Switzerland, businesses have long since utilised outsourcing as a means of reducing costs and streamlining processes. Businesses are facing many of the same challenges as their UK counterparts, and the changing environment is leading these organisations to reassess their requirements. Today, customers across Europe are more informed, have higher expectations and are hence more difficult to retain, forcing organisations to find new ways of outperforming competition, with low cost being just one influencing factor.

The adoption of digital channels to engage customers in both the sales and servicing of products, as well as the prevalence of social media as a platform for sharing views, presents opportunities to build customer loyalty in different ways. A multi-channel, digitally focused approach to service delivery can only be achieved in partnership with an organisation that has the scale, experience and capability to fundamentally transform the business, designing ‘new ways of working’ that secure efficiency without compromising on quality or customer experience.

As a result we are seeing a lot of appetite for a more transformational model and a number of customers are looking to shrink their supplier numbers. There is a burgeoning realisation that digitisation is required and that we can be a valuable partner.

Capita is perfectly placed to extend its transformational capability beyond the UK and support businesses in Germany, Austria, Switzerland and Poland in partnerships that focus on maximising outcomes rather than minimising inputs.

Fuelling organic growth through contracts and acquisitions

Capita's growth is fuelled organically from both major contracts and individual businesses. We also re-invest cash generated across the Group into value creating acquisitions capable of generating future organic growth.

Securing major contracts and divisional business growth

Capita's long-term growth is primarily driven by medium-to-long-term contracts, which provide a high degree of visibility of future revenues. Our businesses also generate revenue through single service and annual rollover contracts and through project work. The delivery and management of these contracts and growth of our trading business is managed within our customer facing divisions (see page 39).

Diversification across a number of markets, using processes developed and refined in others, has enabled us to develop a broad-based services business, generating revenue from a range of clients. This gives us the flexibility to shift our focus, based on current market opportunities.

Major contract attributes

- Clients with whom we can build a strong relationship and deliver real benefits.
- Defined bid processes with clear decision criteria.
- Opportunities in line with our core competencies in service transformation.
- Potential to build economies of scale.
- Fair risk/reward balance and acceptable contractual obligations.
- Limited requirement for capital investment, unless there is a real value proposition for Capita.

Tanya, Business Development Director

Generating profitable, sustainable growth continued

2015 major contract wins

In 2015 we've won

13

contracts worth

£1.8bn

in aggregate

Sheffield City Council

Value: **£170m**

Awarded in: January

Contract: Transformation partnership

Duration: 5 years

Type: Extension

Details: The partnership is expected to generate significant additional savings for the Council, whilst continuing to deliver the core range of services, including ICT, revenues, benefits, HR, payroll and financial business transactions.

Department for Environment, Food and Rural Affairs (Defra)

Value: **£700m**

Awarded in: February

Contract: FERA public sector partnership

Duration: 10 years

Type: New

Details: Capita's partnership with Defra to operate the Food and Environment Research Agency (FERA) will allow the agency to reach its full commercial potential, growing the scientific capability it can offer to existing and new customers.

Central London Community Health (CLCH)

Value: **£80m**

Awarded in: May

Contract: Strategic partnership

Duration: 7 years

Type: New

Details: Capita manages and delivers a range of corporate services on behalf of the Trust, including ICT, HR (payroll and recruitment), estates and facilities management, followed by the planned delivery of finance services.

NHS England

Value: **£400m**

Awarded in: June

Contract: Primary Care Support England

Duration: 10 years

Type: New

Details: As part of a UK-wide framework, Capita was awarded the contract to manage and deliver administrative support functions for primary care services across England. The savings achieved for NHS England will help protect investment in frontline care.

Rabobank ACCLM

Value: **£38m**

Awarded in: November

Contract: ACCLM

Duration: 5 years

Type: New

Details: Management of ACCLM loan book activities and legacy banking services, comprising 17,500 loans with a value of approximately €4bn.

Other major contracts worth £25m and above

Combined value: **£388m**

Details: During 2015, we have secured a further 8 contract extensions and new contract wins across a range of markets, including telco, utilities, retail, police and justice, worth an aggregate value of £388m.

Generating profitable, sustainable growth continued

Securing long-term, transformational contracts

Our major sales team are focused on identifying and securing long-term, multi-service contracts usually valued in excess of £50m. These contracts require complex solutions, often requiring transformation of an existing service. The sales team develop propositions that bring together expertise, assets and services from across the Group, to directly address the needs of our clients.

We only bid for contracts where we can genuinely add value, meeting or exceeding clients' expectations while generating reasonable returns for Capita. This rigorous qualification process, along with our solutions, underpins our long-term win rate across major sales of between one in two and one in three by value. In 2015 our win rate was two in three.

Sales opportunities below £50m are generally managed by divisional teams with support from the central major sales team and a monthly operating Board ensures a flow of information, expertise and resources to both the major and divisional sales teams.

Generating and securing a pipeline of quality major opportunities

Capita's pipeline represents our major bid opportunities that have reached shortlist stage as well as middle-sized opportunities managed through our divisional sales teams. It provides a fair indication of the health of the outsourcing market and can be a useful indicator of likely future organic growth. However as our portfolio continues to evolve it does not represent major growth opportunities we have identified through account management or higher value, replicable solutions or platform sales.

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

Our bid pipeline is subject to clear criteria:

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

Securing appropriate pricing and contract terms

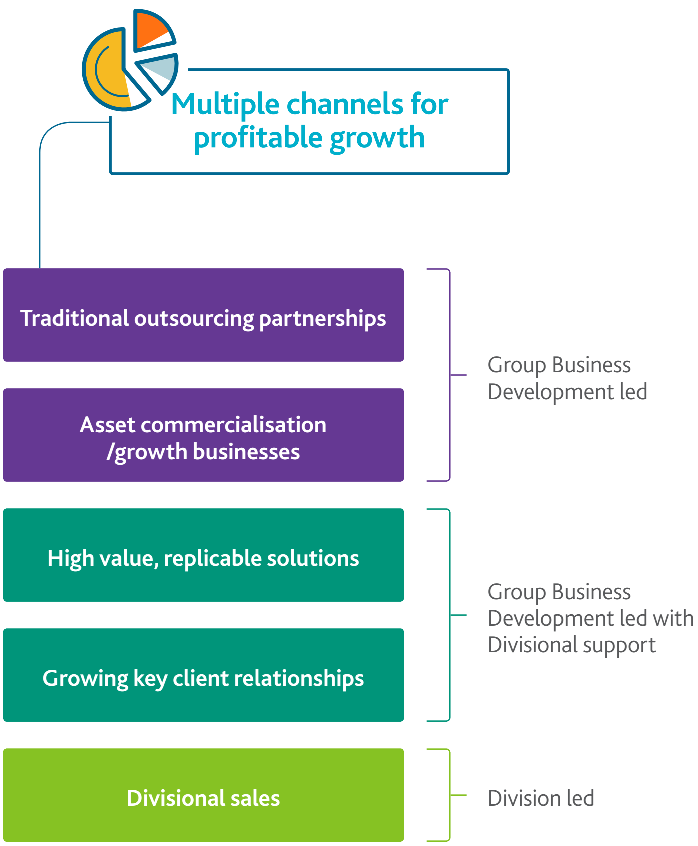
Major contracts are long-term commitments. So it's essential that our pricing and contract terms are correct from the start. We undertake extensive due diligence to build detailed service, risk and pricing models. We often share these openly with our prospective clients to ensure that all our assumptions for delivering successfully on the project are robust and that the benefits generated to both parties are fully understood.

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

Retaining and expanding contracts

As well as securing new business from new clients, we work to renew or expand existing client relationships. By achieving operational excellence, we often secure additional business from clients and we achieve high retention rates as contracts come up for renewal. Over the last 30 years, we have only failed to renew four of our material contracts (defined as having forecast annual revenue in excess of 1% of the previous year's revenue). This includes the London Congestion Charging Scheme, which we re-won in January 2014. We have no material contracts up for rebid for the next four years.

See page 27 for our 2015 major sales update.



Generating profitable, sustainable growth continued

Investing in value creating acquisitions to fuel organic growth

Enhancing our capabilities, supporting our sales and fuelling future organic growth have always been the key drivers behind our acquisition strategy, which, since 2006, has added more than 130 businesses to the Group. Across the majority of acquisitions we aim to generate a 15% post tax return after 12 months of integration into the Group, ensuring we are disciplined in our approach and selective in our targets.

Disciplined process

Our central mergers & acquisitions team, working closely with our operating divisions, evaluates in excess of 100 target businesses in any one year and maintains an active pipeline of deals in progress at any one time. Potential acquisitions are identified and brought to the Group by a variety of means; employees and managers through their market knowledge, external consultants or through a direct approach. All deals are put through a defined assessment process, with pricing set, and agreement to offer signed off by the Board. Typically we complete between 10-20 acquisitions annually from this flow of potential deals. We apply a stringent due diligence process, before and after acquisition, to all deals, enabling us to achieve clear targets for growth, synergies, integration benefits and profit.

Capita re-invests cash generated across the Group into value creating acquisitions, capable of generating future organic growth.

Yvonne, Senior Investment Analyst

Acquisition criteria

- Overall fit with our strategy and core competencies.
- Add complementary new capabilities.
- Access to a new customer base.
- Opportunity to create a growth platform in a new market.
- Ability to strengthen our existing market positions.
- Ability to generate sustainable, quality revenues.
- Potential to build economies of scale.
- Operations that are principally based in the UK, Ireland and Northern Europe.
- Opportunities to take existing services into new territories.
- Can be secured for an attractive price.

Generating profitable, sustainable growth continued

2015 acquisitions

Our focus on adding small-to medium-sized businesses to the Group continued during 2015, enabling us to enter new geographical markets, build new or extend capabilities in areas such as customer management, mortgage administration, commercial property consultancy and secure IT networking. During the year, we acquired 17 businesses and invested in Fera Science, our public sector partnership, for a cash investment of £402m[1].

Last year we made our largest ever acquisition with the purchase of the customer management business, avocis, for a cash consideration of £157m (€210m) on a debt free basis. This entry into the German-speaking markets of Europe enables us to replicate the success of our UK customer management business in a new region. The acquisition completed in February and has been fully integrated into the Group under the newly created division Capita Europe. We have already completed a number of new sales opportunities since the acquisition.

Our current pipeline of acquisitions remains healthy. We anticipate maintaining a total acquisition spend of between £250m to £300m[1] per annum on small- to medium-sized businesses and may consider larger opportunities should they arise.

Revenue in the first 12 months of ownership following acquisition is reported as acquired growth. After this period, revenue is reported within organic growth.

Acquisition of avocis: Platform for new Capita Europe division

- Bringing together new and existing operations in Germany, Austria, Switzerland and Poland.
- High quality provider with long-term customer relationships.
- New unique offering of transformational customer management, combining Capita Europe plus Group resources.
- Excellent growth opportunities in region.

Disposals

In 2015 we undertook a Group-wide review of our businesses and services and identified a number of areas which lacked strategic fit with the Group or lacked high growth potential. Following this review we disposed of six small business, the largest of which was National Dental Plan ('NDP') which was sold for a cash consideration of £31.7m on a cash-free, debt-free basis in September.

Disposals completed in 2015:
- Global Assistance
- BSI Paris
- Employee Assistance Programme, EAP
- Ill Health, IHR
- National Dental Plan, NDP
- Energy Medical Services.

In 2015 we spent
£402m
on 17 acquisitions and our investment in Fera Science (£20m)

Caoimhe, Investment Analyst

1 Excluding deferred and contingent consideration.

Generating profitable, sustainable growth continued

2015 acquisitions

Value in brackets represents maximum contingent consideration

Scholand & Beiling GmbH & Co

Value: £0.9m

Date: January

Capabilities: Customer management consultancy

Reason: Local sales capability in DACH region

Constructionline

Value: £35m

Date: January

Capabilities: Construction procurement portal

Reason: Extend service outside core construction market

BCS Design Ltd

Value: £4.8m + (£4.5m)

Date: February

Capabilities: Civil, structural, geotechnical engineering and surveying services

Reason: Adding capability to property offering

avocis Group

Value: £157m

Date: February

Capabilities: Outsourced managed services – Germany, Switzerland & Austria

Reason: Expansion of existing customer management capability in DACH region

Sigma Seven Limited

Value: £3.7m

Date: March

Capabilities: Geospatial solutions in utilities & construction

Reason: Adding further capability to our utilities offering

ThirtyThree Limited

Value: £8m + (£6m)

Date: March

Capabilities: Employer branding, research, employee engagement and digital media services

Reason: Adding new capability to our resourcing offering

Voice Marketing Limited

Value: £5.9m

Date: March

Capabilities: Outbound customer contact

Reason: Adding capability to existing customer management services

Pervasive Ltd

Value: £13.1m + (£2.5m)

Date: May

Capabilities: Enterprise wireless networks, mobility managed services and BYOD solutions

Reason: Adding capability to IT networking services and mobile offering

Isys Group Ltd

Value: £15m

Date: May

Capabilities: Workforce management solutions & ID verification software solution

Reason: Adding capability to our HR & recruitment offering

Aspire Business Solutions Limited

Value: £0.46m + (£0.2m)

Date: June

Capabilities: Youth services software system

Reason: Extends our case management software solutions

Vertex Mortgage Services Limited

Value: £35m

Date: June

Capabilities: Mortgage administration BPO and software

Reason: Enhances mortgage processing offering

GL Hearn Limited

Value: £25m + (£5m)

Date: July

Capabilities: Commercial property consultancy

Reason: Expanding our existing offering across the entire property development process

Barrachd Ltd and BIS Ltd

Value: £7m + (£5m)

Date: July

Capabilities: Business intelligence software and solutions

Reason: Expanding our analytical capabilities to solve critical business issues

Western Mortgage Services Limited

Value: £25m + (£5m)

Date: July

Capabilities: Mortgage administration BPO provider

Reason: Expand our mortgage processing capability

Electranet UK Ltd

Value: £37m

Date: September

Capabilities: Secure IT network & communications infrastructure provider

Reason: Enables us to deliver highly secure services to existing and new clients

Work Group plc

Value: £2m

Date: December

Capabilities: Employee recruitment, branding & engagement

Reason: Adding capability to our HR & recruitment offering

Brightwave Holdings Limited

Value: £7.5m + (£3m)

Date: December

Capabilities: E-learning solutions, products & services

Reason: Expanding our learning services capability and reach

Designing and delivering innovative services and solutions

Transforming business processes to drive down administration costs while also improving the end customer experience is the goal of the majority of what we do for our clients.

We support public and private sector clients to improve customer and citizen services and deliver them at a lower cost by using the insight provided by data and analytics to develop appropriate ways to engage, digitally and otherwise. For our private sector clients, our focus is in improving customer attraction and retention and keeping our clients at the forefront of their industries.

Evolving nature of service delivery

The market continues to evolve beyond the conventional outsourcing of services based on cost reduction alone. Clients are increasingly taking a longer-term view, moving towards a partnership based model to deliver shared aims. Their procurement objectives often support their own business ambitions, and can include elements, such as:

- Service transformation: These are solutions, like the one we are developing for NHS England, that completely reengineer how services are delivered. This often involves reviewing existing activities to find efficiencies, resulting in streamlined processes, upgraded IT, modernised work environments and improvements to the overall customer experience.
- Revenue opportunities and commercialisation: These are typically delivery models where there is a shared growth objective. In the public sector, we have enabled clients, like Staffordshire Council, to commercialise their existing assets. These solutions can deliver a revenue stream, return funds to taxpayers and create new jobs as well as protect existing employment. In the private sector, as with Fera Science Ltd, our solutions are increasingly designed around financial models which incentivise revenue growth to the mutual benefit of both the client and Capita.
- User-centred service design: Clients increasingly recognise that services that are easy to use deliver downstream savings. By understanding customers' experiences, expectations and behaviours, we can proactively tackle the frustration and points of failure customers experience from a service, reducing the need for additional contact and improving customer loyalty.
- Digitisation and technology: We apply our own proprietary technology and business solutions, alongside bespoke and off the shelf solutions, to improve our clients' services with immediate effect and build in future proofing to ensure we can take advantage of new innovations. Shared platforms and the introduction of proprietary software solutions enable us to re-engineer and streamline administrative processes. Analysing big data along with other sources enables us to create highly personalised and productive customer interactions and the latest digital technologies allow us to smoothly follow and analyse customer touch points across multiple channels.

Delivering innovative services and solutions through our operating divisions

We maintain a straightforward and efficient divisional structure that supports Capita's major sales, its large scale customer management and business process management contracts, divisional mid-sized contracts and specialist businesses and service lines. This structure also supports our business model of controlled, profitable growth and provides ready access to the Group's wider specialist skills, talent and expertise, economies of scale and centralised procurement. It enables the business to balance investment in internal innovation, establish and grow strong leadership and management from within, encourage collaborative working and harness the best of technology, innovation and processes.

Each of Capita's nine divisions in 2015 was led by a divisional Executive Director, all of whom are members of the Executive Board along with the Group's heads of corporate development and communications, strategic business development and acquisitions.

The Executive Board meets monthly to share knowledge, experience and to discuss opportunities and challenges which can be addressed by cross-divisional support.

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

Divisional structure

As Capita consistently grows its skills and capabilities in support of changing client needs, and the business continues to expand its service offering, markets and geographical reach, further adjustments to the divisional structure will ensure that operations continue to be managed in an optimum manner.

In 2015, we introduced a new organisational structure which aligned similar capabilities and clients together, gave us an increased market sector focus and ensured we are aligned to how clients are making buying decisions.

The range of sectors in which Capita now has a presence is expanding and will continue to do so in the months and years ahead. Our services are increasingly harnessing new techniques such as leading-edge data analytics, behavioural science, digital and social interactions and innovative products and services, enabling us to deliver even greater value to our clients and their customers.

Divisional priorities and focus in 2016

In line with the Group's business model, our divisional priorities are to enhance their focus on creating new and additional organic growth opportunities within the businesses, continuous service and product innovation and development to ensure we are being proactive in addressing the needs of our clients and responding to evolving market conditions. To support future organic growth the divisions constantly look for opportunities to apply new and emerging technologies, and to add capability and scale or enter a new market segment through selective acquisitions.

See page **39** for further information on our divisions and their 2015 performance.

Generating profitable, sustainable growth continued

Operating businesses divisional structure as at end 2015

Group Board: 1 Non-Executive Chairman, 4 Non-Executive Directors and 5 Executive Directors

Executive Board: Divisional, Corporate and Business Development and Acquisition Executive Directors

Capita Europe
- Germany
- Switzerland
- Austria
- Poland

See page 41

Customer Management
- Telefonica/O2
- Customer management key accounts
- Multi-client portfolio
- BBC/Akinika
- South Africa

See page 40

Asset Services
- Shareholder & Treasury Solutions
- Corporate & Private Client Solutions
- Fund Solutions
- Banking & Debt Solutions
- Retail Banking, Mortgages & Remediation

See page 39

Insurance & Benefits Services
- Life, Pensions & Specialist Services
- Corporate Insurance
- Employee Benefits
- SouthWestern
- Travel & Events
- Insurance Services
- Managed Contracts
- India & Middle East

See page 42

Integrated Services
- Central Government Services
- Electronic Monitoring
- Tascor
- DWP PIP
- DCC Smart Metering
- TfL Congestion Charging & Parking Services
- Recruiting Partnering Project ('RPP')
- Fera Science
- Defence Infrastructure Organisation ('DIO')
- Primary Care Support England

See page 43

Local Government, Health & Property
- Local Government
- Procurement Services
- Enforcement
- Capita Health Partners
- Real Estate (inc. GL Hearn)
- Design, Engineering & Management Solutions

See page 44

IT Enterprise Services
- Technology Solutions
- Updata
- Applications, Cloud & Enterprise Services
- End User Services
- Managed Services
- Managed IT Solutions
- Electranet

See page 45

Workplace Services
- Capita Resourcing
- HR Solutions
- Security Watchdog
- Specialist Recruitment
- AXELOS
- Learning Services
- Fire Service College

See page 46

Digital & Software Solutions
- G2G3 & G2G3 Digital
- Education Software
- Secure Software & Technology
- Document Services
- Financial/Local Govt Software
- IT Professional Services
- Translation & Interpreting
- AMT-Sybex
- Evolvi
- Barrachd

See page 47

Group Support Services

Investing in resources and delivery infrastructure to support growth

Maintaining and developing our resources and infrastructure

From single services to transformational partnerships, we are able to draw upon the knowledge and resources from across the Group to deliver compelling solutions in a cost-effective way.

The breadth of our capability is fundamental to our major sales propositions, allowing us to draw on a range of assets and ensure we have the right resources in place to create bespoke solutions, tailored to our client's needs.

Our strategy of controlled and profitable growth has allowed us to invest and develop a highly refined set of assets and resources that underpin this offering.

A dedicated and skilled workforce

Having the right people, with the right skills, is critical to our ability to deliver a high quality of services to our clients.

Capita employs more than 75,000 people. Our employees are key to our success and we want to attract, develop and retain the very best people to deliver better outcomes for our clients. We want to have motivated people working for us and aim to inspire and develop them and provide them with a workplace that is supportive, safe and enjoyable.

Our values, and their associated behaviours, shape who we are as an organisation and underpin the success of our business.

Although Capita is a diverse business we have a common set of four values which are embedded right across the Group. In 2015, we took the essence of our existing 10 values and distilled them into a set of four, making them easier to understand and embed in business practices. Our updated values are: open, ingenious, collaborative and effective. These values, and their associated behaviours, shape who we are as an organisation and underpin the success of our business.

Welcoming transferring employees

Over 70% of our employees have transferred into Capita under TUPE (Transfer of Undertakings, Protection of Employment) regulations or through acquisition. In 2015, we welcomed 8,500 employees into Capita, with new colleagues joining in the UK, Germany, Austria and Switzerland. We have a tried and tested approach to managing large scale employee transfers and smoothly integrating new joiners into the business.

In 2015 we launched the 'Welcome to Capita' employee website, enhancing the induction experience for our new employees. This website gives new employees an insight into the breadth of services that Capita deliver, our values and the opportunities available for new employees.

Alastair, Partnership Director

Investing in resources and delivery infrastructure to support growth continued

Diversity and inclusion

Having a diverse workforce provides us with a range of different skills and expertise. In turn, this means our employees are open to gaining insight into our clients' specific needs and helps improve our own market competitiveness. We also want our teams to reflect the communities in which we work and we aim to employ local people wherever possible.

We have an equality and diversity policy to ensure that we do not discriminate at any stage through our recruitment and management processes. We have a speak up policy and encourage employees to raise any issues so they can be dealt with swiftly.

In our 2015 annual employee survey, 85% of our employees felt that Capita is committed to valuing diversity in the work place, with 91% feeling valued and respected by their colleagues. To embed our diversity policy, all our employees are required to complete online diversity awareness training every three years. We monitor compliance on a monthly basis.

Human rights

We are committed to respecting the human rights of our employees and those within the communities in which we work, in the UK and internationally. We published our first human rights policy, which applies to all our operations, in 2014. We support the principles set out in the articles of the United Nations' Universal Declaration of Human Rights, and the International Labour Organisations (ILO) Core Labour Principles.

With the introduction of the new UK Modern Slavery Act in 2015 we have developed a new policy detailing our approach and commitment to support the elimination of modern slavery. The policy can be found on our website at www.capita.com.

Development and training

Our ability to deliver for our clients rests on ensuring that we have the right people, with the right skills in the right places. We want our people to grow and develop their careers within Capita and offer training in a number of different formats including class room training, on the job, online training, coaching and group instruction. We also have an apprenticeship programme where employees can achieve a vocational qualification. In 2015, we invested £19m in training across the Group, up from £17m in 2014. By investing in our people we contribute to both their development and our overall performance as a business.

Developing future leaders

With support from our performance management system we are able to identify talented employees who have the potential to be one of our future leaders. In 2015 there has been a big focus on developing our internal talent, including actively reassigning managers to different areas of the business so they can share their skills and innovation. In addition, closely aligned to our four values, we have defined and communicated a clear set of Capita leadership standards across the Group. We have detailed succession plans in place to ensure we maintain stable leadership. In 2015, our retention rate for senior business managers across the Group was 98%.

In 2013, we launched our 'Lead the Way' two-year graduate programme. Due to the success of the programme we have continued to increase the number of placements every year, with 48 employees starting on the programme in 2015. The scheme is open to new applicants and existing employees who have graduated within the previous five years. The programme gives each graduate placements within different areas of the business so that they have the opportunity to shape their career path within Capita. They are also given the opportunity to work towards an MSc in leadership and management or other specific professional qualification.

Collaborative working

We have a straightforward, flat management structure, promoting knowledge sharing and encouraging entrepreneurship. We are constantly looking for opportunities where we can work collaboratively, bringing learning and expertise from a variety of disciplines together to generate new and innovative ideas. We have developed a number of internal tools to encourage collaboration across the Group.

Reward and recognition

We want to retain the best talent across our business and recognise that rewarding our people for their individual performance and contribution to our success is key to this. We offer remuneration packages and local performance schemes that are competitive within their markets. Senior directors are eligible for an annual bonus subject to the financial performance of the business. We also offer our employees the opportunity to take part in our share ownership plan.

Managing health and safety

The health, safety and wellbeing of our employees is of paramount importance across all our operations worldwide. We have an established Group-wide health and safety management system and our Group health and safety team work with managers to identify hazards and assess risks in each particular site and implement tailored procedures where needed. This includes assessing any new contracts and acquisitions.

We continue to monitor our health and safety performance and in 2015 our accident rate was 1.48 per 1,000 employees (2014: 1.49), showing a 35% reduction in reportable accidents from our baseline in 2004.

As most of our employees are office-based our main focus is on slips, trips and falls and workstation assessments. Where some of the incidences occur in some of our slightly higher risk businesses, for example, where we have lone, mobile workers, we will continue to look to introduce additional measures and training to try to reduce the incidence rate in this business and ensure our employees are safe at work.

Investing in resources and delivery infrastructure to support growth continued

Employee engagement

We know that increased employee engagement is good for productivity and employee retention. We engage with our employees in a number of ways, including our employee intranet, email, videos and face-to-face conversations with managers.

We also invite our employees to complete our annual employee survey. The survey is structured around our values and helps us track our progress, benchmark performance, identify areas of good practice and highlight areas where we need to improve. In 2015, 52% of our employees responded to our employee survey, up from 48% in 2014 with 72% of respondents saying that they felt Capita was a good place to work. The results identified us as a 'good employer' – with an employer of choice score 2.91 (classified as an employer with a high level of motivated and involved employees, who are supporters and advocates of the organisation and contribute to a positive work and customer environment. 4.00 is the maximum possible rating).

The results this year generally showed a positive increase, with scores improving for 34 of the 58 questions, showing enhanced staff perceptions. Some of the key improvements were linked to local manager communication, increased transparency in the reasons why decisions were being made and senior manager approachability.

The survey also highlighted areas where we need to work harder, including the way different businesses across Capita work together. This is something that we are looking to address, particularly given the pace at which the business is growing. We use the survey results to shape our strategy for the future.

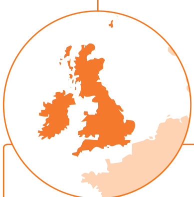
Policies

Our corporate values, business principles, ethical code of business conduct and Group policies collectively set out how we do business, engage with clients, and manage our relationships with customers, suppliers and third parties.

Our policies are communicated in a number of ways including through our employee intranet, and apply to all our employees, wherever they are based. As the Group is growing internationally we continually review and adapt our policies for suitability and effectiveness and ensure that we comply with, or exceed, the legal and regulatory requirements of the countries in which we operate.

We have zero tolerance of bribery and corruption and our values represent high standards of business conduct and integrity. All Capita business units and Group functions complete regular anti-bribery and corruption risk assessments, identifying and mitigating any risks. In 2015 all senior management were provided with anti-bribery and corruption training. In addition, all members of staff must complete financial crime training.

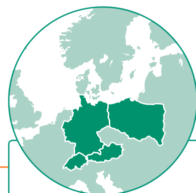
Multi-service delivery centres



UK, Ireland and Channel Islands

80 centres

The majority of our 75,000 employees are based in our 80 multi-service business centres across the UK, Ireland and the Channel Islands. These sites deliver the full life cycle of services from front end customer management to back office administration for all our clients.



Northern Europe

7 centres

Following the acquisition of avocis and Scholand and Beiling, in 2015 we brought together a number of our European operations outside of the UK, Ireland and Channel Islands into one single division, Capita Europe. Our sites in Germany, Switzerland, Austria and Poland now employ over 7,500 people, delivering a range of customer management, back office and professional services.

India 5 centres

Our five multi-service business centres in Mumbai, Pune and Bengaluru employ a total of 6,700 staff. The sites support a number of our UK clients with customer management, finance & accounting, analytics, application development and other IT related services.

South Africa 1 centre

Our delivery centre in Cape Town, South Africa, secured new clients and created over 700 new jobs during 2015, providing customer management services that continue to support our growth in the UK.

Dubai 1 centre

Our delivery centre in Dubai predominantly supports our Life and Pensions administration business, as well as providing coverage for other Capita businesses in the region.

Investing in resources and delivery infrastructure to support growth continued

Our infrastructure

Our delivery network consists of 94 multi-service centres in the UK, Ireland, Northern Europe, India, South Africa and Dubai. These are complemented by over 500 business sites, predominantly in the UK and Ireland, with smaller satellite offices in global locations supporting specific businesses and financial jurisdictions.

Our network of multi-service centres means we are able to leverage a mixture of service delivery options to offer our clients maximum flexibility, quality and cost effectiveness through onshore, near-shore and offshore locations. We also leverage our own experience as a large organisation to rationalise property and associated back office functions where appropriate.

For some clients, a long-term defined contract and cost profile is important to support their long-term strategy. For others, who face more seasonal changes in demand, a blended delivery model with greater flexibility is required. Our delivery network can flex and adapt to support both approaches, allowing clients to benefit from our scalable infrastructure and operations.

Our technology

Effective and robust IT infrastructure is key to supporting our current operations and future growth. As a fast-growing organisation, we are making ever-increasing demands on the systems that support this. We are constantly investing in and evolving the software and technology that supports our services, the Group's operations, our internal reporting and the transformation of our clients' services.

During 2015, we upgraded the majority of divisions to Microsoft Office 365. Migrating to the new platform has allowed Capita to enhance Group-wide internal communications and collaboration and reduce operational costs.

The year also saw the completion of an 18-month programme to re-platform SAP to Capita's state-of-the-art private cloud data centres. The upgrade has provided a modern and resilient home for systems that are used by the majority of our employees to manage HR and finance processes. Ensuring that we are deploying the most efficient technology internally, means we are able to deliver greater returns to our investors and further cost savings to our clients.

We are also increasing our investment in and development of software and smart technologies that support our clients needs, such as customer relationship; case and work-flow management systems, data analytics and robotic process automation. These technologies help clients provide consistent interactions for their customers, a joined up digital proposition and improvement in back office processes.

In 2015, we continued our strategy of internal innovation, acquisition of complementary organisations and forming strategic technology partnerships to add capability in this area and support our overall offering.

See acquisitions table on page **31**.

Our processes

Our track record of large scale staff and service transfers and transformation programmes means we have well refined processes to welcome staff, integrate operations and improve services. The breadth and scale of Capita's operations and infrastructure allow us to streamline administration, standardising processes and capitalising on economies of scale where appropriate.

We are able to deploy a number of different teams and processes to ensure new operations are successfully integrated into the Group:

- communications and engagement to welcome new employees and help them settle into the Group
- standardised Group-wide operational and financial reporting procedures
- IT infrastructure and processes
- shared multi-service delivery centres and a Group-wide property team
- HR processes such as payroll, pensions and recruitment
- other Group-wide standardised processes such as health and safety, risk, finance and procurement.

Alongside our efficient operating and financial structure, these robust processes allow us to contain central overheads and remain competitive. We share the benefits of our scale with our clients, creating efficient operating models for them and supporting their long-term aims.

Investing in resources and delivery infrastructure to support growth continued

Our suppliers

With a diverse supply chain of some 39,000 organisations and spend of around £1.8bn a year, we recognise that good procurement practices have a direct influence on our business and need to ensure that we work with suppliers who meet the highest ethical standards and comply with our responsible sourcing policy. We are able to use our scale to not only procure goods and services cost-effectively and share these benefits with our clients, but also to influence the social and environmental performance of our suppliers. In 2015, we conducted a review of procurement across the Group to ensure that we improve our sourcing capability and maximise the return on expenditure.

Our strategic suppliers are managed by our central procurement team. We also have divisional procurement teams who provide support and management of procurement activity at a local level, and ensure that our procurement strategies and policies are implemented. This model allows us to develop our strategic supplier relationships, manage growth in the supply chain, embed diversity in our supply chain and ensure we are procuring with the right suppliers.

We use an external online Corporate Responsibility (CR) performance assessment tool and benchmarking platform to help us manage our strategic suppliers, suppliers with a material supply chain risk or those with whom we spend over £1m. This is to assess their environmental performance, labour practices, including human rights, and fair business practices. A new section on compliance with the Modern Slavery Act will be introduced in 2016.

Using this tool and managing our supply chain effectively allows us to further identify any risks across our supply chain and take action to mitigate these risks. We assess the risks based on the amount we spend with the supplier, what they supply and where in the world they operate. Where we have acquired a new business our procurement team undertake a risk assessment of the business's suppliers as part of the due diligence process before they migrate to our supply chain.

Diversity in our supply chain

We aim to work with a diverse range of suppliers, and we actively encourage SMEs, voluntary and community organisations and social enterprises to be part of our supply chain. Currently 76% of our supplier base are SMEs. Where possible we support the communities in which we work by using local suppliers.

For further information, see our performance measures on page 59.

Currently 76% of our supplier base are SMEs. Where possible we support the communities in which we work by using local suppliers.

Amanda, Operational Support Manager

Divisional performance 2015

Asset Services

2015 financial summary

	2015	2014
Underlying revenue	£403.9m	£332.5m
Underlying operating profit	£100.3m	£81.9m
Underlying operating margin	24.8%	24.6%
Capex	£23.2m	£22.3m

Overview

Asset services includes shareholder solutions, fund solutions, mortgage and banking solutions, treasury and specialist financial services to corporate and private clients. Capita's clients and sponsors collectively entrust it to administer and support more than £300bn of assets across funds, mortgages, shares and local government treasury.

Our clients typically operate in or in association with regulated markets. The ongoing regulatory oversight and capital requirements are presenting both us and our clients with opportunities to positively change business models and enter new markets.

We are benefiting from an additional number of significant market drivers:

- the intent that the capital markets participate more fully in helping ensure accelerated economic growth in Europe
- the deleveraging of the bank balance sheets in Europe
- the ongoing disintermediation of the banking sector in the UK
- the aging population, in Europe in particular, and the associated expected growth in pensions and savings
- the growing understanding of 'Real Assets' market segmentation (Real Estate, Healthcare & Social infrastructure, Infrastructure, Aviation & Shipping) all of which Capita has representation in
- an emerging trend of pension funds and insurers diversifying into investment in credit products and illiquid and esoteric assets for which they require holistic management services that Capita is in a strong position to provide.

2015 highlights

We have continued to drive good revenue and profit growth in the division, supported by creating services that bring together the capability clients need from across our business and the wider Group.

During the year we made additional provisions for Arch Cru and Connaught claims, details of which are in note 25, page 139.

We continue to be the highest rated independent loan servicer in Europe by Standard & Poor's and Fitch. The business also retained its market leading position in both shareholder services, assisting more than 50% of all UK IPOs during 2015 and as the leading independent authorised Corporate Director provider. We help our clients deliver returns to their stakeholders through the support and involvement of our growing professional services team.

In August we successfully went live with the transfer to Capita of The Co-operative Bank residential mortgage administration operation, welcoming 750 new members of staff to our team. Combined with our 2015 acquisitions of Western Mortgage Services and Vertex Financial Services, we are in a strong position to take advantage of the opportunities in a market where challenger and traditional banks and building societies hold £1.3 trillion of residential mortgages on their balance sheets. (Source: Council for Mortgage Lenders)

Following the Government' s decision to pool 89 existing local authority pension funds into six wealth funds (each with assets over £25bn) we are providing support and input into the running of an Authorised Contractual Scheme for the 33 Boroughs of London. Initial launch was in December 2015 with further funds scheduled in 2016.

In addition, the Alternative Investment Fund Managers Directive has helped us develop our service propositions to the Private Equity, Hedge Fund and other alternative asset industries. We see this emphasis on regulatory change continuing and potentially accelerating through 2016 and beyond.

In 2015, we were appointed as backup loan servicer and derivatives support provider on a book of 29 loans and interest rate swaps secured on a portfolio of UK onshore windfarms. We expect to retire our role as back up servicer and assume the role of portfolio servicer in 2016. The client intends to use the portfolio as part of a strategy to originate new loans secured on renewable energy assets and we are helping them to set up this origination facility. This contract marks a diversification of our loan servicing book which has traditionally focused on Commercial Real Estate; and is being delivered by a multi-jurisdictional team from across our business.

Business development highlights

- During 2015, we started supporting the real estate market. By combining the relevant capability from Asset Services with Capita's wider local government, health and property businesses we have been able to develop services that can compete head to head with the major real estate players in the market. Our combined service proposition enables us to variously: source debt and equity investment; be the authorised fund manager; act as director or trustee of the asset holding structure; originate, design, project manage a development; value and recycle assets through their investment and operating life cycles.
- Our debt and banking business was engaged by a European bank to take over the servicing of their legacy banking assets in the Republic of Ireland. Our team will assume the role of loan servicer in 2016 for a portfolio of €4bn of loans on behalf of the bank. In 2015, our debt solutions business also launched in the Netherlands, servicing a private equity client's portfolio of non-performing loans acquired from a Dutch bank. We have deployed a local asset management team in Amsterdam supported by back office operating infrastructure in Ireland. This is an excellent example of cross-jurisdictional deployment to meet the needs of our international clients. We expect to grow our presence in the Netherlands and elsewhere in Europe as banks continue to shrink their balance sheets by selling non-core assets.

Investing in resources and delivery infrastructure to support growth continued

Customer Management
2015 financial summary

	2015	2014
Underlying revenue	**£590.6m**	£587.1m
Underlying operating profit	**£59.1m**	£60.7m
Underlying operating margin	**10.0%**	10.3%
Capex	**£30.3m**	£10.2m

Overview
The business helps its clients grow by supporting them with voice and digital contact centre services, including customer acquisition, customer services, order fulfilment, customer growth and collections.

The division operates across four primary sectors:

- Telecoms: clients are under increasing pressure to deliver compelling digital experiences, while offering cost-effective voice based solutions. The scope of the outsourcing opportunity has increased from service into sales/retentions, notably as a result of changing EU legislation. Recipient-led porting will enable customers to move more easily between providers, thus focusing clients' attention on the quality and timeliness of customer interactions.
- Retail: the shift to shopping online has increased the volume of customer contact across channels, partly as a result of customers querying the status of their order or delivery. Increasingly, the contact centre is becoming a revenue channel for retail clients, rather than simply a cost-effective servicing channel.
- Utilities: clients are under increasing regulatory scrutiny to demonstrate positive momentum in service proposition, complaints management and billing accuracy. This challenge is compounded by the introduction of SMART meters, which is creating an opportunity to change the engagement between a utility firm and its customers.
- Financial services: this sector is a significant route to growth. Our late-stage debt collection agency, Akinika, has a strong track record in retail banking and is looking to expand its footprint across the sector. In addition, we see good momentum in our early stage conversations with a number of lenders around our customer experience transformation proposition. This proposition complements Capita's wider remediation services.

2015 highlights
Capita has continued to consolidate its strong share in the outsourced UK customer management market and our transformational deals (notably O2, TV Licensing, Npower and Dixons Carphone) are performing well.

The customer management market is relatively under-penetrated in terms of outsourcing (14%) and clients' continue to see outsourcing as an important partnering opportunity to enable them to meet the challenges of cost pressure, channel shift and increasingly demanding customer expectations.

In 2015, we successfully acquired The Voice Group to strengthen our capability around end-customer acquisition and cross / up-sell. The business has performed in line with our expectations and has a strong pipeline for growth in 2016. Already, Voice has successfully won two pieces of work from the division's client base.

We have undertaken a number of initiatives to strengthen our operational capability and reduce our cost base. We have transferred responsibility for our IT infrastructure to our ITES division and recruitment, and learning & development requirements to our Workplace Services division. This will enable our division to benefit from Capita's expertise and scale in these areas.

Business development highlights
- We have invested in a series of proprietary and partner capabilities to deliver on our transformational commitments. Now used by our John Lewis operation, for example, our Exceler8 toolset is designed to drive service experience, contact centre engagement and operational efficiency.
- We also deploy tools to improve customer experience and cost-to-serve. For example, we have deployed a proprietary digital tool to capture voice-of-customer feedback, which is then 'gamified' on our agent desktop to enable our agents to 'compete' around quality and consistency of positive customer feedback. In our Thames Water contract, this has significantly contributed to an improvement in customer satisfaction scores.
- In our O2 operation, we have replaced entirely the webchat and IVR platforms and enhanced the functionality of both. We have also invested in new functionality in O2's portal application. As a result, we have seen a significant shift away from voice into self-serve, whether online or via interactive voice response (IVR).

Investing in resources and delivery infrastructure to support growth continued

Capita Europe
2015 financial summary

	2015	2014
Underlying revenue	**£178.5m**	£19.7m
Underlying operating profit	**£19.8m**	£2.3m
Underlying operating margin	**11.1%**	11.7%
Capex	**£3.0m**	£0.3m

Overview
Capita provides multilingual customer management, back office administration and BPO services from its European operations in Germany, Switzerland, Austria and Poland primarily to the telecommunications, utilities, financial services, retail and healthcare markets.

The division operates across five key vertical sectors: telecoms, utilities, financial services, retail and healthcare. These sectors are under similar competitive and regulatory pressures we are seeing in our UK customer management business. Our clients are demanding more cost-effective ways to run their customer operations and back office services and to simultaneously deliver a higher quality, higher value service for their internal and external customers.

2015 highlights
The key development in 2015 was the acquisition of avocis, a leading provider of customer contact management services in Germany, Switzerland and Austria. avocis has a strong position in the German speaking regions of Europe serving similar sectors to Capita's UK-based customer management business, with high-quality, long-term clients particularly in telecoms and utilities. Together with our tricontes (June 2014) and Scholand & Beiling (January 2015) acquisitions, allied to UK expertise gained in the relevant markets, this places Capita in a strong position to develop opportunities in the region including multi-channel solutions and models for digital transformation.

In June we formed Capita Europe, a new division combining our acquired operations with our nearshore administrative operations in Poland, under a single European management team.

It also secured a contract to act as an exclusive service partner for implementing a pioneering social media project for one of its key clients.

In December we were successful in winning a new five year customer management contract for a client in the telecoms sector, valued at £62m.

Business development highlights
- In Poland we expanded our market research services for healthcare clients in 2015 and now offer quantitative and qualitative market research, using extensive panels of physicians, specialists and pharmacies.
- In the field of patient management we collaborated with one of the largest clinical research organisations in the world and won a large contract to supervise patients all over Europe and South America. We see a large potential for the future and will strengthen our partnerships in this area.
- We collaborated with a leading software and services company to offer Visual IVR to our customers. We can now expand the IVR experience by providing visually guided menus on websites or smartphones. Visual IVR allows users to see each menu in the call flow visually and easily select menu options by touch instead of listening to a list of options over the phone and interacting with their voice.
- We also extended our support portfolio by adding live chat to our services. A positive online customer experience is essential for businesses. We can now provide 24/7 multi-channel employees that will perform a quality online support leading to happier customers and increased conversions.
- To ensure the highest level of competence regarding the use of social media tools, we are developing employees to become Capita social media 'ambassadors'. This not only includes a newly developed recruitment program, but also a thorough training in the use of the necessary tools/software that are required to get the best out of platforms like Facebook or Twitter.

Investing in resources and delivery infrastructure to support growth continued

Insurance & Benefits Services
2015 financial summary

	2015	2014
Underlying revenue	**£614.8m**	£728.7m
Underlying operating profit	**£54.7m**	£61.2m
Underlying operating margin	**8.9%**	8.4%
Capex	**£36.8m**	£45.8m

Overview
The division provides a broad range of business processing and specialist solutions to regulated markets including life & pensions, insurance, employee benefits and telecoms, as well as managing medical health and travel and events for all types of organisations. It operates across a number of geographical regions, including the UK, Ireland, the Isle of Man, mainland Europe, the Middle East and India.

Capita is the largest Business Process Outsourcer (BPO) and professional services provider to the UK life and pensions industry. We also operate the largest UK-owned employee benefits consultancy, providing services for over 1,200 clients and more than four million company employees and pension scheme members, delivering transformational, consultancy and administration services, underpinned by market leading, cloud-based technology.

The business delivers services for the commercial, Lloyd's and London markets and also provides insurance products for a variety of niche markets, delivering market solutions, back office insurance services, syndicate management and turnkey services through an in-house Lloyd's managing agency.

2015 highlights
In the year we launched a multi-employer pension scheme, Atlas Master Trust, and a pioneering data analytics service, Optimise, which has already saved clients around £17m by matching benefits plans more accurately to the employee demographic.

Working with The Pensions Regulator, the business helped ensure that some six million workers have now been automatically enrolled into a workplace pension. It continues to deploy innovative new technologies to replace ageing legacy systems for our life and pensions clients to enable them to provide a multi-channel service to their customers.

Similarly, in a year of record flooding our insurance business continues to drive growth with a new contract with Flood Re and the establishment of a new Lloyd's syndicate, Probitas 1492.

Supporting our clients to make necessary changes required by pension reforms introduced in April 2015 was a key focus for our life and pensions business, both in the UK and India. We conducted a review of the IT platforms on which we deliver our life and pensions administration capability. This review led to assets with a total net value of £76.7m being fully written down. In our employee benefits business, significant investment was made to upgrade the proprietary pension administration system to reflect the radical pension changes introduced in the 2014 Budget.

In the travel & events market we are seeing customer needs rapidly evolving beyond transactional travel and meeting bookings to services that use insight and behavioural analytics to really add value to their spend, an area where Capita has considerable expertise.

Following a strategic review, disposals were made of several specialist non-core businesses within the medical and insurance sectors. See page 117 for further details. In insurance, we have moved away from niche insurance broking and re-focused the business to deliver BPO services to our General Insurance clients – including our Capita Managing Agency business.

Business development highlights
- Capita India developed a robotic process automation tool, Fusion, which is helping some of our clients in the life and pensions and customer management sectors to automate simple systems and processes.
- Capita Employee Benefits utilises customer analytics to better understand clients' employees and how they interact with benefits. Its pioneering data analytics proposition 'Optimise' has saved just 10 of our clients more than £17m by designing a benefits plan that matches the employee demographic.
- The Pensions Regulator website, which is supported by Capita for hosting, design and content management, has been independently rated as the top performing site in the UK Central Government Sector.

Investing in resources and delivery infrastructure to support growth continued

Integrated Services
2015 financial summary

	2015	2014
Underlying revenue	**£452.8m**	£434.3m
Underlying operating profit	**£51.2m**	£64.5m
Underlying operating margin	**11.3%**	14.9%
Capex	**£27.4m**	£11.9m

Overview
The division brings together a number of major public sector contracts, providing services to both central government departments and the NHS including; Ministry of Defence, Department of Work & Pensions, Ministry of Justice, Department for Energy and Climate Change, Health & Safety Executive, Transport for London and NHS England.

2015 highlights
In September 2015, Capita took on responsibility for the delivery of NHS England's primary care support services. Through this £400m contract with Capita, NHS England's vision is to create modern, easy to use administrative and business support services, which are consistent across England, which help lower the administrative burden on primary care and achieve 40% savings by investing in new technology, processes and operational improvements.

Working with the MoD Defence Infrastructure Organisation (DIO) we have developed a strategy to reduce the size of the military estate, making it a smaller, cheaper and better estate, including the driving of efficient, cross-functional management of PFI and housing contracts.

Under our DCC Smart Meter Communication Licence contract we have designed and built a smart metering billing system for the Energy industry, that operates on the SAP platform and which can be used to support a complex charging methodology for many years to come.

As part of the electronic monitoring contract we are working with the Ministry of Justice to develop a number of innovations, including biometric fingerprint technology, to ensure the correct subjects are identified and tagged. The business is also delivering an alcohol monitoring service in South London with the aim of reducing drink-related crime and the number of offenders in custody because of it. We continue to run the service on the original platform as delays to the availability of the new GPS tags from a third-party is preventing the new service from being introduced as planned.

The DWP personal independence payments (PIP) programme continues to be a critical and challenging contract, however, as the latest National Audit Office (NAO) report evidences, we have made significant improvements that continue to enable DWP to make robust award decisions, and we are on track with our recruitment and retention of resources required to meet forecasted demand. We are currently undergoing a contract renegotiation aiming to reach a sustainable commercial position that provides value for money.

