

THE CAPITA GROUP PLC

Preliminary Results for the year ended 31 December 2010

GOOD PERFORMANCE AND PROSPECTS

Financial Highlights

	Year ended 31 December 2010	Year ended 31 December 2009	Change
Turnover	£2,744m	£2,687m	+2%
Underlying operating profit*	£395.1m	£357.7m	+10%
Underlying profit before tax*	£364.2m	£325.1m	+12%
Underlying earnings per share*	44.98p	38.75p	+16%
Total dividend per share	20.0p	16.8p	+19%

*excludes items which the Group treats as non-underlying, which are: intangible amortisation, acquisition expenses, business disposals and non-cash mark to market gains or losses on financial instruments. In 2009 the provision for Arch Cru was also excluded. See notes 2 and 3.

Key points

- Bid pipeline stands at a record £4.7bn (Feb 2010: £3.7bn); increasingly active markets
- Major contract wins and renewals in 2010 of £795m (2009: £1bn)
- £244m major new contracts and renewals secured in first 7 weeks of 2011
- Broadened our operational capability and market reach: £301m spent on 12 acquisitions in 2010
- Expanded our Indian capabilities and creating a new service delivery capability in Continental Europe
- Underlying profits before tax advance by 12% to £364.2m
- Continued operating margin progression: increased by 109 basis points to 14.40% (2009: 13.31%)
- Underlying operating cash flow up by 1% to £442m (2009: £437m)
- Earnings per share growth of 16% to 44.98p (2009: 38.75p)
- 19% dividend increase, with dividend cover of 2.25 times.

Paul Pindar, Chief Executive of Capita Group Plc, commented:

“Capita delivered a good performance in 2010, with the majority of businesses across the Group producing robust results against a challenging background. A focus on optimising our operational infrastructure and on growing our offshore operation ensured that we continued to increase margins.

In 2010, we faced a slowdown in decisions on major outsourcing contracts, lower additional spend by existing clients and reduced activity in some of our transactional trading operations due to constraints on public spending. Notwithstanding these challenges, Capita is positioned strongly for securing new business in 2011.

We enter 2011 with a record bid pipeline, increasing activity across the public and private sectors and some encouraging new contract wins. The need for our public sector clients to achieve substantial cost savings and for private sector clients to increase their efficiency to remain competitive offers significant opportunities for the Group going forward.

Capita’s pipeline of sales prospects, strong forward visibility of revenues from our long term contracts and consistent operational performance position us well for further progress in 2011 and thereafter.”

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The Capita Group Plc

Preliminary Statement for the year ended 31 December 2010

Capita delivered a good performance in 2010 with the majority of businesses across the Group delivering robust results against a challenging background. A focus on optimising our operational infrastructure and on growing our offshore operation ensured that we continued to drive forward our margins. We have maintained healthy cash generation, contained capital expenditure and retained an efficient capital structure, with relatively low gearing.

In 2010, we faced a slowdown in decisions on major outsourcing contracts, lower additional spend by existing clients and reduced activity in some of our transactional trading operations due to reduced public spending. Notwithstanding these challenges, Capita is positioned strongly for securing new business in 2011.

In the year ended 31 December 2010, turnover increased by 2% to £2,744m (2009: £2,687m). Underlying operating profit* rose by 10% to £395.1m (2009: £357.7m) and underlying profit before taxation* increased by 12% to £364.2m (2009: £325.1m). Underlying earnings per share* grew by 16% to 44.98p (2009: 38.75p). Underlying operating cash flow increased by 1% to £442m (2009: £437m).

We have increased our total dividend for the year by 19% to 20.0p (2009: 16.8p).

**excludes items which the Group treats as non-underlying, which are: intangible amortisation, acquisition expenses, business disposals and non-cash mark to market gains or losses on financial instruments. In 2009 the provision for Arch Cru was also excluded. See notes 2 and 3.*

Building value for shareholders

In addition to the financial measures reported above, we focus on a number of other key financial measures to ensure we build value for shareholders on a consistent basis over the long term:

- **Margin** - We focus on generating a steadily improving operating margin. In 2010, the underlying operating margin increased by 109 basis points to 14.40% (2009:13.31%). Our continued margin progression is due to our focus on operating at optimum efficiency across the Group, our ability to drive out benefits from our extensive scale, (in particular through IT rationalisation, property consolidation and effective procurement), the optimisation of our offshore facilities and the sophistication and added value of the services we deliver to clients.
- **Cash flow** - The strength of our business model is reflected in our healthy cash flow, with £442m (2009: £437m) generated by operations in the period, representing an operating profit to cash conversion rate of 112% (2009: 122%). Our underlying free cash flow decreased to £241m (2009: £280m). This was due to increased investment in IT platforms in our life and pensions and share registration operations.

