

# CAPITA



The Capita Group Plc Half year results for the 6 months ended 30 June 2009

Keeping **business** in motion,  
keeping **lives** in motion...



Revenue

**£1,311m**  
**+11%**

Underlying profit before tax

**£141.7m**  
**+18%**

Earnings per share

**16.92p**  
**+17%**

Dividend per share

**5.6p**  
**+17%**

**10** major contracts  
secured worth **£814m**

**£3bn** bid pipeline  
comprising **24** bids

Demand for outsourcing  
remains buoyant

**9** acquisitions completed  
at a cost of **£92.7m**

We remain confident  
regarding our prospects

Capita, the UK's leading business process outsourcing (BPO) and professional services company, has made good progress in 2009. The majority of our businesses across the Group have performed well and we have secured new and renewed major contracts worth £814m in the first 6 months of the year.

In the 6 months ended 30 June 2009, turnover increased by 11% to £1,311m (6 months to 30 June 2008: £1,182m). Of this increase, 8% growth was organic and 3% was generated through acquisitions. Underlying operating profit\* rose by 14% to £159.6m (2008: £140.6m) and underlying profit before taxation\* increased by 18% to £141.7m (2008: £120.2m). Underlying earnings per share\* grew by 17% to 16.92p (2008: 14.46p).

Underlying operating cash flow\*\* rose by 14% to £198m (2008: £174m). We have increased our interim dividend by 17% and we propose to pay 5.6p per share.

## Building value for shareholders

To ensure we build value for shareholders on a consistent, long term basis, we focus on a number of additional key financial measures including:

- **Margin** – our focus remains on generating steadily improving operating margin. In the period, operating margin (before amortisation) was 12.2% (2008: 11.9%). This reflects the added value of the services we deliver to clients, the efficient use of our operational infrastructure and the benefits of our scale. These factors underpin our confidence in continuing to deliver improving margin for the foreseeable future.
- **Cash flow** – the strength of our business model is reflected in our excellent underlying cash flow, with £198m (2008: £174m) generated by operations in the period, representing an operating profit to cash conversion rate of 124% (2008: 124%). Our underlying free cash flow increased by 20% to £122m (2008: £102m).

We use surplus cash to add value in 3 main ways – through acquisitions, share buybacks and dividends:

- **Acquisitions** – acquisitions help us to enter new markets where we can grow organically, strengthen existing market positions and build economies of scale, or access a new customer base. To date in 2009, we have spent £92.7m on 9 acquisitions. We will continue with our strategy of acquiring small to medium-sized businesses which are priced at a level which add value for our shareholders. Current market conditions are fuelling our pipeline of potential acquisitions and we expect to be active in acquiring suitable businesses in the second half of the year. We remain highly selective.
- **Share buybacks** – opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In the period to 30 June 2009, the Group has not bought back any shares as we have concentrated on the flow of interesting acquisition opportunities. We will however continue to buy back shares if and when opportunities arise. Shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our AGM in May 2009.
- **Interim dividend** – the Board has declared an interim dividend of 5.6p per ordinary share (2008: 4.8p), representing an increase of 17%. The dividend will be payable on 12 October 2009 to shareholders on the register at the close of business on 4 September 2009.

- **Capital expenditure** – we aim to contain capital expenditure at or below 4% of revenue. During the period, we met this objective with net capital expenditure at 2.7% (2008: 2.8%) of revenue.

- **Return on capital employed** – we focus on driving a steadily increasing return on capital. Over the last 12 months, the post tax return on average capital employed (including debt) has improved to 20.4% (12 months to 30 June 2008: 20.0%). This compares to our estimated weighted average cost of capital which is 7.9%.

## Additional financial information

**Pension payment** – As reported in February 2009, following our latest tri-annual funding valuation, we decided to make an exceptional additional pension contribution of £50m into the Group Final Salary Pension Scheme. £10m was paid in December 2008 and the remaining £40m was paid in January 2009.

**Debt profile** – We aim to maintain both a conservative balance sheet and substantial borrowing headroom. Following repayment of £100m in June 2009, we have £579m of private placement debt which matures between 2012 and 2018. Alongside this, we have a substantially unused revolving credit facility of £245m.