Business development highlights
- As part of the support services contract we are delivering for NHS England, we have established a user panel, made up of a diverse group of users, who help us design the new service by sharing their views and experiences, and by giving us their feedback on future services. We offer our panel members a variety of ways to get involved in service design, such as through surveys, polls and phone interviews, workshops and testing early versions of new services.
- ParkingEye's automatic number plate recognition (ANPR) based management system is being used by clients to provide remote enforcement, management information and alerting systems. The technology, which is adaptable across market sectors, is designed to ensure that car parks are used by individuals with a legitimate right to use them. ParkingEye's services are currently used by a number of private and public sector clients including Aldi, Morrisons, and a number of NHS Trusts.
- We acquired Constructionline in January following a competitive sale process by the Department for Business, Innovation & Skills, for whom Capita had successfully operated the service under a concession agreement since 1998. In its first year under Capita ownership, Constructionline has performed strongly in line with expectations, growing its substantial base of registered suppliers and supporting an ever increasing number of main contractors. A new leadership team has been put in place to drive further growth and enhance Constructionline's position in the procurement services sector.

Investing in resources and delivery infrastructure to support growth continued

Local Government, Health & Property
2015 financial summary

	2015	2014
Underlying revenue	**£680.3m**	£645.1m
Underlying operating profit	**£81.3m**	£71.3m
Underlying operating margin	**12.0%**	11.1%
Capex	**£15.3m**	£9.2m

Overview
This division brings together our local government, health partners, property infrastructure, enforcement & procurement businesses. Capita provides a wide range of property and related services, operates strategic partnerships, and delivers back office, middle office and customer services across local government, health, defence and the private sector.

Capita works with local government in a number of strategic partnerships, including in Europe's largest local authority, Birmingham, as well as those in Sheffield, Barnet, North Tyneside, Blackburn, Salford and Southampton. In Staffordshire our joint venture, Entrust, provides education support services within the region and beyond. In addition to partnerships and joint ventures, Capita is also the largest provider of discreet administration, IT, finance & accountancy, HR and customer-facing services to local government, including the collection of £6bn in revenue from two million households or businesses.

Capita works with the health sector, providing services from consultancy to patient-orientated design and infrastructure, performance service and technology, and has formed long-term strategic health partnerships with Sussex Community NHS Trust and Central London Community Health Trust.

We also employ 4,000 staff in one of the UK's top five multidisciplinary property consultancies, covering architecture, and environment & planning, running engineering and building projects, property and facilities management and helping our clients buy and get the maximum benefit from their commercial real estate.

2015 highlights
We have signed a strategic partnership agreement with Central London Community Health NHS Trust, the first of its type in the NHS. The partnership will see Capita deliver a range of services in back and mid office and will bring significant savings to the Trust. Capita will also generate value through the redevelopment of sites, enabling investment to deliver an improved environment for patients. Through the partnership, Capita will provide business intelligence and analytics to the Trust – using a range of tools developed to inform effective decision making for clinicians and supporting decisions to ensure the best use of resources. The focus of the partnership on improved use of the estate and workforce solutions will assist the Trust to address the key opportunities for efficiency set out in the Carter Review.

In local government our strategy has moved from delivering efficiencies produced mainly by streamlining and economies of scale, to one where a demand for increased transparency and evolving digital channels now drive key areas for improvement and enhanced customer satisfaction. Advanced forecasting of customer demand and effective 'real time' management, monitoring and control has created significant and sustainable efficiencies. In areas such as council tax and business rates, collections in year have resulted in an additional £50m for our clients. Our approach has provided the business intelligence for ongoing business process re-engineering and continuous improvement for our clients.

The rapidly increasing pressure on the adult social care budget means local authorities need to deal with immediate demand overload and prevent future demand from growing at current rates, while maintaining or improving quality of care. This has resulted in a number of new areas of activity for Capita. Innovative use of our core capabilities has allowed the development of immediate interventions, such as backlog maintenance for care package reviews and deprivation of liberty requests, where local authorities are seeing an unprecedented volume of enquiries. Moreover the financial and social benefit of enabling people to stay in their homes for longer and maintain their independence has seen Capita working with a number of clients and a technology partner to develop a new high-tech monitoring service in homes that not only allows bespoke monitoring but collects valuable data, which in turn can be analysed to plan personalised future care packages.

Business development highlights
- Capita Property & Infrastructure has developed a 10 year partnership with Genesis Housing Association, a 33,000 home property business based in London, to support the development of 1,000 units each year for the next decade. In a ground-breaking partnership that points the way for the future of housing associations, Capita provides all professional services for the acquisition, development and delivery of new homes. The partnership has already saved 20% against historic cost management fees, has secured two major development sites in London and promoted the development of close to 1,000 new plots from within the client's existing asset base.
- Meanwhile, the Barnet insight and analytics team continues to lead the way driving intelligence-led decision-making in local authorities. These include: using a targeted social marketing programme to treble the number of volunteer foster parents, increasing the number of children placed with families and creating a social isolation index to allow commissioners to identify people at risk of being socially isolated.
- Capita has developed a new health and social care platform with insight capability, including iCompare. The platform provides clinicians and managers with accurate, real time information to help them make effective decisions over the use of resources, comparing their performance with other similar organisations and reducing variation of performance.

Investing in resources and delivery infrastructure to support growth continued

IT Enterprise Services
2015 financial summary

	2015	2014
Underlying revenue	**£575.5m**	£581.4m
Underlying operating profit	**£54.9m**	£46.4m
Underlying operating margin	**9.5%**	8.0%
Capex	**£43.5m**	£23.1m

Overview
Capita IT Enterprise Services is a Cloud, IT services & specialist solutions provider, delivering transformational IT solutions for more than 3,800 clients. Digital infrastructure services comprise of utility-based private cloud platforms, infrastructure services, managed networks, unified communications and collaboration, digital workplace services and applications management.

The division serves a wide range of sectors: Local & central government, health, education, financial services, emergency services, energy & utilities, justice & defence, transport & travel, built environment, third sector, manufacturing and retail & leisure.

2015 highlights
In a highly competitive market, we were able to secure substantial new wins, supported by the capabilities of the strategic acquisitions that were completed. In addition, we were able to address a small number of contracts that were under-performing and to grow or extend our relationship with a number of key clients across all sectors. Networking, cloud, storage and security solutions all performed strongly.

Wins this year include a £20m framework agreement with Norfolk County Council, where we will deliver a wide range of connectivity and collaboration services for the council, including the management of wide and local area networks, Wi-Fi, unified communications and contact-centre-as-a-service.

We also signed new contracts with Northumbria Police and Gloucestershire Hospitals NHS Foundation Trust while our service integration and management (SIAM) contract with DVSA went live this year. This contract is set to deliver efficiency savings and modern platforms that support their digital transformation aims. Capita manages all third-party suppliers, which enables DVSA to have one accountable partner to support them. We have built an IT environment that delivers better services – for their people and customers.

We continue to focus on securing business on all key public sector procurement frameworks such as PSN, G-Cloud and RM1058, together with SWAN in Scotland and ICT services for education – helping to drive down the cost of procurement. For a number of local authorities, central government agencies and health trusts, we have been proven to deliver 25-30% savings through transformational IT.

Cost pressures across local government resulted in reduced requirements from our managed services business. However new opportunities identified in public sector networking and a growing demand for new models of bundled service support are expected to offset the more subdued managed services performance going forwards.

Business development highlights
As a founding member of the PSN Governing Body, we are widely recognised as a pioneer in the development of public sector networks, shared services and multi-agency safeguarding hubs. We currently support more than 50 public services networks across the UK for clients such as Essex County Council and Hertfordshire County Council. To further grow our secure IT infrastructure capability, Capita acquired Electranet, a secure IT network provider, which supports high profile government and private sector clients that require secure and effective networking and communication solutions.

During the year we have developed a number of new cloud services:

- Unified communications in the cloud: developed in collaboration with CISCO and hosted in Capita's secure, UK data centres, this delivers powerful, enterprise services such as instant messaging, voice, video, conferencing and presence on desktop phones, PCs, tablets and smartphones. With predictable, utility pricing and UK hosting, this enables clients to reduce costs, transform the way they work and guarantee data security and sovereignty – all without the need for significant capital expenditure.
- Contact-centre-as-a-Service: a highly resilient, multi-channel contact centre platform hosted in Capita's UK data centres. Built with Avaya, this integrated cloud platform offers a suite of services such as intelligent automated contact, workforce optimisation and process automation with enterprise wide reporting. Innovative customer experience applications enhance contact centre operations with call queuing and routing, call recording, speech recognition and 'open menu' IVR.
- Digital workplace services: a suite of secure cloud services built specifically for UK enterprises with security and regulatory compliance requirements. This combined platform brings together strategic investments in leading technologies from VMware for virtual desktop services, AirWatch for enterprise mobility management, Syncplicity for secure file sharing and Microsoft Office365 for collaboration. This service combines innovative technology platforms with Capita's business transformation and ITIL service management expertise. For our clients, it enables more efficient ways of working, increased productivity and security and reduced cost.

Investing in resources and delivery infrastructure to support growth continued

Workplace Services
2015 financial summary

	2015	2014
Underlying revenue	£609.9m	£556.7m
Underlying operating profit	£75.7m	£67.2m
Underlying operating margin	12.4%	12.1%
Capex	£11.7m	£20.5m

Overview
This division caters to the needs of our clients throughout the whole employment life-cycle, from pre-employment screening, search and selection, to temporary staffing, learning and development, payroll administration and HR advice.

2015 highlights
The business has secured new and extended contracts, with an increase in scope, in both local government and the nuclear industry and won its first recruitment processing contract in financial services, with William & Glyn's.

Our Network Rail and central government framework contracts continued to enjoy significant growth in 2015, and further wins to deliver permanent recruitment solutions across the Civil Service Resourcing framework, including an exclusive contract with the Foreign and Commonwealth Office have underpinned our public sector growth.

Our talent search and pipelining business has had another successful year, securing and delivering retained contracts with Avanade, BBC and Nuffield Health, and delivering services across 127 businesses, 90% of which are private sector.

We have developed a proprietary new candidate vetting and monitoring system VOLTi3, cutting-edge technology to future proof our business and position us at the forefront of our industry.

And we've won major new contracts with McDonald's, AXA Global and PA Consulting, Alstom payroll & Heineken UK, extended existing agreements with EE, BP and Dixons Carphone and secured contracts in brand new markets, including aviation.

We saw some weakness in hiring in central and local government in the run-up to the general election earlier in the year, but this eased following the election and an increased regulatory and legislative burden around reporting requirements on recruitment agencies relating to their supply of limited company contractors. Our supply teacher staffing business also experienced softer market conditions towards the end of 2015.

Government intervention in NHS procurement of locum staff through Monitor since October 2015 has had an impact on trading levels and margins in our healthcare recruitment businesses. The impact of these new rules has not been fully understood yet by NHS customers or suppliers.

Business development highlights
- During 2015, we developed online continuing professional development training for teachers and school governors covering essential topics in conjunction with our digital learning business. Meanwhile, we continue to offer school staff courses to support induction, refresher and professional training. The courses are CPD-certified and are reviewed every term to reflect legislative changes or topical issues enabling staff and governors to remain up to date and confident in their knowledge, raise standards and enhance school performance.
- Working with Capita's local government arm we now have a 'joined up' service to support local authority customers with overflow and project work generated through the introduction of the Care Act and have supported delivery of the Personal Independence Payments (PIP) contract by recruiting social care assessors.

Investing in resources and delivery infrastructure to support growth continued

Digital & Software Solutions
2015 financial summary

	2015	2014
Underlying revenue	**£568.0m**	£486.8m
Underlying operating profit	**£142.0m**	£120.8m
Underlying operating margin	**25.0%**	24.8%
Capex	**£12.4m**	£8.0m

Overview
Capita is a leading supplier of software, digital, document and secure technology-enabled solutions and services to private and public sector organisations.

Capita supplies specialist software and wider solutions to the education, local government, justice & emergency services, financial services, health, utilities & central government markets, and to clients in the UK, North America and Europe.

The business offers a broad range of services that include: gamification, digital transformation and development, secure software and technologies, local government and education software, mobile and big data solutions, geospatial solutions, business management software, travel management solutions, translation and interpreting, IT professional consultancy and cyber security services and IT resourcing.

2015 highlights
During the year the business made a number of tactical acquisitions, including:

- Sigma Seven, a provider of specialist geospatial software that allows users anywhere to access company files, organise their work, plan tasks and record data directly on to high quality digital maps. This helps organisations get the most from their data, map and enterprise systems, enabling field and office staff to work together more efficiently. Sigma Seven's clients include UK utility companies such as Scottish Power, UK Power Networks, Wales & West Utilities and Southern Water.
- Isys Group, with its proprietary workforce management software, specialising in all aspects of time and attendance systems, workforce scheduling, HR systems and employee screening.
- Business intelligence company, Barrachd, develops bespoke analytics software solutions that help customers detect, gather and track business critical information, helping them to identify problems and solve issues. It is also one of IBMs leading business analytics partners in the UK.

The business also successfully implemented its new proprietary control room system, ControlWorks, to South Wales Police, in addition to transforming the control rooms of the London Fire Brigade through the deployment of the Vision product. The business is also developing a new version of its market-leading schools software, SIMS, due for release in 2017, and further investment has been made in two other emergency services applications, PoliceWorks and SmartWorks.

Capita launched Pay360, a new simple and flexible customer payment service, allowing any size of organisation to take card payments how and where they choose. The service is aimed at small- to medium-sized enterprises.

In 2015 we secured the first Capita SIMS contract with an international customer, the Bahamas government. This was done in conjunction with our partner in the region EDU365.

Business development highlights
- Capita has brought together two of the most innovative mobile solutions in the UK utility market to create a next generation mobile working solution for our clients. Through the acquisition of AMT-SYBEX, Capita had Fieldreach, a mobile work management system which allows organisations to change their digital processes themselves, in a very flexible way. With the further acquisition of Sigma Seven, we have added high precision mobile GIS mapping. By integrating these products, we are now able to offer our customers a fully independent mobile worker solution with both highly accurate GIS mapping and flexible digital processes. For the first time ever, this gives our customers a "one-stop shop" solution – for example, one worker with a mobile device performing work associated with a particular piece of equipment (asset), updating disparate key data stores throughout the organisation, whether map-based or work-based, automating their business, improving data quality and timeliness, delivering greater efficiencies and ultimately improving the service they give their own customers.
- Using innovative sensor monitoring equipment, designed by Capita's housing management team and integrating with its core housing management system, our client Two Castles Housing Association will be able to capture and analyse household data such as air quality, temperature and humidity. The project is one of the first of its kind for the sector and will help tackle overheating and fuel poverty, as well as helping to provide services to vulnerable residents.
- MLS, our library software business, has been working closely with our IT solutions business to deliver the roll-out of their library software to all the primary and post-primary C2K schools in Northern Ireland and collaborating to deliver a more integrated solution between public and school libraries.

Rigorous controls and reporting

Effective controls and risk management

A key element in Capita's business model is the approach taken to support and control growth. Clear policies, procedures and robust systems are embedded across finance, operations, governance and risk management, led by a strong management team.

Managing our business

Capita's flat management structure, robust processes, and strong governance procedures promote accountability across the business.

Monthly Operating Board (MOB) reviews are the formal process through which financial and operational reporting is managed across the business. More informal collaboration is also encouraged through day-to-day reporting, team working mechanisms and incentive structures.

This straightforward reporting structure and culture of collaboration promotes knowledge sharing, encourages entrepreneurship and ensures robust service delivery for Capita's clients.

Adapting our transparent structures to a growing business

Capita has maintained its pace of growth across new business sectors, jurisdictions and regulatory footprints, all within the Board's risk appetite. We recognise that we remain under ongoing scrutiny by a number of significant stakeholders. These include, but are not limited to, our public and private sector clients, several UK and overseas regulatory authorities and, due to the presence we have in key contracts, oversight at times by parliamentary committees.

In recognition of the valid interests of these stakeholders, Capita's primary focus is on the successful operation of its business through robust performance tracking and risk management. In this way we can deliver to both our shareholders and stakeholders.

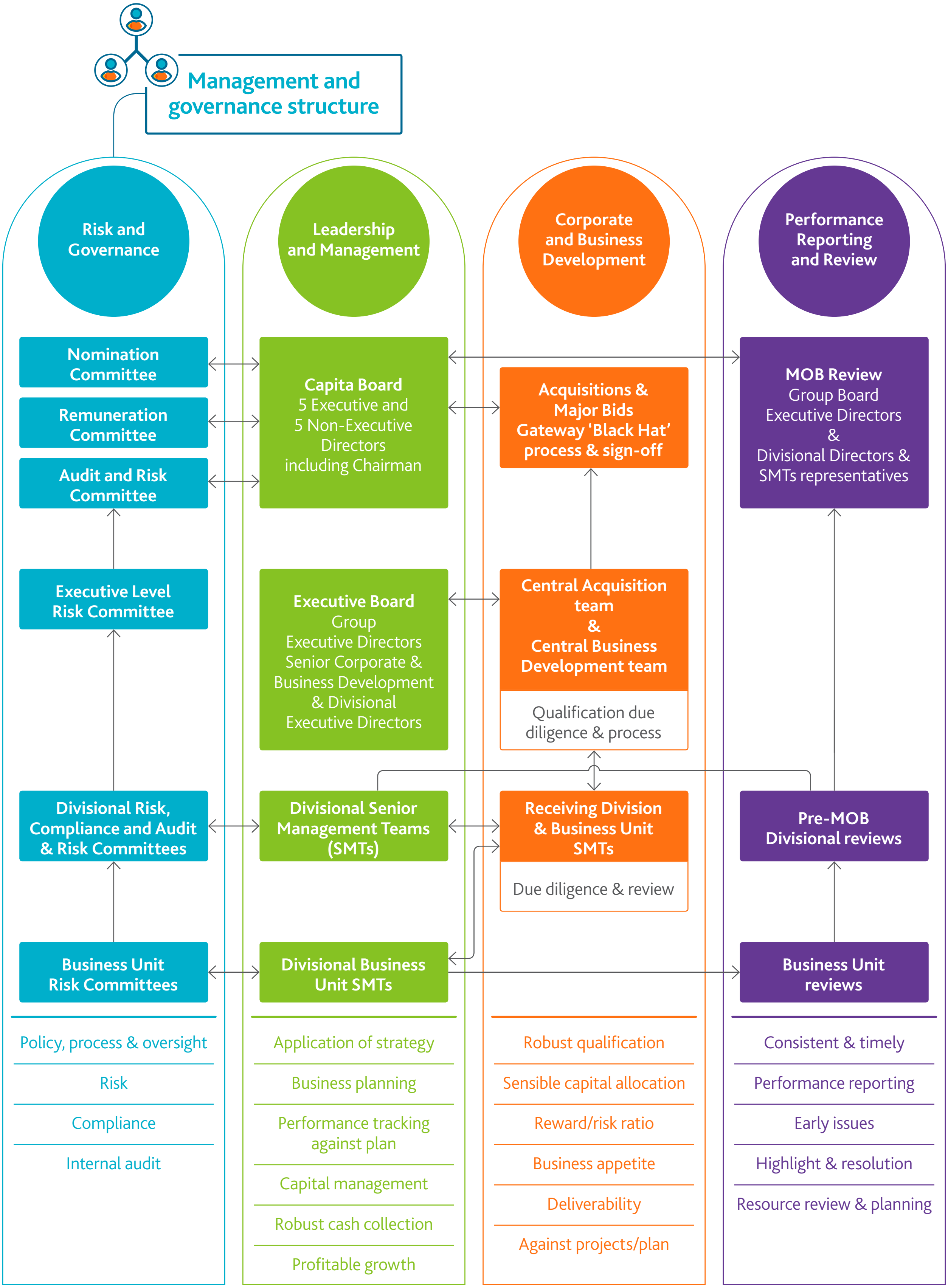
Central to this is ensuring all levels of management understand and execute their responsibility for the performance of their business, appropriate risk management and the identification and actioning of market opportunities.

Our focus in 2015 has been to embed the risk management framework introduced in 2014 in operational management as it is clear that effective risk management is owned and directed by business management, not just imposed upon it.

A straightforward reporting structure and culture of openness and collaboration ensures robust service delivery for Capita's clients.

Tom, Business Development Director

Rigorous controls and reporting continued



Rigorous controls and reporting continued

Business management

Capita's overall Group business strategy and model is based on the Board's strategic direction and risk appetite, together with the input of divisional managers who remain close to their markets and best understand the challenges and opportunities within them. A similar approach is adopted for acquisitions, where potential targets are identified either divisionally, to bolster specific propositions, or by the Executive Board as part of a more strategic direction for the business overall. The allocation of investment capital both internally and externally is carefully considered to ensure sensible returns and achieve real value for the business.

Every year, individual divisions develop their own business plans and strategy. These are then reviewed and challenged by the Board before being consolidated into the Capita-wide plan.

Having set the strategic direction for the business, the Board monitors the ongoing achievement of these underlying goals. This is primarily the responsibility of the joint chief operating officers (COOs) to whom the Divisional Executive Directors report on a regular basis; the joint COOs in turn report to the Board.

Performance management

Divisional performance is collated and discussed at 'pre-MOB' meetings, chaired by the divisional Executive Director and is then provided by the individual divisional Executive Directors to the Executive Board. Reporting business operations through this process allows the executive team to fully understand financial performance and projected outturns, key business opportunities and risks on a month-by-month basis.

Risk management

Capita's continued growth, history and ongoing innovation, as well as moves into new sectors and locations evidence that it is not a risk averse business. Key risks are, however, identified and managed through comparison to the Group's stated risk appetite (see below); where there is sufficient 'gap' between our residual risk level and our appetite, we identify and act on opportunities arising, thus making for profitable growth.

A key feature of Capita's growth has been its ever changing size and complexity. Each new sector and jurisdiction brings new considerations and the overall risk environment, within which we operate, continues to develop. During 2015, we have noted the following significant external risk factors:

- As in 2014, the likely impact of EU Data Protection Regulation upon firms such as Capita which are large scale data processors. We note that there has been an extended period of debate in Brussels on this important regulation and await its finalisation.
- Further public and political concern on 'cyber' risks, which is the activity of those who seek to use unauthorised access to systems and records to perpetrate fraud, theft and blackmail. A number of high-profile cases continue to evidence this increased risk which we recognise but also widen to include the security of all forms of commercial and personal data entrusted to us.
- Changes in international tax regimes which necessarily lead to changes for our clients across the world and whose tax policies which we may administer (although not design or advise upon).

As stated, our Risk Management Framework facilitates business management to identify and manage their risks. This is undertaken in reference to 22 risk categories and the appetite thresholds, both agreed by the Board annually. The reporting emanating from this is, in the first instance, for local risk governance to assess and challenge. These consolidate and feed up to Executive Risk Committees (one for each COO) who further assess the level of residual risk in the Divisions.

During 2015, we also introduced a set of 'corporate risks' which are higher level articulations of key risks which the Board can track. There are 12 in all, eight which are recognised as risks which can hamper profitable growth and four which, if crystallising to a significant degree, could have an immediate, material detrimental impact on the profit level and/or share price of Capita. Given these are defined and agreed by the Board, we have used them to populate our Principal risks on page 52.

Our risk appetite

Risk appetite, as defined in our risk management framework, is the degree of risk the Company is prepared to accept in the pursuit of its objectives before specific action is deemed necessary to reduce it. In determining the degree of risk appetite, Capita reconciles two thresholds:

- a risk tolerance: defined as the bearable level of variation Capita is willing to accept around specific objectives
- a risk critical limit/concern: defined as the maximum risk Capita can bear and remain effective in delivering its strategy.

Capita has established the tolerance and critical limit/concern risk appetite to help the business to understand the relative significance of any of the business risks faced and better prioritise risk monitoring and control activities. Specifically, risk appetite helps determine the degree of control that needs to be applied to a particular area of risk. To focus risk reporting, emphasis is clearly given to the reporting of risks that are categorised at uncomfortable or critical limit to ensure appropriate action is being taken.

Rigorous controls and reporting continued

Control functions

The Group Risk & Compliance Director has access to all members of the Board (Executive and Non-Executive Directors) and supports their ongoing training plan. He also has regular meetings with Executive and Divisional Directors throughout the year, ensuring the appropriate management of risks for Capita by:

- the development and maintenance of appropriate risk management policies and frameworks on behalf of the Board
- the provision, through oversight and effective challenge, of an ongoing assessment of risk across the Group's entities and informative reporting to Group governance
- strategic leadership and advice to the business on compliance and risk, reflecting the Group's agreed risk appetite
- supporting business development (bids, acquisitions, service and strategy development)
- ensuring honest, open and effective relationships with all of our regulators.

The Group internal audit function has free and full access to all activities, records, properties and employees throughout the Group.

The Group Internal Audit Director has access to and regular meetings with the Chairman of the Audit and Risk Committee and members of the Board. The remit of the Group internal audit function includes:

- reviewing the adequacy and effectiveness of the Group's governance, processes, controls and risk management strategies
- providing the Board, the Audit and Risk Committee and all levels of management with an objective opinion based on the results of its reviews and management's awareness and responsiveness to risk
- delivery of the Group internal audit plan as approved by the Audit and Risk Committee
- reporting regularly to the Audit and Risk Committee and the Executive Risk Committees on significant issues, risks and themes and management progress on addressing them.

Divisional risk and compliance teams support their divisional and business unit management with their risk management ownership and responsibilities under the risk management framework. The divisional risk and compliance teams are:

- 'owned' by the businesses within which they sit, but have escalation routes to the Group Risk & Compliance Director
- structured and resourced depending on the complexity/regulatory footprint of the operations.

The Audit and Risk Committee approves both Group internal audit and Group risk & compliance's annual plans and in turn is provided with regular updates on progress throughout the year, with regular reports on findings, issues, risk incidents and themes for their attention.

Managing our bids and acquisitions

We continue to maintain a disciplined approach to assessing our bid and acquisition targets. These structured assessments consider the pricing and risk profile in depth. Multidisciplinary teams are involved – from finance to property, operations to tax – and external advice sought where appropriate. Group risk & compliance assist businesses with this due diligence and are standing invitees to the key decision-making meetings.

The measure of the effectiveness of this work is the extent to which the outputs have led us to not proceed on deals. This means we are confident we can translate our bid pipeline into profitable and sustainable business. The issues that have arisen in 2015 which have, in some cases, led to us not proceeding include:

- tax issues identified in target company
- levels of residual operational risks arising
- contractual terms which we believe are contrary to our best interests.

A bids and acquisitions team in Group risk & compliance maintains oversight over the businesses' bid pipelines to monitor key risk indicators, such as changes to the regulatory footprint of the business and non-core activity, maintains effective challenge through risk-based oversight and support of bids and acquisitions and continues to promote disciplined standards of due diligence and integration.

Tackling cyber risks

Information security attacks are no longer rare events. The evolution of the cyber threat landscape presents material risk to all of Capita's business operations. The cost of executing a cyber attack is rapidly falling and attackers are more opportunistic in nature. Cyber attacks are becoming more sophisticated and increasingly successful at evading traditional infrastructure-focused security controls. During 2016, cyber threat assessment workshops will be run for Capita management teams to help them better understand and mitigate cyber risk. The workshops will help managers identify, quantify, and ultimately address high impact cyber risk on their business operations, with mitigation and contingency planning.

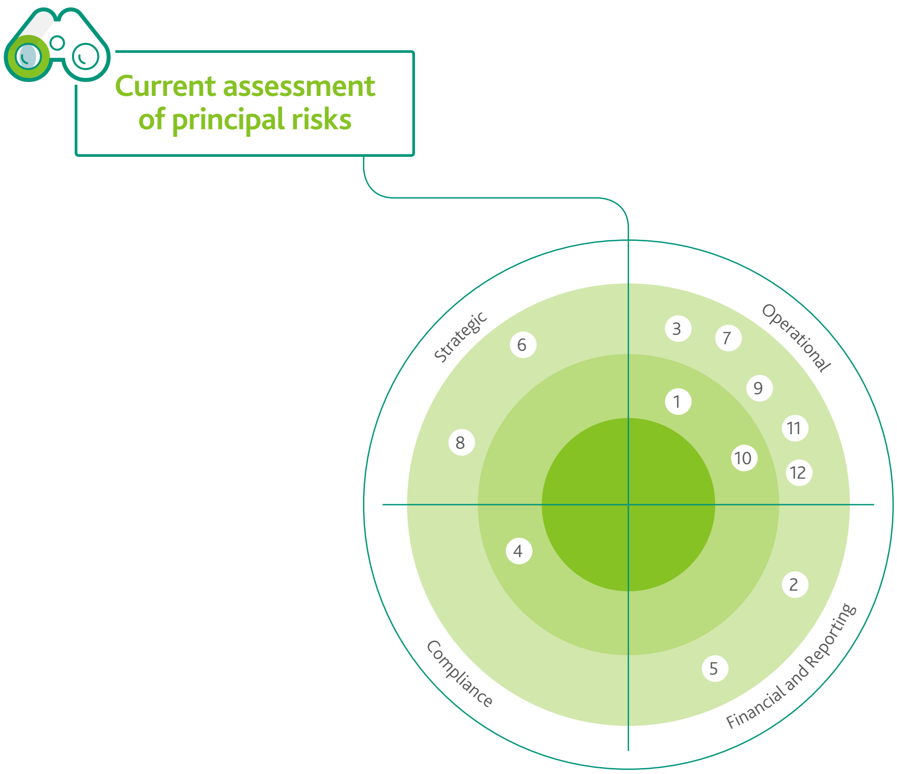
Rigorous controls and reporting continued

Principal risk categories

Corporate risks to the objectives of Capita plc

We operate a total of 22 risk categories within the risk management framework which are kept under regular review. In accordance with provision C.2.1 of the 2014 revised Code, the Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The Board has now defined 12 corporate risks which represent the principal risks to the objectives of Capita plc (our 'top down' risks). Our risk governance process maps the output of the 22 categories ('bottom up' risks) against these corporate risks and thus ensures these are monitored on an ongoing basis across all levels of the business.



Current principal risk categories

1. Significant failures in internal systems of control
2. Lack of corporate financial stability
3. Failures in information security controls
4. Legal/Regulatory Risk
5. Adverse financial/business performance
6. Failure to innovate
7. Increased internal business complexity
8. Adverse changes in national, international political landscape
9. Operational issues leading to reputational risk
10. Operational IT risk
11. Failure to effectively manage Group's talent and human resources
12. Weaknesses in acquisition and contracting life cycle

Residual risk rating

- Critical
- Uncomfortable
- Tolerance

1 Significant failures in internal systems of control

Potential impacts on Capita

Operational, financial and regulatory risk events

Consequent client loss

Consequent regulatory or legal action

Consequent redress and remediation costs

How are we managing the risk?

Operation of risk management framework

Operational frameworks, where appropriate, for key processes

'Three Lines of Defence' control functions

Comprehensive internal audit programme

Whistleblowing policy

2015 changes

Continued roll-out of risk management framework across all Capita businesses, including new acquisitions

Strengthening of local risk governance and oversight of internal audit actions

Refresh of risk event/incident reporting process

2 Lack of corporate financial stability

Potential impacts on Capita

Inability to economically fund ongoing business

Further financial demands from creditors

Inability to pay suppliers, staff

How are we managing the risk?

Ongoing monitoring of cash flow

Strong treasury function

Comprehensive tax policy and management

2015 changes

Continued diversification of secure funding sources for growth

Investment in Group financial systems

Consideration of formal credit rating work to open up new funding as required

Rigorous controls and reporting continued

3 Failures in information security controls

Potential impacts on Capita

Significant financial penalties

Loss of licence

Restrictions on trade

Reputational damage

How are we managing the risk?

Detailed information security policies and practical standards

Dedicated Group security function

Threat assessment reviews undertaken

Incident management process

2015 changes

Increased Executive level information security governance

Investment into formal Infosec network across local businesses

Refreshed training for staff

New social media use guidelines and training

4 Legal/regulatory risk

Potential impacts on Capita

Significant financial penalties

Loss of licence

Restrictions on trade

Reputational damage

How are we managing the risk?

Risk and compliance teams across Group and business level

Co-ordination of regulatory

Executive risk governance focus on regulated businesses

Group legal and commercial teams

Whistleblowing policy

2015 changes

Work to understand and manage wider regulatory risk in non-FS regulated sectors (for example utilities)

Introduction of 'Conduct Risk' Framework to facilitate and track key conduct risks

Non-UK expansion requiring further investment into systems/knowledge

Strengthening of commercial teams and training on standards

5 Adverse financial/business performance

Potential impacts on Capita

Poor return on capital

Adverse share price impact

Funding issues

How are we managing the risk?

Strong monitoring of performance through MOB process

Cash conversion discipline applied through management targets

Monitoring of ROCE and cash conversion at Divisional and Group Board

2015 changes

Group Finance Director focus on ROCE

Initiatives on organic sales and innovation to sustain growth

6 Failure to innovate

Potential impacts on Capita

Competitor gains

Degradation of markets

Client attraction/retention issues

How are we managing the risk?

Innovation programme in digitalisation since 2014

Other development of products and services to meet changing market needs

Divisional management cross-working to support innovation

M&A strand on identifying and acquiring 'innovative' capability

2015 changes

Further service development and sales on 'digital transformation'

Incubator initiatives

Refresh of corporate values emphasising innovation

7 Increased internal business complexity

Potential impacts on Capita

Diseconomies of scale

Insensitive talent retention and reward processes

System complexities

Opportunity cost in sales and organisational efficiencies

Cost differentials across similar businesses

How are we managing the risk?

Ongoing review of internal organisation, matching divisional structures to most appropriate go-to-market approach

CIO initiative on internal communications and system enablers

Group services focus on 'facilitating' not 'frustrating' operational businesses

2015 changes

Divisional reorganisation to reflect market

Further investment in talent and identification of next generation of leadership

Systems refresh focusing on internal communications efficiency/effectiveness

Rigorous controls and reporting continued

8 Adverse changes in national, international political landscape

Potential impacts on Capita

Threats to contract/market environment regardless of service success

How are we managing the risk?

Continued diversification between public and private sectors

Active tracking of key UK, EU and other policy changes

Continued focus on public sector and trade association relations

2015 changes

Increased political, economic, social and technological tracking by Exec Risk Committees

9 Operational issues leading to reputational risk

Potential impacts on Capita

Poor investor view

Market degradation

Client attraction/retention issues

How are we managing the risk?

Maintenance of Group PR team

Commitment, through corporate values, to openness and encouragement of escalation of significant issues

Proactive communications to investor community

Active relationships with client PR teams

2015 changes

Further investment in strength of PR teams reflecting growth of Capita

Use of incident reporting processes to support timely escalation

10 Operational IT risk

Potential impacts on Capita

Operational losses

Uncompetitive propositions

Control failings

How are we managing the risk?

CIO IT risk register

Executive governance of IT Security risks

IT issues actively tracked in RMF

2015 changes

Significant investment in strengthening Divisional CIO teams to drive local business IT needs

Greater control and oversight of efficacy of IT spend by Group CIO

11 Failure to effectively manage Group's talent and human resources

Potential impacts on Capita

Opportunity cost

Costly turnover

Contract issues

Key person risk

Inability to replicate past corporate growth

How are we managing the risk?

Group Head of Talent and team separate from Group HR

Employee survey to gauge staff concerns

Comprehensive benefits programme to reflect diverse staff population

Regular review of staff turnover and other metrics

2015 changes

Talent strategy approved by Board

Investment in new talent management systems

Introduction of consistent and formalised approach to succession planning

Pilot of high potential mentoring scheme

Leadership induction introduced

Investment in 'Investor in Young People' accreditation

12 Weaknesses in acquisition and contracting life cycle

Potential impacts on Capita

Unplanned losses

Senior management distraction

Contract degradation

Client issues

How are we managing the risk?

Proven due diligence process

Operation of 'Black Hat' approvals process for all bids, acquisitions

Strong due diligence and acquisition policies under regular review

Employment of dedicated teams for due diligence in key risk areas

Use of outside expertise as required

2015 changes

Consolidation of sales leads through Group business development to facilitate consistency

Alignment of due diligence risk reporting with risk management framework.

Viability statement

In accordance with provision C.2.2 of the 2014 revised Code, the Directors have assessed the viability of the Group over the three-year period to 31 December 2018 taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report above. Based on this assessment, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

The Directors believe this period to be appropriate as it is supported by our strategic, business and budgetary planning cycles. Within the overall Group strategic plan, detailed divisional business plans and budgets are prepared annually for a 12-month period and, in addition, financial models and projections are prepared for longer periods. A period of three years has been chosen because, although forecasts are prepared for longer periods, there is inevitably more uncertainty associated with a longer time frame and the Directors have a reasonable confidence over this time horizon. The period chosen also aligns with the long-term incentive plan (LTIP) performance element of the Directors' remuneration policy which is based on performance periods of three years.

As noted on page 52, the Directors have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and actions to mitigate them are discussed above. Our risk management and robust processes are also set out on pages 48 to 54.

Our assessment of the Group's prospects is based on its current position, its prospects as underpinned by the business planning and forecasting processes taking into account Group strategy and risk appetite and management. We have also conducted stress testing and sensitivity analysis of the impact of various severe but plausible potential scenarios involving the threats posed by these principal risks in order to test the resilience of the Group taking into account the efficacy of possible mitigating actions. These have included (but not limited to) scenarios in respect of information security and regulatory risks, the efficacy of systems and controls and wider economic impact on Group funding.

In all cases the stress testing looked at immediate cash flow impacts as well as longer-term impacts on revenue and sales growth and business attrition. The Directors considered mitigating factors that could be employed when reviewing these scenarios and the effectiveness of the actions at their disposal, which were applied to the models. The main action identified was a postponement or halting of the Group's acquisition programme.

Our wider corporate responsibility (CR)

We believe that operating responsibly is fundamental to creating long-term value for all our stakeholders – our shareholders, employees, clients, their customers, suppliers and the communities in which we work.

Our CR strategy

We consult with both our internal and external stakeholders regularly to ensure we are addressing their needs and use their feedback to inform our decision-making and to enhance our reporting.

As our corporate responsibility (CR) strategy is directly linked to our business strategy, information relating to our social and environmental impact areas is integrated throughout this report including how we manage our people and our suppliers.

We want to continually drive improvement and have set a number of non-financial KPIs around each priority impact area, measuring and reporting our progress annually. See page 13 for details.

By managing our business responsibly we reduce risks across our operations. More information about potential risks and how we mitigate against them can be found on page 48.

CR leadership and governance

Accountability for our CR programme sits with the Group Board with the Group Finance Director, having overall responsibility for our strategy. Each Executive Director is responsible for one or more priority impact areas.

The CR steering group, which includes functional heads from key areas, is responsible for implementing the Group's strategy, providing guidance to the business units and reporting progress to the Board.

It meets throughout the year to review and challenge the Group's approach, impact areas and risks and opportunities. In 2015, the topics covered were our approach to the Modern Slavery Act, our supply chain management, our new energy reduction programme and various employee engagement campaigns.

The Group is supported by a central CR team and a number of employee networks who ensure that our approach is communicated and embedded across the Group. The monthly reporting process also provides a forum through which any opportunities and challenges can be escalated and addressed.

Running a resource-efficient business

Good environmental management is important to us and we are committed to playing our part in tackling climate change and resource scarcity. We know it's important to our clients and it can help us achieve long-term cost savings. We take a proactive approach to managing and minimising our impacts on the environment, both direct and indirect. By doing this we are also managing risk to our operations, including having business continuity plans in place, for example, to mitigate if there are issues which prevent our employees getting to work.

Managing our impact

We're largely an office-based business. Our main impacts come from carbon emissions generated from energy use at our sites and through business travel, so this is where we concentrate our efforts. We also look to manage our resource use and waste management where possible.

We have an environmental policy outlining our approach and our environmental management system is based on ISO 14001. A number of our businesses in the UK and internationally, most notably our property & infrastructure and customer management operations, have gained external accreditation where it is appropriate. At the end of 2015, approximately 22% of our employees were based at ISO 14001 accredited sites.

We also engage our people to raise awareness of our impacts and in 2015 we held a 'Green Week' campaign highlighting areas where they can take action, focusing specifically on reducing business travel. We also work with our suppliers to help reduce carbon footprint across our supply chain.

Our wider corporate responsibility continued

Business travel
We have green travel plans at a number of our sites and actively encourage the use of video and teleconferencing. In 2015, we launched our 'smarter working' initiative, encouraging our employees to reduce business travel by promoting video and teleconferencing as alternative solutions. Over the initial two-month period we reduced our business travel by 45%, reducing our carbon emissions and making costs savings of £555k. We have continued to see a reduction in travel during the rest of the year.

Managing our carbon emissions
We've reported our carbon footprint since 2004 and in 2015, our carbon emissions were 124,329 tonnes CO_2eq (scopes 1, 2 and 3) representing a year-on-year decrease of 11% (2014: 139,672). This decrease was down to a dramatic 28% reduction in business travel emissions – 82% reduction in air, 45% reduction in rail and 12% reduction in car emissions, partly as a result of our 'smarter working' initiative.

In 2010, we set ourselves a target to reduce our carbon intensity (scopes 1 and 2) by 4.5% a year. In 2015, although our carbon emissions for scopes 1 and 2 increased to 88,280 (2014: 84,103) due to the increase in the growth of our international operations, our carbon intensity actually decreased to 15.1 from 19.2.

CR strategy and priorities

We focus on four priority areas which have the greatest economic impact on our business, are of the most concern to our stakeholders and which have the potential to support our future business growth.

Employees
Engaging and supporting our people.

Communities
Driving positive change and addressing local need through collaboration with clients and partners.

Suppliers
Building successful supplier relationships and a responsible supply chain.

Environment
Running a resource efficient business and minimising our impacts.

Timothy, Contact Centre Team Leader

Our wider corporate responsibility continued

Energy usage

Reducing energy use in our offices is a key priority. With the introduction of the Energy Savings Opportunity Scheme (ESOS) at the end of 2015, our environment team have reviewed our reporting processes and data capture to ensure that we meet our obligations ahead of our first energy audit this year. We have set ourselves a new target for 2016 to reduce carbon usage by 10% at all of the sites that are within the scope of the CRC Energy Efficiency Scheme. Our environment team have created toolkits and will be delivering training to our facilities managers in order to help them implement measures to achieve these savings. The ESOS audit will also help to identify further energy saving opportunities.

Client services

In addition to minimising our own impacts our property and infrastructure team has been working with clients to help manage their environmental impacts, including developing and delivering practical energy solutions resulting in better and more energy-efficient buildings and providing consultancy on flood risk and water management.

Waste management/resource use

We do not have a formal Group-wide waste management system in place due to the diverse nature of the sites where our employees are based. However, we do strive to use our resources efficiently and avoid generating waste.

We set ourselves a target to recycle 80% of our waste at our 20 largest waste producing sites by 2015 and at the end of 2015 we had recycled an average of 81% at these sites.

We actively encourage recycling and have a number of Group-wide schemes for paper, consumables such as printer cartridges, mobile phones and redundant IT equipment.

Although our water usage across our sites is not significant, we endeavour to conserve this resource. Where we have direct control over a site, we have made efforts to reduce our water usage, for example, installing low flush toilets, low flow taps and urinal controls.

We exceeded our target to recycle 80% of our waste at our 20 largest sites by the end of 2015.

Rose, Marketing Manager and Katrina, Marketing Director

Our wider corporate responsibility continued

Summary of performance measures

		2015	2014
People			
Employee retention:			
Manager retention rate (Executive Directors and senior management teams)	KPI	**98%**	97%
Overall employee retention rate	KPI	**81%**	78%
Health and safety (accident frequency rate per 1,000 employees RIDDOR)		**1.48**	1.49
Employee diversity:			
Male/female split		**41,046 male (55%)/ 33,766 female (45%)**	34,744 male (51%)/ 33,162 female (49%)
Male/female split for senior management (executive directors and senior management teams)		**81 male (80%)/ 20 female (20%)**	73 male (80%)/ 18 female (20%)
Male/female split for Board of Directors		**7 male (70%)/ 3 female (30%)**	5 male (56%)/ 4 female (44%)
Employees from ethnic minority groups[1]		**22%**	23%
Employees working part-time out of total workforce		**15%**	16%
Employees by location:			
Onshore		**78%**	86%
Offshore		**11%**	10%
Nearshore		**11%**	4%
Suppliers			
Annually audit all strategic suppliers	KPI	**100%**	100%
Environment			
Total carbon footprint (scopes 1, 2 and 3)	KPI	**124,329 tonnes CO_2eq**	139,672 tonnes CO_2eq
Carbon intensity for whole Group[2]		**15.1**	19.2
Conference calls made		**534,504**	456,707
Undertake environmental compliance site audits twice a year		**100% audits completed**	100% audits completed
Community			
Total community investment (using London Benchmarking Group methodology)	KPI	**£2.3m**	£2.2m
Total corporate donations including support for our charity partner and matched funding scheme, other community initiatives and disaster appeals		**£388k**	£351k

1 Based on those employees who disclosed their ethnic origin in our annual survey.
2 Scope 1 & 2 (tonnes CO_2/£m) offices only.

Our wider corporate responsibility continued

Community and charity initiatives

As a responsible business we are committed to making a positive impact in the communities where we work and deliver services for our clients. We do this in a number of ways – as a major employer we contribute to the wider economy, creating new jobs and using local suppliers. We also create tangible benefits for the local community through our client work, supporting clients to transform and improve their services and delivering cost savings for the public sector which can be spent on improving frontline services.

Community initiatives

We aim to go beyond our contractual obligations to help improve the social and economic development of our local communities. We have a number of programmes at both a Group and business level and align our support to focus on tackling the key issues in the markets that we operate in. We build long-term relationships with charities, SMEs and voluntary organisations that work in these areas, supporting them through our community programmes as well as providing pro bono advice and mentoring to help build capacity and long-term sustainability.

We also work collaboratively with our clients, suppliers and local businesses on our programmes to help maximise our impact on the community. Through building these relationships this can also help inform our client work.

We encourage our employees to support our programmes and volunteer in their local communities, using their skills and experience to make a meaningful difference. We recognise volunteering also brings business benefits, developing skills, improving morale and retention rates. In 2016, we will be refreshing our volunteering scheme, mapping our activities more closely to the core skills we want our employees to develop to help them achieve their full potential.

We will review our focus for 2016 to ensure our initiatives are aligned with our business objectives. In addition, we will look at our community programmes across our new businesses outside of the UK, introducing new programmes to address local need if appropriate.

All our community-related activity can be found online, visit our website: www.capita.com/responsibility

Charity support/partnership

We have a corporate charity partnership, chosen by our employees. Since July 2014, we have been supporting The Prince's Trust which works to support disadvantaged young people, including those in care. We leverage our skills, share our expertise and use our workforce to help the Trust give young people the opportunity to develop life-long skills so that they are equipped for the future. In 2015, we provided pro bono consultancy support as well as working with one of our clients to provide support on one of the Trust's development programmes and provide career awareness support.

Our employees also fundraise for the charity and have raised over £500k since the partnership began through a number of employee engagement events, matched funding and sponsorship.

Measuring our impact

We track and measure the value and impact of our community investment activities using London Benchmarking Methodology. This allows us to understand and evaluate both the business benefits and the social impacts of our activities and ensure we are achieving our aims. We estimate that in 2015, our total community investment was £2.3m an increase on last year, based on data collection from approximately 45% of the business. We continue to work hard to increase our visibility of activity across the Group to improve our data capture.

More information on our programmes can be found on page **59**.

On behalf of the Board:

Andy Parker
Chief Executive

Nick Greatorex
Group Finance Director

24 February 2016

Governance

This section of our report introduces our Board members and contains our Directors' report, which consists of the Corporate Governance Statement, the Audit and Risk Committee report and the Remuneration report.

Corporate governance statement

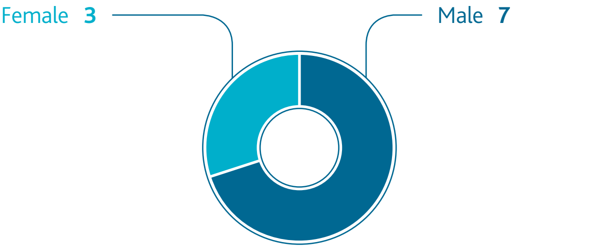
Committees

Board members

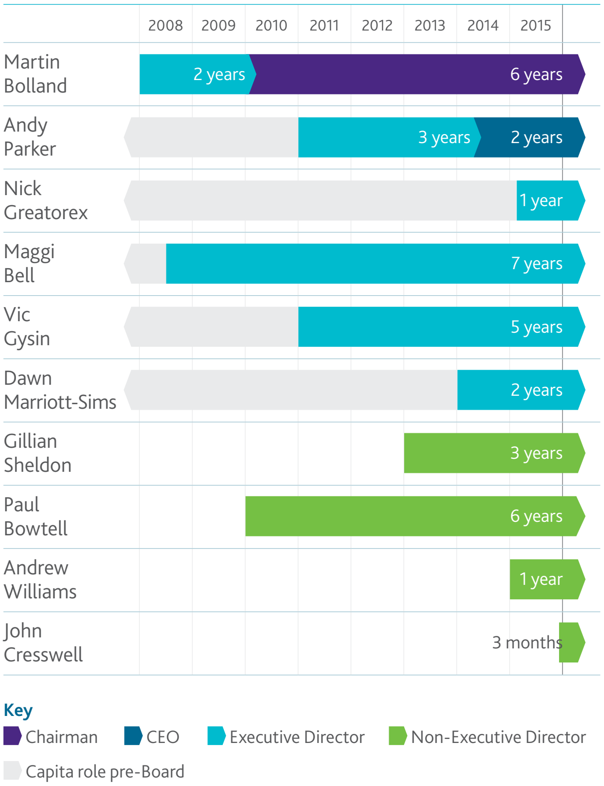
During 2015, the Board comprised of ten directors, made up of the Chairman, Chief Executive and four other Executive and four independent Non-Executive Directors.