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

- **Acquisitions** - We have continued to acquire companies to enhance our service capabilities, to enter new markets where we can grow organically, strengthen existing market positions and build economies of scale. In 2010, we spent £301m on 12 acquisitions. There continues to be a good volume of opportunities valued at attractive levels so we expect to be active in acquiring further businesses that fit our requirements in 2011. We will continue to be disciplined when assessing opportunities.
- **Share buybacks** - Opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In 2010, the Group bought back 15.4 million shares (representing 2.5% of the issued share capital) at an average price of 751p per share. Following these buybacks the Company has 605.6 million shares in issue (excluding shares held in Treasury

and the Capita Employee Benefit Trust). We will continue to buy back shares if attractive opportunities arise. The Group has authority to re-purchase up to 10% of its issued share capital and we plan to seek renewal of this authority at the Annual General Meeting. The Group has returned £1.1bn to shareholders over the last 5 years through share buybacks, ordinary dividends and special dividends.

- **Regular dividends** - The Board is recommending a final dividend of 13.4p per ordinary share (2009: 11.2p), making a total of 20.0p (2009: 16.8p) for the year. This represents an increase of 19%. The final dividend will be payable on 23 May 2011 to shareholders on the register at the close of business on 15 April 2011. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 23% over the 5 years to 31 December 2010. Dividend cover is now 2.25 times for 2010.
- **Capital expenditure** - We aim to contain capital expenditure at or below 4% of revenue. During the year, we met this objective with net capital expenditure at 3.6% (2009: 2.5%) of revenue.
- **Return on capital employed** - We focus on driving a steadily increasing return on capital. During 2010, the post tax return on average capital employed (including debt) is unchanged at 20.6% (2009: 20.6%). This compares to our post tax estimated weighted average cost of capital which is 7.7%.

Additional financial information

Debt profile - We aim to maintain a conservative balance sheet with substantial headroom to take advantage of opportunities to add value to shareholders as they arise. On 30 June 2010, we issued £253m of 7 and 10 year private placement notes. Following this issuance, we have £834m of private placement debt which matures between 2012 and 2020. The proceeds of the new issues were used to repay a more expensive £200m bank term loan that was due to mature in July 2011. In addition, we have increased our revolving credit facility to £425m maturing in December 2015. As at 31 December 2010, this was substantially unused.

Generating profitable growth

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

Organic growth

Overall trading in 2010 remained solid although revenue growth was subdued. Decisions were delayed across both public and private sectors due to the difficult economic climate and the changing political landscape. There was a pause in central government contracts coming out to tender while the UK General Election and a change in administration took place. We also saw a sharp reduction in discretionary spend across our existing contracts and pressures on public spending affected growth in a small number of our transactional trading activities.

We had a higher than normal revenue attrition rate of 6% in 2010. This was due to a number of project completions and several contracts winding down or being taken back in-house. There was a further 2% of revenue reduction due to our decision to dispose of a number of our operations at the end of 2009.

In 2010, we secured and extended 18 major contracts with a total value of £795m (2009:15 contracts totalling £1.0bn) representing a win rate of just below 1 in 2. This includes a life and pensions contract with Aviva Life International in Ireland, a contract with AXA to provide administration services for Sainsbury's pet insurance offering, extensions of our DWP storage and Constructionline contracts and expansions of 2 of our local government strategic partnerships, and:

- **Virgin Money:** A 5 year contract, worth £60m, to provide end-to-end sales support, policy administration and processing services for a new home and motor insurance proposition.
- **Harrow Council:** This contract, worth £50m over 10 years, is to transfer the authority's IT services to Capita. Service commenced in November.
- **Marsh:** An expansion of our partnership to deliver back office functions and processing services to enhance Marsh UK's broking activities to clients across its business.

