

We listen,  
create  
& deliver

Capita plc Annual Report and Accounts 2011



## A detailed view of our business

Generating and supporting long term growth

➔ Go to section 1 on page 10



Controlling and measuring growth

➔ Read more on page 31



Delivering business responsibly

➔ Go to page 45 for more detail



Meet the Board

➔ Go to page 58

Our financial statements

➔ From page 86

# Contents

## A snapshot of our business

What we do	1
Delivering value	2

## Our Chief Executive's 2011 review

Performance & KPIs	6
--------------------	---

## A detailed view of our business

<b>Generating &amp; supporting growth</b>	10
Our business model	11
Markets	12
Organic growth	17
Acquisitions	24
Capability and scale	27
<b>Controlling &amp; measuring growth</b>	31
Leadership and control	33
Financial review	35
Divisional review	38
<b>Delivering business responsibly</b>	45
Stakeholder value	46

## Governance

Board members	58
Corporate governance	60
Remuneration	75

## Accounts

Financial statements	86
Notes to financial statements	91
Other information	141

You can view all stakeholder case studies online at:

 [capita.co.uk/casestudies](http://capita.co.uk/casestudies)

# Through the eyes of our stakeholders...



## Growing our customer management capability

☞ See page 26

## Taking teachers' pensions administration to the next level

☞ See page 23



## Working in partnership with Swindon Borough Council

☞ See pages 48 and 49

## Entering the emergency services market

☞ See page 15



## Expanding our relationship with Zurich

☞ See page 20



## What we do

Through careful **listening** and detailed exploration, we build a deep understanding of what our clients and their customers need.

By combining this insight with our clients' knowledge and our expertise, we **create** unique solutions that drive down costs and provide better customer experiences.

And we don't just design the solutions; we also **deliver** them for our clients, committing to a defined cost and high quality standards. We're able to do this by drawing on our rich and varied capabilities and our extensive service infrastructure.

So, however unique or complex the challenge, we can bring together the right people with the right skills to make it happen.

**This positions us as the UK's leading provider of business process outsourcing, delivering value to all our stakeholders.**

### Directors' report

The Directors present the Annual Report for the year ended 31 December 2011 which includes the business review, governance and audited Group accounts for the year. Pages 01 to 85 of this Annual Report comprise a Report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where we refer in this report to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita information which may be of interest to the reader. Such additional materials do not form part of this report.



## How we grow and deliver value

Our business goal is to continue building a sustainable business that meets the needs of all our stakeholders.

We achieve this goal through our business strategy of growing the business in a controlled and profitable manner across our target markets.

We maintain existing relationships and win new clients by actively developing our capability and scale, both internally and through complementary acquisitions, continuously enriching our service offering and generating further growth.

## 1 We generate and support growth by...

### ...targeting growing markets

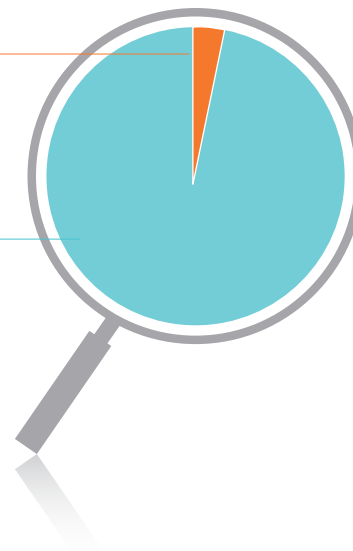
Capita leads the fast growing business process outsourcing (BPO) market in the UK. We have developed a broad based services business with multiple relationships covering a wide range of different sectors and we continually explore new market areas, such as health and the emergency services, where we believe there is potential to add value. We currently target 10 markets across the public and private sectors.