We have a talented and substantial team in place to support our continued growth. As the Group continually grows and diversifies, we regularly review the Board composition to ensure it meets the needs of the business.

Balance of Directors



Length of tenure as Board Directors



Non-Executive Directors

Martin Bolland
Non-Executive Chairman
Date appointed to Board: 2008

Key skills and experience:
Chartered Accountant;
BA from Cambridge;
Previously senior operational positions within Lonrho Group and founding partner at Alchemy Partners.

Other current appointments:
Senior Adviser to Alchemy Partners; Chairman of MXC Capital Advisory Board.

Committee memberships:
Nomination (Chair).

Independent: No.

Gillian Sheldon
Senior Independent Director
Date appointed to Board: 2012

Key skills and experience:
Substantial experience of advising boards across a wide range of complex situations and transactions; Worked for seven years at NM Rothschild & Sons.

Other current appointments:
Senior banker at Credit Suisse; Trustee of BBC Children in Need.

Committee memberships:
Audit and Risk; Nomination; Remuneration.

Independent: Yes.

Executive Directors

Andy Parker
Chief Executive
Joined Capita: 2001

Board responsibilities: Managing and developing Capita's business to achieve the Company's strategic objectives.

Additional Group responsibilities:
Group charitable approach.

Previous experience in Capita:
Deputy Chief Executive (June 2013–March 2014); Joint Chief Operating Officer (2011–2013) overseeing non-financial services operations; Divisional Director for Capita's ICT, Health and Business Services Division; Senior Divisional Finance Director.

Other current appointments: None.

Nick Greatorex
Group Finance Director (from 1 March 2015)
Joined Capita: 2006

Board responsibilities: Overall control and responsibility for all financial aspects of the business's strategy.

Additional Group responsibilities:
Property; Environment; Health and safety; Legal and commercial relationships; Trustee of the Capita Pension and Life Assurance Scheme; Supplier relationships.

Previous experience in Capita:
Executive Director for Life & Pensions, Insurance & Benefits Services; Commercial director on major bids and contract implementations.

Other current appointments: None.

Board members continued

Non-Executive Directors continued

Paul Bowtell
Non-Executive Director

Date appointed to Board: 2010

Key skills and experience: Chartered Accountant; Extensive experience across the UK retail sector; Significant financial and commercial knowledge; Previously on the Board of Tui Travel PLC as Chief Financial Officer and also on the Board of First Choice Holidays PLC and SThree PLC. Other senior positions held with British Gas, WHSmith and Forte.

Other current appointments: Chief Financial Officer of Gala Coral Group and will be the CFO of Ladbrokes Coral Plc following the merger in 2016.

Committee memberships: Audit and Risk (Chair); Nomination; Remuneration.

Independent: Yes.

Andrew Williams
Non-Executive Director

Date appointed to Board: 2015

Key skills and experience: Chartered Engineer; Chief Executive of a FTSE 250 company, and a number of senior management positions within the organisation prior to appointment.

Other current appointments: Chief Executive of Halma plc since 2005.

Committee memberships: Audit and Risk; Nomination; Remuneration.

Independent: Yes.

John Cresswell
Non-Executive Director

Date appointed to Board: 2015

Key skills and experience: Chartered Accountant; Substantial board level and commercial experience; Extensive knowledge and experience of the TMT Sector.

Other current appointments: None.

Committee memberships: Audit and Risk; Nomination; Remuneration (Chairman).

Independent: Yes.

Executive Directors continued

Maggi Bell
Business Development Director

Joined Capita: 1999

Board responsibilities: Head of Group sales and marketing, driving forward business development across the Group.

Additional Group responsibilities: Community, third sector and SME engagement.

Previous experience in Capita: Divisional director, Corporate Services and Business Services divisions; Management of Capita's recruitment businesses.

Other current appointments: None.

Vic Gysin
Joint Chief Operating Officer (COO)

Joined Capita: 2002

Board responsibilities: Shares joint responsibility for Capita's operating divisions.

Additional Group responsibilities: Joint responsibility for clients and employees.

Previous experience in Capita: Executive director for Insurance and Investor Services and Integrated Services Divisions; Successful implementation and delivery of a number of key contracts.

Other current appointments: None.

Dawn Marriott-Sims
Joint Chief Operating Officer (COO)

Joined Capita: 2000

Board responsibilities: Shares joint responsibility for Capita's operating divisions.

Additional Group responsibilities: Joint responsibility for clients and employees; Group IT, Group HR & Talent.

Previous experience in Capita: Executive director of Workplace Services Division; Managing director of Capita's Resourcing and Learning & Development businesses.

Other external appointments: Non-Executive director for the Institute of Collaborative Working.

Other current appointments: None.

Retired in the year

Carolyn Fairbairn
Non-Executive Director (Retired from the Board 27 October 2015)

Date appointed to board: May 2014

Independent: Yes.

Committee memberships: Nomination; Remuneration (Chair); Audit and Risk.

Gordon Hurst
Group Finance Director (Retired from the Board 28 February 2015)

Joined Capita: 1988

Date appointed to Board: February 1995.

Corporate governance statement

Martin Bolland
Non-Executive Chairman

Chairman's report

I am pleased to present this report on the work of the Capita Board during 2015, formed of this section (pages 64 to 71) and the section headed 'Other Statutory and Regulatory Information' (pages 72 to 75).

During 2015, the Board's continued commitment to the highest standard of corporate governance and how this is managed across the business has allowed us to uphold the highest standards of business practice in our sector.

Of course, governance must work within the structure of a whole organisation, without being overly cumbersome. I believe the balance struck across Capita is greatly assisted by the transparent culture in place throughout the business.

In 2015, we welcomed Nick Greatorex to the Board as Group Finance Director following the retirement of Gordon Hurst, and John Cresswell as a Non-Executive Director following the retirement of Carolyn Fairbairn. As detailed last year, Andrew Williams joined the Board on 1 January 2015 as a Non-Executive Director.

The latter part of 2015 was focused on our ultimately unsuccessful potential acquisition of Xchanging plc. The Board were very pleased with the work and financial discipline of the acquisition team and we continue to assess many acquisition opportunities. As evidenced by our decision not to revise our cash offer of 160p for each share in Xchanging, we remain a disciplined buyer. Following nearly nine years as Non-Executive Director and latterly seven as Chairman, I have indicated to the Board that I intend to stand down by 31 December 2016, or on the earlier appointment of a successor. The Board are commencing a search process using external head hunters to identify and appoint a successor and this is being led by Gillian Sheldon, Senior Independent Director.

Results for 2015

Capita delivered good financial results for the full year in 2015, including 4% organic revenue growth, an improvement in our operating margin and high level of cash generation. Our largest ever acquisition, avocis, has provided a strong growth platform in Europe. In the year, we have moved the business away from certain non-core lower growth businesses and reviewed our delivery platforms to better position the Group for the future.

The Group increased underlying revenue by 7% to £4,674m[1] (2014: £4,372m[2]) and underlying revenue on a like for like[3] basis by 11.8%, comprised 4.3% organic growth and 7.5% from acquisitions. Organic growth was driven by the full benefit from contract gains, new contracts started in the second half of 2015 and good underlying performances from our Asset Services and Digital & Software Solutions divisions.

Underlying operating profit[4] rose by 11% to £639.0m[1] (2014: £576.3m[2]) and underlying profit before tax[4] increased by 9% to £585.5m[1] (2014: £535.7m[2]). There were strong performances from our Asset Services, Digital & Software Solutions, Local Government, Health & Property and IT Enterprise Services divisions, the latter supported by acquisitions. Profits declined in the Insurance & Benefits Services division, as a result of the contract price step downs, and the Integrated Services division, due to the residual impact of the Disclosure and Barring Service contract and delivery of Department for Work and Pensions Personal Independence Payments (PIP) assessments.

Underlying earnings per share[4] rose by 9% to 70.7p[1] (2014: 65.15p[2]) and we increased our dividend for the full year by 9% to 31.7p (2014: 29.2p).

The aggregate value of new and extended major contracts secured in 2015 was £1.8bn (2014: £1.7bn) and our win rate remained strong at around 2 in 3 by value. We have also made a solid start to 2016, securing contracts with an aggregate value of £251m in the year to date. The bid pipeline currently stands at £4.7bn (February 2015: £5.1bn), comprised of 37 bids with a weighted average contract length of 6 years, and we continue to have a large active prospect list of opportunities behind the pipeline, a number of which are expected to enter the pipeline shortly.

Capita invested £402m, excluding deferred and contingent consideration, in acquiring 17 businesses and in our Fera Science public sector subsidiary partnership in 2015. We also exited a number of small businesses which either lacked strategic fit or had limited growth potential. We have three further businesses for sale, of which one disposal completed in January 2016. Acquired in February 2015, avocis, provides a strong platform in Europe and we are now realising significant growth opportunities in this new region.

In the financial statements a number of non-underlying items have been presented, as follows:

Business exits

We exited a number of non-core and low growth businesses, including the disposal of National Dental Plan in 2015 and a health business since the year-end, and we are in an active process to sell a further specialist insurance business and a justice business. These businesses in aggregate generated revenue of £162.6m and a trading loss of £1.2m in 2015. Non-underlying charges in relation to these business exits include a £110.1m impairment of goodwill and other assets, a £26.8m provision in relation to disposal and closure costs and £26.3m loss on disposal. The net cash outflow from these business exits was £0.8m, as detailed in note 4 to the financial statements.

1 2015 numbers exclude businesses exited and held for sale as detailed in note 4 on page 117.
2 2014 numbers exclude the sale of our Occupational Health business.
3 Excluding businesses exited and held for sale from both 2015 and 2014.
4 Excludes non-underlying items detailed in note 2 on page 110.

Corporate governance statement continued

Other non-underlying charges – other largely non cash non-underlying charges were £309.0m (2014: £218.4m), including the annual amortisation charge relating to the Group's intangible assets of £165.0m (2014: £147.1m), an impairment of assets in our life and pensions division of £76.7m, as a result of changes in legislation in the life and pensions marketplace in the year as detailed in note 13 to the financial statements, a £28.3m impairment of goodwill in relation to the Group's insurance business and a further £17.2m provision in relation to settlements in our Asset Services division as detailed in note 25 to the financial statements.

See pages **14-17** for more information.

Board activities in 2015

The Board has a standing schedule to meet nine times a year and holds further meetings as required, operating with an open culture in line with the Group's own values and behaviours. We adopt a structured approach when setting Board and committee meetings, which are aligned with the financial calendar of our Company. We set an agenda to cover the wide range of matters that are brought to our attention, ensuring each is given appropriate time and focus. Several further ad hoc meetings were held in 2015 to discuss the potential acquisition of Xchanging, the process to be followed, the strategic impact on the business and the subsequent lapse of the offer.

Major bids, acquisitions and disposals

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

The Chief Executive reports on the acquisition strategy and current acquisition activity in addition to his Chief Executive report. With the unsuccessful acquisition of Xchanging in 2015, a larger proportion of Board time was focused on acquisitions than in previous years.

See pages **26-31** for more information.

Operations

Executive Directors present a report and comment on performance of their respective areas at each Board meeting. This includes the key issues, (including risk and opportunity), operational and financial performance, bid and acquisition activity. This allows the Executive Directors to focus on specific issues and also for the other Directors to debate and challenge as required.

Governance

Capita is committed to maintain high standards of corporate governance, which is a standing item at all Board meetings. The management and governance structure in the 'Effective controls and risk management' section outlines how the Board monitors the ongoing achievement of the Group's goal and strategy.

Risk

Each year, the Board reviews the Group's risk categories and corresponding appetite thresholds. From these risk categories, they identify any which are classified as 'corporate risks'; recognised as principal risks that can have a detrimental effect on profitable growth, profit level or share price of Capita. These corporate risk categories are tracked by the Board throughout the year.

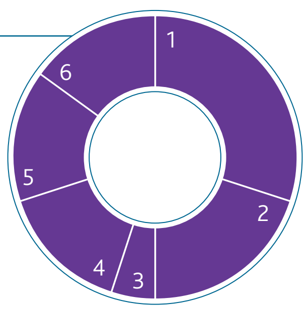
Strategy

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

Financial and corporate reporting

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

Approximate allocation of agenda time in 2015



1. Major bids, acquisitions and disposals	30%
2. Operations	20%
3. Governance	5%
4. Risk	15%
5. Strategy	15%
6. Financial and corporate reporting	15%

Corporate governance statement continued

Board evaluation in 2015

Board evaluation is undertaken annually, with external evaluation every three years. During 2015 a full external evaluation of the Board was undertaken by Corinna Gillies from the independent consultancy Illuminating Leaders.

As in previous years the evaluation was questionnaire based and covered the Board, governance review and Audit and Risk Committee. The topics covered within the evaluation included risk, Board strategy, governance and training. The questions were discussed with the Senior Independent Director and the questionnaire agreed with the external provider. The participants included all Board members and comments and observations from regular attendees at the Audit and Risk Committee (such as the Group Financial Controller, Group Risk Compliance Director, Group Internal Audit Director and the external Auditors) were also factored into the final analysis.

The evaluation report analysed the responses, drew on the above comments and was presented to the Company Secretary and myself by the provider. The report continued the theme from our previous evaluations and recognised the strong governance process within the Board and the strength of the dynamics that exist between strategic challenge and strategic focus amongst Executive and Non-Executive Directors.

The questionnaire results have been very positive with improvements made in several areas from last year. No areas have a lower score than last year. The final report was presented, without amendment, to the Board in November 2015. A small number of minor follow-up matters were identified and are being implemented. The results of the report are summarised below.

In terms of progress against actions agreed from last year, a shorter process for small acquisitions for Non-Executives has been introduced and has been effective and a new Board review process for major contracts has commenced.

- A number of key strengths and improvements were identified including improvements to financial reporting in the year and improvements to the risk management processes.
- Board processes, Board style and breadth and the depth of Directors' experience were also noted as strengths.
- Key opportunities identified included the need to develop risk analysis further and extending talent review and succession planning.

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

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

Board evaluation process

Compilation
- Illuminating Leaders selected as independent consultancy to devise and conduct survey
- Questions discussed with Senior Independent Director
- Questionnaire agreed with Chairman and Company Secretary
- Topics included risk, Board strategy, governance and training

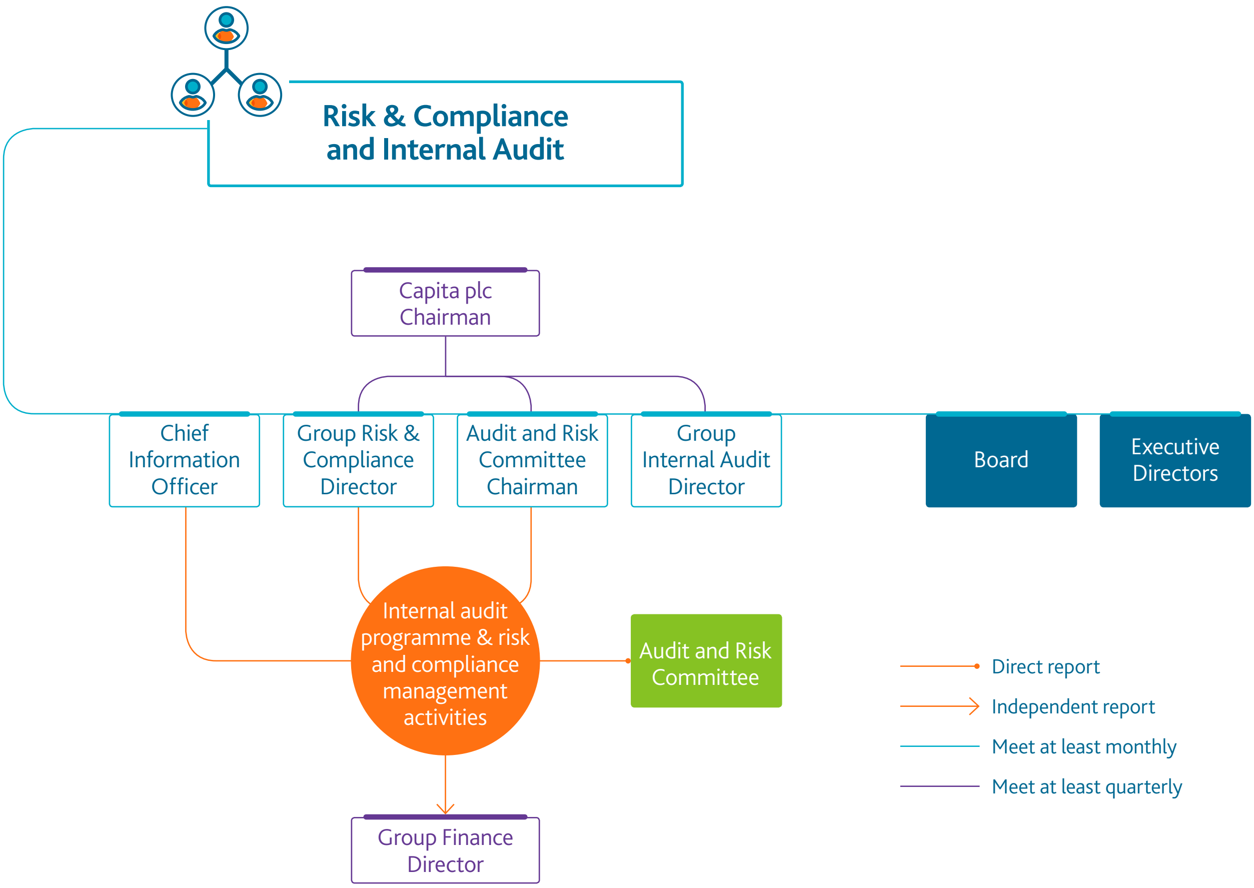
Evaluation
- Completed by all Board members
- Included comments and observations from regular non-Board attendees at the Audit and Risk Committee

Analysis
- Report analysing responses and comments sent to Chairman and Company Secretary for review
- Final report presented, without amendment, to the Board in November 2015
- The Chairman meets with all members of the Board individually and regularly during the year to receive feedback and discuss current and long-term opportunities
- Consideration of the Board balance is kept under regular review by the Chairman and Chief Executive

Outcomes
- Overall, very positive. Improvements in several areas from 2014. No areas have a lower score than the previous year
- Progress against actions from 2014, including a shorter process for small acquisitions for non-executives; new process for major contracts

2016 actions
- Key opportunities (areas identified by four or more Directors)
- Develop risk topics further
- Extend topic of talent and succession planning

Corporate governance statement continued



Risk & Compliance and Internal Audit

On pages 48 to 54 of the strategic report we have described fully the roles of Risk & Compliance and Internal Audit together with the risks and internal controls for the Group.

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

Both the Group Risk & Compliance Director and the Group Internal Audit Director report to the Group Finance Director and independently to the Audit and Risk Committee. Both report on the internal audit programme and risk and compliance management activities across the Group. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit and Risk Committee Chairman and myself at least quarterly. In 2016 further focus will be given to cyber risk and other IT risks with extended reporting for this area to be designed and then presented within the Risk and Compliance reporting by the Chief Information Officer.

Directors

The Directors of the Company currently in office are listed on pages 62 and 63.

All the Board will stand for re-election (John Cresswell for election) at the forthcoming AGM. All of the Board have received a formal performance evaluation, as described, which demonstrated that each Director continues to be effective and committed to the role.

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

Martin Bolland
Non-Executive Chairman
24 February 2016

Corporate governance statement continued

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

Capita plc and its subsidiaries (the Group) remain committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2014 (the Code) applies to accounting periods beginning on or after 1 October 2014. A copy of the Code is available from the Financial Reporting Council's website www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections A to E of the Codes except as detailed below:

Code provision

B.1.2 Composition of the Board

Area of non-compliance

During the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors. The balance was five Executive Directors and four Independent Non-Executive Directors and a Non-Executive Chairman.

Position at 31 December 2015

As noted above, the balance of independent Non-Executives to Executives is not equal and we remain non-compliant with the Code.

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

In this context, given the diversity of the Group's activities, the Board considers it essential to have the five Executive Directors on the Group Board rather than the lower number that many boards have. The Board also believe that the Board should not be too large in order to ensure effective discussion and challenge; and considers that the number of Non-Executive Directors, at five, provides a well balanced Board overall.

Capita is a diverse Group with a wide range of activities, businesses and contracts. Given this, the view of the Board is that it is important to have strong executive membership of the Board.

Rather than just the Chief Executive and Finance Director that many companies have, the Board have decided that it is appropriate for it to have five executives on the Board. The presence and membership on the Board of the Group Business Development Director, Maggi Bell, and the Joint Chief Operating Officers, Vic Gysin and Dawn Marriott-Sims, means that the Board is able to receive more detailed reports on proposed new contracts and major operational matters from formal Board members and discuss them directly with the responsible Directors.

Additionally the Board is also keen that the Board remains an effective, detailed discussion, review and challenge forum and does not want the Board to become a high level formulaic approval forum. As a result we have the objective to maintain the Board as small as is reasonable and effective.

Our Board has five strong independent Non-Executive Directors, including the Chairman, to provide robust challenge and independent review. This is a large group and provides a sufficiently powerful group to provide collective or individual thought and challenge. The Board feels that a Non-Executive group of five (including the Chairman) is large enough to provide independent strength. Overall the Board composition is specifically designed to ensure it remains an effective forum for appropriately detailed debate and challenge.

This area of non-compliance is expected to remain throughout 2016, but the Board is confident that the size and make-up of the Board is highly effective and appropriate.

Board changes in the year

Name	Date	Position
Andrew Williams	1 January 2015	Appointed Non-Executive Director
Gordon Hurst	28 February 2015	Retired as Group Finance Director
Nick Greatorex	1 March 2015	Appointed Group Finance Director
Carolyn Fairbairn	27 October 2015	Retired as Non-Executive Director
John Cresswell	17 November 2015	Appointed Non-Executive Director

Further information on the changes to the Board is set out in the Nomination Committee report on page 78.

Corporate governance statement continued

Board composition

	Executive Directors	Non-Executive Directors
1 January 2015 – 28 February 2015	Andy Parker Gordon Hurst Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland[1] Gillian Sheldon[2] Paul Bowtell[2] Carolyn Fairbairn[2] Andrew Williams[2]
1 March 2015 – 27 October 2015	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland[1] Gillian Sheldon[2] Paul Bowtell[2] Carolyn Fairbairn[2] Andrew Williams[2]
28 October 2015 – 16 November 2015	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland[1] Gillian Sheldon[2] Paul Bowtell[2] Andrew Williams[2]
17 November 2015 – 31 December 2015	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland[1] Gillian Sheldon[2] Paul Bowtell[2] Andrew Williams[2] John Cresswell[2]

1 Independent on appointment in accordance with the Code.
2 Independent in accordance with the Code.

Frequency of meetings and attendance

During 2015, the Board met nine times, excluding ad hoc meetings, solely to deal with procedural matters. Attendance of the Board Directors is recorded in the table below:

	Board meetings
Scheduled meetings	9
Martin Bolland	9
Andy Parker	9
Nick Greatorex[1]	7
Maggi Bell	8
Vic Gysin	9
Dawn Marriott-Sims	9
Gillian Sheldon	9
Paul Bowtell	9
Andrew Williams[1]	9
John Cresswell[1]	1
Carolyn Fairbairn[1]	7
Gordon Hurst[1]	2

1 Nick Greatorex was appointed on 1 March 2015, Andrew Williams was appointed on 1 January 2015 and John Cresswell was appointed on 17 November 2015, Gordon Hurst and Carolyn Fairbairn retired from the Board in February and October 2015 respectively.

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

Any Director's absence from Board meetings was previously agreed with the Chairman of the Board or the Chief Executive.

During 2015, the following formal Director meetings took place:

- The Chairman held one to one review sessions with each Executive Director and each Non-Executive Director.
- The Non-Executive Directors met without Executive Directors.
- The Non-Executive Directors met with just the Chief Executive.
- The Non-Executive Directors met without the Chairman, led by the Senior Independent Director.

Board leadership

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

Martin Bolland as Non-Executive Chairman and Gillian Sheldon as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2015. Both Martin and Gillian are also available to meet with shareholders when requested.

Role of the Board

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

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

Role of the Board

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

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

Corporate governance statement continued

Board independence

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

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

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

Board Directors' inductions and training

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

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

On the announcement of the appointment of John Cresswell to the Board, John received training and induction sessions with the Chairman, Executive Directors, the Company Secretary, the Group Risk & Compliance Director and the Group Internal Audit Director.

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

Matters reserved for the Board

A formal schedule of matters reserved by the Board has been adopted and these include, but are not limited to:

- Strategy and management, including responsibility for the overall leadership of the Company, setting the Company's values and standards and overview of the Group's operational management.
- Structure and capital including changes relating to the Group's capital structure and major changes to the Group's corporate structure including acquisitions and disposals and changes to the Group's management and control structure.
- Financial reporting including the approval of the half-yearly report, interim management statements and preliminary announcement for the final results. Also the approval of the dividend policy, the setting and approval of treasury policies and establishing and maintaining accounting policies.
- Internal controls, ensuring that the Group manages risk effectively and approves all acquisitions, disposals of assets and share acquisitions.
- Contracts, including approval of all major capital projects and major investments including the acquisition of disposal of interest of more than 3% in the voting shares of any company or the making of any takeover offer.
- Ensuring satisfactory communication with shareholders.
- Any changes to the structure, size and composition of the Board.

Company Secretary

All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board at the Group's expense.

Francesca Todd as Company Secretary is available to all Directors and is responsible for ensuring that all Board procedures are complied with.

The Company Secretary has direct access and responsibility to the Chairs of the standing committees and open access to all the Directors. The Company Secretary has been appointed as Secretary to the Audit and Risk, Remuneration and Nomination Committees to ensure that there are no conflicts of interest. The Company Secretary meets regularly with the Chairman, the Chairman of the Audit and Risk Committee and the Chair of the Remuneration Committee, and briefs them on areas of governance and committee requirements.

Dialogue with shareholders

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

The Corporate Communications team has effective day-to-day responsibility for managing shareholder communications and always acts in close consultation with the Board. A Disclosure Committee consisting of the Corporate Communications Director, Chief Executive and Group Finance Director ensures all appropriate communications are made to the London Stock Exchange and shareholders.

Corporate governance statement continued

Shareholders can also access up-to-date information through the Group's website at www.capita.com. A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

In 2015, the Corporate Communications team and the Board maintained active, targeted communications with existing and potential shareholders and the wider investment community. The team focused on creating opportunities for Capita's CEO to further build his relationships with the investment community. It also heightened efforts to target long-term underweight shareholders and non-holders to increase appetite in holding the stock. Capita's share register includes a balanced set of long-term shareholders from the UK and overseas with substantial shareholdings.

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

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

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 88 to 104.

Risk management and internal control

The Board monitors the Company's risk management and internal control systems and annually carries out a review of their effectiveness. This is reported within the Audit and Risk Committee report. The monitoring and review includes all material controls, including financial, operational and compliance controls. This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 48 to 54.

Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2015 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found in pages 1 to 60. Details of the Group's business goals, strategy and model are on pages 6 and 7. The information that fulfils the requirements of the corporate governance report can be found in pages 64 to 71.

Case study: Board Director's induction and training

Andrew Williams
Non-Executive Director

January 2015	February 2015	March 2015
Provided with terms of reference for all committees Provided with terms of reference for matters reserved for the Board Training from Company Secretary Access to Divisional Executive Board Directors	Training in governance and stakeholder relationships Attended Monthly Operating Board ('MOB') review and provided with reports	Training from Group Risk & Compliance Director Internal and external training plus additional briefings provided as required

Corporate governance statement continued

Other statutory and regulatory information

Corporate governance report
The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure and Transparency Rules is set out on pages 61 to 104.

Election to apply FRS101 – Reduced Disclosure Framework
The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 163 to 176. In our Report and Accounts for 2014 we disclosed that in 2015, the parent company would be electing to apply FRS101 – Reduced Disclosure Framework in response to the change in financial reporting standards in the United Kingdom and Republic of Ireland. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections were received from shareholders and the Company has proceeded with FRS 101.

Management report
For the purposes of Rule 4.1.5R(2) and Rule 4.1.8 of the Financial Conduct Authority's Disclosure and Transparency Rules, this Directors' report and the strategic report on pages 1 to 60 comprise the management report.

Events after the balance sheet date
Subsequent to the balance sheet date, the Group disposed of 80.1% of the shares in a health business, Capita Medical Reporting Limited for a cash consideration of £1 and £20m deferred consideration. The remaining 19.9% will be recorded as a financial asset as the Group does not retain any significant influence over the business.

Appointment, re-appointment and removal of Directors
Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006.

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than three years in accordance with the Code and the Company's Articles of Association. However, all Directors will retire and will offer themselves for re-election (John Cresswell for election) at the Annual General Meeting in May 2016, in accordance with the UK Corporate Governance Code.

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

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

Group activities
Capita is a leading UK provider of technology enabled customer and business process management solutions and integrated professional support services to organisations across the public and private sectors. The Group's (11) chosen markets are: in the public sector – central government, local government, education, health, justice and emergency services and defence, and in the private sector – life & pensions, insurance, financial services, retail, utilities and telecoms and other private sector.

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

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1 to 60. Our divisional operations and financial performance are detailed on pages 39 to 47.

Profits and dividends
The Group's reported profit before taxation amounted to £112.1m (2014: £292.4m). The Directors recommend a final dividend of 21.2p share (2014: 19.6p per share) to be paid on 31 May 2016 to ordinary shareholders on the Register on 22 April 2016. This gives a total dividend for the year of 31.7p per share (2014: 29.2p per share).

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

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

The Board has authorised the conflict of Nick Greatorex being a trustee of the Capita Pension and Life Assurance Scheme, and gave specific guidance on this conflict going forward. Nick Greatorex did not participate in the discussion or vote on the guidance given. No other conflicts of interest declared were material to the Board. All conflicts of interest are reviewed on an annual basis by the Board and are revisited as part of the year-end process by the Directors. None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

Corporate governance statement continued

Major shareholders

At 31 December 2015, the Company had received notifications that the following were interested in accordance with the Disclosure and Transparency Rules (DTR):

Shareholder	Number of shares	% of voting rights as at 31 December 2015	Number of shares direct	Number of shares indirect
The Capital Group Companies, Inc.	29,912,692	4.50	–	29,912,692
Veritas Asset Management LLP	41,840,111	6.30	41,840,111	–
BlackRock, Inc	36,835,848	5.54	–	36,835,848
Legal & General Investment Management	20,071,201	3.02	15,661,424	4,409,777
Marathon Asset Management LLP	22,489,216	3.38	–	22,489,216
Woodford Investment Management LLP	36,260,693	5.46	–	36,260,693
Invesco Asset Management	53,566,485	8.06	–	53,566,485
Baillie Gifford & Co Limited	30,377,481	4.57	–	30,377,481

On 18 February 2016, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 18 February 2016	Number of shares direct	Number of shares indirect
The Capital Group Companies, Inc.	31,203,749	4.70	–	31,203,749
Veritas Asset Management LLP	41,859,611	6.30	41,859,611	–
BlackRock, Inc.	37,899,583	5.70	–	37,899,583
Legal & General Investment Management	19,869,804	2.99	15,501,176	4,368,628
Marathon Asset Management LLP	22,777,975	3.43	–	22,777,975
Woodford Investment Management LLP	36,810,693	5.54		36,810,963
Invesco Asset Management	53,674,295	8.08	–	53,674,295
Baillie Gifford & Co Limited	31,306,593	4.71	–	31,306,593

Directors' interests

Details of Directors' interests in the share capital of the Company are listed on page 101.

Share capital

At 18 February 2016, 670,120,205 ordinary shares of 21/15p each have been issued and are fully paid up and are quoted on the London Stock Exchange. 5,538,986 shares are held in treasury and the total voting rights equated to 664,581,219.

During the year ended 31 December 2015, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 22,772 new ordinary shares. 10,000 shares have been allotted under these schemes since the end of the financial year to the date of this report. 2,215,832 of the issued share capital is held within an employee benefit trust for the use of satisfying employee share options.

The share price at 31 December 2015 was 1,208p. The highest share price in the year was 1,336p and the lowest was 1,032p.

The Company renewed its authority to re-purchase up to 10% of its own issued share capital at the Annual General Meeting in May 2015. During the year, the Company did not purchase any shares (2014: nil).

Viability statement

This statement is detailed in full on page 55.

In accordance with provision C.2.2 of the 2014 revised Code, the Directors have assessed the viability of the Group over the three year period to 31 December 2018 taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report above. Based on this assessment, the Directors have a reasonable expectation that the Group is and will continue to be viable.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 60. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 14 to 17. In addition, note 26 to the financial statements on page 139 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

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

Corporate governance statement continued

After making enquiries, and having assessed the principal risks and other matters disclosed in relation to the viability statement on page 55, and in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the annual financial statements. There are no material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons and to ensure that any reasonable adjustments are made to either the workplace or job content to accommodate a person's disabilities. Employees with a disability are eligible to participate in career development opportunities available to all employees and will be supported to do so. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group.

Employee involvement

Capita has a real focus on supporting talent and development within the Group. Capita's approach to employee development ensures that individuals are offered continual challenges in their roles, supported through learning opportunities and personal development. The Group offers employees a comprehensive range of key business and management skills and personal development programmes through our internal training partners, as well as externally recognised universities and learning partners. At the same time our businesses provide business-specific training for all employees relevant to their role. In addition, the Group supports the achievement of professional qualifications including a range of National Vocational Qualifications and apprenticeships.

Employees receive news of the Group through: frequent email notices; internal notice board statements; the Group employee intranet, Capita Connections, and regular email updates on business performance from both Divisional and Group Directors. Capita Connections enables employees to find out what is happening in the wider Group and to share information within and between business units and employees are encouraged to contribute news, views and feedback. The Group maintains a strong communications network and employees are encouraged, through its open door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group. Employees are also encouraged to share their views through our annual employee survey and as outputs Divisions develop action plans to address any improvements that are highlighted.

Capita has an established employee share plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group. In keeping with its belief that employees are the Group's most valuable asset, the Group operates employee recognition schemes both at Group and divisional level. The Capita People Awards, for example, celebrate the core values that embody the organisation and recognise employees for service excellence, teamwork, leadership, innovation and improvement, inter-divisional collaboration and charitable support and community engagement.

Political donations

The Group did not make any political donation or incur any political expenditure during the year (2014: £nil).

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are set out on page 57 of the strategic report.

Financial instruments

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

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

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

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

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

With respect to credit risk arising from the other financial assets of the Group, such as cash, financial investments and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in Europe, India and South Africa, which generates exposure to movements in the euro, Swiss franc, Indian rupee and South African rand exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency instruments, including non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian rupees and South African rand. Exposures to the euro and Swiss franc are mitigated through the use of foreign exchange derivatives or borrowings in those currencies. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on pages 139 to 147.

Corporate governance statement continued

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their Directors. The current Articles of Association of the Company contains a provision that enables the Company to indemnify the Directors of the Company in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Such provisions have been in force during the year and are in force at the date this report is approved. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2016 Annual General Meeting from 15 minutes before the meeting until it ends.

All Directors have deeds of indemnity. These will be available for inspection at the Annual General Meeting with the service contracts.

Powers of Directors

The business of the Company shall be managed by the Directors who are subject to the provisions of the Companies Act 2006, the Articles of Association of the Company and to any directions given by special resolution, including the Company's power to repurchase its own shares.

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

Change of control

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

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

Deeds of Indemnity are in place for all Directors.

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

Rights and restrictions attaching to shares

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

At any general meeting a resolution put to vote at the meeting shall be decided on a poll. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

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

Restrictions on transfer of shares

The Company's Articles of Association allow Directors to, in their absolute discretion, refuse to register the transfer of a share in certificated form unless the instrument of transfer is lodged, duly stamped, at the registered office of the Company, or at such other place as the Directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. They may also refuse to register any such transfer where it is in favour of more than four transferees or in respect of more than one class of shares.

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

Annual General Meeting

The 2016 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB, on 10 May 2016. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2015 annual report and accounts and includes notes explaining the business to be transacted and is also available on the Company's website at www.capita.com.

In May 2015, shareholders also granted authority for the Company to purchase up to 66,370,409 ordinary shares which will expire at the conclusion of the 2016 AGM. No shares were purchased during 2015. A resolution to renew this authority will be put to shareholders at the 2016 Annual General Meeting.

In May 2015 shareholders also granted authority for the Company to issue up to 219,022,350 ordinary shares which will expire at the conclusion of the 2016 AGM. 22,772 shares were issued during 2015. A resolution to renew this authority will be put to shareholders at the 2016 Annual General Meeting.

The Directors consider that each of the resolutions are in the best interests of the Company and the shareholders as a whole and recommend that shareholders vote in favour of all of the resolutions.

For other general meetings the notice given would be 14 working (clear) days.

Corporate governance statement continued

Statement of Directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework. The parent company has adopted FRS 101 for the first time in these financial statements.

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Details of the principal risk categories can be found on page 52.

Approval of the annual accounts

Responsibility statement of directors' in respect of the annual financial statements

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

- the financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole
- the Directors' report, including content by reference, includes a fair review of the development and performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' statement on the annual report

The Directors consider the annual report taken as whole, to be fair, balanced and understandable and that it provides the information necessary for the shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board

Francesca Todd
Company Secretary
24 February 2016

Capita plc
Registered in England and Wales No. 2081330

Committees

Committees' terms of reference

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

Nomination Committee

Reviews composition of the Board. Recommends appointment of new Directors. Considers succession plans for Chairman and Executive positions. Monitors corporate governance issues. The Group diversity statement is reviewed and recommended by this committee.

Audit and Risk Committee

Reviews accounting policies and the contents of financial reports. Monitors the internal control environment. Considers the adequacy and scope of the external and internal audit programme. Oversees the relationship with our external Auditor. Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.

Remuneration Committee

Sets the policy for Executive Directors' and senior executives' remuneration. Approves individual remuneration awards. Agrees changes to senior executive incentive plans.

Membership of the committees

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

	Martin Bolland	Gillian Sheldon	John Cresswell	Paul Bowtell
Nomination	(C)x	x	x	x
Audit and Risk		x	x	(C)x
Remuneration		x	(C)x	x

(C) Chair.

Andrew Williams was appointed as a member to the Nomination, Audit and Risk and Remuneration Committees at appointment on 1 January 2015. John Cresswell was appointed to the Nomination, Audit and Risk and Remuneration Committees on 17 November 2015 and as Chair of the Remuneration Committee on 1 December 2015.

Frequency of committee meetings and attendance

During 2015, the Nomination Committee met three times, the Remuneration Committee met five times and the Audit and Risk Committee met seven times. Attendance of the Board Directors at committee meetings is shown in the following table:

	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Scheduled meetings	**7**	**5**	**3**
Martin Bolland		1	3
Gillian Sheldon	7	5	3
Paul Bowtell	7	5	3
Andrew Williams[1]	7	5	3
John Cresswell[1]	1	2	1
Carolyn Fairbairn[1]	5	3	2

1 Carolyn Fairbairn retired from the Board on 27 October 2015, Martin Bolland assumed the position of Chair of the Remuneration Committee from 28 October to 30 November 2015. John Cresswell was appointed to the Board on 17 November and assumed Chair of the Remuneration Committee on 1 December 2015.

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

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

Nomination Committee

Martin Bolland
Chair, Nomination Committee

I am pleased to present the report on the activities of the Nomination Committee for the year to 31 December 2015. I am delighted that Capita's senior management succession planning continues to provide continuity for senior appointments within the Group. I have been impressed how Nick has embraced his new role and has continued to take the role forward with great leadership, strategy and planning across the business. Set out below is a summary of the work carried out during the year.

Members:
- Martin Bolland (Chair)
- Gillian Sheldon
- Paul Bowtell
- Andrew Williams
- John Cresswell (from 17 November 2015)
- Carolyn Fairbairn (retired 27 October 2015)

The Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

The Committee met three times in 2015 and the attendance is shown on page 77.

The Committee reports and makes recommendations to the Board in relation to its activities and deliberations.

It is authorised under its terms of reference to obtain the advice of independent search consultants. The terms of reference for the Nomination Committee can be found on the Group's website at www.capita.com/investors. These were reviewed and updated during the year.

Board diversity
In 2015, 18% of our senior management team and 30% of our Board were women. Capita sees significant business benefit in having access to the diversity of thinking that comes from people with a wide range of backgrounds at all levels in the Company. Only by encouraging this diversity and by fostering talent throughout the business can the Company expect to achieve further diversity in senior management. Capita has a network of diversity champions across the Group and the Company's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to continuing to foster talent and support those people from all backgrounds who wish to progress. However, the Company will also continue to appoint and promote people on merit and in line with the skills and attributes identified for each post, including those identified by the Nomination Committee for the Board. Further information is shown on page 59 of the strategic report.

Committee activities during 2015
Key responsibilities
- to identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition
- to keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board
- to review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Board members
- to consider the Group diversity position.

Activity in 2015
- Succession planning for the Board generally.
- All Directors stand for election or re-election at the AGM, therefore consideration of the performance of all Directors, length of service, their interests and potential conflicts were considered.
- Diversity of the Board.
- Conflicts of interests were considered for the independence of the Non-Executive Directors.
- The time committed by the Non-Executives was considered and remained appropriate to ensure that each discharged their duties and responsibilities.
- Appointment of John Cresswell as an Independent Non-Executive Director.
- For all of the appointments within the year they included consideration of the size and structure of the Board and the balance and range of its Directors' knowledge and experience. External search agencies and open advertising were not used for the non-executive new Board appointments. The non-executive appointments were sourced through the Board's own targeted searches.
- Martin Bolland will continue to review the opportunities for the Board on an ongoing basis.

Audit and Risk Committee

Paul Bowtell
Chair, Audit and Risk Committee

I am pleased to present the report on the activities of the Audit and Risk Committee for the year to 31 December 2015.

Members:
- Paul Bowtell (Chair)[1,2]
- Gillian Sheldon[1]
- Carolyn Fairbairn (until 27 October 2015)[1]
- Andrew Williams[1]
- John Cresswell (from 17 November 2015)[1]
- Tim Brooke[3]

The Board has reviewed the performance of the Committee and is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner.

The Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

The Committee met seven times in 2015 and the attendance is shown on page 77.

Tim Brooke is a member of the Audit and Risk Committee only and is not a Non-Executive Director of Capita plc. Tim Brooke is an independent non-executive chair of Capita's Financial Services Risk Committee. Tim Brooke's primary role is to provide quarterly feedback to the Committee from the Financial Services Risk Committee. He attended four meetings of the Audit and Risk Committee during 2015.

Set out below is a summary of the work carried out by the Committee

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

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

The following areas were discussed at the meetings held:

Group Risk and Compliance	Inter-relationship between top-down identified risks and bottom-up risks identified by the divisional team structure and capability
	Cyber risk
	Information and data security
	Business continuity
	Disaster recovery
Group Internal Audit	Strategy for Group Internal Audit
	Team structure
	Use of co-sourcing expertise and the choice of partners
	External review of the Group Internal Audit function
	Compliance with the control framework
	Risk awareness of risk and awareness to risk of senior management
External Auditors	FRC review of the 2014 audit papers
	New standards and their potential impact on Capita
	Approval of non-audit services
	Accounting for key new contracts and acquisitions
	Key judgement areas

1 Independent Non-Executive Director.
2 Paul is a Chartered Accountant, with recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit and Risk Committees.
3 Tim Brooke is independent to Capita and brings his expertise in the Financial Services sector to support the Committee. He is not an independent Non-Executive Director of Capita. Tim Brooke's primary role is to provide quarterly feedback to the Committee and the link with the Financial Services Risk Committee.

Audit and Risk Committee continued

Role and responsibilities

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

(i) to review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements

(ii) to review the effectiveness and objectivity of the external audit process, assess the independence of the Auditors and ensure appropriate policies and procedures are in place to protect such independence

(iii) to review and assess the adequacy of the systems of internal control and risk management (which includes monitoring the Company's Internal Audit function) and monitor the risk profile of the business

(iv) to review and assess the cyber security risk and governance including the IT security for the Group and monitor the risks within this area

(v) to report to the Board on how it has discharged its responsibilities.

The Audit and Risk Committee's terms of reference set out in full the role, responsibilities and authority of the Committee and can be found on the Company's website at www.capita.com/investors. These were reviewed and updated during the year.

Committee activities during 2015

The Committee met seven times during the year. Meetings are planned around the financial calendar for the Company. Reports are received at all meetings from the Group Risk & Compliance and Group Internal Audit departments and new contract terms are also reviewed from a risk and accounting perspective as appropriate.

During the year, the Committee undertook the following activities:

Internal controls and risk	Received and considered reports from the Group Internal Audit Director on the audit programme and the resulting actions.
	Review of foreign operations risk assessment.
	Review of qualifications and training given to individuals in control areas.
	Met with the Group Risk & Compliance Director, Company Secretary and Group Internal Audit Director independently of Executive Directors.
	Monitoring the internal controls that are operated by management to ensure the integrity of information reported to shareholders.
	Review the schedule of the internal audits for the remainder of the year.
	Review of major contract wins from a risk and accounting perspective.
	Review of the business plan for Risk & Compliance and Internal Audit.
	Continual review of available reporting on Group safety, health and environment.
	Requested presentations from each Divisional Director on the risks within their business and the approaches taken to mitigate them.
	Continued the programme to refresh our overall risk management framework to better support the ongoing development of the business.
	Reviewed the activities and minutes of the Group Financial Services Risk Committee and receive an update from the Group Financial Services Risk Committee Chairman on a quarterly basis.
	Reviewed the activities and minutes from the Non-Financial Services Risk Committee.
	Reviewed the activities and minutes from the Group Security Risk Committee.
	Undertook an evaluation of the Committee with the results presented in January 2016 to the Committee.
External Auditors	Considered and approved the audit approach and scope of audit to be undertaken by KPMG.
	Meeting independently of Executive Directors.
	Received updates and summaries of audit findings.
	Considered the level of non-audit services being provided to satisfy itself that the objectivity and independence was safeguarded.
	Review and approval of the representation letter.
	Reviewed the audit planning for the annual audit.
	Review of letter received from FRC on the review of audit papers.
Accounting, tax and financial reporting	Review and recommendation of the annual report and accounts and the half-yearly accounts including the financial and non-financial aspects, including a review of the significant accounting policies and to ensure these accounts give a fair, balanced and clear presentation of the performance of the Group.
	Corporate Governance updates in relation to matters pertaining to the scope of the Committee.
	Review of the disclosures of internal controls, risk management and principal risks and uncertainties within the report and accounts.
Other areas	Received presentations from new areas of the business such as Mortgage Processing to gain further insight to the risk profiles of the business.

Audit and Risk Committee continued

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

At each meeting, an update was also received from Group Risk and Compliance and Group Internal Audit.

The Committee is responsible for the policies on whistleblowing (speak up) and the provision of the non-audit services by the external Auditor. Both policies are published on the Company's intranet and internet (www.capita.com). The Committee also receives feedback from the Group Financial Services Risk Committee that brings together all the regulated areas within the Group.

2015 saw the ongoing programme to continually improve our risk management framework to better support the development of the business. Further detail is shown on pages 48 to 54 of the strategic report.

Significant issues in relation to the financial statements considered by the Audit and Risk Committee

Revenue and profit recognition

The Group is successful in signing new and renewed contracts. Due to the size and complexity of some of these contracts, there are judgements and estimates to be applied, including the measurement and timing of revenue recognition and the recognition of assets and liabilities that result from the performance of the contract.

The Audit and Risk Committee receives a summary presentation for all new major contracts. These reports include an overall summary of the contract, the financial projections, and key risks and assumptions. The proposed accounting is considered by the Group Finance Director and the Committee to ensure compliance with the Group's accounting policies and to understand their impact on the financial statements. Technical advice is taken where necessary from the Group's technical accounting team and views discussed with the external Auditor.

Major contracts continue to be monitored through the management operations business review and any serious issues identified in respect of these contracts are referred back to the Committee as required.

The Committee has also reviewed the external Auditor's findings and where necessary sought further confirmation or explanation from the Group Finance Director and the Board to concur that the revenue and profit recognition is appropriate and related assets held on the balance sheet are recoverable. The Committee also considers the sufficiency of related disclosures in the financial statements.

Acquisition activity and accounting

Significant acquisitions are approved by the Board to ensure that the acquisition is in line with Group strategy and that sufficient due diligence has been undertaken in order to understand the business being acquired and that any identified risks are quantified, explained and understood.

The Audit and Risk Committee receive acquisition reports which detail the nature, profitability and risk profile of potential acquisitions. As part of the on-boarding of acquisitions into the business, the Group Finance Director and Group Financial Controller determine the point at which the Group obtained control of the target business and conduct a review of the accounting policies of each acquisition and whether they are compliant with Group policy. Any difference is recognised in the opening balance sheet to ensure consistency. The assets and liabilities are reviewed to ensure that they are fairly stated and that there is sufficient evidence to support any adjustments to carrying values including the recognition of any previously unrecognised balances. The Group Finance Director and Group Financial Controller review the resulting acquired opening balance sheet for each acquisition. The profitability of acquisitions is monitored through the management operations business reviews and any serious issues identified in respect of these acquisitions are referred back to the Committee.