- **West Sussex County Council:** We were appointed to be the Authority's IT infrastructure partner under a contract worth £56m over 7 years.
- **Service Birmingham:** Worth £300m, a 5 year extension to the original contract to provide ICT and contact centre services. Additionally, Service Birmingham will deliver the Council's revenues service for 10 years from April 2011.
- **Building Schools for the Future (BSF):** A number of BSF contracts involving the provision of property consultancy and ICT for clients such as **Wolverhampton City Council, Manchester City Council and Rochdale Metropolitan Borough Council**, worth in aggregate £97m.
- **Nottinghamshire County Council and East Midlands Broadband Consortium (embc):** A new arrangement to provide networking, applications and services to Nottinghamshire CC, worth £30m, and an extension to the embc contract, both secured by our newly acquired Synetrix business.

To date in 2011, 5 new contracts and extensions worth over £10m with an aggregate value of £244m have been secured, including a shared services contract with the London Boroughs of Bromley and Lewisham, an IT outsourcing contract with English Heritage and an agreement with the National Policing Improvement Agency (NPIA) to be one of 3 companies on the Digital Interviewing Framework and:

- **Teachers' Pension Scheme:** Appointed preferred supplier for a 7 year contract worth £80m to administer the Teachers' Pensions Scheme (TPS), the second largest public sector pension scheme in England and Wales, with more than 1.6 million members. Capita has been administering TPS since 1996 and this will be our 3rd consecutive contract.
- **MetLife:** Selected to deliver an extended life and pensions administration contract worth approximately £120m over 10 years. Capita will provide customer servicing, policy administration, claims activity and related IT support to underpin the long-term UK growth strategy of MetLife Europe Ltd.

Bid pipeline: Alongside these contract wins, our bid pipeline has been replenished and reflects the quality of business opportunities across our markets. The bid pipeline currently stands at a record £4.7bn (Feb 2010: £3.7bn) and includes 30 bid situations in which we are shortlisted as 1 of 4 or fewer competitors and caps our largest bids at £500m. The bid pipeline contains opportunities across all our markets with the majority in life and pensions, followed by defence and local government. Behind this is a prospect list of opportunities which are yet to reach a shortlist stage – this is also at record levels.

Contract rebids: Over the 5 years to 31 December 2015, we only have 2 material rebids of our contracts (defined as having annual revenue in excess of 1% of 2010 turnover) and these are both due in 2012. National Strategies ceases this year and therefore our contract will not be re-tendered when it comes to its conclusion in March 2011.

Stimulating growth through acquisition

We have continued our strategy of acquiring small to medium sized companies to widen our skills and knowledge, extend our presence in existing marketplaces or provide a foothold in a new market. These acquisitions are a valuable springboard for further growth of the Group. We have substantial experience of integrating acquired businesses and swiftly achieving synergies with our existing operations.

In 2010, we completed 12 acquisitions for a total consideration of £301m, including:

- **NB Real Estate** - commercial property management specialists, acquired in February for £10m. Combined with Capita Symonds, this acquisition offers the opportunity to provide a full service proposition across the real estate lifecycle and help public and private organisations to manage their property assets in innovative and efficient ways.

- **Premier Medical Group** - a leading provider of medical reporting and screening services across the UK, acquired for £60m in June, which further demonstrates Capita's commitment to the wellbeing and health services sector. We are currently integrating our existing occupational health business with Premier Medical Group to offer a wider, improved service to our clients and to gain operational synergies.
- **National Dental Plan** - one of the largest providers of corporate dental plans in the UK, we made this acquisition for £30m in August. This extends our range of tailored insurance services, including employee benefits schemes, to both public and private sectors.
- **SunGard Public Sector Ltd** - a supplier of ICT, radio network services and communication systems to the emergency services and to central and local government, acquired for £86m in December. This acquisition brings new market opportunities particularly in the area of ICT solutions and outsourced services to fire, police and ambulance authorities.

We also acquired Inventures, a leading property consultancy focused on the health market, Ross & Roberts, Ramesys, a provider of integrated ICT solutions, Sureterm Direct, PAL Services, FirstAssist Services, a provider of telephone assistance and advice services, and iSoft Business Solutions.

In 2011, our pipeline of potential acquisitions is healthy. To date, we have acquired 2 businesses for a total consideration of £9.25m:

- **Xayce** - a business transformation consultancy specialising in helping financial services organisations deliver regulatory, risk, operational efficiency and data management change programmes. This deepens our capability in supporting the financial services market.
- **Barclays Capital Mortgage Servicing Limited ('BCMS')** – we have acquired the securitised commercial loan business of BCMS, owned by Barclays Capital, which provides primary and special loan servicing for commercial real estate finance transactions. The acquired business will be integrated into Capita Asset Services, which is now Europe's largest, independent, third-party commercial mortgage servicer.