👉 See page 12

#### Outsourced and potential UK BPO market

**£8.1bn**<sup>1</sup>  
currently outsourced  
2010: £7.8bn

**£117bn**<sup>2</sup>  
potential market



#### Our UK BPO market share

**23%**<sup>1</sup>  
2010: 23%

#### Our revenue split

Private sector	Public sector
<b>52%</b>	<b>48%</b>
2010: 50%	2010: 50%

1 IDC: 2011.  
2 IDC: 2010.

## ...securing organic growth and acquisitions

26 major contract wins

£2.0bn

2010: £0.8bn

The key driver of our organic growth is securing long term BPO contracts with new and existing clients principally in the UK and Ireland. We reduce our clients' running costs and add value to their operations while generating defined revenues to Capita over the life of the contract. Over two-thirds of our revenue is derived from outsourcing relationships with additional revenues generated from specialist services delivered by our extensive network of niche businesses.

👉 See page 17

Invested in 21 acquisitions

£341m

2010: £301m

Acquisitions play a vital role in supporting our growth. We acquire small to medium sized companies which add further expertise or scale to our operations or which help us enter new markets. Our acquisition approach is underpinned by strict criteria and this, together with our extensive experience of integrating new companies into the Capita model, ensures that we add real value to the Group.

👉 See page 24

## ...building our capability and scale

Capita has grown steadily over the past 28 years and we now have over 46,500 people at more than 350 business sites onshore, nearshore and offshore, including 68 specialist business centres. We actively develop our capability and scale so that we are continually enhancing our offering to clients and ensuring that we remain at the forefront of responsible, high quality service delivery.

👉 See page 27

### Flexible solutions and infrastructure:

- effective people management
- efficient processes
- appropriate shared/bespoke ICT platforms
- extensive delivery network

### Our business centre network

Onshore:  
UK

55



Nearshore:  
Continental Europe,  
Ireland,  
Channel Islands  
Isle of Man

6



Offshore:  
India  
Dubai

7



## 2 We control and measure our growth through...

### ...strong leadership and robust processes

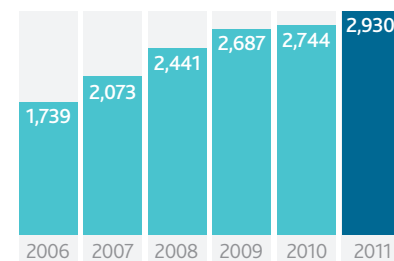
We take a disciplined approach to managing performance. Our robust management structure and business reporting process promote accountability and knowledge sharing across the Group. With strong financial and risk management, underpinned by a clear set of key performance indicators, we generate steady, controlled growth and healthy, long term returns for investors.

👉 See page 31

#### Revenue (£m)

**£2,930m**

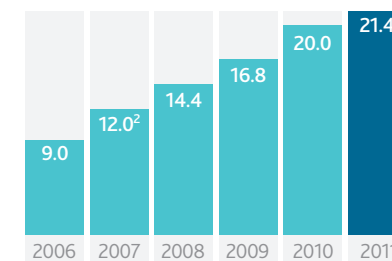
5 year compound growth 11%



#### Total dividend per share (p)

**21.4p**

5 year compound growth 19%

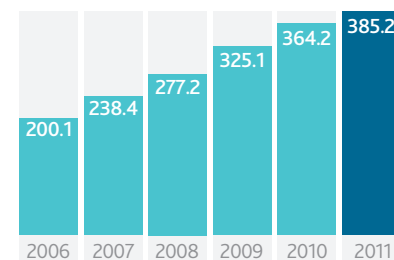


<sup>2</sup> Excluding 25p special dividend.

#### Underlying profit before tax (£m)<sup>1</sup>

**£385.2m**

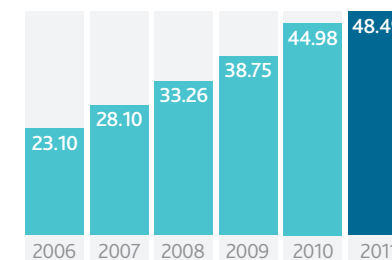
5 year compound growth 14%



#### Underlying earnings per share (p)<sup>1</sup>

**48.49p**

5 year compound growth 16%



<sup>1</sup> Excludes non-underlying items being: intangible amortisation and acquisition expenses and release of contingent consideration of £71.9m (2010: £47.8m), the non-cash impact of mark to market movement on financial instruments of £7.1m (2010: £6.6m), and £3.3m (2010: £nil) for increased counterparty credit risk. After these non-underlying items: reported operating profit is £355.5m (2010: £347.3m), reported profit before tax is £302.9m (2010: £309.8m) and reported earnings per share is 39.16p (2010: 38.44p).