## Our marketplace

We remain the clear leader in the overall UK BPO market which continues to generate strong growth opportunities. Industry analysts estimate the total potential market at £94.2bn per annum with only 6% of this market outsourced in 2008 (£5.6bn).<sup>†</sup>

We are seeing high levels of interest across both the private and public sectors as organisations seek alternative and more efficient service delivery models. Fiscal pressure across government in particular is generating a strong focus on efficiency. There is considerable potential for private and third sector organisations to play a larger role in delivering high quality, cost effective services and to help address the £13bn of efficiency savings – across back office operations, IT and collaborative procurement – identified in the Government's recent Operational Efficiency Programme.

Across our bid pipeline, our most active markets remain local government, life and pensions and the wider financial sector. Additionally, there are a number of interesting central government, health and defence opportunities. Sitting behind our bid pipeline are buoyant prospects and suspects lists, the fuel for potential outsourcing contracts in future years.

\* Underlying profit excludes intangible amortisation of £9.9m (2008: £4.9m) and the non-cash impact of mark to market positive movement on callable swaps of £3.0m (2008: £nil).

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

<sup>†</sup> Source: Ovum 2008

## Generating profitable growth

We generate profitable growth by winning business from new and existing customers in the UK and Ireland and supplement this by acquiring businesses that broaden our skill base and extend our market reach.

### Organic growth:

Each of our businesses employs sales teams focused upon securing growth from both existing and new customers. Solid performance has been achieved across the Group in the first half of the year, particularly in our life and pensions, local government, resourcing and IT services businesses.

Our centrally managed Major Sales Team pursues complex, long term contracts worth over £10m which require a wide range of the Group's skills and generate high quality, recurring revenues. Securing and renewing major contracts remains an important component of our growth.

Our sales performance to date in 2009 has been good. In the first 6 months, we have secured 10 new and renewed major contracts with a total value of £814m (6 months to 2008: £626m). These include:

- **AXA Sun Life** – to administer 3.2 million life and pensions policies. The contract, worth £523m over 15 years, started on 1 June with 1,150 employees in the UK transferring to Capita. We are seeing strong levels of service in the first few weeks of service delivery. On 1 September 2009, 550 people are due to transfer from AXA in India to Capita, following our acquisition of part of the AXA business providing servicing to AXA Sun Life business from India.
- **Learning and Skills Council (LSC)** – to manage the administration of a range of allowances to support learners, including the Education Maintenance Allowance (EMA) and the Adult Learning Grant (ALG). The contract, worth £68m over 4 years until 2013, with an option to extend for a further 2 years, follows on from our announcement in November 2008 that Capita was to take over the service with immediate effect, after the ending of the LSC's contract with its previous provider.
- **Office for National Statistics (ONS)** – to recruit and train all the temporary ONS workers who will work as field staff for the 2011 Census of Population and Housing in England and Wales, and to administer their pay. The contract will be worth £25m over 2 and a half years.
- **Department for Children, Schools and Families (DCSF)** – the contract for the management of the National Strategies has been extended by 1 year from the end of March 2010, when the current 5 year contract is due to end. The DCSF has indicated that the minimum value of the 1 year contract extension will be £64m. The recently published Schools White Paper has signalled a new approach to school accountability and improvement support, one where there will be less reliance on centrally delivered support arrangements and greater focus on the development of school to school support and quality assured providers. As a result, the National Strategies' contract will not be re-tendered and will end on 31 March 2011. The National Strategies have played a key role in building local capacity and will continue to do so throughout the remaining period of the contract. Capita will also be well placed to respond to the proposed new support arrangements from 2011 onwards.

In addition we have won major contracts and renewals with Breckland District Council, Charnwood Borough Council, eircom, Threadneedle and the Driving Standards Agency.

The first half of the year has seen a healthy level of sales activity resulting in the contract wins listed above. Our bid pipeline has been actively replenished and reflects the continued quality of business opportunities across our markets. The pipeline currently stands at £3bn (February 2009: £3.1bn) and only includes bid situations in which Capita is shortlisted and caps the largest bids at £500m. Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage.

We now have no material rebids of our contracts (defined as having annual revenue in excess of 1% of 2008 turnover) until 2012.