Our market opportunities

Marketplace: In 2010, we commissioned new market research from one of the leading independent industry analysts, IDC.

IDC estimates that the total market for BPO in the UK in 2010 was £7.8bn (versus £7.5bn* in 2009) with Capita remaining the clear leader in this enlarged market with 23% market share (2009: 23%*). IDC has estimated that the market potential for BPO in the UK is £117bn a year. The capacity for long term growth therefore remains substantial and highlights many opportunities for us to assist organisations as they seek the benefits of outsourcing.

In 2010, we gained business across both the public and private sectors and, as a result, the sector split of our revenues remains at 50% private/50% public (2009: 50%/50%). There are significant drivers for outsourcing across both sectors:

Public sector: The Comprehensive Spending Review in October 2010 highlighted areas across central and local government where budgets are to be reduced and efficiencies achieved. We expect this fiscal pressure on public spending, against a backdrop of increased demand for services, to heighten the focus on outsourcing in the public sector in 2011. The estimated annual administration spend in 2008/2009 across central government was £16bn delivered by approximately 500,000 staff in administrative roles. The Government is committed to reducing central government administration budgets by £6bn a year by 2014-2015 across all Departments and Arms Length Bodies. Also, local government spending is to be cut by 7.1% per annum over the next 4 years. With our solid track record of delivering public sector contracts, we are well placed to help organisations to introduce new, more sustainable and streamlined ways of working to meet public needs.

* restated to give like for like comparisons

Private sector: In the current economic climate, there is increased pressure on commercial organisations to drive down operational costs, without compromising customer service, to maintain their competitive positions. Although there was a delay in outsourcing decisions in 2010 in the private sector, we expect this to return to more usual levels as these organisations and their markets stabilise. Organisations can clearly benefit from the higher productivity and enhanced operational and advisory capabilities that an experienced outsourcing service provider can bring them. We are also pursuing opportunities to provide support in Continental Europe for existing and new clients across life and pensions and the wider financial services that serve international markets.

The strength of our bid pipeline, with opportunities across all our chosen markets, is a strong demonstration of the continued interest in and engagement with outsourcing. With our scale, expertise and financial stability, we are strongly placed to deliver more flexible, lower cost operating models, alongside improved service quality, for organisations across the public and private sectors.

Increasing our resources and infrastructure

To ensure that we are well placed to secure the opportunities in our bid pipeline and continue to expand our market reach, we have taken actions to expand our resources, capabilities and service delivery infrastructure:

Sales team expansion: We have a centrally managed major sales team which pursues long term major contracts, as well as sales teams within each of our businesses, focused upon securing contracts with both existing and new customers. To respond to the opportunities in our bid pipeline, prospects and suspects lists, we have actively identified high quality candidates and increased the headcount in our major sales team. In 2010, we significantly strengthened our bid teams with 7 additional people focused on leading major sales and 9 in senior bid support roles.

Developments in India: We have expanded our operations in India as they play an important role in helping us to secure new business and increase the efficiency of our Group operations. We now have 3 sites in Mumbai, 1 site in Pune and 1 site in Bangalore which deliver services to multiple clients as well as supporting Group businesses. We have expanded our service capability across these operations, broadening our IT capabilities, introducing property consultancy services and consulting services, and creating a knowledge services function to assist pharmaceutical companies. Our business centres in India are an integral part of Capita, providing high quality, cost effective English language based services.

Developments in Europe: We are creating a new service delivery capability in Continental Europe. A number of our existing clients who have an international presence, especially across the life and pensions and the wider financial services sector, are exploring the opportunity to replicate their successful UK partnerships with Capita in other European territories. In addition, we have in recent months established contact with a number of prospective new clients in Europe who are exploring the benefits of outsourcing their operations. To embrace these opportunities requires Capita to provide both back office and customer engagement services in a number of different European languages. We are therefore establishing a multi-lingual shared services business centre in Krakow, Poland, to ensure that we are well positioned to respond to this demand. We plan to make this fully operational from early 2012. The centre will support these existing clients and new clients as demand grows.