Acquisition process:

Introduction via Capita divisions, external intermediaries or direct approach

↓

80–90% of ideas screened out during process

Central acquisitions team apply pricing and process disciplines

↓

Detailed due diligence – rationale, pricing, integration/synergies through dedicated Capita teams: Risk, Finance, HR, Tax, IT, Legal etc. External advisors where required

↓

Sign off by the Board

↓

Completion

The Committee has reviewed the acquisition disclosure in the financial statements in conjunction with the external Auditor's findings and where necessary sought further confirmation or explanation from the Board in order to conclude that the disclosures are appropriate and that acquisition accounting has been appropriately applied.

Audit and Risk Committee continued

Carrying value of goodwill and intangibles

The Group has a significant goodwill balance representing consideration paid in excess of the fair value of the identified net assets acquired. The net assets acquired include intangible assets which are determined at the date of acquisition. The Committee recognises that there is a risk that businesses can become impaired, for example, due to market changes or product life-cycles. As a result, the Group monitors carrying values of goodwill and intangibles to ensure that they are recoverable and any specific indicators of goodwill or intangible impairment are discussed in the monthly operating boards.

This carrying value of goodwill is subject to impairment testing, on an annual basis. The carrying value of goodwill and intangible assets are reviewed on the identification of a possible indicator of impairment, to ensure that carrying amounts are recoverable. This testing, including the key assumptions and sensitivity analysis, is reviewed by the Group Finance Director and Group Financial Controller.

During the year the Group disposed of and targeted for disposal a number of businesses. As a result of this activity goodwill impairment was recognised as non-underlying transactions in the income statement representing the value of goodwill disposed and included in the loss on sale of assets calculation for those businesses exited (see note 4 to the consolidated financial statements). In relation to businesses to be disposed and held as assets held for sale on the balance sheet, goodwill and other assets identified as part of the disposal group were re-measured, such that the held for sale value reflected the expected sale proceeds from their ultimate disposal, resulting in an impairment to the carrying value of those assets on their being classified as held for sale. This impairment of Goodwill and other assets was recognised as a non-underlying item in the income statement. Subsequent to the aforementioned the Group, as part of its impairment review, identified goodwill in relation to the insurance services cash-generating unit was in excess of its value in use and was impaired, this impairment was recognised as a non underlying item in the income statement (see note 5 to the consolidated financial statements).

The Committee has reviewed the external Auditor's report and, where necessary, sought further confirmation or explanation from the Board and specifically the Group Finance Director and Group Financial Controller, to ensure that the value of goodwill, the disposals and impairments recorded and the accompanying disclosures included in these financial statements are appropriate. The Audit and Risk Committee, having made these enquiries, agrees with management that no further impairment need be recognised and the transactions detailed above have been properly disclosed and explained in the financial statements.

Underlying and non-underlying presentation

The Committee remains of the view that the presentation of the underlying and non-underlying information provides useful disclosure to aid the understanding of the performance of the Group. The major considerations when reviewing the presentation of the non-underlying items being the items labelled as non-underlying and business exits are:

- the nature of the item
- the circumstances leading to recognition
- the impact on the financial statements with regard to the requirement for a fair and balanced presentation of performance
- where management and the Committee concur with a need to separately disclose certain items to fully understand and give clarity to the continued activities of the Group.

The following material disclosures were considered by the Committee in year:

- the matters covered in the 'Carrying value of goodwill and intangibles' as stated above and their presentation as non-underlying
- the conduct and the conclusions drawn from management's decision to complete a review of the IT platform on which the Group delivers its Life and Pensions administration capability, which resulted from changes in the marketplace, including the introduction of new legislation in the form of the Pensions Freedom Act. This review led to assets with a total net book value of £76.7m being fully written down
- the items that are consistent with previous years including: intangible amortisation, asset services settlement provision movements, net contingent consideration movements, non-cash mark to market finance costs and acquisition costs.

In keeping with the Committee's main considerations for the presentation of non-underlying items, the Audit and Risk Committee has reviewed the items included in the non-underlying columns alongside consideration of any representations made by the external Auditor. Having completed the exercise, the Committee was able to determine that the disclosure met with the requirements of fairness and balance and where extra disclosure was required, it has been included in the financial statements.

The Audit and Risk Committee confirmed that none of the 2015 business exits or businesses in the process of being exited meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and restatement of comparatives where the relative size of a disposal or business closure is significant, normally understood to mean a reported segment. Accordingly, the separate presentation described above does not fall within the requirements of IFRS 5 concerning discontinued operations and the 2014 comparative has not been restated.

Audit and Risk Committee continued

Defined benefit pension liabilities

The measurement of the defined benefit liability in respect of defined benefit pension schemes is a complex area, relying on assumptions on inflation, mortality, returns on corporate bonds, expectations of returns on assets and a number of other inputs. There is risk in any one of these areas of misstatement of the Group's liability in respect of these obligations and the pension charge that is recognised in the income statement.

The Committee reviews the disclosures in the financial statements along with the external Auditor's report and receives representations from the Group Finance Director and external Auditor with regard to the assumptions included in the valuation and their relative impact.

Having made these enquiries, the Committee determined that the valuation of the pension obligation and the accompanying disclosure is in line with expectations.

Provisions

There is judgement applied in the level of provisioning across the Group. This involves making an assessment of the size and timing of probable economic outflows due to the occurrence of a past event. The Committee has reviewed the disclosure in the financial statements and, where necessary, made enquiries of the Group Finance Director and management to gain an understanding of the amounts recorded.

In the current year 2015, disclosure has been continued from 2014 in recognition of the significance of two items. These items are where provision has been made in respect of matters arising in our Asset Services division and are disclosed in aggregate as Asset Services settlements.

Arch Cru: The parties to the CF Arch Cru Funds group litigation have entered into a full and final settlement of the proceedings on confidential terms. It is expected this matter will be completed by the close of 2016.

Connaught: The potential costs in resolving the matter relating to Connaught Income Series 1 Fund ('The Fund'), of which CFM was the Operator until September 2009, when it was replaced by another Operator company unrelated to Capita (following which CFM had no further involvement with the Fund). The Fund went into liquidation in 2012 and its liquidator brought a claim against both former Operators. The Group has reached a settlement with the liquidator in respect of its involvement.

The Financial Conduct Authority ('FCA') was supporting the negotiations being undertaken between all parties but on 10 March 2015 confirmed that it had withdrawn from the negotiations and has decided to formally review the activities of both Operators. At this time no conclusion has been reached on whether any wrongdoing has occurred and whether any enforcement action will be taken. Whilst there can be no certainty that a liability will not arise in respect of this matter, the Group is unable to determine what the outcome of the FCA review might be and as such no provision for a potential outflow of funds have been made. Due to the requirement to await the outcome of the formal review commenced by the FCA, this matter is likely to come to a conclusion later in 2016.

Giving due consideration to these claims the Group has made a further provision of £17.2m, and incurred £21.7m in respect of compensation payments and professional fees in relation to these matters (see note 25).

The Committee is satisfied that the disclosure in the accounts is sufficient to gain an understanding of the nature of these provisions and their impact on the financial statements.

Other issues in relation to the financial statements considered by the Audit and Risk Committee

Materiality

Materiality is important in determining the risk attached to any judgement. Audit materiality is set with the external Auditor to ensure that the Audit and Risk Committee is informed of individual items above a certain threshold that are most likely to have an impact on the financial statements. The Audit and Risk Committee reviews the external Auditor's report and the individual items that breach the materiality thresholds and assess their relative impact on the reported statements: income statement, balance sheet, statement of changes in equity and cash flow as well as the notes to the accounts.

The Committee requests further clarification from both the external Auditor, the Group Finance Director and Group Financial Controller as to the nature of these items and also their relative importance in the financial statements.

After having made such enquiries, the Audit and Risk Committee is satisfied that materiality has been applied correctly in the accounts and that material items brought to its attention remain unadjusted where its inclusion would not cause detriment to the overall reading of the financial statements.

Audit and Risk Committee continued

Disclosure of information to Auditor

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

Statutory Auditor

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

The external Auditor attends all meetings of the Committee and reports to the Committee on the statutory reporting, non-audit fees and ongoing audit items.

Auditor independence

The Committee takes seriously its responsibility to put in place safeguards to Auditor objectivity and independence. The Company is committed to ensuring appropriate independence in its relationship with the Auditor and the key safeguards are:

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

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

Non-audit fees

The Committee has established a policy on the provision of services by the Group's Auditor. The policy describes the circumstances in which the Auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditor for non-audit work. Any assignment where the expected fee is above £150,000 requires specific approval from the Committee or a member of the Committee. The Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. During 2015 an additional measure was put in place and all work with the External Auditor outside of the audit has to be pre-approved by Nick Greatorex. The Auditor undertook various non-audit work such as assistance on acquisitions and bids across our business in 2015. Only the Audit and Risk Committee can authorise the scope and policy on non-audit fees.

Non-audit fees are proportionally lower this year 37.7% (2014: 38.2%), as a percentage of all fees paid to the external Auditor and the Committee continued to receive updates throughout the year on the level of fees which have been approved where they as an individual instance were over the threshold stated above.

The policy is reviewed by the Committee annually. Details of audit and non-audit fees are given in note 7 on page 123.

Audit and Risk Committee continued

External Auditor performance

The Committee discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. This also included a review of effectiveness and quality of the audit process. The evaluation of KPMG also included the planning of the audit and a post-audit evaluation.

The evaluation focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgement made throughout the audit and how this might be supported by evidence of the following critical auditor competencies:

- a mindset and culture that exhibits integrity and objectivity and is aligned with the expectations and interests of stakeholders of their reports
- the skills and knowledge to develop a thorough understanding of the Company's business and industry, the environment in which it operates and of the applicable legal and regulatory framework, and the strength of character to provide effective challenge in performing the audit
- the ability to establish effective quality control by putting in place the processes necessary to deliver a consistently high quality audit.

The Audit and Risk Committee has ensured that the evaluation is integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the Auditor's judgements made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.

External Auditor re-appointment

The Company's audit services were last subject to a tender process in 2010 at which time KPMG Audit Plc, subsequently KPMG LLP, replaced Ernst & Young LLP as the Group's Auditor. The lead audit partner is rotated on a five-yearly basis. There are no contractual obligations which restrict the Committee's choice of auditor.

The Code states that FTSE 350 companies should tender the provision of audit services at least every 10 years or explain their approach, if different. This requirement is kept under review by the Committee. The complex nature and continued growth of the Group requires that a knowledge base is built up year-on-year by the incumbent to ensure that the external audit is conducted with a proper understanding of the Group's operations and the nature of the risks that it faces, this is an important factor in ensuring audit quality. It is not envisaged that the tender will be undertaken prior to the completion of 10 years.

It is proposed that KPMG LLP be put forward as the Auditor of the Company at the forthcoming Annual General Meeting and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and that their remuneration be fixed by the Directors.

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

Risk management and internal control

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Company. The Executive Directors meet with both operational and finance management on a monthly basis through the Group's programme of Monthly Operating Board meetings where key financial and operational measures are reported on a monthly basis and measured against both business plan (budget) and monthly re-forecasts.

The Committee has continued with the programme of agenda items that give them the opportunity to hear on a more regular basis from the Managing Directors of the Group's divisions to determine the risks inherent in those businesses and to understand how risk and control processes work in their areas.

On an annual basis, through the business planning process, each business unit is required to prepare a risk assessment process on the key strategic, operational, financial and accounting risks to identify, evaluate and manage the significant risks to the Group's business. They include common definitions of risk and ensure, as far as practicable, that the policies and procedures established by the Board are appropriate to manage the perceived risks to the Group.

These assessments are supplemented by a detailed evaluation of the key financial controls of the business units which are critically reviewed by the Group's Director of Risk & Compliance. During the year, the risk assessment process revealed no significant risks of which the Board was not previously aware.

Audit and Risk Committee continued

The risks and uncertainties which are currently judged to have the most significant impact on the Group's long-term performance are set out on pages 52 to 54. The Committee has reviewed the effectiveness of the Group's risk management and internal control systems. A refresh of the overall risk management framework commenced in 2014 was continued in 2015 and this constant challenge and refocusing will continue in order to identify and develop any response to a change in the Group's risk profile.

The Board, with the advice of the Committee, has reviewed the effectiveness of the risk management and internal control systems and is satisfied that the Group has in place effective risk management and internal control systems.

This enhanced risk framework introduced a defined set of risk categories which form the basis of defining the Group's appetite to risk. In establishing this tolerance and critical limit/concern risk appetite, the Committee is able to maintain governance over the principal risks to the Group and ensure effective mitigation is in place.

Internal Audit

The Group's finance department includes a separate internal audit function which is managed by a qualified auditor. A full programme of internal audit visits has been completed during the year. The scope of audit work generally focuses on internal management control and risk procedures that are operating with each of the Group's businesses, but is continually reviewed and challenged to ensure that the work it undertakes is focused on the areas of risk to the Group.

Written reports are prepared on the results of internal audit work during the year and submitted alongside verbal updates of in-progress activity to the Audit and Risk Committee by the Group Internal Audit Director. The representations given would set out strengths and weaknesses identified during the work, together with any recommendations for remedial action or further review.

The reports are reviewed and discussed with Executive Directors to whom they pertain. Throughout the year, the Group Internal Audit Director reports on the work carried out to date and the in-flight work to be completed.

The Committee reviews management's response to the matters raised and ensures that any action is commensurate with the level of risk identified, whether real or perceived.

There were no significant weaknesses identified in the year, but a number of recommendations were acted upon within the Group to strengthen in-place controls or risk awareness. The Committee remains satisfied that the Group's systems of internal controls work well and that there is sufficient flexibility in the resources required to complete a full and targeted programme of internal audit work, within a group of Capita's size, are in place.

Anti-bribery and whistleblowing (speak up)

Capita has a Group-wide anti-bribery and corruption policy, which is in compliance with the Bribery Act 2010. It periodically reviews its procedures to ensure continued effective compliance in its businesses around the world.

The policy provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. Employees are encouraged to raise concerns with designated individuals, including the Executive Directors or the Chairman of the Audit and Risk Committee. All such reports will be investigated and reported to the Committee, together with details of corrective action taken. The Group's whistleblowing policy is monitored by the Committee and incidences are reported on in each meeting by the Group Risk & Compliance Director.

Paul Bowtell
Chair, Audit and Risk Committee
24 February 2016

Audit and Risk Committee continued

Group Financial Services Risk Committee

The Group Financial Services Risk Committee was established at the beginning of 2012 and meets at least quarterly to assess the risks across Capita's financial services businesses. The Forum is chaired by Tim Brooke, an independent member of the Committee.

The Committee met four times in 2015. Membership and attendance was as follows:

Name of member	Number of meetings attended
Tim Brooke (Chair)	4
Nick Greatorex	4
Vic Gysin[1]	3
Chris Terry[2]	4

Other key divisional staff are invited to attend and report to this forum. All Non-Executive Directors have open invitations to attend any of these meetings.

The terms of reference for this forum include:

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

The scope of the Committee includes the Financial Conduct Authority ('FCA') in the UK and the equivalent financial services regulator in other jurisdictions where the Group operates regulated financial services firms.

In March 2015, the terms of reference of the Committee were updated and approved which primarily made changes to the membership of the Committee.

Non-Financial Services Risk Committee

The Non-Financial Services Risk Committee was established at the end of 2013. It meets quarterly to assess the risks outside of financial services. In 2015, it was chaired by Nick Greatorex.

The Committee met four times in 2015. Membership and attendance was as follows:

Name of member	Number of meetings attended
Nick Greatorex (Chair)	4
Vic Gysin[1]	1
Dawn Marriott-Sims	4
Chris Terry[2]	3

The Group Internal Audit Director also attends. All Non-Executives have an open invitation to attend these meetings.

In overseeing Capita's risk management practices and ensuring risks are limited by management, appropriate use of controls, the Executive Risk Committee holds a key position in the governance of Capita's Group risk profile. Its primary functions are to:

- oversee Capita's risk identification, monitoring and reporting practices and take all steps to ensure that senior divisional management has in place procedures and mechanisms to identify and control all fundamental strategic, operational, financial & reporting and compliance risks
- provide the forum to monitor, challenge and ensure effective mitigation is in place for Capita's risk management environment
- promote greater awareness of risk management at all levels within the organisation
- establish and preserve oversight for risk issues that affect Capita or its customer base
- provide strategic risk guidance.

Group Security Risk Committee

Established at the beginning of 2015, the Committee meets quarterly to ensure the security control functions remain adequately resourced to deliver effective security for Capita. It is chaired by Alex Cutler, the Chief Information Officer.

The Committee met four times in 2015. Membership and attendance was as follows:

Name of member	Number of meetings attended
Alex Cutler[3] (Chair)	4
Nick Greatorex	4
Dawn Marriott-Sims	4
Vic Gysin[1,4]	2
Chris Terry[2]	3

The Group Internal Audit Director also attends. All Non-Executives have an open invitation to attend these meetings.

The primary functions of the forum are:

- ensuring alignment of information security activities with business objectives
- defining the information security baseline policies to integrate security activities with business objectives
- communicating Group security strategy and policy mandate to Divisional and business management
- monitoring information security legislative and regulatory compliance
- tracking key security metrics
- tracking key IT and security changes impacting on the Group's business operations
- providing support to Group security resources in implementing Group security policy
- ensuring organisational functions, resources and supporting infrastructure are available and properly utilised to fulfil the Group security strategy and governance requirements
- ensure roles and responsibilities include risk management in all activities
- providing direction on issues escalated from the Information Security Steering Group and IT Directors' Steering Group
- implementing comprehensive oversight via audit to ensure ongoing compliance with security baseline requirements
- identifying items for the attention of the Board or Audit and Risk Committee.

1 Vic Gysin (Joint Chief Operating Officer).
2 Chris Terry (Group Risk & Compliance Director).
3 Alex Cutler (Chief Information Officer).
4 Terms of Reference only require one Joint Chief Operating Officer to be in attendance and therefore Vic Gysin's attendance is optional.

Directors' remuneration report

John Cresswell
Chair, Remuneration Committee

Dear Shareholder,

I am pleased to present my first remuneration report as Chair of the Remuneration Committee.

Members:

- John Cresswell (Chair) (from 17 November 2015 and Chair from 1 December 2015)[1]
- Gillian Sheldon[1]
- Paul Bowtell[1]
- Andrew Williams[1]
- Martin Bolland (Chair and member from 28 October – 1 December 2015)[2]
- Carolyn Fairbairn (Chair and member until 27 October 2015)[1]

All members were Non-Executive Directors. None of the Committee members have day-to-day involvement with the business nor do they have any personal financial interest, except as shareholders, in the matters to be recommended. The number of formal meetings held and the attendance by each member is shown in the table on page 77. The Committee also held informal discussions as required.

The Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

On pages 88 to 104 we have set out our annual remuneration report which will be the subject of an advisory vote at our AGM in May 2016. For the reference of shareholders, we have also included our current remuneration policy (pages 90 to 93) which was approved at the AGM in May 2014. Later this year we shall be reviewing our policy and then consulting with our major shareholders ahead of seeking shareholder approval at the AGM in May 2017 for a revised policy.

Summary of Remuneration Policy and strategy

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

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

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

Performance in 2015

Led by the Executive team, 2015 was another year of good financial and operational performance which is shown on pages 8 to 13. These results illustrate our ability to deliver strong sustainable growth. This is shown in more detail on pages 14 to 17 in the strategic report.

After a year of strong profit growth, the Directors will be awarded an on target bonus for the period of 100% of salary, further details of which are set out on page 100. Growth in the Group's underlying Earnings Per Share ('EPS') continued to increase by 9% in 2015 which is reflected in the estimated vesting outturn of long-term share awards granted in 2013, which will vest in 2016. For Board members at the time of grant, the LTIP awards are estimated to vest at 68.83% and the Deferred Annual Bonus Plan awards are estimated to vest at 73.90%. Performance conditions associated with these awards are on page 102.

1 Independent Non-Executive Director.
2 Non-Executive Chairman.

Directors' remuneration report continued

Remuneration for 2016

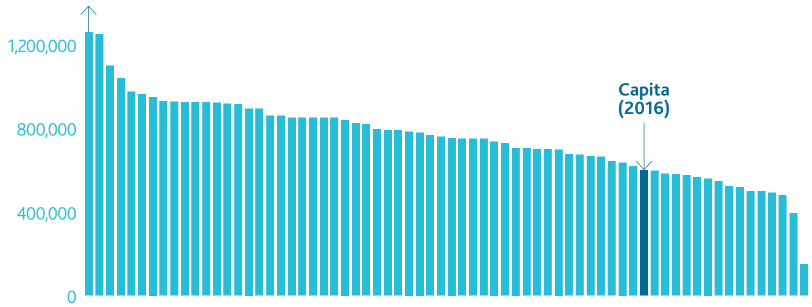
Base salaries of the established Executive Directors have been increased by 3.4% for 2016. In coming to this decision, consideration was given by the Remuneration Committee of the salary settlement for the general UK workforce and also the overall performance of the Company.

As explained in last year's remuneration report, salaries of those Directors who were relatively newly appointed to their role (Andy Parker as Chief Executive and Nick Greatorex as Group Finance Director) were set deliberately below the market lower quartile by the Committee on the understanding that, subject to their performance in role, their salaries would move closer to the market lower quartile in future years.

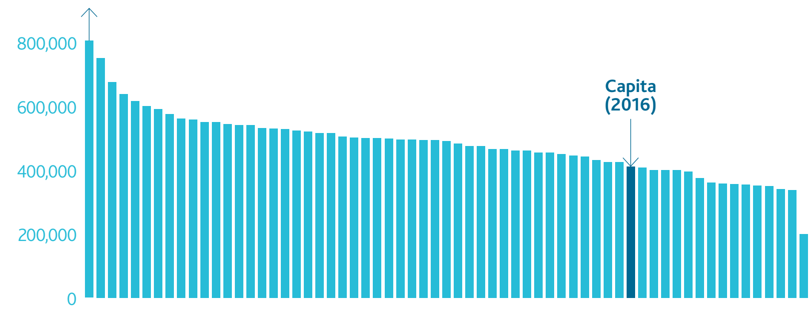
The Board has been pleased with the performance of both Andy Parker and Nick Greatorex and this is reflected in the salary decisions for 2016. Nick Greatorex's salary has been increased to £410,000; this will be reviewed again at the end of 2016. Andy Parker's salary has been increased to £600,000 and the Committee believes that this is now appropriately positioned in line with our remuneration policy. As illustrated in the charts below, Andy and Nick's salaries remain at the lower end of similar sized FTSE companies.

The increases for Andy and Nick were communicated with our top shareholders and the feedback received was supportive and positive.

CEO salaries
FTSE companies 31–100[1]



CFO salaries
FTSE companies 31–100[1]



1 Companies based on average market capitalisation in three months to 1 January 2016.

Directors' remuneration report continued

In summary, our Executive Directors' pay arrangements for 2016 will comprise the following elements:

Element of pay	Details	Performance conditions
Base salary	CEO £600,000 FD £410,000 Other Directors £360,000	n/a
Pension	5% of salary	n/a
Benefits	Private medical insurance, company car allowance, work travel and accommodation	n/a
Annual bonus	Maximum potential of 200% of salary, half paid in cash and half deferred in shares for three years	Underlying Group profit before tax
LTIP	Award of shares worth (at grant) 300% of salary for the CEO and 250% of salary for other Directors	75% based on EPS, 25% based on ROCE. Share price underpin.

No changes are proposed to the incentive structure for Executive Directors for 2016. The bonus targets and performance conditions for the LTIP awards to be made in 2016 have been set in line with the remuneration policy, the Board's review of the business plan for 2016 and the Group's key strategic objectives.

Malus and Clawback

Malus and Clawback provisions apply to all incentive awards granted to Executive Directors since 2015. These provisions would permit the Committee to recover bonus awards for up to three years after the determination of the annual bonus and up to the fifth anniversary of the grant of LTIP awards.

Shareholder views

Details of voting on remuneration resolutions at the AGM in May 2015 are set out on page 127. We were pleased to receive strong shareholder support with a positive vote for our remuneration report at the AGM in 2015 of 97%.

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the resolution relating to remuneration at the AGM. The Committee seeks to respond to shareholders' expectations of remuneration reporting and welcomes any feedback.

John Cresswell
Chair, Remuneration Committee
24 February 2016

Remuneration policy overview

At the AGM in May 2014, shareholders approved, with a 95% majority vote, the Remuneration Policy which sets out the Company's policy on the remuneration of Executive and Non-Executive Directors. The Remuneration Policy became effective from the conclusion of the AGM and can apply until 31 December 2017 unless a revised policy is approved by shareholders and comes into force before this date.

For the benefit of shareholders, we have reprinted the Remuneration Policy summary table on the following pages. To ensure that the report is relevant within the context of this Directors' remuneration report, we have made textual changes, where appropriate, to reflect 2015 information. The original Remuneration Policy report, as approved by shareholders, can be found in the 2014 Directors' remuneration report (a copy of which can be found in the Investors section of our website).

The Committee is responsible, on behalf of the Board, for establishing appropriate remuneration arrangements for the Executive Directors and other senior management in the Group.

Responsibilities and activities of the Remuneration Committee

The Committee is responsible for determining and agreeing with the Board the policy on Executive Directors' remuneration, including setting the over-arching principles, parameters and governance framework and determining the initial remuneration package of each Executive Director. In addition, the Committee monitors the structure and level of remuneration for the senior management team and is aware of pay and conditions in the workforce generally and it sets the Chairman's fee.

In setting the Remuneration Policy for the Executive Directors, the Committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

- to ensure total remuneration packages are simple and fair in design so that they are valued by participants
- to ensure that total remuneration is highly performance orientated
- to balance performance-related pay between the achievement of financial performance objectives and delivering sustainable performance; creating a clear line of sight between performance and reward and providing a focus on sustained improvements in profitability and returns
- to provide a significant proportion of performance-linked pay in shares allowing senior management to build significant shareholding in the business and therefore aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk taking.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The Committee considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the Policy.

Directors' remuneration report continued

Remuneration policy table

The following table sets out the key aspects of the Policy.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Base Salaries	To attract and retain talent by ensuring base salaries are sufficiently competitive.	Normally reviewed annually in December with any changes usually effective in January. Review takes into account: › salaries in similar companies and comparably-sized companies › Remuneration Policy › economic climate › market conditions › Group performance › the role and responsibility of the individual Director › employee remuneration across the broader workforce. The Committee may award salary increases at other times of the year if it considers it to be appropriate.	There is no prescribed maximum monetary annual increase to base salaries. The Committee is guided by the general increase for the broader workforce but on occasion may recognise an increase in certain circumstances such as, assumed additional responsibility, an increase in the scale or scope of the role. Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary. The Committee may award salary increases at other times of the year if it considers it to be appropriate.	Individual and business performance are considerations in setting base salaries.
Annual bonus and Deferred Annual Bonus ('DAB') Plan	Performance measures are selected to focus Executives on delivery of the Group business plan for the financial year.	The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year. Performance against targets is reviewed following completion of the final accounts for the period under review. 50% of any bonus earned is delivered in shares deferred for three years under the DAB plan with the remainder delivered in cash or deferred shares at the Executive Director's discretion. Dividends that accrue during the vesting period may be paid in cash or shares at the time of vesting. Clawback provisions apply to DAB for overpayments due to material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.	Maximum opportunity of 200% of salary.	Executive Directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial performance. 50% of the bonus will be paid at target performance and 100% for maximum performance. No payment will be made at below target performance.

Directors' remuneration report continued

Remuneration policy table continued

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Long Term Incentive Plan (LTIP)[4]	Designed to reward and retain Executives over the longer term while aligning their interests with those of shareholders. To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance. To encourage share ownership and provide further alignment with shareholders.	LTIP awards are usually granted in the form of nil cost options. Award levels for each award are set by the Committee at a level appropriate, in the Committee's opinion, with the individual's performance and experience. Performance targets applying to LTIP awards are relevant to business plan priorities and aligned with shareholder interests. Full details of the operation of the LTIP are set out on page 102. Vesting dependent on the achievement of performance conditions measured over a three-year period. Performance targets are reviewed annually by the Committee and are set appropriate to the economic and political outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management. Clawback provisions apply to LTIP for overpayments due to material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.	The plan limit in respect of a financial year is 165,000 shares or 300% of salary whichever is the higher. Each year the Committee will set the actual award limit.	Performance is measured over a three-year period relative to challenging targets for selected measures of Group financial performance. Full details will be published in the annual report on remuneration for the relevant year. 25% of the awards vest at a threshold vesting point rising to 100% vesting at a maximum vesting point.
Closed Plan – Deferred Annual Bonus Plan – Matching	Designed to reward and retain Executives over the longer term whilst aligning their interests with those of shareholders.	A matching award of shares linked to their deferred bonus shares and the matching award is subject to performance targets measured over a three-year period.	A maximum match of two shares for each gross share deferred under the Annual Bonus Plan. No further awards will be granted under the Plan.	An EPS growth target has been used for the plan.
Benefits	Designed to be consistent with benefits available to employees in the Group.	Benefits include pension provision or allowance, car allowance, private medical insurance, travel and property hire. Executive Directors can also participate in all-employee share plans. Additional benefits may be provided in future, for example, re-location expenses, which are not currently provided.	Benefit provision varies between different Executive Directors. Whilst there is no maximum level set by the Committee, benefits provision will be set at a level the Committee considers appropriate and be based on individual circumstances. Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.	Not performance-related.

Directors' remuneration report continued

Remuneration policy table continued

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Pensions	Designed to be consistent with benefits available to employees in the Group.	Pension contributions are paid into the Group's defined contribution scheme or as a cash allowance.	5% of salary either into Capita defined contribution scheme or as a non-pensionable cash allowance.	Not performance-related.
Non-Executive Directors' fee	Set to attract and retain Non-Executive Directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities through the provision of market competitive fees.	Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibility, time commitments and the pay and conditions in the workforce. No Non-Executive Director ('NED') participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.	As for the Executive Directors, there is no prescribed maximum monetary annual increase. The Committee is guided by the general increase for the broader workforce but on occasion may recognise an increase in certain circumstances such as, assumed additional responsibility or an increase in the scale or scope of the role. An aggregate annual sum of £1m and increased only to take account of the effect of inflation (or as nearly thereto as is convenient) as measured by the Retail Price Index or such index as the Directors consider appropriate or such other amount as the Company may by ordinary resolution decide.	Not performance-related.

The annual bonus performance measures are focused on Group financial measures which are selected annually consistent with key priorities for the Group.

The LTIP performance measures, EPS, ROCE and share price performance, reward significant long-term returns to shareholders and long-term financial growth. Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Company. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

The Committee operates long-term incentive arrangements for the Executive Directors in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

- who participates
- the timing of the grant of award and/or payment
- the size of an award (up to individual and plan limits) and/or a payment
- discretion relating to the measurement of performance in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

The aggregation of Non-Executive Director fees are determined within the Articles of Association. At the 2015 AGM, these were increased to £1m limit in aggregate.

Malus and clawback provisions have been extended from the original provisions in the Remuneration Policy that are set out in the policy table above. Since 2015, malus and clawback provisions apply to all incentive awards granted to Executive Directors. These provisions would permit the Committee to recover bonus awards for up to three years after the determination of the annual bonus and up to the fifth anniversary of the grant of LTIP awards. The potential circumstances in which malus or clawback provisions can be applied have been extended to include a material misstatement of the Group's financial results, if an individual deliberately misleads relevant parties regarding financial performance or if their actions cause reputational damage or amount to serious misconduct or conduct which causes significant financial loss.

Directors' remuneration report continued

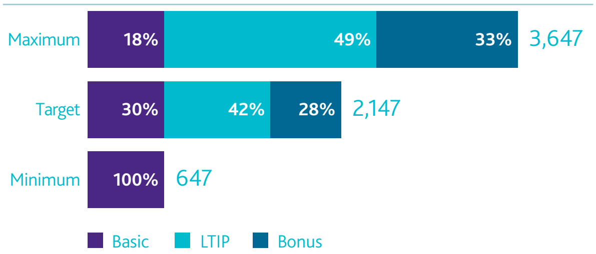
Illustrations of the application of our Remuneration Policy

The value and composition of the Executive Directors' remuneration packages for the year ending 31 December 2016 at the minimum remuneration, target remuneration and maximum remuneration under the Policy are set out in the charts below.

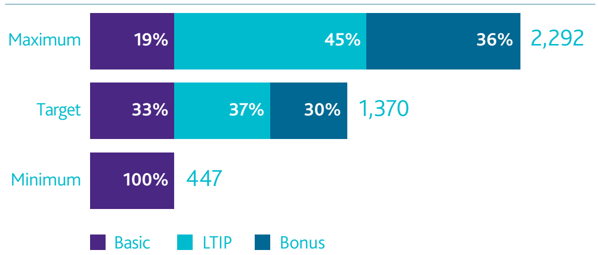
The graphs show an estimate of the remuneration that could be received by the Executive Directors under the Policy set out in this report.

Each graph is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.

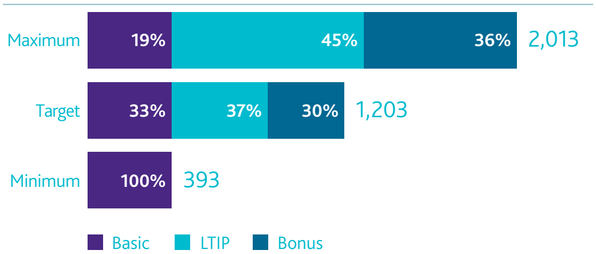
Andy Parker £000



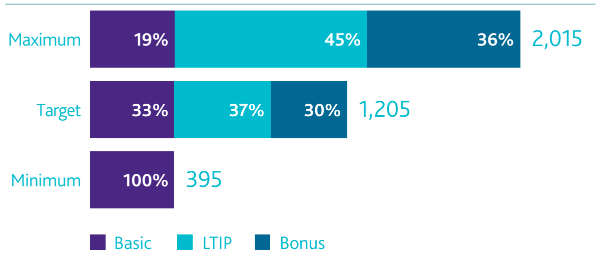
Nick Greatorex £000



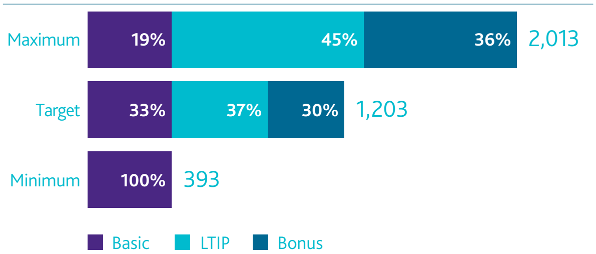
Maggi Bell £000



Vic Gysin £000



Dawn Marriott-Sims £000



Basic includes the base salary, benefits and pension.

Notes

The scenarios in the above graphs are defined as follows:

	Minimum	Performance in line with Expectations (Target)	Maximum remuneration receivable (without allowing for share price appreciation)
Fixed elements of remuneration	Base salary as at 1 January 2016 Estimated value of benefits provided under the Remuneration Policy Pension contribution provided under the Remuneration Policy		
Annual bonus – payout shown as a maximum opportunity	0%	100% of salary	200% of salary
Long-Term Incentive Plan – payout shown as a maximum opportunity	0%	50%	100% of award

The Committee considers pay and employment conditions of employees in the Group when determining Executive Directors' Remuneration Policy

When considering the Executive Directors' remuneration structure and levels, the Committee reviews base salaries and annual bonus arrangements for the management team, to ensure that there is a consistent approach across the Group. The annual bonus plan operates on a similar basis across the senior management team and aims to encourage a high-level of employee share ownership. The key difference in the policy for Executive Directors is that remuneration is more heavily weighted towards long-term variable pay than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors.

The Committee did not formally consult with employees in respect of the design of the Executive Director remuneration policy, although the Committee will keep this under review.

Directors' recruitment and promotions

The Committee takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management.

If a new Executive Director were appointed, the Committee would seek to align the remuneration package with the policy approved by shareholders, including the maximum limit for the annual bonus and LTIP set out in the policy table. However, flexibility would be retained to offer remuneration on appointment outside the policy if the Committee believe it may be appropriate to make 'buy-out' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. The Committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid.

The Committee would seek to structure awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new Executive Directors in the year of recruitment shall be limited to the maximum limit allowed within the Policy table.

The initial notice period for a service contract may be up to 24 months, which is longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

For an internal appointment, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may also agree that the Company will meet certain relocation and incidental expenses as it considers appropriate.

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the Policy table for Non-Executive Directors. However, the Committee (or the Board as appropriate) may include any element listed in the Policy table above, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders.

Directors' service agreements and payments for loss of office

The Committee regularly reviews the contractual terms of the service agreement to ensure these reflect best practice.

The service contracts for Executive Directors are for an indefinite period and provide for a one-year notice period. They do not include provisions for predetermined compensation on termination that exceed one year's salary, pension and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid. All Directors are appointed for an indefinite period but are subject to annual re-election at the Annual General Meeting.

All Executive Directors' service agreements are terminable on 12-months' notice. In circumstances of termination on notice, the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period.

The annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. This will be at the discretion of the Remuneration Committee.

For the DAB Deferred Shares, all will vest on the date of leaving, or later in line with the vesting of the matching awards, as detailed below, other than in circumstances of dismissal for gross misconduct.

For entitlement to shares under the deferred annual bonus matching award and long-term incentive arrangements, the rules contain discretionary provisions setting out the treatment of awards where a participant leaves for designated reasons (i.e. participants who leave early on account of injury, disability or ill-health, death, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the Committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Committee, subject to the performance conditions attached to the relevant awards. The awards will, other than in exceptional circumstances, be scaled back pro rata for the period of the performance period worked by the Director. In the event of a change of control, all unvested awards under the deferred annual bonus and long-term incentive arrangements would vest, to the extent that any performance conditions attached to the relevant awards have been achieved. The awards will, other than if the Committee determines otherwise, be scaled back pro rata for the proportion of the performance period worked by the Director prior to the change of control. For the DAB Deferred Shares, all will vest on the event of a change of control.

In drafting this section of the remuneration report the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Committee may make minor amendments to the Policy set out above (for regulatory, exchange control, administrative or tax purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Non-Executive Directors' terms of engagement

Non-Executive Directors are appointed by letter of appointment for an initial period of three years. Each appointment is terminable by three-months' notice on either side. At the end of the initial period the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

The service agreements and Non-Executive Directors' letters of appointment are available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

Satisfaction of options

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

Dilution

All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards including Executive and all-employee share awards is approximately 4.57% of the Company's share capital as at 31 December 2015.

Directors' remuneration report continued

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The large and medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2016 AGM. The information on pages 100 to 103 has been audited as indicated.

External advice received

Deloitte LLP was, following a review, appointed by the Remuneration Committee during 2012 to provide advice on Executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte primarily on market practice, disclosure within the accounts and stakeholder liaison. Deloitte was paid £37,200 in fees during 2015 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to Executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the Executive remuneration practice, has provided services to the Group in respect of tax, property, advice to internal audit and other ad hoc advisory projects during the year.

The fees were considered as appropriate for the work undertaken and all fees were disclosed prior to the work being undertaken. Where appropriate, fees were tendered with other providers to ensure that the fees were in line with market practice and standards.

The Committee also consulted with Andy Parker to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management, but not in relation to his own remuneration.

Shareholder voting at AGM

The 2015 Directors' remuneration report will be presented to shareholders at the AGM in May 2016. At the AGM in 2015, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2014 was:

AGM 2015	Votes cast 'For'	Votes cast 'Against'	Abstentions[1]
Remuneration report for the year-ended 31 December 2014	515m 97%	15m 3%	7m –
Remuneration Policy – voted on in May 2014	456m 95%	25m 5%	1m –%

1 A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

Directors' remuneration report continued

Statement of implementation of the Remuneration Policy for 2016

The Remuneration Committee intends to implement the Remuneration Policy in 2016 on a consistent basis to how it was implemented in 2015.

Base salary

Our Remuneration Policy is for Executive pay to be highly performance-orientated with fixed pay (salary and benefits) set around the market lower quartile. Accordingly, for those established Director roles we have increased salaries for 2016 by 3.4%.

As explained in last year's remuneration report, salaries of those Directors who were relatively newly appointed to their role (Andy Parker as Chief Executive and Nick Greatorex as Group Finance Director) were set deliberately below the market lower quartile by the Committee on the understanding that, subject to their performance in role, their salaries would move closer to the market lower quartile in future years.

The Board has been pleased with the performance of both Andy Parker and Nick Greatorex and this is reflected in the salary decisions for 2016. Andy and Nick's salaries remain at the lower end of similar-sized FTSE companies.

Andy Parker's salary has been increased by 9% to £600,000. As illustrated in the chart in the Annual Statement from the Remuneration Committee Chair, his salary remains one of the lowest amongst CEOs of similar-sized FTSE companies. The Committee believes that Andy Parker's salary is now appropriately positioned.

Nick Greatorex's salary has been increased by 18% to £410,000. His salary remains one of the lowest amongst CFOs of the FTSE companies ranked 31-100. This will be reviewed in 2017 to move him towards the intended market position which we believe is appropriate given his strong performance in role over the past year.

Our current expectation is that any future salary increases will be aimed at maintaining our stated policy position of lower market quartile.

Accordingly, base salary for 2016 will be:

	Base salary from 1 January 2016
Andy Parker	£600,000
Nick Greatorex	£410,000
Maggi Bell	£360,000
Vic Gysin	£360,000
Dawn Marriott-Sims	£360,000

Fees for the Chairman and Non-Executive Directors

A summary of the fees for 2016 are as follows:

	Fee from 1 January 2016
Martin Bolland, Chairman	£200,000
Gillian Sheldon, Senior Independent Director	£75,000
Paul Bowtell, Audit and Risk Committee Chair	£64,500
John Cresswell, Remuneration Committee Chair	£64,500
Andrew Williams	£64,500

Annual bonus for 2016

For 2016, the annual bonus opportunity will be 200% of base salary. The annual bonus will continue to be based against financial performance of underlying profit before tax of the Group.

As in prior years, Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers to be commercially sensitive.

50% of the bonus payable will be paid in cash and 50% will be deferred into shares.

Long-Term Incentive to be granted in 2016

For the LTIP award to be granted in 2016, Andy Parker will be awarded shares with a value at grant of 300% of salary and the other Executives 250% of salary.

No changes are proposed to the incentive structure for Executive Directors for 2016. The performance conditions applying to LTIP awards incorporate ROCE as well as EPS performance targets as in prior years. The performance targets are rigorously applied.

The performance period will run from 1 January 2016 to 31 December 2018. The performance conditions for this award are detailed in the table below.

Performance measure	Performance condition
EPS – 75% of the Award is measured on EPS Growth	EPS growth: 6% – 12% per annum Vesting percentage: 18.75% – 75% of Award Straight-line vesting occurs between these points.
ROCE – 25% of the Award is measured on average ROCE	Average ROCE: 14% – 16% Vesting percentage: 6.25% – 25% of Award Straight-line vesting occurs between these points.
Share price underpin	Capita's average share price at the vesting date must not be below the share price at the date of grant.

Directors' remuneration report continued

Directors' remuneration earned in 2015 – single figure table (Audited)

The table below summarises Directors' remuneration received in 2015.

Single figure remuneration

		Base salary and fees	Benefits	Pension or Pension Allowance	Annual Bonus	LTIP	DAB – Match	Total Long-Term Incentives	Total Remuneration
Martin Bolland	**2015**	**200,000**	**–**	**–**	**–**	**–**	**–**	**–**	**200,000**
	2014	200,000	–	–	–	–	–	–	200,000
Andy Parker	**2015**	**550,000**	**63,353**	**27,500**	**550,000**	**997,760**	**498,651**	**1,496,411**	**2,687,264**
	2014	500,000	60,996	25,000	1,000,000	973,002	0	973,002	2,558,998
Nick Greatorex	**2015**	**290,000**	**41,415**	**14,500**	**348,000**	**90,600**	**0**	**90,600**	**784,515**
	2014	–	–	–	–	–	–	–	–
Maggi Bell	**2015**	**348,000**	**15,650**	**17,400**	**348,000**	**997,760**	**498,651**	**1,496,411**	**2,225,461**
	2014	340,000	15,408	16,732	680,000	983,001	0	983,001	2,035,141
Vic Gysin	**2015**	**348,000**	**52,225**	**17,400**	**348,000**	**997,760**	**997,320**	**1,995,080**	**2,760,705**
	2014	340,000	66,775	17,000	680,000	941,504	0	941,504	2,045,279
Dawn Marriott-Sims	**2015**	**348,000**	**26,217**	**17,400**	**348,000**	**389,073**	**195,111**	**584,184**	**1,323,801**
	2014	300,000	24,013	–	600,000	381,600	0	381,600	1,305,613
Gillian Sheldon	**2015**	**74,000**	**–**	**–**	**–**	**–**	**–**	**–**	**74,000**
	2014	72,000	–	–	–	–	–	–	72,000
Paul Bowtell	**2015**	**63,500**	**–**	**–**	**–**	**–**	**–**	**–**	**63,500**
	2014	62,000	–	–	–	–	–	–	62,000
John Cresswell	**2015**	**7,812**	**–**	**–**	**–**	**–**	**–**	**–**	**7,812**
	2014	–	–	–	–	–	–	–	–
Andrew Williams	**2015**	**63,500**	**–**	**–**	**–**	**–**	**–**	**–**	**63,500**
	2014	–	–	–	–	–	–	–	–
Carolyn Fairbairn	**2015**	**52,917**	**–**	**–**	**–**	**–**	**–**	**–**	**52,917**
	2014	39,455	–	–	–	–	–	–	39,455
Gordon Hurst	**2015**	**63,333**	**2,962**	**3,167**	**–**	**–**	**–**	**–**	**69,462**
	2014	380,000	19,844	19,000	760,000	941,504	–	941,504	2,120,348

Nick Greatorex was appointed to the Board on 1 March 2015. His remuneration figures are reflective of the period 1 March 2015 to 31 December 2015.

John Cresswell was appointed to the Board on 17 November 2015. His remuneration figures are reflective of the period 17 November 2015 to 31 December 2015.

Andrew Williams was appointed to the Board on 1 January 2015.

Carolyn Fairbairn retired as a Board Director on 31 October 2015. No further payments were made after this date.

Gordon Hurst retired as a Board Director on 28 February 2015.

Base salary includes base salary plus fixed cash allowances which are a normal part of the fixed remuneration package and usual local practice. Benefits include all taxable benefits as defined by paragraph 11(1) of Schedule 8 to the Accounts regulations. This includes private medical insurance, company car allowance, work travel, child care and accommodation. Staff entertainment has also been included under benefits and this cost will be for more than the individual director themselves.

The figures for 2014 have also been restated to include all taxable benefits as defined by paragraph 11(1) of Schedule 8 to the Accounts regulations.

The annual bonus for 2014 and 2015 was based on performance against financial target of underlying profit before tax.

Performance targets for the 2013 LTIP awards were RPI+4% per annum (20% vests) to 12% per annum (100% vests) for Board members at the time of the grant, RPI+4% per annum (50% vests) to 12% per annum (100% vests) and RPI+4% per annum (100% vests) for other participants over the three-year period to 31 December 2015. Our actual EPS growth over this period was 10.71% per annum which will result in the vesting of 68.83% of awards for Board members at the time of grant, 80.52% of awards and 100% of awards for other participants.

Performance target for the 2013 DAB awards were RPI+4% per annum (33% vests) to 12% per annum (100% vests) over the three year period to 31 December 2015. Our actual EPS growth over this period was 10.71% per annum which will result in the vesting of 73.90% of awards for Board members at the time of grant.

Price for long-term incentives and DAB match was £12.08 on the 31 December 2015.

Vic Gysin invested 100% of his 2013 Bonus into the DAB.

The 2014 LTIP figures have been restated to reflect the share price on exercise.

Please note that no Director waived any fees or salary for 2015.

Directors' remuneration report continued

Annual Bonus for 2015

The maximum annual bonus for the Executive Directors that could be earned in relation to 2015 performance was 200% of salary (unchanged from 2014).

The annual bonus that could be paid to Executive Directors in respect of 2015 performance was determined by a range of underlying profit before tax targets, subject to a Remuneration Committee review of non-underlying items within the accounts. 50% of the bonus was payable for achieving target performance with 100% payable for achieving the maximum target. No bonus would be paid for below target performance.

As disclosed in the financial statements the Group has completed the disposal of, and expects to complete the disposal of a number of businesses in the year, to remove non-core activities from the Group's portfolio and conducted a review of the Life & Pensions asset carrying value. These actions have resulted in non-underlying items being significantly more material than in previous years. The Board believes that these actions were necessary to better align the business for the future.

To recognise the impact of the above, the Remuneration Committee and the Directors agreed a scaling back of the Group bonus awards, capping their bonus to 50% of the potential maximum bonus.

The main Board Executive Directors have therefore been awarded 100% of salary in bonus. In accordance with the remuneration policy 50% of the bonus received has been deferred into shares under the DAB (see page 91), strongly aligning the interests of the Executive Directors with those of the Group's shareholders. The remaining amount will be paid in cash.