# 3 We deliver business responsibly by...

## ...managing consistently across our divisions

We have a straightforward and pragmatic operational structure which supports optimum service delivery for all our clients. It provides ready access to the Group's wider expertise and scale and enables us to create innovation and harness the best of ICT and business processes.

👉 See page 38



Our operating divisions are aligned with the Group's objectives and strategy

## ...considering the needs of all our stakeholders

We are committed to growing the business in a transparent and socially responsible way. Our consistent strategy of delivering quality services for clients, combined with our disciplined approach to controlling and measuring growth, supports the creation of a business that is sustainable for all our stakeholders over the long term.

👉 See page 45



Our **clients** receive high quality services, delivered cost effectively

Our **people** are key to our success

The **public** benefit from the flexible, quality services we deliver for our clients

We look to add value to the **communities** where we work

We build mutually supportive **supplier** relationships



# How we performed in 2011



2011 was a challenging year in which we achieved reasonable revenue growth and maintained our underlying operating margin. However, it was also a successful year for Capita in respect of major sales wins.



Paul Pindar Chief Executive

## Key points

- £2.0bn of major contract wins secured (2010: £0.8bn)
- Pipeline stands at £4.6bn as at February 2012 (July 2011: £4.7bn)
- £341m spent on 21 acquisitions
- Underlying profit before tax increased by 6% to £385.2m<sup>1</sup>
- Underlying operating margin was 14.59% (2010: 14.40%)<sup>1</sup>
- Operating cash flow before settlements<sup>2</sup> of £364m (2010: £442m)
- 7% dividend increase.

## Steady performance in 2011

2011 was a challenging year in which we achieved reasonable revenue growth and maintained our margin. However, it was also a successful year for Capita in respect of major sales wins, with a record total value of £2.0bn new and extended contracts secured during the year (2010: £0.8bn). This included £0.9bn from new contract wins and £1.1bn from contract renewals.

We also completed a series of acquisitions in 2011 which play a key role in extending our capabilities, enhancing our propositions to clients and making a valuable contribution to our long term growth.

In the full year 2011, revenue increased by 7% to £2,930m (2010: £2,744m). Underlying operating profit<sup>1</sup> rose by 8% to £427.4m (2010: £395.1m) and underlying profit before taxation<sup>1</sup> increased by 6% to £385.2m (2010: £364.2m). Underlying earnings per share<sup>1</sup> grew by 8% to 48.49p (2010: 44.98p). We have increased our total dividend for the full year 2011 by 7% to 21.4p per share (2010: 20.0p).

After non-underlying items, reported operating profit was £355.5m (2010: £347.3m) and basic earnings per share were 39.16p (2010: 38.44p). These figures were impacted by higher amortisation of goodwill arising from increased levels of acquisitions.

Our performance in 2011 was impacted by the more challenging economic environment, including a range of austerity measures implemented across Government. This adversely affected a number of our trading activities, including our property consultancy and parts of our IT and resourcing businesses, and also resulted in lower discretionary revenue being generated from existing clients.

As anticipated, we have reported an overall organic revenue decline of 7% for the full year 2011 due to the combination of these challenging trading conditions and due to an unusually high level of revenue attrition. Throughout 2011, we focused on taking actions to ensure optimum efficiency across all our businesses going forward.

Despite this background, we have achieved overall revenue growth of 7%.

## Financial measures

In addition to the financial measures already mentioned, 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.

← See page 7

**Margin** – In 2011, the Group's underlying operating margin<sup>1</sup> was 14.59% (2010: 14.40%). In 2011, operating profit<sup>1</sup> was impacted by a number of notable items including: unusually high restructuring costs (including redundancies) and the settlement of certain historic captive insurance claims. This adverse impact was offset by a past pension service credit of £23.9m which includes the change to indexation benefits from RPI to CPI.