Recently, we secured work from a new client, a consolidator of closed life books in Europe. The consolidator has selected Capita as preferred supplier for a framework agreement to set up a new European administration operation, using our best practice model and financial platform, to support their growth. Under the framework, Capita will initially administer 15,000 policies from our operations in Dublin and then as the relationship grows, we expect to deploy additional support from our new business centre in Poland. We expect to start work in mid 2011, subject to contract.

Group Board

Following on from the changes made to the Board at the end of 2009, the Board continued to review its composition during 2010. Martin Bolland was appointed Non-Executive Chairman from 1 January 2010 and Paddy Doyle moved to a Non-Executive Director from 1 March 2010. In May, we appointed Nigel Wilson as Senior Independent Director and in June, appointed Paul Bowtell as an independent Non-Executive Director and Chairman of our Audit Committee. Bill Grimsey stood down in July 2010 as a Non-Executive Director.

On 10 January 2011, we also announced the appointments of Vic Gysin and Andy Parker as Joint Chief Operating Officers to the Board. Simon Pilling stood down as Chief Operating Officer the same day. We believe we have a talented and substantial team in place to support our continued growth.

Valuing our people

Capita relies on the hard work and dedication of its people and the Board would like to thank all the talented employees across our businesses who have played a key role in Capita's success. Against a backdrop of challenging market conditions during 2010, the effort made by our 37,000 employees has been outstanding and has contributed to another successful year for the Group. 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.

Future prospects

We enter 2011 with a record bid pipeline, increasing activity across the public and private sectors and some encouraging new contract wins. The need for our public sector clients to achieve substantial cost efficiencies and for private sector clients to increase their efficiency to remain competitive offers significant opportunities for the Group going forward.

Capita's pipeline of sales prospects, strong forward visibility of revenues from our long term contracts and consistent operational performance position us well for further progress in 2011 and thereafter.

-Ends-

Preliminary Statement

Consolidated income statement

for the year ended 31 December 2010

	2010			2009			
	Notes	Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
Continuing operations:							
Revenue	1	2,744.0	-	2,744.0	2,686.8	-	2,686.8
Cost of sales		1,950.4	-	1,950.4	1,937.0	-	1,937.0
Gross Profit		793.6	-	793.6	749.8	-	749.8
Administrative expenses	2	398.5	47.8	446.3	392.1	58.1	450.2
Operating profit	1	395.1	(47.8)	347.3	357.7	(58.1)	299.6
Net finance costs	3	(31.8)	(6.6)	(38.4)	(32.8)	(1.4)	(34.2)
Investment gain/(loss)		0.9	-	0.9	0.2	-	0.2
Loss on business disposal	4	-	-	-	-	(7.5)	(7.5)
Profit before tax		364.2	(54.4)	309.8	325.1	(67.0)	258.1
Income tax expense		(89.2)	14.4	(74.8)	(87.1)	17.9	(69.2)
Profit for the year		275.0	(40.0)	235.0	238.0	(49.1)	188.9
Attributable to:							
Equity holders of the parent		275.0	(40.0)	235.0	238.0	(49.1)	188.9
Earnings per share							
- basic	5	44.98	(6.54)	38.44	38.75	(7.99)	30.76
- diluted		44.48	(6.47)	38.01	38.42	(7.92)	30.50

Preliminary Statement

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010	2010	2009	2009
	£m	£m	£m	£m
Profit for the year		235.0		188.9
Other comprehensive income/(expense):				
Actuarial losses on defined benefit pension schemes	(14.1)		(58.2)	
Income tax effect	<u>2.7</u>		<u>16.3</u>	
		(11.4)		(41.9)
Exchange differences on translation of foreign operations		1.1		(2.3)
Gains/(losses) on cash flow hedges arising during the year	2.8		(10.8)	
Reclassification adjustments for gains included in the income statement	(2.0)		(4.1)	
Income tax effect	<u>(0.2)</u>		<u>4.2</u>	
		0.6		(10.7)
Other comprehensive expense for the year net of tax		(9.7)		(54.9)
Total comprehensive income for the year net of tax		225.3		134.0
Attributable to:				
Equity holders of the parent		225.3		134.0