### Stimulating growth through acquisition:

A key element of our growth is the acquisition of small to medium sized companies which extend our presence in existing marketplaces or provide a footprint in a new market. We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations. In the current climate we are seeing many interesting opportunities, particularly in financial services and IT. To date in 2009, we have acquired 9 businesses for a total consideration of £92.7m including:

- **CHKS and NHS Membership Services** – CHKS Limited, a healthcare intelligence business, and NHS Membership Services, which provides membership services and engagement programmes for over 50 NHS foundation trusts, add further strength to our position in the health market. The 2 businesses were acquired for an aggregate consideration of £13.6m.
- **Hero Insurance Services** – a personal lines broker primarily offering insurance for cars and motorbikes, acquired in March for £15m. We are in the process of integrating Hero with our existing Insurance Distribution businesses (BDML, Lancaster Insurance and Thornside) and will achieve significant efficiency improvements through cost management and driving through synergy savings.
- **Capmark Services Europe** – acquired for £10m in June, Capmark provides administration services for CMBS securitisations, commercial mortgages, commercial property loans and asset managers from offices based in the UK, Ireland and Germany.
- **Carillion IT Services Ltd (CITS)** – an IT services business, acquired for £36m in June, which offers outsourcing, managed services and network infrastructure solutions to external clients. The acquisition significantly enhances and expands Capita's position in the IT services market, increasing our scale, customer base and reach across the UK. There will be significant operational and cost synergies by bringing together CITS and Capita IT Services.

**IBS OPENSsystems:** At the beginning of June, the Competition Commission reported that Capita's acquisition of IBS OPENSsystems did not raise competition issues in the market for social housing software systems, but that it would result in a substantial lessening of competition in the market for local authority revenues and benefits software systems. The Competition Commission concluded that Capita should divest the Revenue and Benefits business unit of IBS, but said that if this partial divestiture were not achieved within a reasonable period, it would review the position. Discussions with interested parties are at an advanced stage and the Competition Commission has agreed with Capita a consultation draft of the divestiture undertakings to be provided by Capita. The draft will be open to public comment until 28 July 2009, after which Capita anticipates gaining all approvals required to complete the partial divestiture.

## Continued growth and strong operational performance across our businesses

Our life and pensions operation continues to grow strongly. We now administer 25 million policies in total, an estimated 22% of all policies in force in the UK. We have considerable scale enabling us to realise our plans for significant synergies across our operations. We are aiming to achieve greater efficiencies through establishing a common IT infrastructure across our operations and we are currently rolling out the latest version of our main life and pensions administration platform, Elixir. The life and pensions market is presenting a strong pipeline of bid opportunities as potential clients come under increasing pressure to control costs and to implement new regulatory requirements, such as those following the FSA's Retail Distribution Review. We are well positioned to take advantage of these opportunities and to build upon our leading position in this sector.

Our operations in India are growing swiftly. In September, we begin operating from an additional site in Bangalore which, along with our Pune site, will support our AXA contract. It is our aim to have 3,700 full time employees across our 5 sites in India by the end of the year. This will add further scale to our offshore operations and provide us with a compelling offer for the benefit of our clients as they seek further cost savings and efficiencies.

We continue to win and successfully develop partnerships across the local authority market where the demands for greater efficiency across public services act as a driver for outsourcing. Our contract with Sheffield City Council, worth over £200m over 7 years, commenced on 5 January following a smooth transition of employees and operations. Our newest contract with Breckland Council in Norfolk, valued at £40m over 15 years, to provide planning and building control services to the Authority, commenced at the end of June. The deal, involving the transfer of 50 of the Council's planning and building control employees to Capita Symonds, is expected to generate substantial savings to Breckland over the course of the partnership. Capita will build on the operation based in East Dereham, Norfolk, to create a shared services hub able to offer planning and building control services to other Local Authorities across East Anglia and the South East of England.

Capita Children's Services, our education software services business, has performed very strongly due to the successful introduction of innovative products to support the changing requirements of education establishments, teachers, students and parents. The DCSF's requirement for schools to provide information online to parents and carers by 2010 (secondary schools) and 2012 (primary schools) is helping to drive sales of our SIMS Learning Gateway product that provides parents with data on their children, including attendance, assessment and behaviour. With students increasingly receiving education across a number of learning establishments, our award winning SIMS Partnership Xchange product allows data to be securely shared across all locations.