	Below target performance	On-target performance	Maximum performance	Actual performance and bonus payout
Underlying profit before tax	<£570m	£570m	£580m	£585.5m
Bonus payout	0%	50% of maximum	100% of maximum	50% of maximum

Share Plan Awards

Long Term Incentive Awards awarded in 2015 (Audited)

Name of Director	LTIP award	Face value of LTIP award[1]
Andy Parker	139,712	1,650,000
Nick Greatorex	73,666	870,000
Maggi Bell	73,666	870,000
Vic Gysin	73,666	870,000
Dawn Marriott-Sims	73,666	870,000

1 The date of the grant was 27 February 2015. The closing price on the preceding day £11.81 was used to determine the number of shares.

LTIP awards are granted as nil cost options. LTIP Awards were awarded as a percentage of salary. LTIP Awards are subject to EPS and ROCE performance over the three-year period to 31 December 2018 with LTIP awards also subject to a share price underpin. 25% of LTIP Awards vest for achieving threshold performance. Full details of the performance conditions relating to these awards are outlined on page 102.

Directors' remuneration report continued

Directors' interests and shareholding guidelines (Audited)

Executive Directors are asked to hold 100% of salary in shares in the Company. This is built up over a period of five years from appointment. The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three-year period. Any shares in the DAB used for this are calculated net of tax. Share awards that are subject to performance conditions are not included.

Director	Beneficially held interests at 31 December 2015	Beneficially held interests at 31 December 2014	Interests in share incentive schemes, awarded without performance conditions at 31 December 2015	Interests in share incentive schemes, awarded without performance conditions at 31 December 2014	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2015	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2014	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2015	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2014	Percentage of shareholding target requirement at 31 December 2015 or date of retirement
Martin Bolland	71,500	63,000	–	–	–	–	–	–	–
Andy Parker	13,705	13,392	98,331	55,994	623,279	483,567	–	–	100%
Nick Greatorex[1]	5,827	2,124	–	–	129,412	55,746	–	–	17%
Maggi Bell	73,452	73,452	77,443	48,654	485,535	411,869	–	–	100%
Vic Gysin	–	–	104,795	89,537	567,301	493,635	–	–	100%
Dawn Marriott-Sims	594	411	33,026	19,563	258,581	184,915	–	–	83%
Gillian Sheldon	1,000	1,000	–	–	–	–	–	–	–
Paul Bowtell	1,031	1,008	–	–	–	–	–	–	–
John Cresswell[2]	–	–	–	–	–	–	–	–	–
Andrew Williams[3]	–	–	–	–	–	–	–	–	–
Carolyn Fairbairn[4]	–	–	–	–	–	–	–	–	–
Gordon Hurst[4]	–	25,358	59,044	59,044	232,305	441,421	–	–	–

1 Appointed 1 March 2015.
2 Appointed 17 November 2015.
3 Appointed 1 January 2015.
4 Carolyn Fairbairn retired from the Board on 27 October 2015 and Gordon Hurst retired from the Board on 28 February 2015.
The beneficially held interests at 31 December 2015 for Gordon Hurst were not recorded as he retired from Capita plc on 30 September 2015.

Between the end of the financial year and 24 February 2016, Nick Greatorex and Dawn Marriott-Sims acquired 30 and 33 shares under the Capita Share Ownership Plan, increasing their beneficial interest in ordinary shares of the Company to 5,857 and 627 respectively.

Directors' remuneration report continued

Share plans (Audited)

Plan name: Deferred Annual Bonus (DAB) plan

The DAB is split into two elements:

Deferred award – this is the deferred element of an individual's bonus. Any deferral is made on a gross basis into Deferred Shares or as a net restricted share award. The Deferred Shares are held for a period of three years from the date of award. This part is not subject to performance conditions. For the award made in 2015 it was agreed that the Directors could elect to take the award as restricted stock. This meant they chose to pay the tax and national insurance due at the time of the award. Dawn Marriott-Sims and Vic Gysin both chose to take the award as restricted stock. The restricted shares are held in trust and have the same conditions as the Deferred Award. There was no impact to the accounting treatment of these awards and no detriment to the Company.

Matching award – this is awarded at a ratio of two shares for each gross share awarded under the deferred award. Matching awards vest after a three-year holding period to the extent to which performance criteria have been met. No matching awards have been made in 2015 and it is not planned to award any further matching awards under this plan.

Plan name: Long Term Incentive Plan (2008 LTIP)

At the Annual General Meeting in 2008, the Long Term Incentive Plan (LTIP) was approved by shareholders. Under the plan rules the Committee can award up to the higher of three times salary or 165,000 shares.

The vesting of awards will depend on performance measured over a three-year period.

Unvested DAB matching awards at 31 December 2015

	2013 award	2014 award	2015 award	Total
Andy Parker	55,858	56,130	No award	111,988
Maggi Bell	55,858	41,450	No award	97,308
Vic Gysin	111,718	67,356	No award	179,074
Dawn Marriott-Sims	21,856	17,270	No award	39,126

Unvested DAB deferred/restricted awards at 31 December 2015

	2013 award	2014 award	2015 award[1]	Total
Andy Parker	27,929	28,065	42,337	98,331
Maggi Bell	27,929	20,725	28,789	77,443
Vic Gysin	55,859	33,678	15,258[2]	104,795
Dawn Marriott-Sims	10,928	8,635	13,463[2]	32,756

1 The value of the 2015 deferred award awarded on 27 February 2015 was included in the annual bonus value in the 2014 single figure table.

2 The 2015 DAB was awarded as restricted stock.

Performance criteria for matching awards

Performance measure	Performance condition
EPS Growth	EPS Growth: RPI + 4% – RPI + 12% Vesting Percentage: 33% – 100% Straight-line vesting occurs between these points.

Unvested LTIP awards at 31 December 2015

Name of Director	2013 award	2014 award	2015 award	Total
Andy Parker	120,000	131,579	139,712	391,291
Nick Greatorex	7,500	48,246	73,666	129,412
Maggi Bell	120,000	74,561	73,666	268,227
Vic Gysin	120,000	74,561	73,666	268,227
Dawn Marriott-Sims	40,000	65,789	73,666	179,455

Performance criteria

2013

Performance measure	Performance condition
EPS Growth	EPS Growth: RPI + 4% – RPI + 12% Vesting Percentage: 20% – 100% Straight-line vesting occurs between these points.
Share price underpin	Capita's average share price at the vesting date must not be below the share price at the date of grant.

2014 and 2015

Performance measure	Performance condition
EPS – 75% of the Award is measured on EPS Growth	EPS growth: 6% – 12% per annum Vesting percentage: 18.75% – 75% of Award Straight line vesting occurs between these points.
ROCE – 25% of the Award is measured on average ROCE	Average ROCE: 14% – 16% Vesting percentage: 6.25% – 25% of Award Straight line vesting occurs between these points.
Share price underpin	Capita's average share price at the vesting date must not be below the share price at the date of grant.

Directors' remuneration report continued

Executive Directors' service agreements

Details of the service agreements are set out below:

Executive Directors	Date of contract	Notice period
Andy Parker	10 January 2011	12 months
Nick Greatorex	1 January 2015	12 months
Maggi Bell	1 August 2008	12 months
Vic Gysin	10 January 2011	12 months
Dawn Marriott-Sims	1 January 2014	12 months

Non-Executive Directors' terms of engagement

In 2015, all Non-Executive Directors were considered to be independent of the Company.

Non-Executive Directors	Date of joining the Board	Expiry date of current three-year appointment
Martin Bolland	1 March 2008	Not applicable
Gillian Sheldon	1 September 2012	31 August 2018
Paul Bowtell	28 June 2010	27 June 2016
Andrew Williams	1 January 2015	31 December 2017
John Cresswell	17 November 2015	16 November 2018

Payments to former Directors (Audited)

No payments (other than regular pension benefits and legacy share plan maturities which were commenced in previous years) were made during the year-ended 31 December 2015 to any past Director of the Company.

Payments for loss of office (Audited)

Gordon Hurst stepped down as Director on 28 February 2015 and in order to assist with the transition remained employed by the Group until 30 September 2015. As explained in last year's report, he received no payments following his retirement on 30 September 2015 and his outstanding share awards were pro rata reduced for the time period post retirement and remain subject to the existing performance conditions. No other payments were made in respect of loss of office to Directors during the year-ended 31 December 2015.

Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the CEO in the 2015 financial year, compared to that for the average employees:

		Chief Executive	All employees
	To 31 December 2015 £	% change 2015 v 2014	% change 2015 v 2014
Base compensation	550,000	10.0%	3.08%
Benefits	63,353	3.9%	10.28%
Bonus	550,000	(45.0)%	(29.0)%

This all employee information has been taken using only the UK employees as it was felt that using our overseas payroll would distort the information. The comparison of 2014 and 2015 are based purely on Andy Parker's remuneration.

As explained in our report in 2014, the salary of Andy Parker was set deliberately below the market lower quartile by the Committee on the understanding that, subject to his performance in role, his salary would move closer to the market lower quartile in future years. Andy Parker's salary remains at the lower end of similar sized FTSE companies. Andy Parker's salary has been increased by 10% in 2015 to £550,000 and 9% to £600,000 for 2016. The Committee believes that Andy Parker's salary is now appropriately positioned.

Directors' remuneration report continued

Relative importance of the spend on pay

The table below shows the spend on staff costs in the 2015 financial year, compared to dividends:

	2015 £m	2014 £m	% change
Staff costs	2,211	1,995	10.8
Dividends	199.3	180.5	10.4

Performance graph and CEO pay

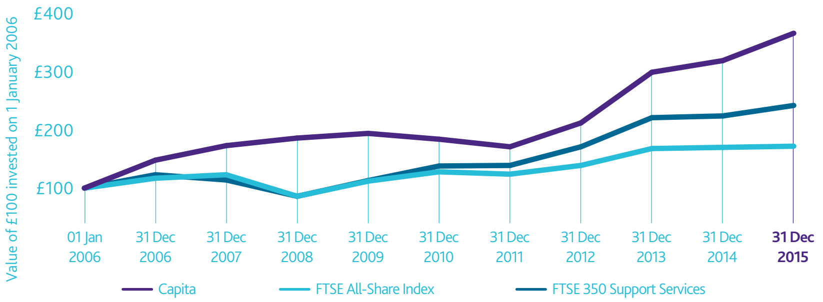
Capita has maintained strong TSR performance over a sustained period. As shown below, the performance of Capita over a 10 year period shows the strong performance against those in our peer group and rest of the FTSE 100.

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index assuming that all dividend income is re-invested.

The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the UK and also a specific group of companies within the same sector. Over the 10-year period to 31 December 2015, £100 invested in Capita on 1 January 2006 would be worth £366 at 31 December 2015 compared to £172 for an investment in the FTSE All-Share Index and £242 for an investment in the FTSE 350 Support Services Index.

Capita vs. FTSE All-Share Index and FTSE 350 Support Services Index

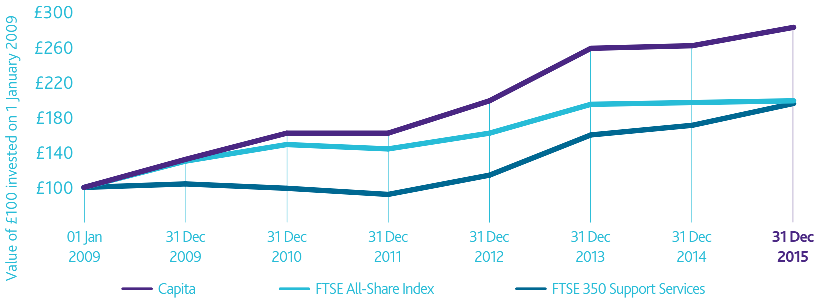
Value of investment of £100 on 1 January 2006



The following chart is the same comparison over a seven-year period starting 1 January 2009.

Capita vs. FTSE All-Share Index and FTSE 350 Support Services Index

Value of investment of £100 on 1 January 2009



The total remuneration figures for the CEO during the 2015 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

Year	CEO – Single figure of total remuneration	Annual bonus payout against maximum opportunity	Long term incentive vesting rates against maximum opportunity
2015	£2,616,902	50%	71.365%
2014	£2,558,998	100%	67.2%
2013	£2,326,250	75%	54.5%
2012	£2,038,233	100%	47.75%
2011	£1,833,308	–	56.02%
2010	£1,399,675	100%	88.567%
2009	£1,621,793	75%	100%

Note – the vesting rates for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and 2015. For 2014 this is the actual vesting for the LTIP as there is no DAB maturity in 2014. Note for 2010–2013 were based on Paul Pindar as CEO. The total period for 2014 is based on Andy Parker total remuneration.

Approval of the Directors' remuneration report

The Directors' remuneration report, including both the Remuneration Policy and the annual report on remuneration, was approved by the Board on 24 February 2016.

John Cresswell
Chair, Remuneration Committee
24 February 2016

Accounts

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

Financial statements

Notes

Other information

Consolidated income statement
for the year ended 31 December 2015

	Notes	2015 Underlying £m	2015 Non-underlying Business exit (note 4) £m	2015 Non-underlying Other non-underlying (note 5) £m	2015 Total £m	2014 Underlying £m	2014 Non-underlying Business exit (note 4) £m	2014 Non-underlying Other non-underlying (note 5) £m	2014 Total £m
Continuing operations:									
Revenue	3	**4,674.3**	**162.6**	**–**	**4,836.9**	4,372.3	5.8	–	4,378.1
Cost of sales		**(3,367.7)**	**(123.8)**	**–**	**(3,491.5)**	(3,166.9)	(4.8)	–	(3,171.7)
Gross profit		**1,306.6**	**38.8**	**–**	**1,345.4**	1,205.4	1.0	–	1,206.4
Administrative expenses	4,5	**(667.6)**	**(176.9)**	**(294.3)**	**(1,138.8)**	(629.1)	(8.1)	(180.3)	(817.5)
Operating profit	7	**639.0**	**(138.1)**	**(294.3)**	**206.6**	576.3	(7.1)	(180.3)	388.9
Net finance costs	9	**(53.5)**	**–**	**(14.7)**	**(68.2)**	(40.6)	–	(38.1)	(78.7)
Loss on business disposal	4	**–**	**(26.3)**	**–**	**(26.3)**	–	(17.8)	–	(17.8)
Profit before tax		**585.5**	**(164.4)**	**(309.0)**	**112.1**	535.7	(24.9)	(218.4)	292.4
Income tax expense	10	**(108.3)**	**2.4**	**49.4**	**(56.5)**	(99.1)	1.8	44.8	(52.5)
Profit for the year		**477.2**	**(162.0)**	**(259.6)**	**55.6**	436.6	(23.1)	(173.6)	239.9
Attributable to:									
Owners of the Company		**468.4**	**(162.0)**	**(253.7)**	**52.7**	429.3	(23.1)	(170.3)	235.9
Non-controlling interests		**8.8**	**–**	**(5.9)**	**2.9**	7.3	–	(3.3)	4.0
		477.2	**(162.0)**	**(259.6)**	**55.6**	436.6	(23.1)	(173.6)	239.9
Earnings per share	11								
– basic		**70.73p**	**(24.46)p**	**(38.31)p**	**7.96p**	65.15p	(3.51)p	(25.85)p	35.79p
– diluted		**69.85p**	**(24.16)p**	**(37.83)p**	**7.86p**	64.58p	(3.48)p	(25.62)p	35.48p

Consolidated statement of comprehensive income
for the year ended 31 December 2015

	Notes	2015 £m	2015 £m	2014 £m	2014 £m
Profit for the year			**55.6**		239.9
Other comprehensive expense:					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain/(loss) on defined benefit pension schemes	32	**13.0**		(67.2)	
Income tax effect	10	**(6.5)**		12.8	
			6.5		(54.4)
Items that will or may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations			**(14.0)**		(6.3)
Net investment hedge of foreign operations		**(3.5)**		–	
Income tax effect	10	**0.6**		–	
			(2.9)		–
Gain on cash flow hedges arising during the year	26	**0.8**		5.6	
Reclassification adjustments for losses included in the income statement	26	**3.1**		6.0	
Income tax effect	10	**(1.1)**		(2.3)	
			2.8		9.3
			(14.1)		3.0
Other comprehensive expense for the year net of tax			**(7.6)**		(51.4)
Total comprehensive income for the year net of tax			**48.0**		188.5
Attributable to:					
Owners of the Company			**45.1**		184.5
Non-controlling interests			**2.9**		4.0
			48.0		188.5

Consolidated balance sheet
as at 31 December 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment	13	**406.0**	448.8
Intangible assets	14	**2,810.0**	2,619.4
Financial assets	16	**186.6**	178.2
Deferred taxation	10	**18.8**	12.5
Trade and other receivables	18	**86.1**	73.5
		3,507.5	3,332.4
Current assets			
Financial assets	16	**44.3**	14.7
Disposal group assets held for sale	4	**84.1**	–
Funds assets	23	**161.7**	118.2
Trade and other receivables	18	**1,011.9**	988.1
Cash	19	**534.0**	458.9
		1,836.0	1,579.9
Total assets		**5,343.5**	4,912.3
Current liabilities			
Trade and other payables	20	**1,144.0**	1,128.2
Overdrafts	19	**448.7**	429.8
Financial liabilities	22	**230.8**	164.8
Disposal group liabilities held for sale	4	**40.4**	–
Funds liabilities	23	**161.7**	118.2
Provisions	25	**69.4**	69.6
Income tax payable		**46.2**	42.6
		2,141.2	1,953.2
Non-current liabilities			
Trade and other payables	20	**29.3**	28.3
Financial liabilities	22	**2,163.4**	1,780.8
Deferred taxation	10	**19.0**	–
Provisions	25	**49.0**	42.0
Employee benefits	32	**188.3**	192.5
		2,449.0	2,043.6
Total liabilities		**4,590.2**	3,996.8
Net assets		**753.3**	915.5
Capital and reserves			
Issued share capital	27	**13.8**	13.8
Share premium		**500.7**	499.0
Employee benefit trust & treasury shares	27	**(0.3)**	(0.3)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**(21.2)**	(4.3)
Cash flow hedging reserve		**(12.0)**	(14.8)
Retained earnings		**196.5**	354.7
Equity attributable to owners of the Company		**679.3**	849.9
Non-controlling interests		**74.0**	65.6
Total equity		**753.3**	915.5

The accounts were approved by the Board of Directors on 24 February 2016 and signed on its behalf by:

A Parker
Chief Executive

N Greatorex
Group Finance Director

Company registered number: 2081330

Consolidated statement of changes in equity

for the year ended 31 December 2015

	Share capital £m	Share premium £m	Employee benefit trust & treasury shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	13.8	491.2	(0.4)	1.8	350.4	2.0	(24.1)	834.7	61.6	896.3
Profit for the year	–	–	–	–	235.9	–	–	235.9	4.0	239.9
Other comprehensive expense	–	–	–	–	(54.4)	(6.3)	9.3	(51.4)	–	(51.4)
Total comprehensive income for the year	–	–	–	–	181.5	(6.3)	9.3	184.5	4.0	188.5
Share based payment	–	–	–	–	11.0	–	–	11.0	–	11.0
Deferred income tax relating to share based payments	–	–	–	–	5.7	–	–	5.7	–	5.7
Shares issued	–	7.8	0.1	–	–	–	–	7.9	–	7.9
Equity dividends paid	–	–	–	–	(180.5)	–	–	(180.5)	–	(180.5)
Movement in put options held by non-controlling interests	–	–	–	–	(13.4)	–	–	(13.4)	–	(13.4)
At 1 January 2015	13.8	499.0	(0.3)	1.8	354.7	(4.3)	(14.8)	849.9	65.6	915.5
Profit for the year	**–**	**–**	**–**	**–**	**52.7**	**–**	**–**	**52.7**	**2.9**	**55.6**
Other comprehensive expense	**–**	**–**	**–**	**–**	**6.5**	**(16.9)**	**2.8**	**(7.6)**	**–**	**(7.6)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**59.2**	**(16.9)**	**2.8**	**45.1**	**2.9**	**48.0**
Share based payment	**–**	**–**	**–**	**–**	**11.4**	**–**	**–**	**11.4**	**–**	**11.4**
Deferred income tax relating to share based payments	**–**	**–**	**–**	**–**	**(6.1)**	**–**	**–**	**(6.1)**	**–**	**(6.1)**
Income tax deduction on exercise of stock options	**–**	**–**	**–**	**–**	**3.8**	**–**	**–**	**3.8**	**–**	**3.8**
Shares issued	**–**	**1.7**	**–**	**–**	**–**	**–**	**–**	**1.7**	**–**	**1.7**
Equity dividends paid	**–**	**–**	**–**	**–**	**(199.3)**	**–**	**–**	**(199.3)**	**(1.2)**	**(200.5)**
Investment in non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6.7**	**6.7**
Put option of non-controlling interest acquired	**–**	**–**	**–**	**–**	**(9.8)**	**–**	**–**	**(9.8)**	**–**	**(9.8)**
Movement in put options held by non-controlling interests	**–**	**–**	**–**	**–**	**(17.4)**	**–**	**–**	**(17.4)**	**–**	**(17.4)**
At 31 December 2015	**13.8**	**500.7**	**(0.3)**	**1.8**	**196.5**	**(21.2)**	**(12.0)**	**679.3**	**74.0**	**753.3**

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising $2^{1}/_{15}$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 & treasury shares – Shares that have been bought back by the Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and do not have entitlement to a dividend.

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

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

Cash flow hedging 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.

Non-controlling interests (NCI) – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

Consolidated cash flow statement
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash generated from operations before non-underlying cash items	29	**685.8**	641.2
Asset Services settlement provision cash paid	25	**(21.7)**	(4.3)
Business exit provision cash paid	25	**(21.6)**	(18.8)
Cash generated from operations		**642.5**	618.1
Income tax paid		**(93.5)**	(93.7)
Net interest paid		**(47.2)**	(35.6)
Net cash inflow from operating activities		**501.8**	488.8
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(118.5)**	(110.5)
Purchase of intangible assets	14	**(85.1)**	(40.8)
Proceeds from sale of property, plant and equipment	7,13	**5.9**	5.3
Acquisition of public sector subsidiary partnerships	17	**(20.0)**	–
Acquisition of subsidiary undertakings and businesses	5,17	**(376.8)**	(325.5)
Cash acquired with subsidiary undertakings	17	**20.2**	29.7
Debt repaid on acquisition of subsidiary undertakings	17,29	**(48.3)**	(21.5)
Proceeds on disposal of subsidiary undertakings	4	**34.7**	–
Cash disposed of with subsidiary undertakings	4	**(8.7)**	(2.8)
Deferred consideration	17,29	**(11.6)**	(35.5)
Contingent consideration	17,29	**(32.1)**	(9.2)
Purchase of financial assets	16	**(2.4)**	(1.0)
Xchanging transaction	5	**3.7**	–
Investment loan	16	**–**	(5.0)
Net cash outflow from investing activities		**(639.0)**	(516.8)
Cash flows from financing activities			
Issue of share capital	27	**1.7**	7.9
Dividends paid	12	**(200.5)**	(180.5)
Capital element of finance lease rental payments	9,29	**(5.0)**	(4.9)
Repayment of loan notes	29	**(0.2)**	(10.2)
Repayment of bonds	29	**(97.0)**	(10.6)
Proceeds on issue of term debt	29	**–**	100.0
Proceeds on issue of bonds	29	**496.6**	–
Financing arrangement costs	22	**(1.1)**	(0.3)
Net cash inflow/(outflow) from financing activities		**194.5**	(98.6)
Increase/(decrease) in cash and cash equivalents		**57.3**	(126.6)
Cash and cash equivalents at the beginning of the period		**29.1**	157.8
Impact of movement in exchange rates	29	**(1.1)**	(2.1)
Cash and cash equivalents at 31 December		**85.3**	29.1
Cash and cash equivalents comprise:			
Cash at bank and in hand	19	**534.0**	458.9
Overdrafts	19	**(448.7)**	(429.8)
Total		**85.3**	29.1

Notes to the consolidated financial statements

1 Corporate information

The consolidated financial statements of Capita plc for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 24 February 2016. Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the Strategic report on pages 1 to 60.

2 Summary of significant accounting policies

Underlying profit

The Group separately presents intangible amortisation, asset impairments, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses, movements 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 (see notes 4, 5 and 9) by virtue of their nature, 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.

None of our 2015 business exits or businesses in the process of being exited meet the definition of "discontinued operations" as stipulated by IFRS 5, which requires disclosure and the restatement of comparative information where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described above does not fall within the requirements of IFRS 5 concerning discontinued operations and comparatives have not been restated.

Assets held for sale

The Group classifies businesses as held for sale where at the balance sheet date, an active sales process is ongoing which is expected to complete within the next 12 months. On presentation as Held for Sale, the Group re-measures the carrying value of assets in the disposal group based on the lower of carrying value and the value that is expected to be recovered through the sale process.

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 as follows:

- the measurement of revenue and resulting profit recognition – the Group makes use of estimates to determine revenue in respect of percentage complete/long term and construction contracts (see (e) and (f) below);
- the measurement of intangible assets other than goodwill in a business combination – this involves estimation of future cash flows and the selection of a suitable discount rate;
- the measurement and impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate (see note 15);
- the measurement of defined benefit obligations – this requires estimation of future changes in salaries and inflation, as well as mortality rates, future pension increases and the selection of a suitable discount rate (see note 32); and
- the measurement of provisions reflects management's assessment of the probable outflow of economic benefits resulting from an existing obligation. Provisions are calculated on a case by case basis and involve judgement as regards the final timing and quantum of any financial outlay (see note 25).

(a) Statement of compliance

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

The parent Company has elected to apply FRS101 – Reduced Disclosure Framework in the preparation of its individual financial statements and these are contained on pages 163 to 176. This is the Company's first set of financial statements to be prepared on this basis. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

(b) Basis of preparation

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

In accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Capita plc and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Capita plc has control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

(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.

IAS 19 Amendments: Defined Benefit Plans: Employee Contributions IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Annual Improvements to IFRSs 2010 – 2012 Cycle and 2011-2013 Cycle As part of its annual improvements cycles the International Accounting Standards Board amended various standards primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments did not have any material impact on the Group.

(e) Revenue

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

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

In all cases, revenue is recognised when the performance obligations have been performed or the significant risks and rewards of ownership are transferred to the buyer and it is probable that the economic benefits resulting from this performance will flow to the Group and the revenue can be reliably measured.

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

The following table illustrates revenue recognition policies predominately used in each operating segment. A description of these policies is included in (f) below.

Segment	Ongoing service contracts	Time & material contracts	Brownfield contracts	Percentage complete/long term contracts	IAS 11 Construction contracts	Greenfield contracts
Capita Europe	•	•	•			
Digital & Software Solutions	•	•	•	•	•	
Local Government, Health & Property	•	•	•	•		•
Workplace Services	•	•	•	•	•	•
IT Enterprise Services	•	•	•	•		•
Asset Services	•	•	•			
Customer Management	•	•	•	•	•	
Insurance & Benefit Services	•	•	•			
Integrated Services	•	•	•	•	•	

The Group has arrangements with some of its customers whereby it acts as an agent. Factors generally considered to determine whether the Group is a principal or an agent, are most notably whether it is the principal obligor to the client, it assumes credit and delivery risks, or it adds meaningful value to the supplier's service. Where the Group is acting as a principal, revenue represents the amounts billed for the services, including the associated costs. Where the Group is acting as an agent, revenue represents commissions receivable relating to the services and does not include the associated costs.

(f) Revenue recognition

The principal revenue recognition policies, beginning with the most widely used, are as follows:

Ongoing service contracts

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

Time and materials contracts

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

Brownfield contracts

A brownfield contract is one where there is a transfer of an existing operation to the Group. All costs incurred prior to service commencement are expensed as incurred and revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

Greenfield contracts

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

On commencement of service, delivery revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

Percentage complete/long term contracts

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

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

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

Contracts with multiple components

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

In these contracts these activities are treated separately where appropriate, with the relevant accounting policy for revenue recognition, as detailed previously, being applied to each individual component.

IAS 11 Construction contracts

The Group constructs tangible and intangible assets for its customers, which are mainly intangible IT assets. In line with the requirements of IAS 11 gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

IFRIC 12 Service concession arrangements

Where the Group constructs infrastructure on behalf of a client which it subsequently operates under a Service Concession Arrangement, in line with IFRIC 12, a proportion of the revenue due under the contract is brought forward and recognised as the infrastructure is constructed.

Contract renewals

On the renewal of existing contracts, the Group reviews the circumstances pertinent to each renewed contract to ensure that the correct revenue recognition policies are applied.

(g) Foreign currency translation

The functional and presentation currency of Capita plc and its UK 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, South African rand, and the US dollar. As at the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita plc at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1 as at 31 December 2004. In utilising this exemption, all cumulative translation differences were 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 to 10 years

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

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

(i) Borrowing costs

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

The Group capitalises borrowing costs for all qualifying assets where construction commenced on or after 1 January 2009.

(j) Business combinations and goodwill

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

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

Acquisitions on or after 1 January 2010

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

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

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

For acquisitions where material changes were made to the fair value of the acquired assets and liabilities within the measurement period, the relevant account balances in the prior year are restated to reflect these changes in accordance with IFRS 3 requirements. Details of these changes are shown in note 17.

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

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

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

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

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

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

Acquisitions prior to 1 January 2004 (IFRS transition date)

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

Goodwill

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set-off directly against reserves and does not get recycled through the income statement.

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

Acquisitions and disposals of non-controlling interests

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

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

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2014 or 2015. Amortisation is charged on assets with finite lives and 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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

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

Intangible assets identified and recognised since transition to IFRS are profiled, on a straight-line basis, as follows:

Acquired intangible assets

- brands are amortised over their useful economic lives of between 5 and 10 years
- I.P., software and licences are amortised over their useful economic lives of between 5 and 20 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.

Underlying intangible assets

- capitalised software development costs are amortised over their useful economic lives of between 5 and 15 years
- other intangibles are amortised over their useful economic lives of 3 to 15 years.

(l) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that a non-current 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 uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(o) Cash and cash equivalents

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

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value less any directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method, except for instruments designated in fair value hedge relationships. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Group provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

(r) Onerous contracts

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

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

(s) Pension schemes

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

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.

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.

Re-measurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained earnings and will not be reclassified to the income statement. The Group determines the net interest expense/income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments.

Current and past service costs are charged to operating profit whilst the net interest cost is included within net finance costs.

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.

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 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 present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

(t) 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: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; 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; and hedges of a net investment in a foreign operation.

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.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in equity while any gains or losses relating to any ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

The Group uses loans and foreign exchange derivatives as hedges of its exposures to foreign exchange risks on its investments in foreign subsidiaries.

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.

Put options on the shares of subsidiaries held by non-controlling interest shareholders that oblige the Group to purchase those shares for cash or another financial asset are recognised as a financial liability for the present value of the option exercise price. When the financial liability is recognised initially, that amount is reclassified from equity, and subsequently measured at amortised cost using the effective interest rate method. Changes in the carrying amount, including the accretion of interest, are recognised in equity.

On exercise of the put options, the Group will treat the transaction as the purchase of the non-controlling interest and will apply acquisition accounting as described in (j) Business Combinations and Goodwill – Acquisitions and disposal of non-controlling interest.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

(u) Leasing

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

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

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

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

(v) Income tax

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

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

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

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

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

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

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

(w) Share based payments

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

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

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

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

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

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

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

(x) New standards and interpretations not applied

The IASB have issued the following standards and amendments with an effective date after the date of these financial statements. These are effective for annual periods beginning on or after the date indicated:

	Effective date
International Accounting Standards (IAS/IFRSs)	
Endorsed by the EU:	
IFRS 11 Amendments: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38 Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27 Amendments: Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to IFRSs 2012 – 2014 Cycle	1 January 2016
IAS 1 Amendments: Disclosure Initiative	1 January 2016
Not yet endorsed by the EU:	
IFRS 9 Financial Instruments	1 January 2018
IFRS 10 and IAS 28 Amendments: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	Deferred indefinitely
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 10, IFRS 12 and IAS 28 Amendments: Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 16 Leases	1 January 2019
IAS 12 Amendments: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

The Group are conducting a review of IFRS 15 – Revenue from Contracts with Customers which is ongoing.

The Group does not currently anticipate that the adoption of the other standards and interpretations above will have a material impact on the Group's financial statements in the period of initial application other than IFRS 16 Leases. A review of IFRS 16 will be conducted to determine its impact on the Group.

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

		2015			2014		
	Notes	**Underlying £m**	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Rendering of services		**4,548.7**	**162.6**	**4,711.3**	4,228.2	5.8	4,234.0
Construction contracts	21	**125.6**	**–**	**125.6**	144.1	–	144.1
Revenue from operating activities		**4,674.3**	**162.6**	**4,836.9**	4,372.3	5.8	4,378.1
Finance revenue	9	**–**	**–**	**–**	0.1	–	0.1
Total revenue		**4,674.3**	**162.6**	**4,836.9**	4,372.4	5.8	4,378.2

4 Business exit

2015 business exit

With the continued growth of Capita across our target markets and a greater focus on technology-enabled solutions, we have reviewed a number of small low growth businesses which lack strategic fit and taken the decision to exit certain small health businesses and disposed of National Dental Plan Limited. In addition, the Group is in an active process to sell a further specialist insurance business, a health business and a justice business and is therefore treating these businesses as a disposal group held for sale. Since the year end, the health business has been sold (note 35) and the sale of the remaining two businesses is expected to complete in the next 12 months.

None of our 2015 business exits or businesses in the process of being exited meet the definition of "discontinued operations" as stipulated by IFRS 5, which requires disclosure and restatement of comparatives where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described below does not fall within the requirements of IFRS 5 concerning discontinued operations and comparatives have not been restated.

Income statement impact

		Non-trading disposal			
	Trading £m	**Cash £m**	**Non-cash £m**	**Total £m**	**Total £m**
Revenue	**162.6**	**–**	**–**	**–**	**162.6**
Cost of sales	**(123.8)**	**–**	**–**	**–**	**(123.8)**
Gross profit	**38.8**	**–**	**–**	**–**	**38.8**
Administrative expenses	**(40.0)**	**(26.8)**	**(110.1)**	**(136.9)**	**(176.9)**
Operating loss	**(1.2)**	**(26.8)**	**(110.1)**	**(136.9)**	**(138.1)**
Loss on business disposal	**–**	**26.0**	**(52.3)**	**(26.3)**	**(26.3)**
Loss before tax	**(1.2)**	**(0.8)**	**(162.4)**	**(163.2)**	**(164.4)**
Taxation	**0.2**	**1.7**	**0.5**	**2.2**	**2.4**
Loss after tax	**(1.0)**	**0.9**	**(161.9)**	**(161.0)**	**(162.0)**

Trading revenue and costs represent the current year trading performance of those businesses being exited or disposed.

Notes to the consolidated financial statements continued

4 Business exit (continued)

Non-trading administrative expenses

	Disposal/ closure £m	Held for disposal £m	Total £m
Cash paid, or to be paid			
Provision in respect of disposal and closure costs	(16.8)	(10.0)	(26.8)
Non-cash			
Accelerated depreciation on property, plant and equipment	(0.1)	–	(0.1)
Accelerated amortisation on intangible assets	(2.2)	–	(2.2)
Other assets written-off	(1.4)	(23.5)	(24.9)
Goodwill impairment	–	(82.9)	(82.9)
	(3.7)	(106.4)	(110.1)
Loss before tax	(20.5)	(116.4)	(136.9)

Analysed above are non-trading administrative expenses which include cash costs from exiting the disposed businesses, the ongoing stranded costs such as property and redundancy payments and impairment losses recognised in the disposal group. The provision in respect of disposal/closure costs is expected to be utilised over 3 years.

The other assets impairment charge of £23.5m includes £14.1m of provisions for certain debtors unlikely to be recovered, mainly being in relation to a customer that entered administration during the year.

There are no cumulative income or expenses included in Other Comprehensive Income relating to the disposal group.

Where an asset has been presented as being held for sale it must be carried at the value that is expected to be recovered through sale. In the table above the amounts for goodwill impairment and other assets impairment represent the reduction in the carrying value of these assets. The carrying value of the assets and liabilities of the disposal group held for sale are shown below.

Loss on business disposal

	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	–	(0.2)	(0.2)
Intangible assets	–	(49.4)	(49.4)
Trade and other receivables	–	(6.0)	(6.0)
Trade and other payables	–	3.3	3.3
Cash disposed of	(8.7)	–	(8.7)
Total net assets disposed of	(8.7)	(52.3)	(61.0)
Proceeds received	34.7	–	34.7
Loss on business disposal	26.0	(52.3)	(26.3)

Assets and liabilities of disposal group held for sale

At 31 December 2015, the disposal group comprised the following assets and liabilities:

	2015 £m
Property, plant and equipment	0.7
Intangible assets	32.7
Trade and other receivables	50.7
Assets held for sale	84.1
Trade and other payables	(40.4)
Liabilities held for sale	(40.4)

Notes to the consolidated financial statements continued

4 Business exit (continued)

2014 Business disposal/closure

In the prior year the Group disposed of part of its occupational health business.

Income statement impact

		Non-trading disposal/closure			
	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	5.8	–	–	–	5.8
Cost of sales	(4.8)	–	–	–	(4.8)
Gross loss	1.0	–	–	–	1.0
Administrative expenses	(4.1)	(4.0)	–	(4.0)	(8.1)
Operating loss	(3.1)	(4.0)	–	(4.0)	(7.1)
Loss on business disposal	–	(2.8)	(15.0)	(17.8)	(17.8)
Loss before tax	(3.1)	(6.8)	(15.0)	(21.8)	(24.9)
Taxation	0.6	0.8	0.4	1.2	1.8
Loss after tax	(2.5)	(6.0)	(14.6)	(20.6)	(23.1)

Trading revenue and costs represented the trading performance of these businesses.

Non-trading disposal and closure costs include the costs of exiting the occupational health business and the ongoing stranded costs such as property lease and redundancy payments.

The table below summarises the loss on disposal:

	£m
Property, plant and equipment	0.5
Cash	2.8
Intangible assets	1.4
Goodwill	13.1
Total net assets disposed of	17.8
Net proceeds received of £nil	–
Loss on business disposal	17.8

5 Administrative expenses

Included within administrative expenses in the other non-underlying column are:

		2015				2014			
	Notes	Cash in year £m	Cash in future £m	Non-cash £m	Total £m	Cash in year £m	Cash in future £m	Non-cash £m	Total £m
Amortisation of acquired intangibles	14	–	–	165.0	165.0	–	–	147.1	147.1
Contingent consideration movements	26	–	–	(5.4)	(5.4)	–	–	(9.4)	(9.4)
Asset Services settlement provision	25	11.5	5.7	–	17.2	3.6	24.8	–	28.4
Impairment of property, plant & equipment	13	–	–	76.7	76.7	–	–	–	–
Impairment of goodwill	14	–	–	28.3	28.3	–	–	–	–
Xchanging transaction		(3.7)	–	–	(3.7)	–	–	–	–
Professional fees regarding acquisitions		8.0	7.0	–	15.0	5.2	6.7	–	11.9
Stamp duty paid on acquisitions		1.2	–	–	1.2	2.3	–	–	2.3
Total		17.0	12.7	264.6	294.3	11.1	31.5	137.7	180.3

The Xchanging transaction relates to the net gain on sale of our 9.9% Xchanging holding (purchased during 2015).

Notes to the consolidated financial statements continued

6 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the Strategic report on pages 1 to 60. No operating segments have been aggregated to form the reportable operating segments below. The information disclosed below represents the way in which the results of the businesses were reported to the Group Board. The reported segmental structure has been changed in the year and therefore the comparatives have been restated accordingly.

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 2015 and 2014. All operations are continuing. The 2014 consolidated income statement has not been restated for the impact of business exits and other non-underlying items. If the 2014 underlying consolidated income statement was restated, revenue would be reduced by £192.8m and profit before tax would reduce by £10.9m.

Year ended 31 December 2015

	Segment revenue					Segment profit		
Trading	Underlying trading revenue £m	Inter-segment revenue £m	Third party revenue £m	Non-underlying trading[1] £m	Total segment revenue £m	Underlying trading profit £m	Non-underlying trading[1] £m	Total trading profit £m
Digital & Software Solutions	637.0	(69.0)	568.0	–	568.0	142.0	–	142.0
Integrated Services	503.6	(50.8)	452.8	84.4	537.2	51.2	(3.4)	47.8
Local Government, Property & Health	753.5	(73.2)	680.3	–	680.3	81.3	–	81.3
Workplace Services	650.6	(40.7)	609.9	–	609.9	75.7	–	75.7
IT Enterprise Services	707.9	(132.4)	575.5	–	575.5	54.9	–	54.9
Asset Services	451.0	(47.1)	403.9	–	403.9	100.3	–	100.3
Customer Management	648.8	(58.2)	590.6	–	590.6	59.1	–	59.1
Capita Europe	180.2	(1.7)	178.5	–	178.5	19.8	–	19.8
Insurance & Benefits Services	741.7	(126.9)	614.8	78.2	693.0	54.7	2.2	56.9
Total	5,274.3	(600.0)	4,674.3	162.6	4,836.9	639.0	(1.2)	637.8
Non-trading								
Business exit costs[1]								(136.9)
Intangible amortisation[2]								(165.0)
Impairment of property, plant, and equipment[2]								(76.7)
Impairment of goodwill[2]								(28.3)
Xchanging transaction[2]								3.7
Acquisition costs[2]								(16.2)
Contingent consideration movements[2]								5.4
Asset Services settlement provision[2]								(17.2)
Operating profit								206.6
Net finance costs[3]								(68.2)
Loss on business disposal[1]								(26.3)
Profit before tax								112.1
Income tax expense								(56.5)
Profit for the year								55.6

1 See note 4.
2 See note 5.
3 See note 9.

Notes to the consolidated financial statements continued

6 Segmental information (continued)

Year ended 31 December 2014

Trading	Segment revenue: Underlying trading revenue £m	Inter-segment revenue £m	Third party revenue £m	Non-underlying trading[1] £m	Total segment revenue £m	Segment result: Underlying trading result £m	Non-underlying trading[1] £m	Total trading result £m
Digital & Software Solutions	547.3	(60.5)	486.8	–	486.8	120.8	–	120.8
Integrated Services	478.8	(44.5)	434.3	–	434.3	64.5	–	64.5
Local Government, Property & Health	735.6	(90.5)	645.1	5.8	650.9	71.3	(3.1)	68.2
Workplace Services	592.4	(35.7)	556.7	–	556.7	67.2	–	67.2
IT Enterprise Services	714.9	(133.5)	581.4	–	581.4	46.4	–	46.4
Asset Services	374.3	(41.8)	332.5	–	332.5	81.9	–	81.9
Customer Management	611.6	(24.5)	587.1	–	587.1	60.7	–	60.7
Capita Europe	20.5	(0.8)	19.7	–	19.7	2.3	–	2.3
Insurance & Benefits Services	822.9	(94.2)	728.7	–	728.7	61.2	–	61.2
Total trading	4,898.3	(526.0)	4,372.3	5.8	4,378.1	576.3	(3.1)	573.2
Non-trading								
Business disposal/closure costs[1]								(4.0)
Intangible amortisation								(147.1)
Acquisition costs								(14.2)
Contingent consideration movements								9.4
Asset Services settlement provision								(28.4)
Operating profit								388.9
Net finance costs[2]								(78.7)
Loss on business disposal								(17.8)
Profit before tax								292.4
Income tax expense								(52.5)
Profit for the year								239.9

1 See note 4.
2 See note 9.

Other segment information

Net assets by segment	2015 Segment assets £m	2015 Segment liabilities £m	2015 Matched creditors £m	2015 Net allocated assets £m	2014 Segment assets £m	2014 Segment liabilities £m	2014 Matched creditors £m	2014 Net allocated assets £m
Digital & Software Solutions	**51.2**	**(68.1)**	**(10.2)**	**(27.1)**	44.3	(69.1)	(13.7)	(38.5)
Integrated Services	**148.1**	**(28.4)**	**–**	**119.7**	125.0	(22.1)	–	102.9
Local Government, Property & Health	**137.0**	**(62.6)**	**–**	**74.4**	129.4	(40.2)	–	89.2
Workplace Services	**71.8**	**(9.2)**	**–**	**62.6**	81.0	(10.4)	–	70.6
IT Enterprise Services	**98.2**	**(45.8)**	**–**	**52.4**	111.7	(59.2)	–	52.5
Asset Services	**125.8**	**(8.5)**	**(40.8)**	**76.5**	96.5	(8.0)	(25.3)	63.2
Customer Management	**95.6**	**(35.6)**	**–**	**60.0**	75.9	(24.1)	–	51.8
Capita Europe	**27.2**	**(0.9)**	**–**	**26.3**	2.0	–	–	2.0
Insurance & Benefits Services	**150.0**	**(27.4)**	**(30.8)**	**91.8**	238.0	(30.8)	(33.1)	174.1
Total	**904.9**	**(286.5)**	**(81.8)**	**536.6**	903.8	(263.9)	(72.1)	567.8
Unallocated assets – see reconciliation table below				**4,438.6**				4,008.5
Unallocated liabilities – see reconciliation table below				**(4,221.9)**				(3,660.8)
Total net assets				**753.3**				915.5

Notes to the consolidated financial statements continued

6 Segmental information (continued)

Additions to non-current assets	2015 Tangible assets £m	2015 Depreciation charge £m	2015 Intangible assets £m	2015 Intangible amortisation £m	2014 Tangible assets £m	2014 Depreciation charge £m	2014 Intangible assets £m	2014 Intangible amortisation £m
Digital & Software Solutions	**5.3**	**2.9**	**28.6**	**31.0**	6.6	3.2	177.9	29.9
Integrated Services	**13.9**	**12.8**	**42.6**	**14.7**	7.9	9.4	4.0	11.4
Local Government, Property & Health	**7.9**	**5.9**	**43.3**	**9.7**	5.6	6.0	31.5	9.4
Workplace Services	**7.3**	**4.3**	**75.8**	**30.3**	14.9	3.6	21.6	18.3
IT Enterprise Services	**21.3**	**15.4**	**81.5**	**33.2**	24.7	15.7	124.2	34.9
Asset Services	**15.9**	**8.4**	**83.3**	**12.7**	19.7	8.3	41.1	12.1
Customer Management	**18.6**	**6.6**	**19.1**	**15.0**	5.5	4.5	4.7	14.1
Capita Europe	**8.6**	**2.8**	**184.4**	**10.3**	0.5	0.1	6.9	0.2
Insurance & Benefits Services	**31.0**	**23.0**	**5.7**	**21.3**	36.7	27.0	40.4	25.9
	129.8	**82.1**	**564.3**	**178.2**	122.1	77.8	452.3	156.2

Reconciliation of segment assets and liabilities

	2015 £m	2014 £m
Segment assets	**904.9**	903.8
Unallocated assets		
Property, plant and equipment	**406.0**	448.8
Intangible assets	**2,810.0**	2,619.4
Financial assets	**230.9**	192.9
Disposal group assets held for sale	**84.1**	–
Prepayments	**158.8**	127.8
Funds assets	**161.7**	118.2
Other receivables	**34.3**	30.0
Deferred tax	**18.8**	12.5
Cash	**534.0**	458.9
	4,438.6	4,008.5
Total assets	**5,343.5**	4,912.3
Segment liabilities (including matched creditors)	**368.3**	336.0
Unallocated liabilities		
Financial liabilities	**2,394.2**	1,945.6
Funds liabilities	**161.7**	118.2
Disposal group liabilities held for sale	**40.4**	–
Trade payables (excluding matched creditors)[1]	**158.4**	150.3
Other payables	**38.6**	25.1
Other taxes and social security	**152.6**	165.4
Accruals	**455.4**	479.7
Provisions	**118.4**	111.6
Income tax payable	**46.2**	42.6
Employee benefits	**188.3**	192.5
Deferred tax	**19.0**	–
Overdrafts	**448.7**	429.8
	4,221.9	3,660.8
Total liabilities	**4,590.2**	3,996.8

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

Notes to the consolidated financial statements continued

6 Segmental information (continued)

The table below presents revenue by geographical location, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	2015 United Kingdom £m	2015 Non-United Kingdom £m	2015 Total £m	2014 United Kingdom £m	2014 Non-United Kingdom £m	2014 Total £m
Total segment revenue	**5,024.3**	**412.6**	**5,436.9**	4,662.6	241.5	4,904.1
Inter-segment revenue	**(515.6)**	**(84.4)**	**(600.0)**	(433.9)	(92.1)	(526.0)
Third party revenue	**4,508.7**	**328.2**	**4,836.9**	4,228.7	149.4	4,378.1
Other segment information						
Trade receivables, accrued income & construction contracts	**839.2**	**65.7**	**904.9**	865.3	38.5	903.8
Unallocated assets	**4,247.0**	**191.6**	**4,438.6**	3,796.6	211.9	4,008.5
Total assets	**5,086.2**	**257.3**	**5,343.5**	4,661.9	250.4	4,912.3
Additions to non-current assets						
Tangible assets	**116.6**	**13.2**	**129.8**	110.8	11.3	122.1
Intangible assets	**377.5**	**186.8**	**564.3**	444.2	8.1	452.3

7 Operating profit

This is stated after charging/(crediting):

	Notes	2015 £m	2014 £m
Employee benefits expense	8	**2,210.7**	1,994.8
Amortisation of intangible assets (as shown in the non-underlying column)	14	**165.0**	147.1
Depreciation	13	**82.1**	77.8
Accelerated depreciation on business closure	13	**0.1**	–
Amortisation of other intangible assets (treated as depreciation)[1]	14	**13.2**	9.1
Accelerated amortisation on business closure	14	**2.2**	–
(Profit)/loss on sale of property, plant and equipment		**(1.2)**	0.9
Minimum lease payments recognised as an operating lease expense		**154.1**	126.4
Foreign exchange differences		**1.9**	(5.8)

1 Included within underlying operating activities before amortisation.

Fees payable to the Company's auditor and its associates in respect of:	2015 £m	2014 £m
Audit and audit-related services		
The audit of the Company and Group financial statements	**2.0**	2.0
The audit of the financial statements of subsidiaries of the Company	**1.1**	0.8
Total audit and audit-related services	**3.1**	2.8
Non-audit services		
Taxation compliance services	**0.1**	0.2
Taxation advisory services	**–**	0.2
Services related to corporate finance transactions	**1.2**	1.1
Other assurance services	**0.6**	0.2
Total non-audit services	**1.9**	1.7
Total audit and non-audit services	**5.0**	4.5

The amounts included in the above table relate to fees payable to KPMG LLP and its associates.