Preliminary Statement

Consolidated balance sheet

at 31 December 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Property, plant and equipment		291.4	256.6
Intangible assets		1,416.0	1,107.0
Financial assets		237.4	186.3
Trade and other receivables		66.8	61.8
		2,011.6	1,611.7
Current assets			
Financial assets		6.0	2.0
Trade and other receivables		704.2	576.9
Cash		38.5	181.5
		748.7	760.4
Total assets		2,760.3	2,372.1
Current liabilities			
Trade and other payables		855.2	768.7
Financial liabilities		114.1	19.8
Provisions	7	26.3	27.6
Income tax payable		42.9	37.5
		1,038.5	853.6
Non-current liabilities			
Trade and other payables		72.2	34.8
Financial liabilities		1,066.4	951.3
Deferred taxation		31.8	13.9
Provisions	7	31.3	20.4
Employee benefits		24.6	31.9
		1,226.3	1,052.3
Total liabilities		2,264.8	1,905.9
Net assets		495.5	466.2
Capital and reserves			
Issued share capital		13.0	12.9
Share premium		454.9	435.2
Employee Benefit Trust		(0.5)	(0.2)
Capital redemption reserve		1.8	1.8
Foreign currency translation reserve		5.4	4.3
Net unrealised gains reserve		8.4	7.8
Retained earnings		12.5	4.4
Equity shareholders' funds		495.5	466.2

Included in aggregate financial liabilities is an amount of £1,016.4m (2009: £720.5m) 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 £194.3m included in financial assets and £11.4m included in financial liabilities (2009: £139.9m included in financial assets and £0.6m included in financial liabilities). Consequently, this gives an effective liability of £833.5m (2009: £581.2m).

Preliminary Statement

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Share capital	Share premium	Employee Benefit Trust shares	Capital redemption reserve	Retained earnings	Foreign currency translation reserve	Net unrealised gains reserve	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2009	12.8	410.4	(0.2)	1.8	(53.0)	6.6	18.5	396.9
Profit for the year	-	-	-	-	188.9	-	-	188.9
Other comprehensive expense	-	-	-	-	(41.9)	(2.3)	(10.7)	(54.9)
Total comprehensive income for the year	-	-	-	-	147.0	(2.3)	(10.7)	134.0
Share based payment	-	-	-	-	9.8	-	-	9.8
Income tax deduction on exercise of stock options in excess of share based payments	-	-	-	-	6.0	-	-	6.0
Deferred income tax relating to share based payments	-	-	-	-	(12.2)	-	-	(12.2)
Shares issued	0.1	24.8	-	-	-	-	-	24.9
Equity dividends paid	-	-	-	-	(93.2)	-	-	(93.2)
At 1 January 2010	12.9	435.2	(0.2)	1.8	4.4	4.3	7.8	466.2
Profit for the year	-	-	-	-	235.0	-	-	235.0
Other comprehensive expense	-	-	-	-	(11.4)	1.1	0.6	(9.7)
Total comprehensive income for the year	-	-	-	-	223.6	1.1	0.6	225.3
Share based payment	-	-	-	-	10.2	-	-	10.2
Purchase of own shares	-	-	(0.3)	-	(115.9)	-	-	(116.2)
Income tax deduction on exercise of stock options in excess of share based payments	-	-	-	-	4.0	-	-	4.0
Deferred income tax relating to share based payments	-	-	-	-	(4.7)	-	-	(4.7)
Shares issued	0.1	19.7	-	-	-	-	-	19.8
Equity dividends paid	-	-	-	-	(109.1)	-	-	(109.1)
At 31 December 2010	13.0	454.9	(0.5)	1.8	12.5	5.4	8.4	495.5