**Cash flow** – In 2011, £364m (2010: £442m) was generated by operations representing an operating profit to cash conversion rate (defined as cash generated from operations before settlements<sup>2</sup> divided by underlying operating profit<sup>1</sup> for the year) of 85% (2010: 112%).








As previously highlighted, operating cash flow before settlements<sup>2</sup> has been impacted by the conclusion of the National Strategies programme and additional working capital requirements for new and expanded contracts, in particular our Building Schools for the Future projects, Service Birmingham and certain life and pensions contracts.

Due to the recent more challenging economic conditions, the beneficial payment terms that we have historically secured from certain clients are more difficult to obtain and this inevitably impacts our working capital profile as these payment terms revert to industry norms. However, we expect that our operating cash to operating profit conversion rate will improve in 2012 and again in 2013.

Free cash flow defined as operating cash flow before settlements<sup>2</sup>, less capital expenditure, interest and taxation for the year was £157m (2010: £241m). This decrease was due to the movement in working capital noted above.



## Our principal financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2011	See more
Earnings per share (EPS) <sup>1</sup>	Achieve long term, steady growth in EPS	Long term growth in EPS is a fundamental driver to increasing shareholder value. Board Directors' incentive schemes have EPS targets to align their interests with those of our shareholders	<b>48.49p</b> 2010: 44.98p	 <a href="#">Page 35</a>
Operating margin <sup>1</sup>	Maintain and strengthen margin	We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective	<b>14.59%</b> 2010: 14.40%	 <a href="#">Page 35</a>
Free cash flow <sup>2</sup>	Maintain a high level of operating and free cashflow	We focus on securing timely payment terms and cash conversion underpinned by providing valued services and maintaining an efficient finance operation	<b>£157m</b> 2010: £241m	 <a href="#">Page 35</a>
Capital expenditure	Contain capital expenditure (capex) at or below 4% of revenue	This helps us to focus investment on the opportunities that generate greatest shareholder value and avoid tying up too much capital in long term projects	<b>3.5%</b> 2010: 3.6%	 <a href="#">Page 36</a>
Return on capital employed (ROCE)	Achieve healthy ROCE which exceeds our cost of capital	Reflects the margin between the cost of our capital and the returns we generate by investing it	<b>17.2%</b> 2010: 20.6%	 <a href="#">Page 36</a>
Gearing – interest cover	Maintain a conservative and efficient capital structure, with an appropriate level of gearing	It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf	<b>10.2x</b> 2010: 12.4x	 <a href="#">Page 37</a>
Economic profit <sup>1</sup>	Achieve steadily increasing Group economic profit.	Group economic profit allows us to assess whether the return generated on the average capital base is sufficient to meet the base return requirements of our investors (debt and equity).	<b>£184m</b> 2010: £187m	 <a href="#">Page 37</a>

**Dividends** – The Board is recommending a final dividend of 14.2p per ordinary share (2010: 13.4p), making a total of 21.4p (2010: 20.0p) for the year. This represents an increase of 7%. The final dividend will be payable on 28 May 2012 to shareholders on the register at the close of business on 20 April 2012. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 19% over the five years to 31 December 2011. Dividend cover is 2.27 times for 2011.

**Debt profile** – During 2011, we issued £340m of private placement notes with maturities between 7 and 10 years. Following these issuances, we have £1,176m of private placement debt of which £123m matures between now and August 2015, with the remainder gradually maturing until 2021. In February 2012, we raised a further £285m of bank debt under a two year term loan facility to further increase liquidity headroom.








During the year, our net debt to EBITDA ratio increased to 2.5 (2010: 1.6) as a result of taking advantage of a higher level of acquisition opportunities in 2011 and higher working capital requirements. Interest cover for the year ended 31 December 2011 was 10.2 times.

 [See pages 35 to 37](#)

<sup>1</sup> Excludes non-underlying items being: intangible amortisation and acquisition expenses and release of contingent consideration of £71.9m (2010: £47.8m), the non-cash impact of mark to market movement on financial instruments of £7.1m (2010: £6.6m), and £3.3m (2010: £nil) for increased counterparty credit risk. After these non-underlying items: reported operating profit is £355.5m (2010: £347.3m), reported profit before tax is £302.9m (2010: £309.8m) and reported earnings per share is 39.16p (2010: 38.44p).