Our property and infrastructure consultancy, Capita Symonds, is trading steadily in a challenging market with strong long term partnerships in local government, infrastructure and the wider public sector. In June, the company won a contract to design the Royal Oak Portal on the £15.9bn Crossrail scheme. The contract was the first to be awarded by Crossrail via the Crossrail Design Consultant Framework, the contracting mechanism being used to deliver the designs for all infrastructure in the central tunnel section of the scheme. Capita Symonds won a place on the framework late last year for 3 lots – tunnels, portals and central stations. Due to open in 2017, Crossrail will be the largest transport scheme seen in London and the South East for 50 years, as well as being the biggest construction project in Europe.

Against a background of continued market weakness, trading across our financial services businesses is mixed. Our trust administration business is performing well and Capita Registrars has made good progress in the first half of the year. Our Registration business won 17 new contracts this year, a record number since acquiring the business in 2000, including contracts with Stagecoach Plc, Northern Foods Plc and most notably Standard Life Plc which has in excess of 1.5 million shareholders. Capita Registrars has also benefited from a significant number of equity fundraising transactions during the first half of the year, supporting M&A activity, rights issues and scrip dividends. We are currently upgrading the IT systems across our financial services businesses in order both to introduce greater efficiencies and to provide a materially enhanced customer experience. This development is progressing well.

Capita's collectives and investment trust administration business, which has annual revenues of approximately £50m, is however feeling the effects of the lower valuations across the stock market as our fees are connected to the value of funds under administration. Concurrently, we are finalising the upgrade of our IT infrastructure and seeing a sharply rising cost of regulatory compliance. We are also involved in reviewing and resolving the suspension, due to a lack of liquidity, of 2 OEIC funds we administer. This has required extra resources and is expected to continue adversely impacting this business in the second half.

We remain confident that the areas across the Group that could potentially be affected by the current weaker economy represent less than 10% of our Group revenues and this risk has been factored into our business plans for 2009.

## Future prospects

**We remain confident regarding our prospects. Our businesses are focused on operating at optimum efficiency and harnessing our extensive scale benefits to enable continued successful growth. Demand for outsourcing across our chosen markets continues to be buoyant, generating an encouraging volume of opportunities. Our operational performance is consistently strong providing an excellent background for further expansion.**

**Our successes in 2008 and progress in the first half of 2009 position us well for a successful year. We are now focused on building a strong platform for continued growth in 2010 and beyond.**

# Half year condensed consolidated income statement

for the 6 months ended 30 June 2009

	Notes	30 June 2009			30 June 2008		
		Underlying £m	Amortisation and callable swaps £m	Total £m	Underlying £m	Amortisation and callable swaps £m	Total £m
<b>Continuing operations:</b>							
Revenue	3	1,310.7	–	1,310.7	1,182.5	–	1,182.5
Cost of sales		944.0	–	944.0	852.4	–	852.4
Gross profit		366.7	–	366.7	330.1	–	330.1
Administrative expenses		207.1	9.9	217.0	189.5	4.9	194.4
<b>Operating profit</b>	3	<b>159.6</b>	<b>(9.9)</b>	<b>149.7</b>	140.6	(4.9)	135.7
Finance costs		(17.9)	3.0	(14.9)	(20.2)	–	(20.2)
Investment loss		–	–	–	(0.2)	–	(0.2)
<b>Profit before tax</b>		<b>141.7</b>	<b>(6.9)</b>	<b>134.8</b>	120.2	(4.9)	115.3
Income tax expense		(38.0)	1.9	(36.1)	(32.5)	1.4	(31.1)
<b>Profit for the period</b>		<b>103.7</b>	<b>(5.0)</b>	<b>98.7</b>	87.7	(3.5)	84.2
<b>Attributable to:</b>							
Equity holders of the parent		103.7	(5.0)	98.7	87.7	(3.5)	84.2
<b>Earnings per share</b>							
– basic	4	16.92p	(0.81)p	16.11p	14.46p	(0.58)p	13.88p
– diluted		16.74p	(0.80)p	15.94p	14.29p	(0.57)p	13.72p