Preliminary Statement

Consolidated cash flow statement

for the year ended 31 December 2010

	2010	2009
	£m	£m
Cash flows from operating activities		
Operating profit on continuing activities before interest and taxation	347.3	299.6
Depreciation	70.3	54.4
Amortisation of other intangible assets (treated as depreciation)	0.2	1.2
Amortisation of intangible assets recognised on acquisition	41.3	28.1
Share based payment expense	10.2	9.8
Pension charge	7.7	21.2
Pension contributions before exceptional additional contribution	(29.1)	(32.0)
Loss on sale of property, plant and equipment	0.8	1.1
Movement in provisions	7.5	25.5
Movement in provisions due to reclassification from payables during the year	-	17.2
Net movement in payables and receivables	(13.8)	10.6
Cash generated from operations before exceptional additional pension contribution	442.4	436.7
Income tax paid	(70.8)	(58.3)
Exceptional additional pension contribution	-	(40.0)
Net interest paid	(31.8)	(31.1)
Cash generated from operations after income tax, interest and exceptional additional pension contribution	339.8	307.3
Net cash used in investing activities		
Purchase of property, plant and equipment	(98.5)	(68.4)
Proceeds from sale of property, plant and equipment	0.1	0.1
Acquisition of subsidiary undertakings and businesses	(208.5)	(197.1)
Debt repaid on acquisition of subsidiaries	(95.7)	-
Cash acquired with subsidiary undertakings	(7.2)	24.2
Disposal of financial assets	-	1.6
Purchase of financial assets	(1.1)	(0.4)
Investment loan	0.5	(0.6)
Proceeds on business disposal (net of cash sold)	-	8.0
Return on investment in joint venture	0.5	0.4
	(409.9)	(232.2)
Net cash (used in)/from financing activities		
Issue of ordinary share capital	19.8	24.9
Share buybacks	(115.7)	-
Share transaction costs	(0.5)	-
Dividends paid	(109.1)	(93.2)
Capital element of finance lease rental payments	(0.6)	-
Instalment debtor movement	6.6	(8.1)
Asset based securitised financing	(5.4)	6.7
Repayment of loan notes and long term debt	(217.4)	(108.0)
Proceeds on issue of debt	252.9	200.0
Financing arrangement costs	(2.3)	(2.6)
	(171.7)	19.7
Net (decrease)/increase in cash and cash equivalents	(241.8)	94.8
Cash and cash equivalents at the beginning of the period	181.5	86.7
Cash and cash equivalents at 31 December	(60.3)	181.5
Cash and cash equivalents comprise:		
Overdrafts	(98.8)	-
Cash at bank and in hand	38.5	181.5
Total	(60.3)	181.5

Year Ended 31 December
2009

	HR Solutions	Property Consultancy	Insurance Services	Investor Services	Integrated Services	ICT and Partnership Services	Life & Pensions	Professional Services	Total
Underlying segment revenue	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total segment revenue	312.4	272.7	246.8	179.8	341.3	734.9	581.2	424.7	3,093.8
Inter-segment revenue	(31.8)	(14.6)	-	(5.3)	(1.3)	(227.5)	(60.5)	(66.0)	(407.0)
Third party revenue	280.6	258.1	246.8	174.5	340.0	507.4	520.7	358.7	2,686.8
Underlying segment result									
Result after depreciation	27.4	24.3	30.1	35.8	57.4	59.2	63.0	70.3	367.5
Share based payment	(1.2)	(1.2)	(1.7)	(0.7)	(2.4)	(0.8)	(0.9)	(0.9)	(9.8)
	26.2	23.1	28.4	35.1	55.0	58.4	62.1	69.4	357.7
Non-underlying									
Intangible amortisation	-	(1.7)	(4.8)	(4.6)	-	(6.2)	(4.1)	(6.7)	(28.1)
Arch cru	-	-	-	(30.0)	-	-	-	-	(30.0)
	26.2	21.4	23.6	0.5	55.0	52.2	58.0	62.7	299.6
Net finance costs (before callable swaps)									(32.8)
Callable swaps									1.1
Mark to market movement on currency swaps									(2.5)
Investment gain									0.2
Loss on business disposal									(7.5)
Profit before tax									258.1
Corporation taxation									(69.2)
Profit after tax									188.9

2 Administrative expenses

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

	2010 £m	2009 £m
Intangible amortisation	41.3	28.1
Professional fees re acquisitions	5.5	-
Stamp duty paid on acquisitions	1.0	-
Arch cru costs	-	30.0
Total	47.8	58.1

3 Net finance costs

Included in the column headed 'Non-underlying', against the line item net finance costs, are the following:

	2010	2009
	£m	£m
Callable swaps - mark to market	6.6	(1.1)
Mark to market movement on currency swaps*	-	2.5
	6.6	1.4

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

4 Loss on business disposal

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

	2009
	£m
Fixed assets	0.4
Debtors	1.9
Creditors	(2.2)
Intangibles	5.9
Goodwill	7.3
Total net assets disposed of	13.3
Transitional services provided	2.2
Net proceeds received in cash	(8.0)
Loss on business disposal	7.5

5 Earnings per share

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

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

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

	2010	2009
	£m	£m
Net profit attributable to ordinary equity holders of the parent from operations	235.0	188.9

	2010	2009
	Number	Number
	million	million
Weighted average number of ordinary shares (excluding trust shares) for basic earnings per share	611.3	614.2
Dilutive potential ordinary shares:		
Employee share options	7.0	5.2
Weighted average number of ordinary shares (excluding trust shares) adjusted for the effect of dilution	618.3	619.4

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

The following additional earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent of £275.0m (2009: £238.0m) and, after underlying costs, earnings £235.0m (2009: £188.9m). They are included as they provide a better understanding of the underlying trading performance of the Group.