Notes to the consolidated financial statements continued

8 Employee benefits expense

	Notes	2015 £m	2014 £m
Wages and salaries		**1,898.0**	1,719.9
Social security costs		**184.0**	159.9
Pension costs	32	**117.3**	104.0
Share based payments	28	**11.4**	11.0
		2,210.7	1,994.8

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown on page 99 of the remuneration report;

- As shown on page 156 note 33 "related party transactions", the aggregate amount of gains made by Directors on exercise of share options was £4.3m (2014: £6.6m)
- The remuneration of the highest paid Director was £1,094,449 (2014: £710,434)
- Payments have been made to a defined contribution pension scheme on behalf of 2 Directors (2014: 3 Directors). For the highest paid Director, pension contributions of £nil (2014: £6,250) were made.

The average number of employees during the year was made up as follows:	2015 Number	2014 Number
Sales	**2,544**	2,269
Administration	**8,646**	6,357
Operations	**58,094**	54,284
	69,284	62,910

9 Net finance costs

	Notes	2015 £m	2014 £m
Interest receivable		**–**	(0.1)
Bonds		**31.0**	24.2
Fixed rate interest rate swaps – realised		**5.4**	1.8
Finance lease		**0.4**	0.6
Bank loans and overdrafts		**10.3**	9.1
Net interest cost on defined benefit pension schemes	32	**6.4**	5.0
Interest payable		**53.5**	40.7
Underlying net finance costs		**53.5**	40.6
Fixed rate interest rate swaps – mark to market	26	**3.7**	36.7
Discount unwind on public sector subsidiary partnership payment	26	**2.2**	2.1
Fair value movement in trade investments		**0.3**	–
Non-designated foreign exchange forward contracts – mark to market		**8.0**	(0.4)
Derivatives' counterparty credit risk adjustment – mark to market[1]	26	**0.4**	(0.1)
Derivatives' own credit risk adjustment – mark to market		**0.1**	(0.2)
Non-underlying net finance costs		**14.7**	38.1
Total net finance costs		**68.2**	78.7

1 This mark to market movement on derivatives 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, included in derivatives, 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 – Financial instruments).

Notes to the consolidated financial statements continued

10 Income tax

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015 £m	2014 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**104.2**	90.3
Adjustment in respect of prior years	**(10.3)**	(8.7)
Deferred income tax		
Origination and reversal of temporary differences	**(39.5)**	(29.1)
Adjustment in respect of prior years	**2.1**	–
	56.5	52.5

	2015 £m	2014 £m
Consolidated statement of comprehensive income		
Deferred income tax on cash flow hedges	**1.1**	2.3
Deferred income tax on net investment hedge of foreign operations	**(0.6)**	–
Deferred income tax movement in relation to actuarial losses on defined benefit plans	**6.5**	(12.8)
	7.0	(10.5)

	2015 £m	2014 £m
Consolidated statement of changes in equity		
Deferred income tax movement in relation to share based payment	**(6.1)**	5.7
Income tax deduction on exercise of stock options	**3.8**	–
	(2.3)	5.7

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2015 and 2014 is as follows:

	2015 £m	2014 £m
Profit before tax	**112.1**	292.4
Notional charge at UK corporation tax rate of 20.25% (2014: 21.5%)	**22.7**	62.9
Adjustments in respect of current income tax of prior years	**(10.3)**	(8.7)
Adjustments in respect of deferred tax of prior years	**2.1**	–
Non-deductible/(non-taxable) underlying expenses	**3.2**	(1.6)
Non-deductible non-underlying expenses	**10.8**	(0.4)
Non-deductible loss on business disposal	**5.3**	3.6
Non-deductible goodwill impairment	**22.5**	–
Impact of changes in statutory tax rates	**0.5**	2.1
Attributable to lower tax rates in overseas jurisdictions	**(3.8)**	(4.7)
Brought forward losses utilised, previously unrecognised	**–**	(0.7)
Deferred tax unrecognised	**3.5**	–
At the effective tax rate of 50.40% (2014: 17.95%)	**56.5**	52.5
Total tax expense reported in the income statement	**56.5**	52.5

The tax charge for the year ended 31 December 2015 was £56.5m (2014: charge of £52.5m) and is after a prior year net credit of £8.2m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an effective tax rate of 50.40% (2014: 17.95%). The effective tax rate on underlying profit is 18.5% (2014: 18.5%).

Notes to the consolidated financial statements continued

10 Income tax (continued)

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Deferred tax liabilities				
Accelerated capital allowances	**–**	(2.0)	**–**	3.3
Fair value adjustments on acquisition	**(79.5)**	(69.7)	**(30.9)**	(26.1)
	(79.5)	(71.7)		
Deferred tax assets				
Accelerated capital allowances	**10.6**	–	**(10.1)**	–
Share based payments	**12.9**	18.7	**–**	3.3
Pension schemes' liability	**20.0**	22.3	**(4.3)**	2.3
Provisions	**18.6**	26.7	**9.0**	(4.5)
Mark to market movement on currency swaps	**0.1**	0.1	**–**	–
Cash flow forwards	**1.7**	–	**(1.3)**	–
Cash flow swaps	**12.6**	12.7	**0.2**	(9.7)
Cash flow hedges	**2.8**	3.7	**–**	2.3
	79.3	84.2		
Net deferred tax (liability)/asset	**(0.2)**	12.5		
Deferred income tax credit			**(37.4)**	(29.1)

The UK corporation tax rate will decrease from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax balance has been adjusted to reflect this change.

The Group has tax losses and other temporary differences of £160.0m (2014: £117.4m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £128.8m 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 £160.0m (2014: £117.4m) of these losses or other temporary differences, as their recoverability is uncertain.

Dividends received from subsidiaries on or after 1 July 2009 are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £27m (2014: £21m). No deferred income tax liability is recognised on these temporary differences as the Group is able to control the timing of reversal and it is probable they will not reverse in the foreseeable future.

The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

In addition, the Group is directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulation worldwide. Changes in such legislation, regulation or interpretation could increase our taxes and have an adverse effect on our operating results and financial position. This includes potential changes arising out of the Base Erosion Profit Shifting project initiated by the Organization for Economic Co-Operation and Development.

Notes to the consolidated financial statements continued

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

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

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

	2015 £m	2014 £m
Net profit attributable to ordinary equity holders of the parent from operations	**52.7**	235.9

	2015 Number million	2014 Number million
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**662.2**	658.9
Dilutive potential ordinary shares:		
Employee share options	**8.4**	5.9
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**670.6**	664.8

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 earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent of £468.4m (2014: £429.3m) and, after non-underlying costs, earnings of £52.7m (2014: £235.9m). They are both included to provide a better understanding of the underlying trading performance of the Group.

		2015 p	2014 p
Basic earnings per share	– underlying	**70.73**	65.15
	– after non-underlying	**7.96**	35.79
Diluted earnings per share	– underlying	**69.85**	64.58
	– after non-underlying	**7.86**	35.48

12 Dividends paid and proposed

	2015 £m	2014 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2014 paid: 19.6p per share (2013: 17.8p per share)	**129.7**	117.2
Interim for 2015 paid: 10.5p per share (2014: 9.6p per share)	**69.6**	63.3
Dividends paid to shareholders	**199.3**	180.5
Dividends paid to non-controlling interest	**1.2**	–
Total dividends paid	**200.5**	180.5

Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2015: 21.2p per share (2014: 19.6p per share)	**140.3**	129.7

Notes to the consolidated financial statements continued

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
As at 1 January 2014	80.4	479.6	560.0
Subsidiaries acquired	1.3	10.3	11.6
Disposal of business	(0.8)	(0.7)	(1.5)
Additions	19.9	90.6	110.5
Disposals	(2.2)	(19.4)	(21.6)
Asset retirements	(3.5)	(29.1)	(32.6)
Re-class to intangible assets (net)	–	(7.5)	(7.5)
Exchange movement	–	(1.7)	(1.7)
As at 31 December 2014	95.1	522.1	617.2
Subsidiaries acquired	**0.5**	**10.8**	**11.3**
Disposal of business	**(0.1)**	**(0.2)**	**(0.3)**
Transfer to held for sale assets	**(0.4)**	**(1.0)**	**(1.4)**
Additions	**22.0**	**96.5**	**118.5**
Disposals	**(1.8)**	**(5.7)**	**(7.5)**
Asset retirements	**(4.4)**	**(66.4)**	**(70.8)**
Re-class to intangible assets	**–**	**(6.1)**	**(6.1)**
Exchange movement	**(0.4)**	**(2.5)**	**(2.9)**
As at 31 December 2015	**110.5**	**547.5**	**658.0**
Depreciation and impairment			
As at 1 January 2014	30.5	109.7	140.2
Charged during the year – underlying	10.1	67.7	77.8
Disposal of business	(0.5)	(0.5)	(1.0)
Disposals	(1.0)	(14.4)	(15.4)
Asset retirements	(3.5)	(29.1)	(32.6)
Re-class to intangible assets (net)	–	(0.2)	(0.2)
Exchange movement	0.3	(0.7)	(0.4)
As at 31 December 2014	35.9	132.5	168.4
Charged during the year – underlying	**11.9**	**70.2**	**82.1**
Accelerated depreciation – business exit	**0.1**	**–**	**0.1**
Impairment	**–**	**76.7**	**76.7**
Disposal of business	**–**	**(0.1)**	**(0.1)**
Transfer to held for sale assets	**–**	**(0.7)**	**(0.7)**
Disposals	**(0.2)**	**(2.8)**	**(3.0)**
Asset retirements	**(4.4)**	**(66.4)**	**(70.8)**
Exchange movement	**(0.1)**	**(0.6)**	**(0.7)**
As at 31 December 2015	**43.2**	**208.8**	**252.0**
Net book value			
At 1 January 2014	49.9	369.9	419.8
At 31 December 2014	59.2	389.6	448.8
At 31 December 2015	**67.3**	**338.7**	**406.0**

The net book value of plant and machinery includes an amount of £7.0m (2014: £11.9m) in respect of assets held under finance leases.

As a result of changes in the marketplace, including the introduction of new legislation in the form of the Pensions Freedom Act, Management conducted a review of the IT platform on which the Group delivers its Life and Pensions administration capability. This review led to assets with a total net book value of £76.7m being fully written down.

Notes to the consolidated financial statements continued

14 Intangible assets

	Non-underlying intangible assets						Underlying intangible assets			
	Brands £m	IP, software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Total non-underlying £m	Capitalised software development £m	Other intangibles £m	Total Underlying	Total £m
Cost										
At 1 January 2014	40.3	83.4	122.1	579.2	1,898.1	2,723.1	26.3	15.5	41.8	2,764.9
Subsidiaries acquired	6.9	20.0	7.5	125.2	251.4	411.0	–	–	–	411.0
Subsidiaries disposed	(1.3)	–	–	(4.5)	(13.1)	(18.9)	(0.2)	–	(0.2)	(19.1)
Additions	–	–	–	–	–	–	24.9	15.9	40.8	40.8
Re-class from property, plant and equipment	–	–	–	–	–	–	8.4	(0.9)	7.5	7.5
Fair value adjustments in 2014 relating to 2013 acquisitions	–	–	–	–	0.5	0.5	–	–	–	0.5
Exchange movement	–	–	–	–	–	–	(0.1)	(0.1)	(0.2)	(0.2)
At 31 December 2014	45.9	103.4	129.6	699.9	2,136.9	3,115.7	59.3	30.4	89.7	3,205.4
Subsidiaries acquired	16.7	10.6	7.9	182.4	259.4	477.0	0.2	0.9	1.1	478.1
Business disposal	–	–	–	–	(49.4)	(49.4)	–	–	–	(49.4)
Additions	–	–	–	–	–	–	66.4	18.7	85.1	85.1
Disposals	–	–	–	–	–	–	–	(0.3)	(0.3)	(0.3)
Transfer to assets held for sale	(0.2)	–	–	(20.1)	(110.8)	(131.1)	(0.6)	(0.1)	(0.7)	(131.8)
Re-class from property, plant and equipment	–	–	–	–	–	–	5.0	1.1	6.1	6.1
Asset retirement	–	–	–	–	–	–	(1.2)	(1.0)	(2.2)	(2.2)
Fair value adjustments in 2015 relating to 2014 acquisitions	–	–	–	–	1.1	1.1	–	–	–	1.1
Exchange movement	(0.1)	(0.8)	–	(3.3)	(2.3)	(6.5)	(0.2)	(0.1)	(0.3)	(6.8)
At 31 December 2015	62.3	113.2	137.5	858.9	2,234.9	3,406.8	128.9	49.6	178.5	3,585.3
Amortisation and impairment										
At 1 January 2014	24.3	16.7	57.0	272.4	57.1	427.5	3.3	3.4	6.7	434.2
Subsidiaries disposed	(1.1)	–	–	(3.5)	–	(4.6)	–	–	–	(4.6)
Amortisation	6.3	8.4	17.7	114.7	–	147.1	7.1	2.0	9.1	156.2
Re-class from property, plant and equipment	–	–	–	–	–	–	0.2	–	0.2	0.2
At 31 December 2014	29.5	25.1	74.7	383.6	57.1	570.0	10.6	5.4	16.0	586.0
Business disposal	–	–	–	–	–	–	–	–	–	–
Accelerated amortisation	–	–	–	–	–	–	2.2	–	2.2	2.2
Amortisation	7.9	17.3	14.7	125.1	–	165.0	10.4	2.8	13.2	178.2
Disposals	–	–	–	–	–	–	–	(0.1)	(0.1)	(0.1)
Transfers to assets held for sale	(0.2)	–	–	(15.5)	(82.9)	(98.6)	(0.5)	–	(0.5)	(99.1)
Impairment on transfer to assets held for sale	–	–	–	–	82.9	82.9	–	–	–	82.9
Impairment	–	–	–	–	28.3	28.3	–	–	–	28.3
Asset retirement	–	–	–	–	–	–	(1.2)	(1.0)	(2.2)	(2.2)
Re-class from property, plant and equipment	–	–	–	–	–	–	–	–	–	–
Exchange movement	–	(0.1)	–	(0.5)	–	(0.6)	(0.2)	(0.1)	(0.3)	(0.9)
At 31 December 2015	37.2	42.3	89.4	492.7	85.4	747.0	21.3	7.0	28.3	775.3
Net book value										
At 1 January 2014	16.0	66.7	65.1	306.8	1,841.0	2,295.6	23.0	12.1	35.1	2,330.7
At 31 December 2014	16.4	78.3	54.9	316.3	2,079.8	2,545.7	48.7	25.0	73.7	2,619.4
At 31 December 2015	25.1	70.9	48.1	366.2	2,149.5	2,659.8	107.6	42.6	150.2	2,810.0

Notes to the consolidated financial statements continued

15 Goodwill

Goodwill acquired through business combinations has been allocated to Cash-Generating Units (CGUs), for impairment testing purposes, on the basis of the expected benefit that will accrue to the individual CGU through synergies realised from the acquisition and integration with the Group as a whole. These represent the lowest level within the Group at which goodwill can be allocated on a reasonable and consistent basis.

Carrying amount of goodwill allocated to groups of Cash-Generating Units

	Insurance Services £m	Financial Services	Life & Pension Services £m	Customer Management £m	IT & Software Services £m	Secure Information Solutions £m	Property Services £m	Workplace Services £m	Balance of non-significant CGUs £m	Total £m
2015										
Goodwill	**77.1**	**139.6**	**184.4**	**110.1**	**317.8**	**243.1**	**138.5**	**189.5**	**749.4**	**2,149.5**
2014										
Goodwill	230.8	93.3	184.4	105.9	280.5	221.8	117.1	172.5	673.5	2,079.8

Disclosed above are the significant groups of CGUs identified, with the remaining CGUs included in the 'non-significant balance' column. The non-significant CGUs included within the balance do not individually exceed 5% of the Group's total goodwill balance.

During the year £49.4m of Insurance Services goodwill was written-off on disposal of a specialist insurance business. An additional £82.9m of goodwill has been written-off on transfer to assets held for sale in respect of a further specialist insurance business, a health business and a justice business. Refer to note 4 for further detail.

The Group's insurance business has historically been the most sensitive to changes in the underlying assumptions in calculating its value in use and thus its carrying value on the Group's balance sheet. Having reviewed the business, the assumptions, and in light of disposals made and to be made, it was determined that goodwill exceeded the value that was recoverable through use and consequently an additional impairment of £28.3m has been recorded.

The markets in which the Group operate and the services which we provide are discussed in 'Generating profitable and sustainable growth' starting on page 18 and 'Divisional Performance' starting on page 39. The key drivers are commonplace across these markets: the need to drive efficiencies and to deliver more for less as well as changes in technology that can be fostered to achieve these goals as well as regulatory change.

The impairment test is completed through a 3-stage process:

- the net assets of each CGU are identified, and allocated, including the goodwill above;
- the key assumptions are identified, which are used to determine the recoverable amount per CGU to be measured against the net assets; and
- the final stage is to identify any shortfall, where the carrying value of net assets falls below the recoverable amount determined through the value in use calculation – this would then be disclosed as an impairment of that CGU in the income statement.

The calculation of the recoverable amount is based on a value in use calculation, i.e. how much cash will be generated over the life of the asset net of any capital expenditure needed to maintain and grow those cash flows. This recoverable amount is established using a number of key assumptions which drive the result.

The starting point is the identification of the cash flows per CGU based on the latest 1 year budget forecast approved by senior management. The budget is a result of a bottom-up business planning process which identifies each of a number of factors that lead to what is expected to be a challenging but achievable forecast.

The major factors considered per CGU are:

- continuation of past performance;
- is the market in which the CGU operates experiencing change or further competitive pressures;
- that the route to new sales and renewals is clearly understood;
- whether management resource is suitable to achieve and deliver the budget; and
- the efficiency of the cost base and whether it is at the correct level for the business currently and supportive of future growth.

These plans are delivered and presented to the Board for their review and acceptance and are challenged to ensure they are realistic and achievable.

This budget is then extrapolated for a further 4 years, before applying an appropriate long term growth rate to calculate terminal value. The resulting cash flows are then discounted at a rate that recognises their CGU specific characteristics and is based on the overall Group Weighted Average Cost of Capital (WACC).

The major assumptions in this extrapolation are:

- growth rates applied to the year 1 cash flows;
- the pre-tax discount rates to be used; and
- the long-term growth rate used for the terminal value calculation.

Notes to the consolidated financial statements continued

15 Goodwill (continued)

Growth rates

The growth rate assumptions are particular to each CGU and are derived from external research across the breadth of our markets which is provided by Ovum, a third party provider. These projections are reviewed by senior management to ensure that they are in line with their understanding of the markets in which they operate.

Pre-tax discount rates

The Group WACC is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our post-tax WACC assuming a risk-free rate of 1.76%, a market risk premium of 8.73% and a Beta of 0.79. These assumptions are based on publicly available sources.

The Group's post-tax WACC of 7.44% (2014: 7.2%) has been used as a basis for calculating the discount rate used for each CGU. This has been done by adjusting the rate, where appropriate, to reflect the risks specific to the market in which the CGU operates.

The rate adjustment takes into account the relative risks in the business through adjustment to the risk premium and the weighting of the funding levels provided per CGU, whilst retaining a constant cost of debt.

Long-term growth rates

The terminal value included in the calculation is based on the Year 5 cash flow and the pre-tax discount rate for the CGU adjusted for a long-term growth factor which is set at an estimate of the long term rate of inflation of 2.3% (2014: 2.3%).

Below is a table setting out the growth and pre-tax discount rates used in the calculations described above.

	Third party market growth rates		Pre-tax WACC	
	2015	2014	**2015**	2014
Insurance Services	**5.0%**	4.4%	**10.0%**	9.6%
Financial Services	**3.8%**	3.4%	**7.9%**	7.9%
Life & Pensions Services	**5.0%**	5.4%	**11.8%**	9.6%
Customer Management	**4.2%**	3.8%	**7.6%**	8.4%
IT & Software Services	**3.0%**	3.1%	**8.3%**	9.0%
Secure Information Solutions	**5.8%**	4.6%	**7.7%**	9.5%
Property Services	**2.9%**	2.1%	**8.9%**	10.2%
Workplace Services	**4.7%**	4.6%	**9.0%**	8.7%
Non-significant CGUs	**Range 2.9% – 5.8%**	Range 2.1% – 6.8%	**Range 7.6% – 10.8%**	Range 7.9% – 12.4%

Analysis of the Group's past experience of profit growth and external trends supports the use of the third party market growth rates highlighted in the table above. The Insurance Services and Life & Pensions Services growth rates of 5% are indicative of the markets our remaining activities in these sectors will operate in.

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them and also on the selection of the discount and growth rates to be applied. In order to gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios have been run to measure which CGUs are the most susceptible to an impairment should the assumptions used be varied.

The sensitivity analysis on CGU cash flows has been carried out using a 100bps increase in the pre-tax discount rate, a 100bps reduction in growth rates, and a 100bps decrease in CGU year 1 operating margins (between 7% and 14% impact on margins depending on CGU).

Our 2014 impairment testing highlighted that the Insurance Services CGU was the most sensitive to a change in the key assumptions. Following the business exits and impairment described above, the base case headroom for the Insurance Services CGU has increased. Management believe that there is no reasonably possible change in the underlying assumptions that would result in the Insurance Services CGU becoming further impaired.

Other smaller CGUs, which are not material to the Group, are also sensitive to changes in the assumptions, but movements would be immaterial. Management continues to monitor closely the performance of all CGUs.

In conclusion, other than disclosed above with regard to some smaller CGUs, management believe there is no reasonably possible change in the underlying assumptions that would result in a CGU becoming impaired and thus recognising an additional impairment charge in the income statement.

Notes to the consolidated financial statements continued

16 Financial assets

Current financial assets	2015 £m	2014 £m
Available-for-sale assets[2]	**0.1**	0.2
Currency swaps in relation to US$ denominated bonds[3]	**43.7**	13.2
Non-designated foreign exchange forwards and swaps	**0.3**	–
Foreign exchange swaps held for foreign net investment	**0.2**	–
Interest rate swaps in relation to GBP denominated bonds[3]	**–**	1.3
	44.3	14.7

Non-current financial assets	2015 £m	2014 £m
Investment loan[1]	**5.0**	5.0
Available-for-sale assets[2]	**4.5**	2.3
Currency swaps in relation to US$ denominated bonds[3]	**170.2**	162.4
Interest rate swaps in relation to GBP denominated bonds[3]	**6.9**	8.5
	186.6	178.2

1 The investment loan represents a funding arrangement with Optima Legal (Scotland) Limited.

2 Available-for-sale assets comprise investments in unlisted ordinary shares and fund assets. 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. The fund assets, for which there are market values, are recorded at fair value at 31 December 2015.

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

17 Business combinations

2015 acquisitions

The Group made a number of acquisitions in 2015 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	avocis £m	Public sector subsidiary partnership – FERA £m	Other acquisitions £m	Fair value to Group recognised on acquisition £m
Property, plant and equipment	**5.7**	**3.4**	**2.2**	**11.3**
Intangible assets	**105.1**	**10.9**	**102.7**	**218.7**
Trade and other receivables due in less than one year	**37.1**	**2.7**	**45.3**	**85.1**
Corporation tax	**(8.6)**	**–**	**(0.4)**	**(9.0)**
Cash and cash equivalents	**6.4**	**–**	**13.8**	**20.2**
Trade and other payables (excluding accruals) due in less than one year	**(9.5)**	**(1.8)**	**(21.4)**	**(32.7)**
Accruals due in less than one year	**(10.1)**	**(1.1)**	**(29.4)**	**(40.6)**
Provisions	**(3.6)**	**–**	**(3.7)**	**(7.3)**
Deferred tax	**(19.5)**	**(2.1)**	**(14.7)**	**(36.3)**
Employee benefits liability	**(4.3)**	**–**	**–**	**(4.3)**
Finance leases	**–**	**–**	**(0.1)**	**(0.1)**
Long-term debt	**(39.3)**	**–**	**(9.0)**	**(48.3)**
Net assets	**59.4**	**12.0**	**85.3**	**156.7**
Goodwill arising on acquisition	**78.0**	**14.7**	**167.8**	**260.5**
	137.4	**26.7**	**253.1**	**417.2**
Discharged by:				
Cash	**137.4**	**20.0**	**230.2**	**387.6**
Contingent consideration accrued	**–**	**–**	**12.9**	**12.9**
Deferred consideration accrued	**–**	**–**	**10.0**	**10.0**
Non-controlling interest	**–**	**6.7**	**–**	**6.7**
	137.4	**26.7**	**253.1**	**417.2**

Notes to the consolidated financial statements continued

17 Business combinations (continued)

"Public sector subsidiary partnership" represents a 75% controlling interest in Fera Science Limited. In all other cases 100% of the share capital or business assets and liabilities was acquired. The businesses acquired have been mainly in the areas of IT and software, customer and debt management, mortgage administration, and property services, which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition during the year the Group settled £32.1m of contingent consideration and £11.6m of deferred consideration payments with regard to previous acquisitions, all of which had been accrued.

Where this can be determined, the acquired subsidiaries contributed £27.4m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2015, Group revenue would have been an estimated £4,896.5m and Group profit before tax would have been an estimated £113.3m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015. During the year, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, and the capabilities of the acquired workforce. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £44.4m (2014: £9.6m).

The fair value exercise has been completed on a provisional basis for acquisitions made in 2015. The Group will complete this review in 2016 though any adjustment to the carrying value is likely to be insignificant to the individual acquisition. In total, the effect of revisions made to fair value adjustments in the current year that had been determined provisionally at the immediately preceding balance sheet date increases goodwill by £1.1m.

Contingent consideration

In respect of the acquisitions made in 2015, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £5m and £22m. The Group has included £12.9m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Acquisition related costs

The Group incurred acquisition related costs of £16.2m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

2014 acquisitions

The Group made a number of acquisitions in 2014 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition
Property, plant and equipment	11.6
Intangible assets	159.6
Trade and other receivables due in less than one year	56.6
Trade and other receivables due in more than one year	3.1
Corporation tax	(1.7)
Cash and cash equivalents	29.7
Trade and other payables (excluding accruals) due in less than one year	(43.6)
Accruals due in less than one year	(32.7)
Provisions	(4.8)
Deferred tax	(26.4)
Employee benefits liability	(2.9)
Finance leases	(0.1)
Long-term debt	(21.5)
Net assets	126.9
Goodwill arising on acquisition	251.4
	378.3
Discharged by:	
Cash	318.0
Contingent consideration accrued	39.5
Investment loan	20.8
	378.3

In all cases, 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT and software, customer and debt management, legal and property services, resourcing, communication and printing which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during the year the Group settled £35.5m of deferred consideration and £9.2m of contingent consideration payments with regard to previous acquisitions, all of which had been accrued.

Notes to the consolidated financial statements continued

17 Business combinations (continued)

Where this could be determined, the acquired subsidiaries contributed £14.3m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2014, Group revenue would have been an estimated £4,459.0m and Group profit before tax would have been an estimated £299.2m. In determining these amounts, management assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2014. During 2014, some of the acquired businesses were completely integrated into the existing business of the Group and therefore their post-acquisition performance could not be determined. Post-acquisition 2014 underlying earnings benefited from a £3.9m favourable litigation settlement, for which a provision was included in the balance sheet at the date of acquisition in 2013.

Goodwill arose on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, and the capabilities of the acquired workforce. The total amount of goodwill recognised that was expected to be deductible for tax purposes was £9.6m (2013: £103.4m).

In total, the effect of revisions made to fair value adjustments in 2014 that had been determined provisionally at the immediately preceding balance sheet date increased goodwill by £0.5m.

Contingent consideration

In respect of the acquisitions made in 2014, the Group agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant target. The range of the additional consideration payment is estimated to be between £30m and £48m. The Group included £39.5m as contingent consideration related to the additional consideration, which represented its fair value at the acquisition date. Contingent consideration was calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Acquisition related costs

The Group incurred acquisition related costs of £14.2m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs were included in non-underlying administrative expenses in the Group's consolidated income statement.

18 Trade and other receivables

Current	**2015 £m**	2014 £m
Trade receivables	**412.4**	449.5
Other receivables	**21.3**	22.0
Gross amounts due from customers on construction contracts	**39.3**	48.2
Accrued income	**411.5**	361.7
Prepayments	**127.4**	106.7
	1,011.9	988.1

Non-current	**2015 £m**	2014 £m
Other receivables	**13.0**	8.0
Accrued income	**41.7**	44.4
Prepayments	**31.4**	21.1
	86.1	73.5

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

At 31 December 2015, trade receivables at a nominal value of £10.4m (2014: £19.5m) were impaired and fully provided for.

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

	2015 £m	2014 £m
At 1 January	**19.5**	17.8
Utilised	**(2.5)**	(2.4)
Provided/(released in) year (net)	**(0.3)**	0.5
Transfer to assets held for sale	**(7.7)**	–
Provisions acquired	**1.4**	3.6
At 31 December	**10.4**	19.5

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

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	0–3 months £m	4–6 months £m	7–12 months £m	More than 12 months £m
2015	**412.4**	**296.1**	**105.9**	**10.4**	**–**	**–**
2014	449.5	347.3	84.5	17.7	–	–

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

Notes to the consolidated financial statements continued

19 Cash, cash equivalents and overdrafts

	2015 £m	2014 £m
Cash at bank and in hand	**534.0**	458.9
Overdrafts	**(448.7)**	(429.8)
	85.3	29.1

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.

Included in Overdrafts are balances totalling £445.2m (2014: £428.3m) held in the Group's notional cash pools under which the bank has the right of offset against Cash at bank – see note 26.

20 Trade and other payables

Current	2015 £m	2014 £m
Trade payables	**240.2**	222.4
Other payables	**32.5**	22.9
Other taxes and social security	**152.6**	165.4
Accruals	**447.7**	479.5
Deferred income	**271.0**	238.0
	1,144.0	1,128.2
Non-current		
Other payables	**6.1**	2.2
Accruals	**7.7**	0.2
Deferred income	**15.5**	25.9
	29.3	28.3

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

21 Construction contracts

The Group constructs assets for its customers, which are mainly IT in nature. In line with the requirements of IAS 11, gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

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 the creditors as gross amounts due to customers.

	2015 £m	2014 £m
Contract revenue recognised in relation to construction contracts in the year	**125.6**	144.1
Aggregate costs incurred and recognised profits (less losses) to date	**243.0**	207.7
Gross amount due from customers for construction contracts	**39.3**	48.2

Notes to the consolidated financial statements continued

22 Financial liabilities

Current	Notes	2015 £m	2014 £m
Contingent consideration		**16.0**	33.3
Deferred consideration		**16.5**	11.6
Obligations under finance leases	24	**5.1**	5.1
Unsecured loan notes		**–**	0.1
Cash flow hedges		**3.3**	3.1
Non-designated foreign exchange forward contracts		**2.9**	0.3
Bonds		**184.7**	110.9
Fixed rate interest rate swaps		**2.3**	0.4
		230.8	164.8
Non-current			
Contingent consideration		**15.5**	22.8
Deferred consideration		**5.0**	11.5
Public sector subsidiary partnership payment		**56.5**	54.3
Put options of non-controlling interests		**136.6**	109.4
Obligations under finance leases	24	**1.9**	6.8
Unsecured loan notes		**–**	0.1
Bonds		**1,564.7**	1,195.9
Term loan		**300.0**	300.0
Cash flow hedges		**11.5**	15.6
Non-designated foreign exchange forward contracts		**7.0**	0.9
Currency swaps in relation to US$ denominated bonds		**–**	0.6
Fixed rate interest rate swaps		**64.7**	62.9
		2,163.4	1,780.8

Included in aggregate financial liabilities is an amount of £1,749.4m (2014: £1,306.8m) 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 £220.8m included in financial assets and £nil included in financial liabilities (2014: £185.4m included in financial assets and £0.6m included in financial liabilities). Consequently, this gives an effective liability of £1,528.6m (2014: £1,122.0m).

In 2015, the Group repaid bonds which reached maturity. These were US$80.0m 2008 Series A bonds (GBP equivalent: £40.0m) and GBP 2005 Series B and 2008 Series C bonds totalling £57.0m. In addition in 2015, the Group issued a total of US$228.5m and £67.0m of new bonds in January 2015 and US$65.0m and £30.0m in April 2015. In November 2015 the Group issued bonds with a total face value of EUR310.0m at a discount receiving net proceeds of EUR304.4m (GBP equivalent: £213.7m). The bonds issued in the year had a weighted average maturity of 9 years and a weighted average coupon rate of 2.97%.

The issue costs incurred on the issue of the bonds during the year amounted to £1.1m (2014: £0.3m). Issue costs on the bonds are spread over the life of the bonds to their maturity. The unamortised balance of issue costs and amendment costs at the year-end totalled £2.5m (2014: £2.2m).

The Group's term loans from banks are composed of a £100m 5-year term loan maturing in May 2019 and a £200m term loan which was extended in the year to now mature in January 2017. Both loans bear interest at floating rates linked to LIBOR.

The obligations under finance leases are secured on the assets being financed. The bonds, term loans and loan notes are unsecured. The loan notes issued were non-interest bearing and were repaid in 2015.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in 2017 to 2022. This payment is funded by Axelos Limited and is contingent on the profits of that business. The net of tax cost has been estimated at £40.5m. Following these payments, the Company will pay profits to the partners according to their stake in the business.

The non-controlling shareholders of Axelos Limited, Entrust Support Services Limited and Fera Science Limited have an option to put their shareholding to a member of the Group. Accordingly, a liability of £136.6m (2014: £109.4m) has been recognised and a corresponding entry has been recorded against retained earnings. The options in each case are exercisable only after a contractual period has elapsed.

The Group has available to it a committed Revolving Credit Facility of £600m maturing in August 2020. In addition in December 2015, the Group negotiated a £600m Credit Facility maturing in June 2017. Both of these facilities are available for the Group's immediate use and in both cases £nil was drawn down at 31 December 2015 (2014: £nil drawn down on the £600m Revolving Credit Facility).

Notes to the consolidated financial statements continued

22 Financial liabilities (continued)

As at 31 December 2015 the Group has issued unsecured bonds as follows:

Bond	Interest rate %	Denomination	Face Value Millions	Maturity
Issued 2010				
Series C[5]	4.78	GBP	50.0	30 June 2020
Issued 2011[1]				
Series A[4]	4.85	GBP	50.0	22 July 2019
Series C	4.76	GBP	35.0	19 July 2021
Issued 2013				
Series A[5]	3.73	GBP	75.0	30 September 2020
Issued 2015				
Series C	3.26	GBP	25.0	22 January 2022
Series F	3.54	GBP	10.0	22 January 2025
Series G	3.67	GBP	30.0	22 April 2025
Series I	3.58	GBP	32.0	22 January 2027
Total of sterling denominated bonds		GBP	307.0	
Issued 2006[2,3]				
Series B	5.88	US$	130.0	28 June 2016
Series B	5.81	US$	74.0	13 September 2016
Series C	5.77	US$	60.0	13 September 2016
Issued 2007[2,3]				
Series B	5.88	US$	179.0	11 October 2017
Issued 2008[2]				
Series B[4]	6.51	US$	256.0	13 September 2018
Issued 2010[2]				
Series A	4.15	US$	50.0	30 June 2017
Series B[4]	4.80	US$	250.0	30 June 2020
Issued 2011[2]				
Series B[4]	4.65	US$	80.0	22 July 2019
Series A	3.72	US$	40.0	19 July 2018
Series B[4]	4.50	US$	236.0	19 July 2021
Series A	4.75	US$	50.0	26 July 2021
Issued 2015[2,4]				
Series A	3.33	US$	40.0	22 January 2022
Series B	3.43	US$	65.0	22 April 2022
Series D	3.45	US$	53.0	22 January 2023
Series E	3.65	US$	98.5	22 January 2025
Series H	3.80	US$	37.0	22 January 2027
Total of US$ denominated bonds		US$	1,698.5	
Issued 2015				
Series A	2.125	EUR	230.0	10 November 2022
Series B	2.875	EUR	60.0	10 November 2027
Series C	2.125	EUR	20.0	10 November 2022
Total of Euro denominated bonds		EUR	310.0	

1 The Group has entered into interest rate swaps to convert the interest cost to floating rates based on 6-month GBP LIBOR.

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

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

4 The Group has entered a series of fixed rate interest rate swaps to convert the whole or a proportion of these issues from paying a floating rate based on 6-month LIBOR to fixed rates. See note 26 for further details of these fixed rate interest rate swaps.

5 The Group has entered fixed rate interest rate swaps to convert these issues to fixed rates of 4.78% on £50m and 1.4% on £75m rising to 5.7% and 6.0% respectively by maturity. See note 26 for further details of these fixed rate interest rate swaps.

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

Notes to the consolidated financial statements continued

23 Funds assets and liabilities

	2015 £m	2014 £m
Funds receivables	**161.7**	116.0
Funds restricted cash	**–**	2.2
Funds assets	**161.7**	118.2
Funds liabilities	**(161.7)**	(118.2)

These balances relate to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The balances are due to and from the investors and Investment Funds. The parties to the trade are permitted to take advantage of a 4-day settlement period between initiation and settlement of the trade.

24 Obligations under leases and hire purchase contracts

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

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

	2015 £m	2014 £m
Not later than 1 year	**5.1**	5.1
Later than 1 year but not more than 5 years	**1.9**	6.8
	7.0	11.9

The Group has entered into commercial leases on 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:

	2015 £m	2014 £m
Not later than 1 year	**127.6**	107.6
Later than 1 year but not later than 5 years	**277.3**	239.2
Later than 5 years	**164.5**	146.9
	569.4	493.7

The future minimum rentals payable disclosed above are the present value of the obligations.

25 Provisions

	Business exit provision £m	Asset services settlement provision £m	Claims and litigations provision £m	Property provision £m	Other £m	Total £m
As at 1 January 2015	26.5	24.8	22.5	35.4	2.4	111.6
Utilisation	**(21.6)**	**(21.7)**	**(4.3)**	**(5.1)**	**(1.8)**	**(54.5)**
Provided in the year (net)	**16.8**	**17.2**	**12.4**	**(2.3)**	**6.8**	**50.9**
Provisions acquired	**–**	**–**	**–**	**7.3**	**–**	**7.3**
Transfer from accruals	**–**	**3.1**	**–**	**–**	**–**	**3.1**
As at 31 December 2015	**21.7**	**23.4**	**30.6**	**35.3**	**7.4**	**118.4**

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure. As described in note 4, in 2015, additional provision was made in light of the programme of business exits completed or in an active sales process. The provision is expected to unwind over the next 3 years.

Notes to the consolidated financial statements continued

25 Provisions (continued)

Asset Services settlements provision: relates to two matters:

1. Arch Cru: The parties to the CF Arch Cru Funds group litigation have entered into a full and final settlement of the proceedings on confidential terms. It is expected this matter will be completed by the close of 2016.

2. Connaught: The potential costs in resolving the matter relating to Connaught Income Series 1 Fund ("The Fund"), of which CFM was the Operator until September 2009, when it was replaced by another Operator company unrelated to Capita (following which CFM had no further involvement with the Fund). The Fund went into liquidation in 2012 and its liquidator brought a claim against both former Operators. The Group has reached a settlement with the liquidator in respect of its involvement.

The Financial Conduct Authority (FCA) was supporting the negotiations being undertaken between all parties but on 10 March 2015 confirmed that it had withdrawn from the negotiations and has decided to formally review the activities of both Operators. At this time no conclusion has been reached on whether any wrongdoing has occurred and whether any enforcement action will be taken. Whilst there can be no certainty that a liability will not arise in respect of this matter, the Group is unable to determine what the outcome of the FCA review might be and as such no provision for a potential outflow of funds has been made. Due to the requirement to await the outcome of the formal review commenced by the FCA, this matter is now likely to come to a conclusion later in 2016.

Giving due consideration to available information regarding these claims the Group has made a further provision of £17.2m representing an increased settlement value for the Arch Cru matter and further legal and professional fees. The Group has incurred £21.7m in respect of compensation payments and professional fees in relation to these matters in the year.

Claims and litigation provision: In addition to the Asset Services Settlement provision the Group is exposed to other claims and litigation. The Group makes a provision when a claim has been made where it is more probable than not that a loss might occur. These provisions are reassessed regularly to ensure that the level of provisioning is consistent with the claims that have been reported. The range of values attached to these claims, can be significant and, where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. The Group robustly defends its position on each claim and they are often settled for amounts significantly smaller than the initial claim and may result in no transfer of economic benefits.

In the period, the Group has settled a number of insurance liabilities which it had provided for in previous years. Additionally, it has made provision for new claims, which originate due to the nature of the Group's activities and revised existing provisions where more information on the progress of the claim has become apparent. The Group's exposure to claims is mitigated by having in place a number of large insurers providing cover for the Group's activities, albeit insurance recoveries are only recognised as an asset at the point the recovery is virtually certain. No such assets are recognised currently. Due to the nature of these claims the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: Includes a provision, on a discounted basis, for the difference between the market value of property leases acquired in 2011 with the Ventura and Vertex Private Sector acquisitions and the lease obligations committed to at the date the leases were signed by the previous owners. This is in accordance with IFRS 3 (revised) which requires the use of fair value measurement. The remaining property provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 24 years.

Other provision: relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides. These are likely to unwind over a period of 1 to 3 years.

26 Financial instruments

Financial risk management objectives and policies

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

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

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

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short-term debtors, creditors, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The carrying values are a reasonable approximation of fair value other than 9 fixed rate bonds totalling £445.9m, included below in the bond value of £1,749.4m, with a carrying value of £445.9m and a fair value of £445.0m. The fair value of these bonds has been calculated by discounting the expected future cash flows at prevailing interest rates and this fair value measurement would be categorised within level 2 of the fair value hierarchy.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

At 31 December 2015	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Unlisted equity securities	4.6	–	–	–	–	4.6
Investment loan	–	–	5.0	–	–	5.0
Non-designated foreign exchange forwards and swaps	–	0.3	–	–	–	0.3
Foreign exchange swaps held for foreign net investment	–	–	–	0.2	–	0.2
Interest rate swaps in relation to GBP denominated bonds	–	–	–	6.9	–	6.9
Currency swaps in relation to US$ denominated bonds	–	–	–	213.9	–	213.9
	4.6	0.3	5.0	221.0	–	230.9
Financial liabilities						
Overdraft	–	–	–	–	448.7	448.7
Bonds	–	–	–	–	1,749.4	1,749.4
Term loan	–	–	–	–	300.0	300.0
Cash flow hedges	–	–	–	14.8	–	14.8
Non-designated foreign exchange forwards and swaps	–	9.9	–	–	–	9.9
Contingent consideration	–	–	–	–	31.5	31.5
Deferred consideration	–	–	–	–	21.5	21.5
Obligations under finance leases	–	–	–	–	7.0	7.0
Public sector subsidiary partnership payment	–	–	–	–	56.5	56.5
Put options of non-controlling interests	–	–	–	–	136.6	136.6
Fixed rate interest rate swaps	–	67.0	–	–	–	67.0
	–	76.9	–	14.8	2,751.2	2,842.9

The aggregate bond value above of £1,749.4m includes the GBP value of the US$ denominated bonds at 31 December 2015. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the bonds' fair value due to changes in prevailing foreign exchange and interest rates. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The fair values of the currency and interest swaps are disclosed in note 16 – Financial assets and in note 22 – Financial liabilities.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

At 31 December 2014	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Unlisted equity securities	2.5	–	–	–	–	2.5
Investment loan	–	–	5.0	–	–	5.0
Interest rate swaps in relation to GBP denominated bonds	–	–	–	9.8	–	9.8
Currency swaps in relation to US$ denominated bonds	–	–	–	175.6	–	175.6
	2.5	–	5.0	185.4	–	192.9
Financial liabilities						
Overdraft	–	–	–	–	429.8	429.8
Unsecured loan notes	–	–	–	–	0.2	0.2
Bonds	–	–	–	–	1,306.8	1,306.8
Term loan	–	–	–	–	300.0	300.0
Cash flow hedges	–	–	–	18.7	–	18.7
Non-designated foreign exchange forwards and swaps	–	1.2	–	–	–	1.2
Currency swaps in relation to US$ denominated bonds	–	–	–	0.6	–	0.6
Contingent consideration	–	–	–	–	56.1	56.1
Deferred consideration	–	–	–	–	23.1	23.1
Obligations under finance leases	–	–	–	–	11.9	11.9
Public sector subsidiary partnership payment	–	–	–	–	54.3	54.3
Put options of non-controlling interests	–	–	–	–	109.4	109.4
Fixed rate interest rate swaps	–	63.3	–	–	–	63.3
	–	64.5	–	19.3	2,291.6	2,375.4

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities and investment loans. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. 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.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

As at 31 December 2015, the Group held the following financial instruments measured at fair value:

	2015 £m	2014 £m
Assets measured at fair value		
Disposal group assets held for sale	**84.1**	–
Non-designated foreign exchange forwards and swaps	**0.3**	–
Foreign exchange swaps held for foreign net investment	**0.2**	–
Interest rate swaps in relation to GBP denominated bonds	**6.9**	9.8
Currency swaps in relation to US$ denominated bonds	**213.9**	175.6
Liabilities measured at fair value		
Disposal group liabilities held for sale	**40.4**	–
Bonds	**1,303.5**	1,181.8
Cash flow hedges	**14.8**	18.7
Non-designated foreign exchange forwards and swaps	**9.9**	1.2
Currency swaps in relation to US$ denominated bonds	**–**	0.6
Fixed rate interest rate swaps	**67.0**	63.3
Public sector subsidiary partnership payment	**56.5**	54.3
Put options of non-controlling interests	**136.6**	109.4
Contingent consideration	**31.5**	56.1

During both years, the Group only had Level 2 assets or liabilities measured at fair value apart from disposal group assets and liabilities held for sale, contingent consideration, the public sector subsidiary partnership payment and the put options of non-controlling interests which are Level 3 liabilities. It is the Group's policy to recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred. During the year ended 31 December 2015, 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.

Contingent consideration arises in business acquisitions where the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The Group makes provision for such contingent consideration for each acquisition based on an assessment of its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation. A sensitivity analysis was performed on the expected contingent consideration of £31.5m. The sensitivity analysis performed adjusted the probability of payment of the contingent amounts. A 10% increase in the probability of contingent consideration being paid results in an increase in potential contingent consideration of £3.8m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £4.3m.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 2017 to 2022. This payment is funded by Axelos Limited and is contingent on profits. The fair value of £56.5m has been derived by discounting the expected payment at the Group cost of debt to arrive at its present value. If the discount rate was to increase/decrease by 1% the present value would decrease/increase by £2.1m.

The put options of the non-controlling interests (see note 22) are measured at amortised cost based on the expected redemption value of the shares that will be paid in cash by the Group. This value is determined by reference to the expected date of exercise of the options, which is then discounted to arrive at a present value. The sensitivity of the valuation to movements in both the discount rate and the cash flows that have been used to calculate it, are as follows: a 10% increase/decrease in the earnings potential of the business results in a £12.8m increase/decrease in the valuation; a 1% increase/decrease in the discount rate applied to the valuation results in a £4.6m decrease/£4.8m increase in the valuation.

The fair values of assets and liabilities presented as being held for sale have been assessed based on expected sales proceeds.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

The following table shows the reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Disposal group held for sale – assets £m	Disposal group held for sale – liabilities £m
At 1 January 2015	56.1	54.3	109.4	–	–
Arising from business combinations in the period	**12.9**	**–**	**9.8**	**–**	**–**
Profit and loss movement – administrative expenses	**(5.4)**	**–**	**–**	**–**	**–**
Utilised	**(32.1)**	**–**	**–**	**–**	**–**
Movement of put options recognised in equity	**–**	**–**	**17.4**	**–**	**–**
Fair value of assets and liabilities transferred to disposal group	**–**	**–**	**–**	**(84.1)**	**40.4**
Discount unwind	**–**	**2.2**	**–**	**–**	**–**
At 31 December 2015	**31.5**	**56.5**	**136.6**	**(84.1)**	**40.4**

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

Capita has executed a series of fixed rate interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. These fixed rate interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 9 – Net finance costs.