# Half year condensed consolidated statement of comprehensive income

for the 6 months ended 30 June 2009

	30 June 2009 £m	30 June 2008 £m
<b>Profit for the period</b>	<b>98.7</b>	84.2
<b>Other comprehensive income/(expense):</b>		
Actuarial losses on defined benefit pension schemes	(8.3)	(0.5)
Exchange differences on translation of foreign operations	(3.0)	0.8
Losses on cash flow hedges	(26.0)	(21.8)
Tax relating to components of other comprehensive income/(expense)	2.7	7.5
<b>Other comprehensive expense for the period net of tax</b>	<b>(34.6)</b>	(14.0)
<b>Total comprehensive income for the period net of tax</b>	<b>64.1</b>	70.2
<b>Attributable to:</b>		
Equity holders of the parent	64.1	70.2

# Half year condensed consolidated balance sheet

at 30 June 2009

	30 June 2009 £m	31 December 2008 £m
<b>Non-current assets</b>		
Property, plant and equipment	245.2	238.3
Intangible assets	992.3	907.0
Financial assets	166.8	332.4
Trade and other receivables	9.6	8.1
Employee benefits	34.7	–
Deferred taxation	–	3.0
	<b>1,448.6</b>	1,488.8
<b>Current assets</b>		
Financial assets	0.5	5.2
Trade and other receivables	664.2	583.6
Cash	–	86.7
	<b>664.7</b>	675.5
<b>Total assets</b>	<b>2,113.3</b>	2,164.3
<b>Current liabilities</b>		
Trade and other payables	770.1	690.4
Financial liabilities	89.7	116.5
Provisions	3.9	2.3
Income tax payable	44.2	40.4
	<b>907.9</b>	849.6
<b>Non-current liabilities</b>		
Trade and other payables	13.0	9.6
Financial liabilities	741.6	882.7
Provisions	0.3	1.0
Deferred taxation	6.6	–
Employee benefits	23.0	24.5
	<b>784.5</b>	917.8
<b>Total liabilities</b>	<b>1,692.4</b>	1,767.4
<b>Net assets</b>	<b>420.9</b>	396.9
<b>Capital and reserves</b>		
Issued share capital	12.9	12.8
Share premium	423.8	410.4
Employee benefit trust	(0.2)	(0.2)
Capital redemption reserve	1.8	1.8
Foreign currency translation	3.6	6.6
Net unrealised gains reserve	(0.2)	18.5
Retained earnings	(20.8)	(53.0)
<b>Equity shareholders' funds</b>	<b>420.9</b>	396.9

Included in aggregate financial liabilities is an amount of £711.3m (31 December 2008: £953.1m) which represents the fair value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £132.7m, included in financial assets (31 December 2008: £274.3m included in financial assets). Consequently, this gives an effective liability of £578.6m (31 December 2008: £678.8m).

# Half year condensed consolidated statement of changes in equity

for the 6 months ended 30 June 2009

	Share capital £m	Share premium £m	Employee benefit trust £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Net unrealised gains reserve £m	Total equity £m
At 1 January 2008	12.6	374.9	–	1.8	(62.2)	0.7	4.0	331.8
Total comprehensive income/(expense) for the period	–	–	–	–	85.1	0.8	(15.7)	70.2
Share based payment	–	–	–	–	3.7	–	–	3.7
Purchase of own shares	–	–	(0.2)	–	(66.0)	–	–	(66.2)
Share transaction costs	–	–	–	–	(0.4)	–	–	(0.4)
Shares issued	0.1	16.6	–	–	–	–	–	16.7
Equity dividends paid	–	–	–	–	(48.8)	–	–	(48.8)
At 30 June 2008	12.7	391.5	(0.2)	1.8	(88.6)	1.5	(11.7)	307.0
At 1 January 2009	<b>12.8</b>	<b>410.4</b>	<b>(0.2)</b>	<b>1.8</b>	<b>(53.0)</b>	<b>6.6</b>	<b>18.5</b>	<b>396.9</b>
Total comprehensive income/(expense) for the period	–	–	–	–	85.8	(3.0)	(18.7)	64.1
Share based payment	–	–	–	–	5.2	–	–	5.2
Shares issued	0.1	6.8	–	–	–	–	–	6.9
Share options satisfied from EBT	–	6.6	–	–	–	–	–	6.6
Equity dividends paid	–	–	–	–	(58.8)	–	–	(58.8)
At 30 June 2009	<b>12.9</b>	<b>423.8</b>	<b>(0.2)</b>	<b>1.8</b>	<b>(20.8)</b>	<b>3.6</b>	<b>(0.2)</b>	<b>420.9</b>