6 Dividends paid and proposed

	2010 £m	2009 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2009 paid: 11.2p per share (2008: 9.6p per share)	69.1	58.8
Interim for 2010 paid: 6.6p per share (2009: 5.6p per share)	40.0	34.4
	109.1	93.2
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2010: 13.4p per share (2009: 11.2p per share)	81.2	69.1

7 Provisions

	Insurance provision £m	Property provision £m	Arch cru £m	Other £m	Total £m
At 1 January 2010	15.0	7.4	20.0	5.6	48.0
Utilisation	-	(1.3)	(1.5)	(1.2)	(4.0)
Additional provisions in the year	12.0	1.2	-	(1.6)	11.6
Provisions acquired	-	2.0	-	-	2.0
At 31 December 2010	27.0	9.3	18.5	2.8	57.6

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

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

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise involving a number of parties including CFM's regulator and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The final liability to CFM and to the Group remains subject to uncertainties. At 31 December 2010, the Directors continue to provide £18.5m which they believe represents the most likely future total cost to the Group. The Directors expect that insurance cover will be available in respect of certain costs regarding this matter. It is expected that an outcome will be reached in 2011.

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

Other relates to provisions in respect of potential claims arising through some of the services that the Group provide. These are likely to unwind over a period of 1 to 3 years.

8 Reconciliation of net cash flow movements in net funds/(debt)

	Net Debt at 1 January 2010	Acquisitions in 2010 (exc. cash)	Cash flow movements	Non-cash flow movements	Net debt at 31 December 2010
	£m	£m	£m	£m	£m
Cash and cash equivalents	181.5	-	(143.0)	-	38.5
Overdraft and bank loans	-	-	(98.8)	-	(98.8)
Cash	181.5	-	(241.8)	-	(60.3)
Loan notes	(2.6)	-	0.7	(0.4)	(2.3)
Bonds †	(720.5)	-	(252.9)	(43.0)	(1,016.4)
Term debt	(198.0)	-	200.0	(2.0)	-
Currency swaps in relation to US\$ denominated bonds †	136.0	-	-	42.5	178.5
Interest rate swaps in relation to GBP denominated bonds †	3.3	-	-	1.1	4.4
Long term debt	(2.8)	(109.6)	112.4	-	-
Finance leases	(1.4)	(1.6)	0.6	-	(2.4)
Sub-total net debt	(604.5)	(111.2)	(181.0)	(1.8)	(898.5)
Asset based securitised finance*	(17.1)	-	5.4	-	(11.7)
Callable swaps	(30.9)	-	-	(6.6)	(37.5)
	(652.5)	(111.2)	(175.6)	(8.4)	(947.7)

The aggregate bond fair value above of £1,016.4m (2009: £720.5m) (disclosed in Financial liabilities) includes the GBP value of the US\$ denominated bonds at 31 December 2010. 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 £833.5m (2009: £581.2m).

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

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

9 Preliminary announcement

The preliminary announcement is prepared in accordance with International Financial Reporting Standards as adopted by the European Union. A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 23th February 2011. The announcement represents non-statutory accounts within the meaning of the Companies Act 2006. The statutory accounts for the year ended 31 December 2010, upon which an unqualified audit opinion has been given and which did not contain a statement under Section 498 (2) or 498 (3) of the Companies Act 2006, will be sent to the Registrar of Companies.

Copies of the announcement can be obtained from the Company's registered office at 71 Victoria Street, Westminster, London SW1H 0XA, or on the Company's corporate website www.capita.co.uk/investors/Pages/Investors.aspx.

It is intended that the Annual Report and Accounts will be posted to shareholders on 4 April 2011. It will be also available to members of the public at the registered office and on the Company's Corporate website www.capita.co.uk/investors/Pages/Investors.aspx from that date.