Due to lower prevailing interest rates, these fixed rate interest rate swaps have a negative mark to market value of £67.0m at 31 December 2015 (2014: negative mark to market value of £63.3m). This movement results in a non-cash accounting loss in the year of £3.7m (2014: loss of £36.7m).

The Group has fixed rate bonds of £1,074.0m in issue as at 31 December 2015 (underlying nominal value). The Group has a further £456.5m of swapped bonds (underlying nominal value), £300.0m of term loans, a £600m undrawn credit facility and a £600.0m undrawn committed revolving credit facility, all paying floating rate interest based on LIBOR. 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 interest-bearing financial assets and liabilities of the Group as at 31 December is as follows:

At 31 December 2015	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	**184.7**	**129.6**	**135.4**	**111.0**	**185.8**	**489.2**	**1,235.7**
Obligations under finance leases	**5.1**	**1.9**	**–**	**–**	**–**	**–**	**7.0**
Interest rate swap in relation to GBP denominated bonds	**–**	**–**	**–**	**–**	**(3.8)**	**–**	**(3.8)**
Foreign currency swaps in relation to US$ denominated bonds	**(43.7)**	**(40.7)**	**(44.3)**	**(6.0)**	**(3.9)**	**(21.1)**	**(159.7)**
Fixed rate interest rate swaps	**2.3**	**2.5**	**7.8**	**10.5**	**17.7**	**26.2**	**67.0**
Floating rate							
Cash in hand	**(534.0)**	**–**	**–**	**–**	**–**	**–**	**(534.0)**
Overdraft	**448.7**	**–**	**–**	**–**	**–**	**–**	**448.7**
Investment loan	**–**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.3)**	**(3.9)**	**(5.0)**
Bonds	**–**	**34.9**	**82.3**	**–**	**119.8**	**276.7**	**513.7**
Term loan	**–**	**200.0**	**–**	**100.0**	**–**	**–**	**300.0**
Cash flow hedges	**3.3**	**3.8**	**4.2**	**3.5**	**–**	**–**	**14.8**
Non-designated foreign exchange forwards and swaps	**2.6**	**2.0**	**1.6**	**1.7**	**1.7**	**–**	**9.6**
Foreign exchange swaps in respect of foreign net investment	**(0.2)**	**–**	**–**	**–**	**–**	**–**	**(0.2)**
Interest rate swap in relation to GBP denominated bonds	**–**	**–**	**–**	**–**	**–**	**(3.1)**	**(3.1)**
Foreign currency swaps in relation to US$ denominated bonds	**–**	**(1.1)**	**(20.4)**	**–**	**(7.8)**	**(24.9)**	**(54.2)**

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

At 31 December 2014	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	24.4	182.9	128.2	95.7	109.5	342.6	883.3
Obligations under finance leases	5.1	5.3	1.5	–	–	–	11.9
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	(4.7)	–	(4.7)
Foreign currency swaps in relation to US$ denominated bonds	–	(42.0)	(38.7)	(29.3)	(4.2)	(13.1)	(127.3)
Fixed rate interest rate swaps	0.4	6.0	7.4	8.3	11.9	29.3	63.3
Floating rate							
Cash in hand	(458.9)	–	–	–	–	–	(458.9)
Overdraft	429.8	–	–	–	–	–	429.8
Investment loan	–	–	(0.2)	(0.3)	(0.3)	(4.2)	(5.0)
Bonds	86.5	–	33.5	115.7	–	187.8	423.5
Term loan	–	200.0	–	–	100.0	–	300.0
Cash flow hedges	3.1	3.9	4.1	4.3	3.3	–	18.7
Non-designated foreign exchange forwards and swaps	0.3	–	0.1	0.2	0.3	0.3	1.2
Interest rate swap in relation to GBP denominated bonds	(1.3)	–	–	–	–	(3.8)	(5.1)
Foreign currency swaps in relation to US$ denominated bonds	(13.2)	–	0.3	(28.8)	–	(6.0)	(47.7)

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

	Increase/(decrease) in basis points		Effect on profit before tax £m	
2015	**5**	**(5)**	**(0.3)**	**0.3**
2014	1	(1)	(0.1)	0.1

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 Europe, India and South Africa which generate exposure to movements in the Euro, Swiss Franc, Indian Rupee and South African Rand exchange rates against sterling. The Group seeks to mitigate the effect of this exposure by entering forward currency contracts (including Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable forecast transactions denominated in Indian Rupees and South African Rand.

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 2015, the Group held foreign exchange forwards against forecast monthly Indian Rupee and South African Rand costs in years up to and including 2022. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under signed customer contracts.

The following table demonstrates the sensitivity to a reasonably possible change in the Indian Rupee and South African Rand exchange rates, 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.

	South African Rand			Indian Rupee		
	Increase/(decrease) in ZAR exchange rate	Effect on profit before tax £m	Effect on equity £m	Increase/(decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
2015	**(1.17)%**	**0.6**	**–**	**5.10%**	**–**	**(3.9)**
2014	(3.02)%	1.4	–	(2.86)%	–	2.8

Exposures to the translation of profit and losses and balance sheet carrying values on consolidation in the Euro and Swiss Francs are mitigated through the use of foreign exchange forwards and swaps or borrowings in those currencies.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

Hedges

Fair value hedges

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

The Group had interest rate swaps in place with a notional amount of £85.0m (2014: £117.0m) whereby it receives a weighted average fixed rate of interest of 4.81% (2014: fixed rate of interest 5.46%) and pays variable rates based on 6 month GBP LIBOR. The swaps are being used to hedge the exposure to changes in the fair value of £85.0m (2014: £117.0m) of the Group's bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6 month GBP LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £999.6m (2014: £857.1m) of the Group's bonds, which have coupon rates ranging from 3.33% to 6.51%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar issued bonds. The bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 22).

The total gain in the year on the fair value hedges of £36.5m (2014: total gain £50.9m), excluding credit risk, was equal to the loss on the hedged items resulting in no net gain or loss in the income statement.

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

Cash flow hedges

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

Forward exchange contracts	Assets £m	2015 Liabilities £m	Assets £m	2014 Liabilities £m
Fair value	–	**(14.8)**	–	(18.7)

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 2015 and a net unrealised loss of £14.8m (2014: loss of £18.7m) less deferred tax of £2.8m (2014: £3.7m) was recognised in equity. The net gain recognised on cash flow hedges during the year was £0.8m (2014: net gain £5.6m) whilst net losses of £3.1m (2014: losses of £6.0m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a debit of £1.1m (2014: debit of £2.3m).

In addition the Group holds a series of forward exchange currency contracts against highly probable forecast transactions in ZAR of the Group's South African operations. The Group does not designate these hedges as cash flow hedges under IFRS. All gains or losses on these outstanding hedges are recognised in the income statement in net finance costs (see note 9).

Hedges of net investments in foreign operations

The Group has net investments in foreign operations, the re-translation of which on consolidation gives rise to exposure to the carrying values in equity. The Group designates EUR97m of liability under its borrowings in EUR denominated bonds as a hedge of a net investment in its EUR denominated foreign operations. In addition the Group designates CHF110m of foreign exchange forwards and swaps as a hedge of net investment in its Swiss Franc denominated foreign operations as at 31 December 2015.

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

Liquidity risk

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, term loans, loan notes, cash, overdrafts and finance leases over a broad spread of maturities to 2027.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted payments.

At 31 December 2015	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	448.7	–	–	–	–	–	448.7
Bonds	178.4	154.8	200.0	104.1	293.9	751.6	1,682.8
Interest on above bonds	72.9	64.4	56.6	44.3	34.1	66.2	338.5
Term loan	–	200.0	–	100.0	–	–	300.0
Interest on above term debt	3.7	1.8	1.7	0.6	–	–	7.8
Contingent consideration	16.0	5.2	10.3	–	–	–	31.5
Public sector subsidiary partnership payment	–	9.4	9.4	9.4	9.4	28.2	65.8
Put options of non-controlling interests	–	–	41.0	93.8	–	19.9	154.7
Obligations under finance leases	5.1	1.9	–	–	–	–	7.0
Fixed rate interest rate swaps	10.0	15.1	21.0	20.2	13.4	21.2	100.9
Non-designated foreign exchange forwards and swaps	2.1	0.6	–	–	–	–	2.7
Cash flow hedges	2.9	2.7	2.7	2.0	–	–	10.3
	739.8	455.9	342.7	374.4	350.8	887.1	3,150.7

At 31 December 2014	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	429.8	–	–	–	–	–	429.8
Unsecured loan notes	0.1	0.1	–	–	–	–	0.2
Bonds	108.4	169.5	147.0	190.0	101.4	789.5	1,505.8
Interest on above bonds	73.1	65.0	56.9	49.5	37.8	75.8	358.1
Term loan	–	200.0	–	–	100.0	–	300.0
Interest on above term debt	3.7	1.8	1.7	1.7	0.6	–	9.5
Contingent consideration	33.3	17.5	5.3	–	–	–	56.1
Public sector subsidiary partnership payment	–	–	9.4	9.4	9.4	37.6	65.8
Put options of non-controlling interests	–	–	–	39.8	106.1	–	145.9
Obligations under finance leases	5.1	5.3	1.5	–	–	–	11.9
Currency swaps	2.8	2.8	34.7	2.3	2.3	172.8	217.7
Fixed rate interest rate swaps	5.5	16.9	20.8	19.5	15.7	13.8	92.2
Non-designated foreign exchange forwards and swaps	0.1	–	–	–	–	–	0.1
Cash flow hedges	2.7	3.0	2.7	2.7	2.0	–	13.1
	664.6	481.9	280.0	314.9	375.3	1,089.5	3,206.2

The above payments have been calculated based on the prevailing foreign exchange rates and interest rates at the end of the reporting period. For currency swaps, only payments are included, receipts are excluded.

Master netting or similar agreements

The Group has notional cash pools with its banks under which the bank may net cash balances with overdrafts held by other members of the Group. The effect of this is shown in the table below.

At 31 December 2015	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Cash at bank	534.0	(440.5)	93.5
Financial liabilities			
Overdrafts	(448.7)	440.5	(8.2)

At 31 December 2014	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Cash at bank	458.9	(353.8)	105.1
Financial liabilities			
Overdrafts	(429.8)	353.8	(76.0)

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business operations, its acquisition strategy and maximise shareholder value. 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. Focus on capital management forms an important component of the monthly Board meetings with attention on various matters including: return on capital employed, ensuring a mix of funding sources to ensure continuity and flexibility, a balance between fixed and floating borrowings and a broad spread of maturities together with attention to ensuring adequate liquidity headroom.

The Group's capital management process ensures that it meets financial covenants in its borrowing arrangements. Breaches in meeting the financial covenants could permit the lenders to immediately accelerate repayment of loans and borrowings. The Group monitors, as part of its monthly Board review, that it will adhere to specified consolidated leverage ratios and consolidated net interest expense coverage ratios. There have been no breaches in the financial covenants of any loans and borrowings in the period.

The Group has a business model that is driven by organic growth and through the acquisition of small- and medium-sized entities which enhance existing portfolios or provide access to new markets. The availability of funds for this acquisition activity is thus a key consideration when determining the use and management of capital. The Group therefore uses longer dated debt, generally bonds and long-term bank facilities, to enable it to finance these purchases.

Capita plc supports the growth of its various financial services businesses, which form a key part of its overall strategy and business plan. These financial firms are subject to various capital requirements imposed by financial services regulators. These requirements do not apply to Capita plc itself and the Group is not required to provide consolidated returns for regulatory purposes. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that test there are adequate financial resources at all times. During the year, they complied with all externally imposed financial services regulatory capital requirements.

The Group seeks to maintain a conservative and efficient capital structure with an appropriate level of gearing. It is Group policy to target a long term net debt to EBITDA ratio in the range of 2.0 to 2.5 and maintain interest cover above 7.0 times. At 31 December 2015, our annualised net debt to EBITDA ratio was 2.5 (2014: 2.2) with annualised interest cover at 13.7 times (2014: 16.3 times). These ratios are monitored monthly by the Board. As the Group considers a long-term net debt to EBITDA ratio the most appropriate measure for gearing, it does not maintain or monitor a targeted debt/equity ratio.

The Group raises debt in a number of markets including the bank loan market, bank overdraft, finance lease and bond markets. The Group has available to it a committed Revolving Credit Facility of £600m maturing in August 2020 and a £600m Credit Facility maturing in June 2017, of which £nil was drawn down as at 31 December 2015 (2014: £nil drawn down on a £600m Revolving Credit Facility). These facilities are both available for the Group's immediate use.

During the year the Group issued a total of US$293.5m and £97.0m of new bonds. In addition, the Group issued bonds with a total face value of EUR310.0m at a discount, receiving net proceeds of EUR304.4m.

The Group has a spread of bond maturities over many years to 2027 (see note 22).

The Group's dividend policy is to return surplus cash to shareholders through a mixture of progressive dividends and, when appropriate, capital returns. Total dividends have grown at a compound rate of 9.6% over the 5 years to 31 December 2015 whilst dividend cover in the year is 2.23 times. The Group returned £155m capital to shareholders by means of a special dividend in 2007 and undertakes share buybacks on an opportunistic basis, as market conditions allow, in order to maintain an efficient capital structure and to minimise its long-term cost of capital. Shareholder approval is sought annually for authority to purchase up to 10% of issued share capital and it is Group policy to continue to evaluate any attractive opportunities for share buybacks as they arise.

No changes were made in the objectives, policies or processes during the years ended 31 December 2015 and 31 December 2014.

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

	2015 £m	2014 £m
Shareholders' funds	**753.3**	915.5
Cash in hand	**(534.0)**	(458.9)
Overdraft	**448.7**	429.8
Unsecured loan notes	**–**	0.2
Obligations under finance leases	**7.0**	11.9
Bonds	**1,749.4**	1,306.8
Term loan	**300.0**	300.0
Currency and interest rate swaps	**(220.8)**	(184.8)
At 31 December	**2,503.6**	2,320.5

Notes to the consolidated financial statements continued

27 Issued share capital

Allotted, called up and fully paid	2015 m	2014 m	2015 £m	2014 £m
Ordinary shares of 2 1/15p each				
At 1 January	**670.0**	669.8	**13.8**	13.8
Issued on exercise of share options	**–**	0.2	**–**	–
At 31 December	**670.0**	670.0	**13.8**	13.8

During the year, 22,772 (2014: 204,345) ordinary 2 1/15p shares with an aggregate nominal value of £471 (2014: £4,224) were issued under share option schemes for a total consideration of £0.1m (2014: £1.2m).

Treasury shares	2015 m	2014 m	2015 £m	2014 £m
Ordinary shares of 2 1/15p				
At 1 January	**8.5**	11.1	**0.2**	0.3
Shares allotted in the year	**(2.7)**	(2.6)	**–**	(0.1)
At 31 December	**5.8**	8.5	**0.2**	0.2

In 2015, the Group made no purchases of shares into Treasury and allotted 2.7m (2014: 2.6m) shares with an aggregate nominal value of £56,570 (2014: £53,833). The total consideration received in respect of these shares was £1.6m (2014: £6.7m).

Employee benefit trust shares	2015 m	2014 m	2015 £m	2014 £m
Ordinary shares of 2 1/15p				
At 1 January	**2.2**	2.5	**0.1**	0.1
Shares allotted in the year	**–**	(0.3)	**–**	–
At 31 December	**2.2**	2.2	**0.1**	0.1

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the year, the EBT allotted nil (2014: 0.3m) ordinary 2 1/15p shares with an aggregate nominal value of £nil (2014: £6,597) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (2014: £nil).

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

28 Share based payment plans

The Group operates several share based payment plans. The expense recognised for share based payments in respect of employee services received during the year to 31 December 2015 was £11.4m (2014: £11.0m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. The award made in February 2015 in respect of 2014, is only applicable to Executive Directors. Under this scheme, awards are made annually consisting of only Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report on pages 88 to 104).

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 into Deferred Shares. Directors have the option to defer up to 100% of their annual bonus into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

For awards made in 2014 and earlier, participants were awarded conditional matching awards at the same time as the award of Deferred Shares, where participants received 2 Matching Shares for every Deferred Share. Following the award made in February 2014, it is not planned to award any further matching awards.

The vesting conditions for matching awards made in 2014 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

Notes to the consolidated financial statements continued

28 Share based payment plans (continued)

Long-Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards will depend on share price growth and EPS growth targets measured over a 3-year period. An award will not vest if Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme. For awards granted in 2014 and 2015, the number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4%, the Company's Return on Capita Employed exceeding 14%, and on banding within the scheme.

1997 Executive Share Option Scheme

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

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at the market price at the date of grant. The options become exercisable for a 6-month period following completion of a 3-year savings period. There are no performance conditions attached to these options.

2011 Co-Investment Plan

The Co-Investment Plan was approved at the AGM on 10 May 2011 and provided for a grant of 3 times the number of Company shares pledged by former Chief Executive Paul Pindar (the sole participant) before the end of 2011, up to a maximum limit of £1.0m in total market value of shares pledged.

The number of Matching Shares vesting was determined on the basis of Total Shareholder Return (TSR) as compared to the increase in the TSR of the FTSE 100 over the 4 year performance period from the date of grant. No shares will vest if over the performance period the Company's TSR is lower than the median; 33.33% will vest if it is equal to median and 100% will vest if ranked in the upper quartile when compared against the FTSE 100 TSR.

Between median TSR and top quartile the number of shares vesting will be on a straight-line basis in proportion to the position achieved by the Company. No plan shares will vest if the EPS of Capita plc has not grown over the performance period.

During the year ended 31 December 2011, the total number of shares pledged was 137,362 with a market value of £1.0m. The maximum Matching Shares under the plan amounted to 289,308. This plan vested in 2015.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

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

	2015 Million	**2015 WAEP**	2014 Million	2014 WAEP
Outstanding as at 1 January	**0.7**	**£7.80**	2.2	£6.89
Granted during the year	**–**	**–**	–	–
Exercised	**(0.3)**	**£6.08**	(1.2)	£6.78
Forfeited	**(0.2)**	**£5.51**	(0.2)	£4.63
Expired during the year	**–**	**£6.93**	(0.1)	£6.97
Outstanding as at 31 December	**0.2**	**£6.45**	0.7	£7.80
Exercisable at 31 December	**0.2**	**£6.45**	0.7	£7.80

The weighted average remaining contractual life of the above shares outstanding at 31 December 2015 was 1.1 years (2014: 1.3 years).

2008 LTIP

	2015 Million	**2015 WAEP**	2014 Million	2014 WAEP
Outstanding as at 1 January	**8.9**	**–**	8.6	–
Awarded during the year	**3.3**	**–**	3.0	–
Exercised	**(2.2)**	**–**	(1.8)	–
Forfeited	**(1.1)**	**–**	(0.9)	–
Outstanding as at 31 December	**8.9**	**–**	8.9	–
Exercisable at 31 December	**0.0**	**–**	0.1	–

The weighted average remaining contractual life of the above shares outstanding at 31 December 2015 was 1.5 years (2014: 1.5 years).

The weighted average share price of options at the date of exercise in 2015 was £11.44. The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £12.09 (2014: £11.11).

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus Plan, discussed above, was £1.2m (2014: £1.9m). The Matching Shares allocation in respect of the 2014 awards under this plan charged in 2015 was £nil (2014: £0.5m).

The fair value of the options granted/awarded during the year was £5.71 (2014: £5.53). The range of exercise prices for all options outstanding at the end of the year was £4.38 to £7.16 (2014: £3.62 to £7.16).

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.

Notes to the consolidated financial statements continued

28 Share based payment plans (continued)

The following table lists the inputs to the model used for the years ended 31 December 2015 and 31 December 2014.

	2015	2014
Dividend yield (%)	**2.46**	2.82
Expected share price volatility (%)	**19.96**	20.80
Floor price for LTIP (applicable to LTIP 08)	**£11.88**	£11.40
Risk-free interest rate (%)	**0.43**	0.62
Expected life of option (years)	**3.00**	3.00
Weighted average share price of options granted during the year	**–**	–

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

Operating cash flow for the year ended 31 December 2015

	Note	**2015 £m**	2014 £m
Cash flows from operating activities			
Operating profit before interest and taxation from continuing operations		**206.6**	388.9
Adjustment for underlying non-cash items:			
Depreciation	13	**82.1**	77.8
Amortisation of intangible assets (treated as depreciation)	14	**13.2**	9.1
Share based payment expense	28	**11.4**	11.0
Employee benefits	32	**(1.9)**	(1.0)
(Profit)/loss on sale of property, plant and equipment		**(1.2)**	0.9
Adjustment for non-underlying non-cash items:			
Accelerated depreciation on business closure	4	**0.1**	
Accelerated amortisation on business exit	4	**2.2**	–
Other assets written-off on business exit	4	**1.4**	–
Remeasurement of businesses held for disposal	4	**116.4**	–
Amortisation of intangible assets recognised on acquisition	5	**165.0**	147.1
Impairment of property, plant & equipment	5	**76.7**	–
Impairment of goodwill	5	**28.3**	–
Contingent consideration	5	**(5.4)**	(9.4)
Asset Services settlement provision	25	**17.2**	32.4
Business exit provision	25	**16.8**	–
Movement in underlying provisions (net)	25	**5.7**	(17.4)
Xchanging transaction	5	**(3.7)**	–
Net movement in payables and receivables		**(45.1)**	1.8
Cash generated from operations before non-underlying cash items		**685.8**	641.2

Notes to the consolidated financial statements continued

29 Additional cash flow information (continued)

Reconciliation of net cash flow to movement in net funds/(debt)

	Net debt at 1 January 2015 £m	Acquisitions in 2015 (excluding cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2015 £m
Cash, cash equivalents and overdrafts	**29.1**	**–**	**57.3**	**(1.1)**	**85.3**
Loan notes	**(0.2)**	**–**	**0.2**	**–**	**–**
Bonds[1]	**(1,306.8)**	**–**	**(399.6)**	**(43.0)**	**(1,749.4)**
Currency swaps in relation to US$ denominated bonds[1]	**175.0**	**–**	**–**	**38.9**	**213.9**
Interest rate swaps in relation to GBP denominated bonds[1]	**9.8**	**–**	**–**	**(2.9)**	**6.9**
Long-term debt	**–**	**48.3**	**(48.3)**	**–**	**–**
Term loan	**(300.0)**	**–**	**–**	**–**	**(300.0)**
Finance leases	**(11.9)**	**(0.1)**	**5.0**	**–**	**(7.0)**
Underlying net debt	**(1,405.0)**	**48.2**	**(385.4)**	**(8.1)**	**(1,750.3)**
Fixed rate interest rate swaps	**(63.3)**	**–**	**–**	**(3.7)**	**(67.0)**
Deferred consideration	**(23.1)**	**(10.0)**	**11.6**	**–**	**(21.5)**
	(1,491.4)	**38.2**	**(373.8)**	**(11.8)**	**(1,838.8)**

1 The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,528.6m (2014: £1,122.0m).

The aggregate bond fair value above of £1,749.4m (2014: £1,306.8m) (disclosed in note 22 – Financial liabilities) includes the GBP value of the US$ denominated bonds at 31 December 2015. 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 £220.8m (2014: £184.8m), is disclosed in note 16 – Financial assets, and in note 22 – Financial liabilities.

	Net debt at 1 January 2014 £m	Acquisitions in 2014 (excluding cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2014 £m
Cash, cash equivalents and overdrafts	157.8	–	(126.6)	(2.1)	29.1
Loan notes	(10.4)	–	10.2	–	(0.2)
Bonds[1]	(1,267.3)	–	10.6	(50.1)	(1,306.8)
Currency swaps in relation to US$ denominated bonds[1]	125.9	–	–	49.1	175.0
Interest rate swaps in relation to GBP denominated bonds[1]	7.7	–	–	2.1	9.8
Long-term debt	–	(21.5)	21.5	–	–
Term loan	(200.0)	–	(100.0)	–	(300.0)
New Term loan	–	–	–	–	–
Finance leases	(17.3)	(0.1)	5.5	–	(11.9)
Underlying net debt	(1,203.6)	(21.6)	(178.8)	(1.0)	(1,405.0)
Fixed rate interest rate swaps	(26.6)	–	–	(36.7)	(63.3)
Deferred consideration	(58.6)	–	35.5	–	(23.1)
	(1,288.8)	(21.6)	(143.3)	(37.7)	(1,491.4)

1 The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,122.0m (2013: £1,133.7m).

30 Capital commitments

At 31 December 2015, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2014: £0.2m).

31 Contingent liabilities

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £88.1m (2014: £86.0m).

32 Employee benefits

The Group operates both defined benefit and defined contribution pension schemes.

The pension charge for the defined contribution pension schemes for the year is £85.9m (2014: £78.7m).

In 2015, there was 1 main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: 5 further schemes where the Group is the sole employing sponsor, 3 of which transferred to the Group as a result of the acquisitions of avocis during 2015; an allocated section of a Local Government Pension Scheme where the Group is the employing sponsor; a segregated section of a multi-employer scheme in which the Group is a participating employer; 2 segregated sections in industry wide schemes; 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, the Group will only participate in the schemes for a finite period up to the end of the contract with the client.

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

The 3 schemes inherited with the acquisition of avocis are cash balance schemes where the conversion of the accumulated funds (to which guaranteed rates of accumulation apply) to a lifetime pension takes place on fixed rates set out in the scheme rules.

The schemes are administered and governed through collective foundations which are separate legal entities.

These pension schemes are HMRC registered pension schemes and are subject to standard UK pensions and tax law. Details of the benefits provided by the schemes are set out in each scheme's documentation.

For those schemes to which the Group makes contributions under Admitted Body status (which are all part of the Local Government Pension Scheme) and the allocated section of a Local Government Pension Scheme, responsibility for the governance of the schemes lies with boards which operate under a framework of corporate governance and are responsible for following the relevant statutory regulations.

For the other schemes, responsibility for the governance of the schemes lies with the trustees of the scheme and the nature of the relationship between the Group and the trustees is governed by regulations. The appointment of trustees is determined by the trust documentation.

The assets of the schemes are held in separate funds (administered by the trustees of the scheme or on behalf of the Board in the case of the Local Government Pension Schemes) to meet long-term pension liabilities to beneficiaries.

The trustees or boards (as appropriate) of the schemes invest the assets in line with their Statement of Investment Principles.

The Statement of Investment Principles has been established after taking into consideration the liabilities of the schemes and the investment risk that the trustees or boards (as appropriate) are willing to accept. For those schemes governed by trustees the Group will have been consulted before the Statement of Investment Principles was formally adopted.

For the non-Local Government Pension Schemes the scheme funding regime introduced by the Pensions Act 2004 required trustees to carry out regular funding assessments of the schemes and establish schedules of contributions and recovery plans when there is a shortfall in the schemes. The recovery plans detail the amount and timing of the contributions required to eliminate the shortfall in the schemes. Funding assessments are carried out at least every 3 years. Approximate funding updates are produced at each scheme anniversary, when a full scheme funding assessment is not being undertaken.

At each scheme funding assessment the present value of the contributions detailed in the current recovery plans are compared with any shortfall revealed. Where the contributions under the current recovery plans are no longer expected (by the end of periods specified in the recovery plans) to be sufficient to remove the shortfall, new recovery plans will need to be agreed between the trustees and the Group. Options include increasing contributions due from the Group, extending the recovery periods with additional contributions paid after the expiry of current recovery periods or some combination of the 2. The affordability to the Group of any increase in contributions is a primary consideration in the agreement of any new recovery plan.

Where the contributions are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

Following the most recent funding assessment of the Capita scheme which was carried out as at 31 March 2014, the Group entered into an agreement to make additional contributions to the Capita scheme over a period of time until 2027. The next scheme funding assessment will be carried out with an effective date of 31 March 2017.

For the other non-local government pension schemes, the latest formal valuations for each scheme were carried out between 31 December 2012 and 31 March 2014. The valuations for the other schemes are updated by qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

For the local government pension schemes there is a similar funding regime which is set out in the Local Government Pension Scheme (Administration) Regulations 2008. For the Admitted Body schemes, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions.

In addition, the Group will be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this, the Group is carrying a sufficient level of provision in these financial statements.

During 2012, the contract with Torfaen County Borough Council came to an end. This resulted in an exit debt that is due to be paid in 2016. A provision for this is included in these statements.

These defined benefit pension schemes expose the Group to actuarial risks, such as longevity risk, interest rate risk, salary risk, market (investment) risk and currency risk.

Further to a funding plan agreed with the Capita Scheme's Trustees in 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the Partnership) with the Capita Scheme. Under this arrangement, intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The Capita Scheme's interest in the Partnership entitles it to an annual distribution of £8m for 15 years.

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the Capita Scheme's deficit position presented in these accounts does not reflect the Capita Scheme's interest in the Partnership. Accordingly, distributions from the Partnership to the Capita Scheme are reflected in these Group accounts as pension contributions to the Capita Scheme on a cash basis as paid. The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

	Capita scheme		Other schemes		Group total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Scheme assets at fair value:						
Equities:						
– UK	83.0	82.6	7.8	7.6	90.8	90.2
– Overseas	233.9	199.2	28.6	29.2	262.5	228.4
– Private	–	–	2.0	3.7	2.0	3.7
	316.9	281.8	38.4	40.5	355.3	322.3
Debt securities:						
– UK Government	103.9	131.3	4.8	6.6	108.7	137.9
– UK Corporate	26.6	26.7	5.8	5.7	32.4	32.4
– Overseas Government	33.1	36.3	3.3	2.4	36.4	38.7
– Overseas Corporate	110.7	121.7	1.0	8.6	111.7	130.3
– Emerging Markets	21.5	24.0	2.2	0.2	23.7	24.2
– Private Debt[1]	12.9	8.8	–	–	12.9	8.8
– Secured Loans	–	–	4.3	–	4.3	–
	308.7	348.8	21.4	23.5	330.1	372.3
Property	68.2	61.7	6.6	5.9	74.8	67.6
Target Return	–	–	12.4	12.6	12.4	12.6
Infrastructure	–	–	2.0	0.2	2.0	0.2
Credit Funds	–	–	2.4	–	2.4	–
Asset Backed Securities	–	4.4	0.9	0.1	0.9	4.5
Hedge Funds	111.2	113.6	0.8	0.5	112.0	114.1
Diversified growth funds	–	33.2	0.3	–	0.3	33.2
Insurance Contracts[1]	47.2	–	13.2	–	60.4	–
Cash	(2.8)	6.0	2.6	5.1	(0.2)	11.1
Other	–	–	4.8	1.6	4.8	1.6
	223.8	218.9	46.0	26.0	269.8	244.9
Total	849.4	849.5	105.8	90.0	955.2	939.5
Present value of scheme liabilities	1,017.7	1,023.8	125.8	108.2	1,143.5	1,132.0
Net liability	(168.3)	(174.3)	(20.0)	(18.2)	(188.3)	(192.5)

1 The assets of the schemes are all quoted with the exception of the private debt holdings, insurance contracts, hedge funds and property.

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Balance at 1 January	**1,132.0**	966.6	**(939.5)**	(848.2)	**192.5**	118.4
Included in the income statement:						
Current service cost	**29.0**	24.0	**–**	–	**29.0**	24.0
Administration costs	**2.3**	2.6	**–**	–	**2.3**	2.6
Past service cost including curtailments	**0.1**	(1.3)	**–**	–	**0.1**	(1.3)
Settlements	**–**	–	**–**	–	**–**	–
Interest cost/(income)	**41.9**	43.4	**(35.5)**	(38.4)	**6.4**	5.0
Sub-total in income statement	**73.3**	68.7	**(35.5)**	(38.4)	**37.8**	30.3
Included in other comprehensive income:						
Remeasurements loss/(gain):	**–**	–	**–**	–	**–**	–
Actuarial loss/(gain) arising from:						
– demographic assumptions	**–**	(16.2)	**–**	–	**–**	(16.2)
– financial assumptions	**(32.9)**	105.8	**–**	–	**(32.9)**	105.8
– experience adjustments	**(16.0)**	14.5	**–**	–	**(16.0)**	14.5
– changes in asset ceiling/minimum liability	**–**	–	**–**	–	**–**	–
Return on plan assets excluding interest	**–**	–	**35.9**	**(36.9)**	**35.9**	**(36.9)**
Sub-total in other comprehensive income	**(48.9)**	104.1	**35.9**	(36.9)	**(13.0)**	67.2
Employer contributions	**–**	–	**(33.3)**	(26.3)	**(33.3)**	(26.3)
Contributions by employees	**1.4**	0.3	**(1.4)**	(0.3)	**–**	–
Benefits paid	**(27.5)**	(25.3)	**27.5**	25.3	**–**	–
Contract bulk transfers/business combinations	**13.2**	17.6	**(8.9)**	(14.7)	**4.3**	2.9
Balance at 31 December	**1,143.5**	1,132.0	**(955.2)**	(939.5)	**188.3**	192.5

The defined benefit obligation comprises £1,143.5m (2014: £1,132.0m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £37.8m (2014: £30.3m), £29.1m (2014: £22.7m) was included in cost of sales, £2.3m (2014: £2.6m) was included in administrative expenses, and £6.4m in finance costs (2014: £5.0m).

	Defined benefit obligation		Fair value of plan assets		Capita scheme Net defined liability	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Balance at 1 January	**1,023.8**	764.3	**(849.5)**	(676.2)	**174.3**	88.1
Included in the income statement:						
Current service cost	**26.9**	23.2	**–**	–	**26.9**	23.2
Administration cost	**2.2**	2.5	**–**	–	**2.2**	2.5
Past service cost including curtailments	**0.1**	1.1	**–**	–	**0.1**	1.1
Settlements	**–**	–	**–**	–	**–**	–
Interest cost/(income)	**38.0**	37.9	**(32.0)**	(33.8)	**6.0**	4.1
Sub-total in income statement	**67.2**	64.7	**(32.0)**	(33.8)	**35.2**	30.9
Included in other comprehensive income:						
Remeasurements loss/(gain):	**–**	–	**–**	–	**–**	–
Actuarial loss/(gain) arising from:						
– demographic assumptions	**–**	(15.0)	**–**	–	**–**	(15.0)
– financial assumptions	**(30.3)**	99.2	**–**	–	**(30.3)**	99.2
– experience adjustments	**(15.4)**	13.6	**–**	–	**(15.4)**	13.6
Return on plan assets excluding interest	**–**	–	**33.9**	(31.2)	**33.9**	(31.2)
Sub-total in other comprehensive income	**(45.7)**	97.8	**33.9**	(31.2)	**(11.8)**	66.6
Employer contributions	**–**	–	**(29.4)**	(22.2)	**(29.4)**	(22.2)
Contributions by employees	**0.2**	0.2	**(0.2)**	(0.2)	**–**	–
Benefits paid	**(24.6)**	(22.4)	**24.6**	22.4	**–**	–
Contract bulk transfers/business combinations	**(3.2)**	119.2	**3.2**	(108.3)	**–**	10.9
Balance at 31 December	**1,017.7**	1,023.8	**(849.4)**	(849.5)	**168.3**	174.3

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

					Other schemes	
	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Balance at 1 January	**108.2**	202.3	**(90.0)**	(172.0)	**18.2**	30.3
Included in the income statement:						
Current service cost	**2.1**	0.8	**–**	–	**2.1**	0.8
Administration cost	**0.1**	0.1	**–**	–	**0.1**	0.1
Past service cost including curtailment	**–**	(2.4)	**–**	–	**–**	(2.4)
Settlements	**–**	–	**–**	–	**–**	–
Interest cost/(income)	**3.9**	5.5	**(3.5)**	(4.6)	**0.4**	0.9
Sub-total in income statement	**6.1**	4.0	**(3.5)**	(4.6)	**2.6**	(0.6)
Included in other comprehensive income:						
Re-measurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**–**	(1.2)	**–**	–	**–**	(1.2)
– financial assumptions	**(2.6)**	6.6	**–**	–	**(2.6)**	6.6
– experience adjustments	**(0.6)**	0.9	**–**	–	**(0.6)**	0.9
– changes in asset ceiling/minimum liability	**–**	–	**–**	–	**–**	–
Return on plan assets excluding interest	**–**	–	**2.0**	(5.7)	**2.0**	(5.7)
Sub-total in other comprehensive income	**(3.2)**	6.3	**2.0**	(5.7)	**(1.2)**	0.6
Employer contributions	**–**	–	**(3.9)**	(4.1)	**(3.9)**	(4.1)
Contributions by employees	**1.2**	0.1	**(1.2)**	(0.1)	**–**	–
Benefits paid	**(2.9)**	(2.9)	**2.9**	2.9	**–**	–
Contract bulk transfers/business combinations	**16.4**	(101.6)	**(12.1)**	93.6	**4.3**	(8.0)
Balance at 31 December	**125.8**	108.2	**(105.8)**	(90.0)	**20.0**	18.2

Information about the defined benefit obligation for the Capita scheme:

	Proportion of overall liability %	Duration (years)
Active members	**21.0**	**24.0**
Deferred members	**51.0**	**24.0**
Pensioners	**28.0**	**13.0**
Total	**100.0**	**20.9**

	Capita scheme		Other schemes[2]	
Main assumptions:	2015 %	2014 %	2015 %	2014 %
Rate of price inflation – RPI/CPI	**3.0/2.0**	3.0/2.0	**3.0/2.0**	3.0/2.0
Rate of salary increase	**3.0**	3.0	**3.0**	3.0
Rate of increase of pensions in payment[1]:				
– RPI inflation capped at 5% per annum	**2.9**	2.9	**2.9**	2.9
– RPI inflation capped at 2.5% per annum	**2.1**	2.1	**2.1**	2.1
– CPI inflation capped at 5% per annum	**2.0**	2.0	**2.0**	2.0
– CPI inflation capped at 2.5% per annum	**1.6**	1.6	**1.6**	1.6
Discount rate	**3.90**	3.75	**3.90**	3.75
CARE active revaluation (inflation capped at 3.5% per annum)	**2.6**	2.6	**2.6**	2.6
Expected take up maximum available tax free cash	**85.0**	85.0	**85.0**	85.0

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2015 and 31 December 2014 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2015	2014	2015	2014	2015	2014	2015	2014
Capita scheme	**22.9**	22.8	**24.4**	24.3	**23.4**	23.3	**25.3**	25.3
Other schemes[3]	**22.9 to 23.8**	22.8 to 23.7	**24.4 to 24.8**	24.3 to 24.7	**23.4 to 25.4**	23.3 to 25.3	**25.3 to 26.0**	25.3 to 25.9

1 There are other levels of pension increase which apply to particular periods of membership.
2 Only the discount rate is relevant to the Admitted Body schemes. Different assumptions apply to non-UK schemes.
3 This does not apply to the Admitted Body schemes.

The assumptions used for the Capita scheme are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future. The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years time is derived from non-pensioner membership.

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

Sensitivity Analysis

The table below shows how the value of the defined benefit obligations would increase if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2015 actuarial assumptions	Capita scheme £m	Other schemes £m
0.1% decrease in discount rate	**20.3**	**1.5**
0.1% change in salary increases	**1.3**	**0.1**
0.1% change in inflation (and related assumptions)	**12.3**	**1.2**
1 year increase in life expectancy	**26.3**	**1.7**

The total employer contributions to the defined benefit pension schemes in 2016 are estimated to be £28m in respect of the Capita scheme and £7m in respect of the 'Other' schemes.

33 Related party transactions

Compensation of key management personnel

	2015 £m	2014 £m
Short-term employment benefits	**11.9**	9.0
Pension	**0.2**	0.2
Share based payments	**6.0**	6.8
	18.1	16.0

Gains on share options exercised in the year by Capita plc Executive Directors were £4.3m (2014: £6.6m) and by key management personnel £3.2m (2014: £2.1m), totalling £7.5m (2014: £8.7m).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly owned subsidiary which is not consolidated. The Group received £29.5m (2014: £25.8m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 32 – Employee benefits on page 151.

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 18 February 2016 was as below:

Shareholder	No. of shares	% of voting rights
Invesco Asset Management	**53,674,295**	**8.08**
Veritas Asset Management LLP	**41,859,611**	**6.30**
BlackRock Inc	**37,899,583**	**5.70**
Woodford Investment Management LLP	**36,810,693**	**5.54**

34 Group composition and non-controlling interests

The Group's subsidiaries are listed in note 8 and note 19 of the parent company financial statements on pages 169 and 172 to 176. This includes Axelos Limited and Entrust Limited which both have 49% non-controlling interests, and FERA which has a 25% non-controlling interest, none of whose contribution was material to the Group's financial performance, financial position or cash flow in both 2015 and 2014.

The Group holds a majority of the voting rights in all of these subsidiaries and the Directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Ltd ('DCC'), a wholly owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassess whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the license). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. The Group has therefore not consolidated DCC within its Group accounts. The disclosure of related party transactions with DCC is included in note 33 to these financial statements.

35 Post balance sheet event

Subsequent to the balance sheet date, the Group disposed of 80.1% of the shares in a health business, Capita Medical Reporting Limited for a cash consideration of £1 and £20m deferred consideration. The remaining 19.9% will be recorded as a financial asset as the Group does not retain any significant influence over the business.

Statement of Directors' responsibility

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

a. the consolidated financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole;

b. the parent company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

c. the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

A Parker
Chief Executive

N Greatorex
Group Finance Director

24 February 2016

Independent Auditor's report to the members of Capita plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Capita plc for the year ended 31 December 2015 set out on pages 106 to 156 and 163 to 176.
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Our audit approach

Materiality	Scope	Key risks identified
£18.0 million representing 4.6% of normalised profit before tax.	80% of total group revenue 76% of total profits and losses before tax 96% of total group assets.	Revenue and profit recognition; Acquisition accounting; Carrying value of intangible assets and goodwill; Items disclosed as 'non-underlying'; Provisions and contingent liabilities; and Pensions.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

The Risk	Our Response
Revenue and profit recognition (Revenue £4,836.9 million, profit before tax £112.1 million) Refer to page 81 (Audit and Risk Committee Report), and page 111 (accounting policy notes 2(e) and 2(f)). The contractual arrangements that underpin the measurement of revenue in the period can be complex, with significant judgements involved in the assessment of current and future financial performance, which are relevant to the application of long term contract accounting principles. Judgements impacting the recognition of revenue and resulting profits include, amongst others, those over: - interpretation of contract terms and conditions; - the assessment of the stage of completion, and costs to complete, on long term contract arrangements; - the allocation of revenue to separately identifiable components within a contractual arrangement; - the consideration of onerous contract conditions and associated loss provisions; - the recognition and recoverability assessments of contract related assets including those capitalised as direct incremental costs prior to service commencement.	Our audit procedures included testing the controls over the monitoring of contract performance and costs. These controls include the review of contracts' performance at monthly operating board review meetings, where divisional management present details of performance and business developments to members of the Group Executive Board. We selected contracts for testing based on quantitative factors (for example, those with the greatest impact on the Group's financial results) and qualitative factors (for example, major new contracts entered into during the financial year or where the payment profile may not reflect the timing of revenue recognition). For the contracts selected, our audit procedures included the following: - we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions; - we assessed through discussion with the Group directors and inspection of correspondence with customers the judgements regarding the appropriate timing of the revenue recognition, including the allocation of revenue to separately identifiable components within a contractual arrangement; - we obtained the contracts' forecasts and compared the assumptions underpinning them to contract terms and correspondence with customers, particularly on those where there are long term contract arrangements; - we compared the contract forecasts to actual results to assess the performance of the contract and the historical accuracy of the forecasting; - In determining whether onerous contracts should be recorded, we assessed contract profitability forecasts by analysing historic performance relative to contractual commitments over its full term. This included challenging directors assumptions on the future costs including projected savings and the actions required to achieve these; and - we challenged the recognition and recoverability of contract related assets by examining contractual terms including termination clauses and/or assessing recoverability against future profitability.

Independent Auditor's report to the members of Capita plc only continued

The Risk	Our Response
Acquisition accounting (total fair value to Group recognised on acquisition, £417.2 million) Refer to page 81 (Audit and Risk Committee Report), page 112 (accounting policy note 2(j)) and pages 132 to 134 (financial disclosures in note 17). During the year the Group acquired businesses for a total consideration of £417.2 million. Judgement is required over the fair value of the assets and liabilities acquired. We consider these estimates to be significant audit risks because of the impact the acquisitions have on the financial statements, and the inherent judgement involved in estimating the fair value of the assets and liabilities acquired.	Our audit procedures included selecting a sample of acquisitions made during the year, for further investigation, based on quantitative and qualitative factors. The acquisitions selected included those acquisitions with the greatest impact on the Group's financial results, and those containing the greatest degree of judgement. For each of these acquisitions: - we challenged the key assumptions used by the Group to determine fair values of assets and liabilities acquired; - we discussed these with the directors and corroborated the explanations provided by comparing these assumptions to market data, our past experience of similar transactions, and the Group's business plan supporting the acquisition; - where available, we compared the amounts recognised to supporting external documentation; - we assessed the appropriateness of the accounting for significant fair value adjustments, including those in the measurement period, with reference to the acquisition accounting standard, and considered the presentation and disclosure of material adjustments in the financial statements; and - we evaluated the adequacy of the disclosure of acquisitions in the Annual Report.
Carrying value of intangible assets and goodwill £2,810.0 million Refer to page 82 (Audit and Risk Committee Report), page 113 (accounting policy note 2(k)) and pages 129 to 131 (financial disclosures in notes 14 and 15). We consider the carrying value of intangible assets and goodwill and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. We consider the key inputs into the impairment model to be the approved business plans and assumptions for the growth and discount rates. The Group disposed of certain businesses in the year and is in an active process to sell certain other businesses at the year end (therefore treating these businesses as a disposal group held for sale). The loss on disposal and re-measurement of assets held for sale require judgement over the allocation of goodwill and intangible assets.	Our audit procedures included detailed testing of the Group's impairment assessment over the carrying value of intangible assets, including goodwill, and performing the following procedures: - we compared the total amount of discounted cash flows as per the Group's calculations to the Group's market capitalisation; - we tested the principles and integrity of the Group's discounted cash flow model; - we assessed the appropriateness of any changes in the composition of cash generating units with reference to our understanding of the business; - we compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit, and assessed if these cash flows were reasonable; - we assessed the historical accuracy of the forecasts used in the group's impairment model by considering actual performance against prior year budgets; - we used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates; - we performed sensitivity and break-even analyses for the key inputs and assumptions, and identified those cash generating units we consider most sensitive to impairment; - we assessed the adequacy of goodwill and intangibles allocated to the businesses disposed as well as businesses classified as held for sale; - we evaluated the adequacy of the Group's disclosures related to the judgments and assumptions over recoverability of intangible assets and goodwill.
Items disclosed as 'non-underlying'. Non-underlying loss before tax on business disposals £164.4 million; and non-underlying loss before tax on other items £309.0 million Refer to page 82 (Audit and Risk Committee Report), page 110 (accounting policy note 2) and pages 117 to 119, and 124 (financial disclosures in notes 4, 5 and 9). The Group separately presents certain income and expenditure as 'non-underlying' on the face of the income statement. Its financial highlights and commentary refers to 'underlying' measures as well as those derived on an adopted IFRS basis. 'Non-underlying' items are not defined by IFRSs and therefore judgement is required by the directors to identify such items as 'non-underlying' and to maintain the comparability of results with previous years and in accordance with the Group's accounting policy. Failure to disclose clearly the nature and impact of material non-underlying earnings may distort the reader's view of the financial result in the year. When improperly used and presented, these alternative reporting measures might prevent the Annual Report from being fair, balanced and understandable by hiding the real financial position and results or by making the profitability of the Group seem more attractive.	Our audit procedures included the following: - we inspected and challenged the nature and amounts of the items included within 'non underlying' and agreed to supporting documentation and to third party correspondence where appropriate; - we assessed the consistency of application of the group's accounting policy for the classification of 'non-underlying' items year on year and that this is adequately disclosed; - we challenged the directors judgement in the classification of businesses held for sale, which are included in non-underlying results; - we assessed whether the basis of the 'underlying' financial information is clearly and accurately described and consistently applied and that reconciliations to the Adopted IFRS position are shown with sufficient prominence in the Annual Report; and - we assessed whether the 'underlying' financial information is not otherwise misleading in the form and context in which it appears in the Annual Report.