# Half year condensed consolidated cash flow statement

for the 6 months ended 30 June 2009

	Notes	30 June 2009 £m	30 June 2008 £m
<b>Cash flows from operating activities</b>			
Operating profit on continuing activities before interest and taxation		149.7	135.7
Depreciation		27.9	25.4
Amortisation of intangible assets		9.9	4.9
Share based payment expense		5.2	3.7
Pension charge		10.3	9.2
Pension contributions		(14.8)	(13.0)
Movement in provisions		(0.2)	(1.7)
Movement in receivables and payables		9.8	9.6
<b>Cash generated from operations before exceptional additional pension contribution</b>		<b>197.8</b>	173.8
Income tax paid		(20.7)	(18.8)
Exceptional additional pension contribution		(40.0)	–
Net interest paid		(18.7)	(20.2)
<b>Cash generated from operations after income tax, exceptional additional pension contribution and interest</b>		<b>118.4</b>	134.8
<b>Net cash used in investing activities</b>			
Purchase of property, plant and equipment		(35.5)	(33.0)
Investment loan		3.4	(2.0)
Acquisition of subsidiary undertakings and businesses		(98.6)	(66.0)
Cash acquired with subsidiary undertakings		0.6	13.5
Proceeds on sale of financial assets		1.6	–
		<b>(128.5)</b>	(87.5)
<b>Net cash used in financing activities</b>			
Issue of ordinary share capital		13.4	16.7
Share buybacks		–	(66.2)
Share transaction costs		–	(0.4)
Dividends paid	5	(58.8)	(48.8)
Capital element of finance lease rental payments	7	–	(0.1)
Asset based securitised financing arrangement		(1.0)	0.6
Repayment of bonds and loan notes	7	(101.1)	(0.4)
		<b>(147.5)</b>	(98.6)
<b>Net decrease in cash and cash equivalents</b>		<b>(157.6)</b>	(51.3)
Cash and cash equivalents at the beginning of the period		86.7	(45.3)
<b>Cash and cash equivalents at 30 June</b>		<b>(70.9)</b>	(96.6)
<b>Cash and cash equivalents comprise:</b>			
Overdraft	7	(70.9)	(109.0)
Cash at bank and in hand	7	–	12.4
<b>Total</b>		<b>(70.9)</b>	(96.6)

# Notes to the half year condensed consolidated financial statements

for the 6 months ended 30 June 2009

## 1 Corporate information

The Capita Group Plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The half year condensed consolidated financial statements of the Company and its subsidiaries ('the Group') for the 6 months ended 30 June 2009 were authorised for issue in accordance with a resolution of the Directors on 22 July 2009.

## 2 Basis of preparation and accounting policies

### (a) Basis of preparation

The half year condensed consolidated financial statements for the 6 months ended 30 June 2009 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 Interim Financial Reporting.

The half year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2008, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated half year financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2008 were approved by the Board of Directors on 25 February 2009 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The half year condensed consolidated financial statements for the 6 months ended 30 June 2009 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

### (b) Significant accounting policies

The accounting policies adopted in preparation of the half year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of the new standards and interpretations as of 1 January 2009, noted below.

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

**IFRS 7 Financial Instruments: Disclosures** The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the opening and closing balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the half year condensed consolidated financial statements. Full details of the change will be disclosed in the annual report for the year ended 31 December 2009.

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

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

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

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

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

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

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

## Notes to the half year condensed consolidated financial statements

### 3 Segmental information

	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m
<b>Analysis of segment revenue</b>		
HR Solutions	138.2	117.8
Property Consultancy	128.2	126.2
Insurance Services	117.3	117.2
Investor Services	80.0	80.3
Integrated Services	195.4	191.0
ICT and Partnership Services	223.1	169.8
Life & Pensions	255.4	229.4
Professional Services	173.1	150.8
	<b>1,310.7</b>	<b>1,182.5</b>

	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m
<b>Analysis of segment result</b>		
HR Solutions	12.8	11.5
Property Consultancy	9.1	10.1
Insurance Services	12.9	12.7
Investor Services	13.9	17.8
Integrated Services	28.6	22.9
ICT and Partnership Services	26.4	19.2
Life & Pensions	27.5	23.8
Professional Services	28.4	22.6
	<b>159.6</b>	<b>140.6</b>

The comparative figures have been restated due to a reorganisation of the Group's business divisions during the period. The Directors decided this was necessary to better manage the growth in the business and to enhance service provision across the Group. The Group's ongoing operations are not subject to seasonal variations.

### 4 Earnings per share

The average number of shares in issue during the period was 612.8m (30 June 2008: 606.7m). The diluted earnings per share have been calculated on the profit for the period of £98.7m (30 June 2008: £84.2m) and an average diluted number of shares of 619.3m (30 June 2008: 613.7m). As at 22 July 2009, there were 614.0m shares in issue.

### 5 Dividends paid and proposed

The interim dividend of 5.6p (2008: 4.8p) per share (not recognised as a liability at 30 June 2009) will be payable on 12 October 2009 to ordinary shareholders on the register at the close of business on 4 September 2009. The dividend disclosed in the cash flow statement represents the final ordinary dividend of 9.6p (2008: 8.0p) per share as proposed in the 31 December 2008 financial statements and approved at the Group's AGM (not recognised as a liability at 31 December 2008).

### 6 Business combinations

The Group has made a number of acquisitions in the period, which are shown in aggregate below:

	Book values £m	Fair value adjustments £m	Provisional fair value to Group £m
Intangible assets	21.1	(21.1)	–
Property, plant and equipment	1.6	(0.9)	0.7
Debtors	35.1	(1.7)	33.4
Cash and short term deposits	0.6	–	0.6
Creditors	(22.7)	(2.0)	(24.7)
Provisions	(0.2)	(0.9)	(1.1)
Corporation tax	(1.1)	–	(1.1)
Net assets	<b>34.4</b>	<b>(26.6)</b>	<b>7.8</b>
Goodwill arising on acquisition			<b>95.2</b>
			<b>103.0</b>
Discharged by:			
Cash			<b>98.0</b>
Deferred consideration accrued			<b>5.0</b>
			<b>103.0</b>

## 6 Business combinations (continued)

The full exercise to determine the intangible assets acquired is still to be completed, thus the above numbers are provisional; this exercise will be finalised for the full year financial statements. Further cash consideration was paid in respect of previous acquisitions of £0.6m with an equivalent impact on goodwill.

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

## 7 Movement in net debt

	Net debt at 1 January 2009 £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 30 June 2009 £m
Cash and cash equivalents	86.7	(86.7)	–	–
Overdrafts	–	(70.9)	–	(70.9)
Cash	86.7	(157.6)	–	(70.9)
Loan notes	(3.7)	0.8	–	(2.9)
Bonds*	(953.1)	100.3	141.5	(711.3)
Currency swaps*	269.6	–	(140.1)	129.5
Interest rate swaps*	4.7	–	(1.5)	3.2
Sub-total net debt	(595.8)	(56.5)	(0.1)	(652.4)
Callable swaps	(32.0)	–	3.0	(29.0)
Asset based securitised finance	(10.4)	(4.7)	–	(15.1)
	(638.2)	(61.2)	2.9	(696.5)

	Net debt at 1 January 2008 £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 30 June 2008 £m
Cash and cash equivalents	0.8	11.6	–	12.4
Overdrafts	(46.1)	(62.9)	–	(109.0)
Cash	(45.3)	(51.3)	–	(96.6)
Loan notes	(1.7)	0.4	(4.9)	(6.2)
Bonds*	(461.1)	–	(2.1)	(463.2)
Currency swaps*	(18.1)	–	2.6	(15.5)
Interest rate swaps*	0.1	–	(0.5)	(0.4)
Finance leases	(0.2)	0.1	–	(0.1)
Sub-total net debt	(526.3)	(50.8)	(4.9)	(582.0)
Asset based securitised finance	(9.7)	1.4	–	(8.3)
	(536.0)	(49.4)	(4.9)	(590.3)

The aggregate bond fair value above of £711.3m (30 June 2008: £463.2m) includes the GBP value of the US\$ denominated bonds at 30 June 2009 (30 June 2008). 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 sum of these items held at fair value equates to the underlying value of the Group's bond debt of £578.6m (30 June 2008: £479.1m).

## 8 Capital commitments

At 30 June 2009, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2008: £nil).