Independent Auditor's report to the members of Capita plc only continued

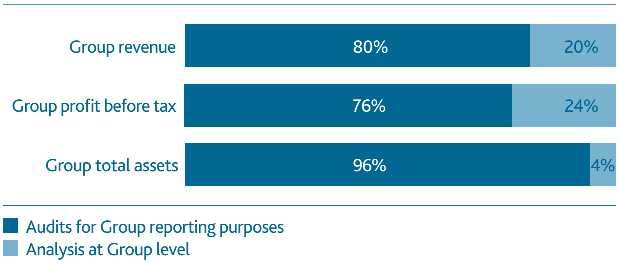
The Risk	Our Response
Provisions and contingent liabilities £118.4 million Refer to page 83 (Audit and Risk Committee Report), page 114 (accounting policy note 2(q)) and pages 138 to 139 and 151 (financial disclosures in notes 25 and 31). The Group holds provisions in respect of costs of exiting businesses, property obligations and matters relating to litigation and claims. The determination and valuation of provisions is judgemental by nature and there is a risk that the estimate is incorrect and the provision is materially misstated. Notably significant judgement is required to assess whether actual or potential claims, litigation and fines arising from regulatory oversight should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities. Where the impact of possible and present obligations are not probable or not reliably measurable, and thus no provision is recorded, failure to adequately disclose the nature of these circumstances within the financial statements may distort the readers view as to the potential risks faced by the group.	Our audit procedures included the following: - we enquired of the directors and inspected board minutes for actual and potential obligations arising in the year, and challenged whether provisions are required for these obligations; - we obtained an understanding of existing obligations, including claims and litigations and the directors' assessment regarding the likelihood of the existence of obligations, and the basis used to measure the provisions; - we compared the directors' estimate of the risk and impact of these obligations, including claims and litigations to third party evidence, where available; - in respect of open matters of claims and litigations, where appropriate, we had discussions with the Group's external legal advisors in respect of the reasonableness of the estimated liability; and - we evaluated the adequacy of the Group's disclosures in the accounts in accordance with accounting standards.
Pensions £188.3 million Refer to page 83 (Audit and Risk Committee Report), page 115 (accounting policy note 2(s)) and pages 151 to 156 (financial disclosures in note 32). Significant estimates are made in valuing the group's defined benefit pension schemes and small changes in assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's net pension deficit.	Our audit procedures included the following: - we challenged the key assumptions applied in determining the group's net deficit, being the discount rate, inflation rate and mortality/ life expectancy, with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data; - we evaluated the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £18.0 million (2014: £18.0 million), determined with reference to a benchmark of normalised group profit before tax of £393.8 million (2014: £338.6 million), of which it represents 4.6% (2014: 5.3%).

In order to set this benchmark we consider the nature of items included within non-underlying earnings. Group reported profit before tax is £112.1 million (2014: £292.4 million). We add back certain non-underlying items including the non-trading business exit disposal charges and related impairments – £136.9 million (note 4); losses on business disposals – £26.3 million (note 4); impairments of property, plant and equipment – £76.7 million (note 5); impairment charges against goodwill in the insurance cash generating unit – £28.3 million (note 5); and the asset services settlement provisions – £17.2 million (note 5). We also exclude the net gain arising on the Xchanging transaction of £3.7 million to give total adjustments of £281.7 million (2014: £46.2 million). This results in a normalised group profit before tax £393.8 million (2014: £338.6 million).

% covered by Group procedures



We report to the Audit and Risk Committee any corrected and uncorrected identified misstatements with a profit impact in excess of £0.9 million (2014: £0.9 million) or a balance sheet impact in excess of £13.5 million (2014: £13.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 32 key reporting components in the United Kingdom, Switzerland, Germany, Ireland and Guernsey and by the Group audit team over 2 key components in the United Kingdom. These procedures covered approximately 80% of total Group revenue; 76% of the total profits and losses that made up group profit before tax; and 96% of total Group assets. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team approved the component materiality levels, which ranged from £0.3 million to £9.0 million (2014: £0.3 million to £9.0 million), having regard to the mix of size and risk profile of the Group across the components.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. Meetings were also held with auditors in all locations.

Independent Auditor's report to the members of Capita plc only continued

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks
Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of longer term viability on page 55, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the 3 years to 2018; or
- the disclosures in note 2(b) of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 73, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 68 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities
As explained more fully in the Directors' Responsibilities Statement set out on page 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Sean McCallion (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

24 February 2016

Five-year summary

for the year ended 31 December 2015

Group balance sheet	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Non-current assets	**3,507.5**	3,332.4	2,994.5	2,605.3	2,518.7
Current assets	**1,836.0**	1,579.9	1,607.6	1,710.6	1,018.8
	5,343.5	4,912.3	4,602.1	4,315.9	3,537.5
Liabilities	**(4,471.8)**	(3,885.2)	(3,590.9)	(3,359.2)	(2,949.7)
Provision for liabilities and charges	**(118.4)**	(111.6)	(114.9)	(78.6)	(63.7)
	753.3	915.5	896.3	878.1	524.1
Capital and reserves	**753.3**	915.5	896.3	878.1	524.1

Group income statement					
Turnover	**4,836.9**	4,378.1	3,896.2	3,351.8	2,930.2
Underlying operating profit	**639.0**	576.3	516.9	466.7	417.0
Other income/(expense)	**–**	–	–	–	(0.2)
Net interest payable	**(53.5)**	(40.6)	(41.9)	(49.7)	(40.2)
Underlying profit before taxation	**585.5**	535.7	475.0	417.0	376.6
Intangible amortisation	**(165.0)**	(147.1)	(122.2)	(95.3)	(67.7)
Asset Services settlement	**(17.2)**	(28.4)	(1.7)	–	–
Professional fees and stamp duty on acquisitions	**(16.2)**	(14.2)	(14.3)	(10.3)	(15.4)
Goodwill impairment net of contingent consideration movements	**(22.9)**	9.4	(1.7)	(10.2)	11.2
Impairment of property, plant and equipment	**(76.7)**	–	–	–	–
Xchanging transaction	**3.7**	–	–	–	–
Impairment of Optima investment loan	**–**	–	–	(15.0)	–
Business disposal/closure costs	**(138.1)**	(7.1)	(64.6)	–	–
Fair value movement in trade investments	**(0.3)**	–	–	–	–
Financial instruments – mark to market	**(11.7)**	(36.3)	25.1	(8.7)	(7.1)
Loss on business disposal	**(26.3)**	(17.8)	(82.1)	–	–
Derivatives credit risk – mark to market	**(0.5)**	0.3	1.5	3.9	(3.3)
Discount unwind on public sector subsidiary partnership payment	**(2.2)**	(2.1)	–	–	–
Taxation	**(56.5)**	(52.5)	(43.1)	(52.0)	(62.7)
Profit after taxation	**55.6**	239.9	171.9	229.4	231.6
Basic earnings per share – underlying	**70.73p**	65.15p	59.40p	52.12p	47.44p
Basic earnings per share – after non-underlying	**7.96p**	35.79p	27.05p	36.04p	38.11p
Diluted earnings per share – underlying	**69.85p**	64.58p	58.71p	51.55p	47.33p
Diluted earnings per share – after non-underlying	**7.86p**	35.48p	26.74p	35.65p	38.02p
Dividend per ordinary share	**31.7p**	29.20p	26.50p	23.50p	21.40p

Company balance sheet

As at 31 December 2015

	Notes	2015 £m	2014 £m
Fixed assets			
Intangible assets	5	**13.4**	13.0
Tangible assets	6	**20.1**	16.9
Investments	8	**310.8**	310.9
		344.3	340.8
Current assets			
Trade investments	8	**–**	0.1
Financial assets	7	**0.5**	–
Debtors due within 1 year	9	**1,190.0**	909.2
Debtors due after more than 1 year	9	**171.3**	165.5
Cash		**113.2**	34.8
		1,475.0	1,109.6
Creditors: amounts falling due within 1 year	10	**575.0**	256.6
Net current assets		**900.0**	853.0
Total assets less current liabilities		**1,244.3**	1,193.8
Creditors: amounts falling due after more than 1 year	10	**319.2**	270.1
		925.1	923.7
Capital and reserves			
Called up share capital	12	**13.8**	13.8
Employee benefit trust and treasury shares	12	**(0.3)**	(0.3)
Share premium account		**500.7**	499.0
Capital redemption reserve		**1.8**	1.8
Merger reserve		**44.6**	44.6
Profit and loss account		**364.5**	364.8
		925.1	923.7

The accounts were approved by the Board of Directors on 24 February 2016 and signed on its behalf by:

A Parker
Chief Executive

N Greatorex
Group Finance Director

Company registered number: 2081330

Company statement of changes in equity

For the year ended 31 December 2015

	Share capital £m	Employee benefit trust & treasury shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2014	13.8	(0.4)	491.2	1.8	44.6	450.2	1,001.2
Effect of transition to FRS 101	–	–	–	–	–	(3.2)	(3.2)
At 1 January 2014 as restated	13.8	(0.4)	491.2	1.8	44.6	447.0	998.0
Profit for the year	–	–	–	–	–	87.3	87.3
Other comprehensive expense	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	87.3	87.3
Share based payment	–	–	–	–	–	11.0	11.0
Shares issued	–	0.1	7.8	–	–	–	7.9
Equity dividends paid	–	–	–	–	–	(180.5)	(180.5)
At 1 January 2015	13.8	(0.3)	499.0	1.8	44.6	364.8	923.7
Profit for the year	–	–	–	–	–	187.6	187.6
Other comprehensive expense	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	187.6	187.6
Share based payment	–	–	–	–	–	11.4	11.4
Shares issued	–	–	1.7	–	–	–	1.7
Equity dividends paid	–	–	–	–	–	(199.3)	(199.3)
At 31 December 2015	13.8	(0.3)	500.7	1.8	44.6	364.5	925.1

Notes to the accounts

1 Accounting policies

(a) Basis of preparation
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

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) Compliance with accounting standards
These financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework (FRS 101). The Company has adopted FRS 101 for the first time in these financial statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of FRS 101 disclosure exemptions have been taken.

In the transition to FRS 101, the Company has applied IFRS whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position of the Company is provided in note 18.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and are on pages 106 to 156 of this report. In these Company financial statements, the following disclosure exemptions available under FRS 101 have been applied:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairments of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the prior periods;
- Disclosures required by IFRS 7 Financial Instrument Disclosures.

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

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

(d) Intangible assets
Intangible assets are valued at cost less any accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 3 to 15 years. In the case of capitalised software development costs, research expenditure is written off to the statement of profit and loss in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Company is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

(e) Investments
Fixed asset investments are shown at cost, less provisions for impairment.

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

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

(f) 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, which pays the Group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that company.

The Company also has employees who are members of defined benefit schemes operated by the Group. As there is no contractual arrangement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer. The Company then recognises a cost equal to its contribution payable for the period.

The contributions payable by the participating entities are determined on the following basis:

The Capita Pension & Life Assurance Scheme (the "Capita DB Scheme") provides benefits on a defined benefit basis funded from assets held in a separate trustee-administered fund.

Notes to the accounts continued

1 Accounting policies (continued)

The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the Scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees. Of these sections around 80 include members currently accruing benefits.

At each funding assessment of the Capita DB scheme (carried out triennially) the contribution rates for those sections containing active members are calculated. These are then rationalised such that sections with similar employer contribution rates (when expressed as a percentage of pensionable pay) are grouped together and an average employer contribution rate for each of the rationalised groups calculated.

The Company's contribution is consequently calculated by applying the appropriate average employer contribution rates to the pensionable pay of its employees participating in the scheme.

Following the most recent funding assessment of the Capita DB Scheme which was carried out as at 31 March 2014, the Group entered into an agreement to make additional contributions to the Capita DB Scheme over a period of time until 2027. The next scheme funding assessment will be carried out with an effective date of 31 March 2017.

(g) 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.

(h) Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases 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, except where the timing of the reversal of the temporary timing 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 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 differences 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.

(i) 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.

(j) 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.

(k) Financial instruments: disclosure and presentation

A separate note dealing with the disclosures of IFRS 7 has been included in the consolidated financial statements on pages 139 to 147.

(l) 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.

Notes to the accounts continued

1 Accounting policies (continued)

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.

(m) Share based payments

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

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

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

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

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

2 Deferred taxation

	2015 £m	2014 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	**(0.6)**	(0.6)
Cash flow hedges	**4.9**	3.9
Fixed rate interest rate swaps	**12.0**	12.7
Provisions	**0.3**	0.8
Included in debtors (note 9)	**16.6**	16.8

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £187.6m (2014: £87.3m restated).

4 Dividends

	2015 £m	2014 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2014 paid: 19.6p per share (2013: 17.8p per share)	**129.7**	117.2
Interim for 2015 paid: 10.5p per share (2014: 9.6p per share)	**69.6**	63.3
	199.3	180.5
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2015: 21.2p per share (2014: 19.6p per share)	**140.3**	129.7

Notes to the accounts continued

5 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
1 January 2015	0.1	13.0	13.1
Additions	**–**	**0.7**	**0.7**
31 December 2015	**0.1**	**13.7**	**13.8**
Amortisation			
1 January 2015	–	0.1	0.1
Charge for year	**0.1**	**0.2**	**0.3**
31 December 2015	**0.1**	**0.3**	**0.4**
Net book value at:			
1 January 2015	0.1	12.9	13.0
31 December 2015	**–**	**13.4**	**13.4**

Other intangibles relates to software purchased from third parties.

6 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2015	33.0	0.1	1.2	34.3
Additions	**8.3**	**–**	**0.1**	**8.4**
Intra Group Transfer	**(1.9)**	**–**	**–**	**(1.9)**
Asset retirements	**(2.5)**	**–**	**(0.3)**	**(2.8)**
31 December 2015	**36.9**	**0.1**	**1.0**	**38.0**
Depreciation				
1 January 2015	16.5	–	0.9	17.4
Charge for year	**3.1**	**0.1**	**0.2**	**3.4**
Intra Group Transfer	**(0.1)**	**–**	**–**	**(0.1)**
Asset retirements	**(2.5)**	**–**	**(0.3)**	**(2.8)**
31 December 2015	**17.0**	**0.1**	**0.8**	**17.9**
Net book value at:				
1 January 2015	16.5	0.1	0.3	16.9
31 December 2015	**19.9**	**–**	**0.2**	**20.1**

7 Financial assets

Current	**2015 £m**	2014 £m
Non-designated foreign exchange forwards and swaps	**0.3**	–
Foreign exchange swaps held for foreign net investment	**0.2**	–
	0.5	–

Notes to the accounts continued

8 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2015	310.9
Impairment	**(0.1)**
31 December 2015	**310.8**

During the year, the Company impaired its investment in Capita Financial Administrators (Guernsey) Limited to its net book value.

Direct investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company
Brokers Educational Supply Teachers Underwriting Agency Limited[2]	England	100%
Capita (LLRP) Trustee Limited[2]	England	100%
Capita Alternative Fund Services (Guernsey) Limited[2]	Guernsey	99.996%
Capita International Financial Services Holding Limited[2]	England	100%
Capita Fiduciary Group Limited[2]	Jersey	99.998%
Capita Financial Investments Limited[2]	England	100%
Capita Group Insurance PCC Limited[2]	Guernsey	100%
Capita Gwent Consultancy Limited[2]	England	51%
Capita Holdings Limited[1]	England	100%
Capita International Financial Services (Ireland) Limited[2]	Ireland	100%
Capita International Limited[2]	England	100%
Capita IRG Trustees Limited[2]	England	100%
Capita Legal Services Limited[2]	England	100%
Capita Life & Pensions Regulated Services Limited[2]	England	100%
Capita Life & Pensions Services Limited[2]	England	100%
Capita Financial Administrators (Guernsey) Limited[2]	Guernsey	8.333%
SIMS Holdings Limited[2]	England	0.001%

1 Investing holding company.
2 Outsourcing services company.

Details of all indirect subsidiaries, as required under Section 409 of the Companies Act 2006, are reported on pages 173 to 176.

(b) Trade investments

	£m
1 January 2015	0.1
Impairment	(0.1)
31 December 2015	**–**

During the year, the Company impaired its trade investments to its net book value.

9 Debtors

Debtors due within 1 year	**2015 £m**	2014 £m
Amounts owed by subsidiary undertakings	**1,071.6**	823.3
Taxation recoverable	**56.3**	55.3
Other debtors	**6.9**	3.8
Currency swap – USD bonds	**43.8**	13.2
Interest rate swap	**–**	1.3
Prepayments and accrued income	**11.4**	12.3
	1,190.0	909.2

Debtors due beyond 1 year	**2015 £m**	2014 £m
Prepayments and accrued income	**3.9**	3.0
Other taxes and social security	**0.1**	–
Deferred taxation	**16.6**	16.8
Currency swap	**143.8**	137.2
Interest rate swap	**6.9**	8.5
	171.3	165.5

Notes to the accounts continued

10 Creditors

Amounts falling due within 1 year	2015 £m	2014 £m
Bank overdraft	**350.9**	193.2
Trade creditors	**–**	1.9
Other creditors	**0.1**	0.7
Cash flow hedges	**6.2**	3.4
Fixed rate interest rate swaps	**2.3**	0.4
Bonds	**184.7**	24.9
Other taxes and social security	**–**	1.6
Provisions	**5.5**	5.4
Accruals and deferred income	**25.3**	25.1
	575.0	256.6

Amounts falling due after more than 1 year	2015 £m	2014 £m
Bonds	**224.0**	183.1
Currency swaps	**–**	0.6
Fixed rate interest rate swaps	**64.7**	62.9
Cash flow hedges	**18.5**	16.5
Provisions	**12.0**	7.0
	319.2	270.1

The bonds are unsecured. The bank overdraft is guaranteed by cash held by other members of the Group.

11 Deferred taxation

	£m
At 1 January 2015 as restated	16.8
Utilisation of provisions in the year	**(0.2)**
At 31 December 2015 – included in debtors (note 9)	**16.6**

12 Share capital

	2015 Million	2014 Million	2015 £m	2014 £m
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	**670.0**	669.8	**13.8**	13.8
Issued on exercise of share options	**–**	0.2	**–**	–
At 31 December	**670.0**	670.0	**13.8**	13.8

During the year, 22,772 (2014: 204,345) ordinary 2 1/15p shares with an aggregate nominal value of £471 (2014: £4,224) were issued under share option schemes for a total consideration of £0.1m (2014: £1.2m).

Treasury shares

	2015 Million	2014 Million	2015 £m	2014 £m
Ordinary shares of 2 1/15p each				
At 1 January	**8.5**	11.1	**0.2**	0.3
Shares allotted in the year	**(2.7)**	(2.6)	**–**	(0.1)
At 31 December	**5.8**	8.5	**0.2**	0.2

In 2015, the Group made no purchases of shares into Treasury and allotted 2.7m (2014: 2.6m) shares with an aggregate nominal value of £56,570 (2014: £53,833). The total consideration received in respect of these shares was £1.6m (2014: £6.7m).

Employee benefit trust shares

	2015 Million	2014 Million	2015 £m	2014 £m
Ordinary shares of 2 1/15p each				
At 1 January	**2.2**	2.5	**0.1**	0.1
Shares allotted in the year	**–**	(0.3)	**–**	–
At 31 December	**2.2**	2.2	**0.1**	0.1

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year, the EBT allotted nil (2014: 0.3m) ordinary 2 1/15p shares with an aggregate nominal value of £nil (2014: £6,597) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2014: £nil).

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

Notes to the accounts continued

13 Commitments and contingent liabilities

(a) At 31 December 2015 the Company was committed to making the following payments under non-cancellable operating leases and other agreements:

	2015 Property £m	2015 Other £m	2014 Property £m	2014 Other £m
Not later than 1 year	**0.9**	**0.3**	0.8	0.3
Later than 1 year but not more than 5 years	**0.4**	**0.5**	1.3	0.5
	1.3	**0.8**	2.1	0.8

(b) The Company has a committed Revolving Credit Facility amounting to £600m (2014: £600m), of which £nil had been drawn down at 31 December 2015 (2014: £nil drawn down).

14 Borrowings

	2015 £m	2014 £m
Bonds	**408.7**	208.0
Repayments fall due as follows:		
Within 1 year:		
Bonds	**184.7**	24.9
	184.7	24.9
After more than 1 year:		
In more than 1 year but not more than 2 years	**–**	183.1
In more than 2 years but not more than 5 years	**224.0**	–
	224.0	183.1
Total borrowings	**408.7**	208.0

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value US$m	Maturity
Issued 2006[1,2]				
Series B	5.88	US$	130.0	28 June 2016
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			264.0	
			EURm	
Issued 2015				
Series A	2.125	EUR	230.0	10 November 2022
Series B	2.875	EUR	60.0	10 November 2027
Series C	2.125	EUR	20.0	10 November 2022
Total of Euro denominated bonds			310.0	

1 The Company 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 Company's use of hedges is included in note 26.

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

All series are unsecured.

In 2015, the Company repaid bonds which reached maturity. These were GBP 2005 Series B bonds totalling £25.0m. In November 2015 the Company issued bonds with a total face value of EUR310.0m at a discount receiving net proceeds of EUR304.4m (GBP equivalent: £213.7m).
In December 2015, the Company negotiated a £600m Credit Facility maturing in June 2017 available for the Company's immediate use of which as at 31 December 2015 £nil was drawn down.

Notes to the accounts continued

15 Related party transactions

In the following, figures for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year, the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £0.1m (2014: £0.1m). In addition, the Company purchased goods/services in the normal course of business for £nil (2014: £nil). At the balance sheet date, the net amount receivable from Urban Vision Partnership Limited was £nil (2014: £nil).

During the year, the Company sold goods/services in the normal course of business to Service Birmingham Limited for £0.9m (2014: £1.4m). In addition, the Company purchased goods/services in the normal course of business for £0.3m (2014: £0.3m). At the balance sheet date, the net amount receivable from Service Birmingham Limited was £0.1m (2014: £0.1m).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.4m (2014: £0.9m). In addition, the Company purchased goods/services in the normal course of business for £0.1m (2014: £0.1m). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £1.3m (2014: £0.9m).

During the year, the Company sold goods/services in the normal course of business to Axelos Limited for £0.2m (2014: £0.1m). In addition, the Company purchased goods/services in the normal course of business for £nil (2014: £nil). At the balance sheet date, the net amount receivable from Axelos Limited was £nil (2014: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £1.3m (2014: £nil). In addition, the Company purchased goods/services in the normal course of business for £nil (2014: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £0.1m (2014: £nil).

16 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £4.0m (2014: £2.9m).

17 Share based payment

The Company operates several share based payment plans and details of the schemes are disclosed in note 28 of the Group's consolidated financial statements on page 148.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2015 was £11.4m (2014: £11.0m), 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 share based payments was £5.8m (2014: £5.1m).

18 Transition to FRS 101

	Deferred tax asset £m	Retained earnings £m
As previously stated at 1 January 2014	14.9	(450.2)
Effect of transition to FRS 101	(3.2)	3.2
As restated under FRS 101 at 1 January 2014	11.7	(447.0)
As previously stated at 31 December 2014	20.1	(368.1)
Effect of transition to FRS 101	(3.3)	3.3
As restated under FRS 101 at 31 December 2014	16.8	(364.8)

On adoption of FRS 101 the deferred tax asset was restated as a result of differences with the treatment of share based payments.

The profit after tax for the year ended 31 December 2014 was restated by £0.1m from £87.4m to £87.3m due to the above transitional adjustment.

Notes to the accounts continued

19 Indirect investments

Trading companies

Company name	% ownership	Location
4Front Healthcare Limited	100%	UK
Affinity Workforce Limited	100%	UK
Akinika Debt Recovery Limited	100%	UK
Akinika UK Limited	100%	UK
AMT-Sybex Holdings Limited	100%	UK
AMT-Sybex Limited	100%	UK
Aspire Business Solutions Ltd	100%	UK
Atlas Master Trust Trustee Limited	100%	UK
Axelos Limited	51%	UK
Barrachd Intelligence Solutions Limited	100%	UK
Barrachd Limited	100%	UK
BCS Design Limited	100%	UK
Beovax Computer Services Limited	100%	UK
Booking Services International Limited	100%	UK
Brightwave Enterprises Limited	100%	UK
Brightwave Holdings Limited	100%	UK
Brightwave Limited	100%	UK
Brokers Educational Supply Teachers Claims Limited	50%	UK
Capita Asset Services (London) Limited	100%	UK
Capita Asset Services (UK Holding) Limited	100%	UK
Capita Asset Services (UK) Limited	100%	UK
Capita Aurora Limited	100%	UK
Capita Building Standards Limited	100%	UK
Capita Business Services Limited	100%	UK
Capita Commercial Insurance Services Limited	100%	UK
Capita Customer Management Limited	100%	UK
Capita Employee Benefits (Consulting) Limited	100%	UK
Capita Employee Benefits Holdings Limited	100%	UK
Capita Employee Benefits Limited	100%	UK
Capita Energy Services Limited	100%	UK
Capita Financial Administrators Limited	100%	UK
Capita Financial Group Limited	100%	UK
Capita Financial Managers Limited	100%	UK
Capita Gas Registration and Ancillary Services Limited	100%	UK
Capita Glamorgan Consultancy Limited	51%	UK
Capita Gwent Consultancy Limited	51%	UK
Capita HCH Limited	100%	UK
Capita Health and Wellbeing Limited	100%	UK
Capita HELM Corporation Limited	100%	UK
Capita Holdings Limited	100%	UK
Capita India Private Limited – UK establishment	100%	UK
Capita Insurance Services Limited	100%	UK
Capita Intelligent Building Infrastructure Services Limited	100%	UK
Capita International Limited	100%	UK
Capita IRG Trustees Limited	100%	UK
Capita IT Services (BSF) Limited	100%	UK
Capita IT Services Holdings Limited	100%	UK
Capita IT Services Limited	100%	UK
Capita Legal Services Limited	100%	UK
Capita Life & Pensions Regulated Services Limited	100%	UK
Capita Life & Pensions Services Limited	100%	UK
Capita Managed IT Solutions Limited	100%	UK
Capita Managing Agency Limited	100%	UK
Capita Mclarens Limited	100%	UK
Capita Medical Reporting Limited	100%	UK
Capita Mortgage Administration Limited	100%	UK
Capita Mortgage Services Limited	100%	UK
Capita Mortgage Software Solutions Limited	100%	UK
Capita Property and Infrastructure (Structures) Limited	100%	UK
Capita Property and Infrastructure Limited	100%	UK

Company name	% ownership	Location
Capita Registrars Limited	100%	UK
Capita Resourcing Limited	100%	UK
Capita Retail Financial Services Limited	100%	UK
Capita Secure Information Solutions Limited	100%	UK
S3dc Limited	100%	UK
SDP Regeneration Services 2 Limited	100%	UK
Service Birmingham Limited	68%	UK
Sigma Seven Limited	100%	UK
Smart DCC Limited	100%	UK
Solid State Solutions Limited	100%	UK
Southwestern BPS (UK) Limited	100%	UK
SP Collect Limited	100%	UK
Stirling Park LLP	100%	UK
Synaptic Software Limited	100%	UK
Tascor Medical Services Limited	100%	UK
Tascor Services Limited	100%	UK
Team24 Limited	100%	UK
Tempus Finance Limited	100%	UK
The G2G3 Group Limited	100%	UK
The Write Research Company Limited	100%	UK
Thirty Three Group Limited	100%	UK
Thirty Three LLP	100%	UK
Throgmorton UK (No.2) Limited	100%	UK
Throgmorton UK Limited	100%	UK
Updata Infrastructure (UK) Ltd	100%	UK
Urban Vision Partnership Limited	50.1%	UK
Ventura (India) Private Limited – UK establishment	100%	UK
Ventura (UK) India Limited	100%	UK
Vision 2 Learn Limited	100%	UK
Voice Marketing Limited	100%	UK
WARP Technologies Limited	55.5%	UK
Western Mortgage Services Limited	100%	UK
Woolf Limited	100%	UK
Capita Financial Administrators (Guernsey) Limited	100%	Guernsey
Capita Group Insurance PCC Limited	100%	Guernsey
Capita Registrars (Guernsey) Limited	100%	Guernsey
Capita Life and Pensions Services (Isle of Man) Limited	100%	Isle of Man
Capita Registrars (Isle of Man) Limited	100%	Isle of Man
Capita Retail Financial Services (Isle of Man) Limited	100%	Isle of Man
Braltrust Limited	100%	Jersey
Capita Alternative Fund Services (Guernsey) Limited	100%	Jersey
Capita Fiduciary Group Limited	100%	Jersey
Capita Financial Administrators (Jersey) Limited	100%	Jersey
Capita Registrars (Jersey) Limited	100%	Jersey
Capita Symonds (CI) Limited	100%	Jersey
Capita Trust Company (Jersey) Limited	100%	Jersey
Capita Trustee Services Limited	100%	Jersey
Capita Trustees Limited	100%	Jersey
AMT Group Limited	100%	Ireland
AMT-Sybex (Research) Limited	100%	Ireland
AMT-Sybex (Software) Limited	100%	Ireland
AMT-Sybex Group Ltd	100%	Ireland
Capita Asset Services (Ireland) Limited	100%	Ireland
Capita Business Support Services Ireland Limited	100%	Ireland
Capita Financial Administrators (Ireland) Ltd	100%	Ireland
Capita Financial Managers (Ireland) Limited	100%	Ireland
Capita IB Solutions (Ireland) Limited	100%	Ireland
Capita International Financial Services (Ireland) Limited	100%	Ireland
Capita Life and Pensions Services (Ireland) Limited	100%	Ireland
Capita Registrars (Ireland) Limited	100%	Ireland
Capita Trust Company (Ireland) Limited	100%	Ireland

Notes to the accounts continued

Trading companies continued

Company name	% ownership	Location
Dupree Holdings Limited	100%	Ireland
Marrakech Limited	100%	Ireland
Rathcush Limited	100%	Ireland
Southwestern Business Process Services Limited	100%	Ireland
Capita Sinclair Henderson Limited	100%	UK
Capita Specialist Insurance Solutions Limited	100%	UK
Capita Translation and Interpreting Limited	100%	UK
Capita Travel & Events Limited	100%	UK
Capita Treasury Solutions Limited	100%	UK
Capita Trust Company Limited	100%	UK
Cardiff Research Consortium Limited	100%	UK
CCSD Services Limited	100%	UK
CFAC Payment Scheme Limited	100%	UK
CFI (Nominees) Limited	100%	UK
CHKS Limited	100%	UK
Clinical Solutions International Limited	100%	UK
Clinical Solutions IP Limited	100%	UK
Cobex Corporate Member No.1 Limited	50.1%	UK
Complete Imaging Limited	100%	UK
Computerland UK Limited	100%	UK
Contact Associates Limited	100%	UK
Cost Advocates Limited	100%	UK
Creating Careers Limited	100%	UK
Crown Northcorp Limited	100%	UK
Cymbio Limited	100%	UK
Daisy Updata Communications Ltd	50%	UK
Data Equipment Limited	100%	UK
Data Mail Systems Limited	100%	UK
Eclipse (Hardware) Limited	100%	UK
Electra-Net (UK) Limited	100%	UK
Electra-Net Group Limited	100%	UK
Electra-Net Holdings Limited	100%	UK
Equita Limited	100%	UK
Euristix Limited	100%	UK
Evolvi Rail Systems Limited	100%	UK
Fera Science Limited	75%	UK
Fire Service College Limited	100%	UK
FirstAssist Services Limited	100%	UK
Fish Administration Limited	100%	UK
Fish Financial Solutions Limited	100%	UK
G L Hearn Limited	100%	UK
G L Hearn Management Limited	100%	UK
G2G3 Digital Limited	100%	UK
Hallco 1626 Limited	100%	UK
Isys Group Limited	100%	UK
Jessop Fund Managers Limited	100%	UK
Knowledgepool Group Limited	100%	UK
Liberty Communications Services Ltd.	100%	UK
Liberty Printers (AR and RF Reddin) Limited	100%	UK
Magnos (Holdings) Limited	100%	UK
Marrakech (U.K.) Limited	100%	UK
Medicals Direct International Limited	100%	UK
Medicals Direct Screenings Limited	100%	UK
Medicare First Limited	100%	UK
Micro Librarian Systems Limited	100%	UK
Monarch Education Holdings Limited	100%	UK
Monarch Education Limited	100%	UK
Network Technology Solutions (UK) Limited	100%	UK
Optima Legal Services Limited	100%	UK
PageOne Communications Limited	100%	UK
Parkingeye Limited	100%	UK
Pervasive Limited	100%	UK

Company name	% ownership	Location
Pervasive Networks Limited	100%	UK
Projen Holdings Limited	100%	UK
Projen Limited	100%	UK
RE (Regional Enterprise) Limited	100%	UK
Right Document Solutions Limited	100%	UK
Ross & Roberts Limited	100%	UK
Capita (Dubai FZ) Limited	100%	UAE
Capita Property and Infrastructure Consultants LLC	49%	UAE
Capita Customer Services (Austria) GmbH)	100%	Austria
Capita Customer Services AG	100%	Switzerland
Capita International Financial Services (Schweiz) GmbH	100%	Switzerland
Pro Fiducia Treuhand AG	100%	Switzerland
Telag AG	100%	Switzerland
Symonds Project Management Consultancy (Beijing) Ltd	100%	China
Capita Cyprus Holdings Limited	100%	Cyprus
Adato GmbH	100%	Germany
Capita (Germany) GmbH	100%	Germany
Capita Asset Services GmbH	100%	Germany
Capita Customer Services (Germany) GmbH	100%	Germany
Capita Energie Services GmbH	75%	Germany
Capita rentable GmbH	100%	Germany
Capita Süd GmbH	100%	Germany
Capita West GmbH	100%	Germany
Capita IB Solutions (HK) Limited	100%	Hong Kong
Symonds Travers Morgan (Hong Kong) Limited	100%	Hong Kong
Capita Hungary International Financial Administrative Services Limited Liability Company	100%	Hungary
Capita India Private Limited	100%	India
Capita IT and Consulting India Private Limited	100%	India
Capita Offshore Services Private Limited	100%	India
Capita SIMS (India) Private Ltd	100%	India
Capita Symonds India Private Limited	100%	India
CS Clinical Solutions India Private Limited	100%	India
Ventura (India) Private Limited	100%	India
Capita (Luxembourg) s.a r.l	100%	Luxembourg
Capita Fiduciary Group S.A.	100%	Luxembourg
Capita Fiduciary S.A.	100%	Luxembourg
Immo Guillaume Schneider S.A.	100%	Luxembourg
Symonds Travers Morgan (Malaysia) SDN. BHD	100%	Malaysia
Capita Norman + Dawbarn Limited	97.3%	Nigeria
Capita Administrative Services (Netherlands) BV	100%	Netherlands
Capita Asset Services B.V.	100%	Netherlands
Capita Asset Services Group (Netherlands) B.V.	100%	Netherlands
Capita Banking and Debt Solutions (Netherlands) B.V.	100%	Netherlands
Capita (Polska) Spolka z organiczona odpowiedzialnoscia	100%	Poland
ESA spolka z organiczona odpowiedzialnoscia	100%	Poland
Southwestern BPS Poland sp. z o.o	100%	Poland
Capita Financial Administrators (Singapore) Pte. Ltd.	100%	Singapore
Capita Insurance Services Asia Pte. Ltd	100%	Singapore
Capita International Financial Services (Singapore) Pte Limited	100%	Singapore
Capita (USA) Holdings INC.	100%	USA
Capita Business Services (USA) LLC	100%	USA
Capita CTI (USA) LLC	100%	USA
Capita Translation and Interpreting LLC	100%	USA
CAS Services US Inc	100%	USA
G2G3 (USA) LLC	100%	USA

Notes to the accounts continued

Dormant companies

Company name	% ownership	Location
ABS Network Solutions Ltd	100%	UK
Aghoco 1005 Limited	100%	UK
Aghoco 1018 Limited	100%	UK
Akinika Limited	100%	UK
AMT-Sybex (Engineering) Limited	100%	UK
AMT-Sybex (I) Limited	100%	Ireland
AMT-Sybex (Managed Services) Limited	100%	Ireland
AMT-Sybex (Ni) Limited	100%	UK
Asset Checker Limited	100%	UK
Behavioural Health Limited	100%	UK
Brentside Communications Limited	100%	UK
Brokers Educational Supply Teachers Underwriting Agency Limited	100%	UK
BSI (NW) Limited	100%	UK
BSI 360 Limited	100%	UK
BSI Group Limited	100%	UK
BSI Holdings Limited	100%	UK
Cable Base Limited	100%	UK
Call Centre Technology Limited	100%	UK
Capita (02481810) Limited	100%	UK
Capita (Banstead 2011) Limited	100%	UK
Capita (D1) Limited	100%	UK
Capita (Isle of Man) Limited	100%	Isle of Man
Capita (LLRP) Trustee Limited	100%	UK
Capita 03075476 Limited	100%	UK
Capita AESOP Trustees Limited	100%	UK
Capita ASOP Limited	100%	UK
Capita ATL Pension Trustees Limited	100%	UK
Capita Aurora Leasing Limited	100%	UK
Capita Company Secretarial Services Limited	100%	UK
Capita Consortium Nominees No. 2 Limited	100%	UK
Capita Consortium Nominees No. 3 Limited	100%	UK
Capita Consortium Nominees No.1 Limited	100%	UK
Capita Consulting Limited	100%	UK
Capita Corporate Director Limited	100%	UK
Capita Corporate Trustees Limited	100%	Ireland
Capita Cyprus Limited	100%	Cyprus
Capita Employee Benefits Services Limited	100%	UK
Capita EP Limited	100%	Jersey
Capita Financial Investments Limited	100%	UK
Capita Financial Services Ltd	100%	UK
Capita Financial Software Limited	100%	UK
Capita FM (Extra Services) Limited	100%	UK
Capita Foundations Services Limited	100%	Jersey
Capita GMPS Trustees Limited	100%	UK
Capita Grosvenor Limited	100%	UK
Capita Group Secretary Limited	100%	UK
Capita Hartshead Benefit Consultants Limited	100%	UK
Capita Hartshead Consultancy Services Limited	100%	UK
Capita Hartshead Pensions Limited	100%	UK
Capita Hartshead Solutions Limited	100%	UK
Capita Hartshead Tracing Solutions Limited	100%	UK
Capita Health Holdings Limited	100%	UK
Capita IB Solutions (UK) Limited	100%	UK
Capita Information Limited	100%	UK
Capita Insurance Services Group Limited	100%	UK
Capita Insurance Services Holdings Limited	100%	UK
Capita International Retirement Benefit Scheme Trustees Limited	100%	UK
Capita Inverita Limited	100%	UK
Capita IRG (BC) Limited	100%	Ireland
Capita IRG Trustees (Nominees) Limited	100%	UK
Capita IT Services (BSF) Holdings Limited	100%	UK
Capita Justice & Secure Services Holdings Limited	100%	UK
Capita KWS Limited	100%	UK
Capita Land Limited	100%	UK
Capita Management Consultants Limited (in strike off)	100%	UK
ESPM Project Management Limited	100%	UK

Company name	% ownership	Location
Eureka Asessoria Empresarial Ltda	51%	Brazil
Euristix (Holdings) Limited	100%	UK
Expotel Group Limited	100%	UK
Expotel Hotel Reservations Limited	100%	UK
First Retail Finance Limited	100%	UK
FirstAssist Services Group Limited	100%	UK
FirstAssist Services Holdings Limited	100%	UK
Fish Administration Holdings Limited	100%	UK
Forbrit Corporate Director 1 Limited	100%	Jersey
Forbrit Corporate Director 2 Limited	100%	Jersey
Forbrit Corporate Director 3 Limited	100%	Jersey
Forbrit Corporate Director 4 Limited	100%	Jersey
Forbrit Trustees Limited	100%	Jersey
Fortek Computers Limited	100%	UK
FPS Group of Companies Limited	100%	UK
G2G3 Propulsion Ltd.	100%	UK
Gissings Group Management Limited	100%	UK
Gissings Holdings Limited	100%	UK
Gissings Trustees Limited	100%	UK
Grosvenor Career Services Limited	100%	UK
HFR Holdings Limited	100%	UK
I2Q Limited	100%	UK
IBS Opensystems (UK) Limited	100%	UK
Insurance Medical Group Limited	100%	UK
Insurance Medical Reporting Limited	100%	UK
Inter-City Paging Limited	100%	UK
International Reservations Limited	100%	UK
International Travel Group Limited	100%	UK
Inventures Limited	100%	UK
IRG (Pension Trustees) Limited	100%	UK
John Crilley Limited	100%	UK
Kuro Healthcare Limited	100%	UK
Latemeetings.com Limited	100%	UK
Learnserve Limited	100%	UK
Legal & Trade Collections Limited	100%	UK
Lovejoy Partnership Limited	100%	UK
Madagans Limited	100%	UK
Marrakech (Ireland) Limited	100%	Ireland
Medicals Direct Assets Limited	100%	UK
Medicals Direct Clinics Limited	100%	UK
Medicals Direct Group Limited	100%	UK
Medicals Direct Healthcare Limited	100%	UK
Medicals Direct Holdings Limited	100%	UK
Medicals Direct Medico-legal Limited	100%	UK
Micro Librarian Systems Holdings Limited	100%	UK
MMB Associates Limited	100%	UK
MPM Capita Limited	100%	UK
Multi-Tech Contracts Limited	100%	UK
Myshares Limited	100%	UK
NB Finance Limited	100%	UK
NB Real Estate Group Limited	100%	UK
NB Real Estate Holdings Limited	100%	UK
NB Real Estate Limited (in liquidation)	100%	UK
NHS Corporate and Fiduciary Services B.V.	100%	Netherlands
NHS Outsourcing B.V.	100%	Netherlands
NIS Europe Limited	100%	UK
Northern Administration Limited	100%	UK
Northern Registrars Limited	100%	UK
Nova Bidco Limited	100%	UK
Nova Midco Limited	100%	UK
Nurse Direct Limited	100%	UK
Capita Membership Management Online Limited	100%	UK
Capita Nominee Services 2 Limited	100%	Jersey
Capita Nominee Services 3 Limited	100%	Jersey
Capita Nominee Services Limited	100%	Jersey
Capita Nominees 1 Limited	100%	Guernsey
Capita Nominees 2 Limited	100%	Guernsey
Capita Nominees Limited	100%	Jersey

Notes to the accounts continued

Dormant companies continued

Company name	% ownership	Location
Capita Pension Secretariat Limited	100%	UK
Capita Pension Trustee Company (1997) Limited	100%	UK
Capita Pension Trustees Limited	100%	UK
Capita Property and Infrastructure Holdings Limited	100%	UK
Capita Property and Infrastructure International Holdings Limited	100%	UK
Capita Property and Infrastructure International Limited	100%	UK
Capita Property And Planning Limited	100%	UK
Capita Scotland General Partner (Pension) Limited	100%	UK
Capita Secretaries Limited	100%	Jersey
Capita Secure Mobile Solutions Limited	100%	UK
Capita Secure Resource Solutions Limited	100%	UK
Capita Share Plan Services Limited	100%	UK
Capita SIP Services Limited	100%	UK
Capita Symonds (Asia) Limited	100%	UK
Capita Symonds (Health & Safety) Limited	100%	UK
Capita Symonds (Malta) Limited	100%	Malta
Capita Symonds Group Limited (in strike off)	100%	UK
Capita Symonds International Limited (South Korea Branch) (in strike off)	100%	South Korea
Capita Symonds Property and Infrastructure Consultants (KSA)	100%	South Africa
Capita Testing Services International Limited	100%	UK
Capita Travel & Events Holdings Limited	100%	UK
Capita Treasury Services Limited	100%	UK
Capita Trust Corporate Limited	100%	UK
Capita Trust Corporate Services Limited	100%	UK
Capita Trust Nominees No. 1 Limited	100%	UK
Capita Trust Nominees No.2 Limited	100%	UK
Capita Trust Secretaries Limited	100%	UK
Capita Wealth and Distribution Services Limited	100%	UK
Car Parking Partnership Limited	100%	UK
Cardiff Research Consortium (HOG) Limited	100%	UK
Chaya Ltd	100%	UK
Clinical Solutions Acquisition Limited	100%	UK
Clinical Solutions Finance Limited	100%	UK
Clinical Solutions Group (International) LLC	100%	USA
Clinical Solutions Holdings Limited	100%	UK
CMGL Group Limited	100%	UK
CMGL Holdings Limited	100%	UK
Complete Imaging Trustee Company Limited	100%	UK
CPLAS Trustees Limited	100%	UK
CT Director Limited	100%	UK
CT Nominee Limited	100%	UK
Debt Solutions (Holdings) Limited	100%	UK
Design & Manage Europe Limited	100%	UK
Dolphin Computer Services Limited	100%	UK
E.B. Consultants Limited	100%	UK
Eastgate Broker Services Limited	100%	UK
Eastgate Insurance Market Solutions Limited	100%	UK
Electra-net It Professional Services Limited (in strike-off)	100%	UK
Elsworth Sykes Architecture Limited	100%	UK
Elsworth Sykes Northern Limited	100%	UK
Elsworth Sykes Partnership Limited	100%	UK
Elsworth Sykes Trustee Limited	100%	UK
Emergency Services Academy Limited	100%	UK
Entrust Education Services Limited	100%	UK
Entrust Support Services Limited	51%	UK
Equinox Employee Benefit Trust Limited	100%	UK
Equitable Holdings Limited	100%	UK
ESA Design Limited	100%	UK
Orbit Benefits Limited	100%	UK
Oval (1673) Limited	100%	UK
Personal Injury Medical Services Limited	100%	UK
Personal Pension Management Ltd	100%	UK
Physio-link Services Limited	100%	UK
Pifc Consulting Limited	100%	UK

Company name	% ownership	Location
Premier Medical Investments Limited	100%	UK
Premier Medical Limited	100%	UK
Principle Medical Services Limited	100%	UK
Projen EBT Trustee	100%	UK
Property Research Limited	100%	UK
Ramesys (UK) Limited	100%	UK
Ramesys EBT Limited	100%	UK
RE Ltd	100%	UK
Red Procurement and Business Systems Ltd	100%	UK
Repair Management Services Holdings Limited	100%	UK
Repair Management Services Limited	100%	UK
Resource Management Limited	100%	UK
Retain International (Holdings) Limited	100%	UK
Retain International Limited	100%	UK
Right Document Solutions Holdings Limited	100%	UK
RIPA International Limited	100%	UK
Royal Exchange Trust Company Limited	100%	UK
Royal Exchange Trustee Nominees Limited	100%	UK
S.G. Ingram : Actuary Limited	100%	UK
SBJ Benefit Consultants Limited	100%	UK
SBJ Professional Trustees Limited	100%	UK
Seaton Trustee Services Ltd	100%	Jersey
Seaton Trustees Limited	100%	Jersey
Sector Holdings Limited	100%	UK
Security Watchdog Limited	100%	UK
Sermesa Medicals Direct Spain S.L.	100%	Spain
Settlement Integrated Solutions Limited	100%	UK
SIMS Holdings Limited	100%	UK
SIMS Limited	100%	UK
Sinclair Henderson Fund Administration Limited	100%	UK
Smart Public Limited	100%	UK
Smiths Consulting Limited	100%	UK
Stentiford Close Registrars Limited	100%	UK
STL Technologies Limited	100%	UK
Symonds Group (Jersey) Limited	100%	Jersey
Symonds Limited	100%	UK
Synetrix (Holdings) Limited	100%	UK
Synetrix Limited	100%	UK
Tascor Limited	100%	UK
Tascor Resource Solutions Limited (in strike off)	100%	UK
The Olive Partnership Limited	100%	UK
The Royal Borough Of Kensington And Chelsea Assured Homes Limited	100%	UK
Throgmorton Nominees LLP	100%	UK
Throgmorton Secretaries LLP	100%	UK
Two-Ten Communications Limited	100%	UK
Underwriting Direct Limited	100%	UK
Updata Infrastructure (North) Ltd	100%	UK
Updata Infrastructure 2012 Ltd	100%	UK
Ventura Customer Service Management Limited	100%	UK
Venues Event Management Limited	100%	UK
Westhill Consulting Limited	100%	UK
Whale Rock Accounting Limited	100%	UK
Whale Rock Company Secretariat Limited	100%	UK
Whale Rock Directors Limited	100%	UK
Whale Rock Secretaries Limited	100%	UK

Additional information for shareholders

e-communications for shareholders
Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications. Registering for e-communications enables shareholders to:

- obtain secure online access to personal shareholding details
- submit queries to our registrars, download forms and obtain general shareholder information
- update shareholding accounts online.

Registering for e-communications is very straightforward. Go to www.capitashares.co.uk

Key dates for your diary
Annual General Meeting (AGM): 10 May 2016

The AGM will be held at 11.00 am on Tuesday 10 May 2016 at Deutsche Bank, 1 Great Winchester Street, London EC2N 2DB. The Notice of Meeting and proxy card for the meeting are enclosed with this report.

Final dividend payment: 31 May 2016

Half-year results: 27 July 2016

Get in touch
Shareholder enquiries
We aim to communicate effectively with our shareholders, via our website www.capita.com/shareholders. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on 020 7799 1525 or email: corporate@capita.co.uk.

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Capita Asset Services:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Email: shareholderenquiries@capita.co.uk
Tel (UK): 0871 664 0300*
(Overseas): +44 20 8639 3399*

We are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Other helpful shareholder services
Share dealing
A quick and easy share dealing service is available for existing Capita shareholders to either sell or buy Capita plc shares online or by telephone.

For further information go to: www.capitadeal.com or telephone 0371 664 0445*. We are open between 8.00am – 4.30pm, Monday to Friday excluding public holidays in England and Wales.

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 1052686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Dividend reinvestment plan (DRIP)
We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend. These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement. Further details of the DRIP can be found online. Please visit the shareholder services section at www.capita.com/shareholders or call Capita Asset Services on 0371 664 0381*. We are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

International dividend payment service
Capita Asset Services has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Asset Services on 0871 664 0385*, +44 20 8639 3405 from overseas or email: ips@capita.co.uk. We are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

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