## Notes to the half year condensed consolidated financial statements

### 9 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The only related party transactions requiring disclosure are details of key management personnel compensation (including Directors of the parent company). These details are set out in the table below.

#### *Compensation of key management personnel (including Directors of parent company)*

	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m
Short term employment benefits	1.6	1.5
Post employment benefits	0.1	0.1
Share based payments	2.2	2.3
	<b>3.9</b>	<b>3.9</b>

Gains on share options exercised in the period by key management personnel totalled £3.8m (2008: £8.7m).

### 10 Competition Commission ruling on acquisition of IBS

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

The results of this business activity which contributed revenue of £3.1m and profit before tax and amortisation of £1.3m (6 months to 30 June 2008: £0.5m and £0.1m respectively) are included in these financial statements.

## Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.4, 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority.

The names and functions of the Directors of The Capita Group Plc are as listed in the Group's Annual Report for 2008. A list of current Directors is maintained on the Group website: [www.capita.co.uk](http://www.capita.co.uk).

By order of the Board

**P R M Pindar**  
Chief Executive

22 July 2009

**G M Hurst**  
Group Finance Director

# Useful information for shareholders

## Shareholder enquiries

Shareholders who have questions relating to the Group's business or wish to receive further copies of annual or half year reports should contact Capita's investor relations team on 020 7799 1525 or email [corporate@capita.co.uk](mailto:corporate@capita.co.uk).

If you have any queries about your shareholding please contact the Company's registrar, Capita Registrars, at the address below.

## Capita Registrars

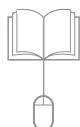
Northern House  
Woodsome Park  
Ferray Bridge  
Huddersfield HD8 0GA

Tel: (UK) 0871 664 0300

(UK calls cost 10p per minute plus network extras)

(Overseas) +44 20 8639 3399

email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)



## e-communications for shareholders

Help us communicate with you in a greener, more efficient and cost effective way by switching from postal to email communications. Shareholders can receive important information online, including annual and half year reports and notice of meetings. Registering for e-communications also enables shareholders to:

- obtain secure online access to personal shareholding details
- submit queries to our registrars, download forms and obtain general shareholder information
- update shareholding account online.

To register for e-communications, visit [www.capita.co.uk/investorcentre/ecomms](http://www.capita.co.uk/investorcentre/ecomms)

## Share dealing

A quick and easy share dealing service is now available for existing Capita shareholders to either sell or buy more Capita Group shares online or by telephone.

For further information on this service or to buy and sell Capita shares online go to:

[www.capitadeal.com](http://www.capitadeal.com)

or by telephone:

0871 664 0454

(UK calls cost 10p per minute plus network extras)

You may donate your shares to charity free of charge through ShareGift. Further details are available at [www.sharegift.org.uk](http://www.sharegift.org.uk) or by telephoning 020 7930 3737.

## Dividend reinvestment plan (DRIP)

We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend. These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement. Further details of the DRIP can be found online. Please visit the shareholder services section at [www.capita.co.uk/investorcentre](http://www.capita.co.uk/investorcentre) or call Capita Registrars on 0871 664 0381. (UK calls cost 10p per minute plus network extras)

## Financial calendar

### Interim dividend record date

4 September 2009

### Interim dividend payment date

12 October 2009

## Registered office

71 Victoria Street  
Westminster  
London SW1H 0XA

Tel: 020 7799 1525

Fax: 020 7799 1526

Registered number: 2081330

## Company Secretary

Gordon Hurst

## Stockbrokers

Deutsche Bank AG  
1 Great Winchester Street  
London EC2N 2EQ

Citi  
Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB

## Auditors

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

## Solicitors

Herbert Smith  
Exchange House  
Primrose Street  
London EC2A 2HS

## Bankers

Barclays Bank plc  
London Corporate Banking  
PO Box 544  
First Floor  
154 Lombard Street  
London EC3V 9EX

HSBC Bank plc  
27-32 Poultry  
London EC2P 2BX

National Westminster Bank Plc  
1 Princes Street  
London EC2R 8PB

**The Capita Group Plc**  
71 Victoria Street  
Westminster  
London SW1H 0XA  
T 020 7799 1525  
F 020 7799 1526  
[www.capita.co.uk](http://www.capita.co.uk)