<sup>2</sup> Settlements consist of a £17.9m settlement for Arch cru and an additional pension contribution of £10.0m on the transfer back of the Cumbria County Council pension scheme.

## Our principal non-financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2011	See more
Shareholder value	Steadily grow ordinary dividends (annual growth of total dividends)	Demonstrates the financial health of the business and commitment to creating shareholder value	<b>7%</b> 2010: 19%	 <a href="#">Page 47</a>
Client resources	Continue to develop our infrastructure of business centres to meet the needs of our business	Reflects the scale and breadth of our offering for clients	<b>68 business centres</b> 2010: 64 business centres	 <a href="#">Page 29</a>
Create successful supplier relationships	Annually audit all strategic suppliers against Capita's standards of business	A proactive approach to procurement helps us secure best value goods and services, which can improve our performance and that of our clients	<b>100%</b> 2010: 100%	 <a href="#">Page 54</a>
Employee resources – leadership	Maintain high retention rate for managers (annual salaries exceeding £50k p.a.)	We need to have the right leadership and skills to deliver the Group's long term growth strategy	<b>95%</b> 2010: 84%	 <a href="#">Page 50</a>
Employee resources – skills & flexibility	Maintain overall employee retention at or above industry average (2011: 87.5%, 2010: 86.5%) <sup>1</sup>	Our people are vital to our success in delivering high quality, efficient services to our clients	<b>89%</b> 2010: 83%	 <a href="#">Page 50</a>
Controlling our environmental impacts	Continue to measure and assess our carbon footprint <sup>2</sup>	Although we are a low impact organisation, our aim is to manage and reduce our environmental impacts and use our resources efficiently	<b>91,318</b> 2010: 81,112 (tonnes CO <sub>2</sub> eq)	 <a href="#">Page 55</a>
Supporting our communities	Continue to measure and grow 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.	<b>£2.0m</b> 2010: £1.65m	 <a href="#">Page 56</a>

### Generating profitable growth

We generate profitable growth by winning business from new and existing customers and through acquiring businesses that broaden our propositions, capability and market reach.

**Major contract wins** – In 2011, we secured 26 new and extended major contracts with a total value of £2.0bn (2010: 18 contracts totalling £0.8bn) representing a win rate of just below one in two.

 [See page 18](#)

In the first two months of 2012, we were selected as recommended supplier or signed new and extended major contracts estimated in aggregate to be worth approximately £620m, comprising recommended supplier to partner with the MOD to deliver the Recruiting Partnering Project (RPP) to the Army and the enabling ICT for the Royal Navy and the Royal Air Force, the Civil Service training agreement and three customer management contracts.

<sup>1</sup> CIPD 2011 + 2010.

<sup>2</sup> Based on latest available greenhouse gas emission factors from Defra.

**Bid pipeline** – Despite an extremely active few months in terms of client decisions, our bid pipeline of major contract opportunities as at February 2012 was £4.6bn (July 2011: £4.7bn) comprising 35 bid situations across our target markets. Behind this is an active prospect list of opportunities.

➔ See page 21

**Contract rebids** – Over the next seven years to 31 December 2019, we only have two material contracts (defined as having annual revenue in excess of 1% of 2011 turnover) due for rebid – the Criminal Records Bureau (CRB) contract in 2013, where the bid process is now underway, and the Phoenix contract in 2019.

**Acquisitions** – Acquisitions play a key role in Capita's business model and we have secured some excellent opportunities in 2011 which add value to our proposition and make a valuable contribution to our growth.

In 2011, we completed 21 acquisitions for a total consideration of £341m.

Our focus is now on achieving the successful integration of these businesses and realising synergies. We expect our acquisition activity to slow going forward in 2012 as organic growth regains momentum.

➔ See page 24

### Our market opportunities

Leading independent industry analysts, IDC, estimate that the total market for BPO in the UK in 2011 was £8.1bn (2010: £7.8bn) with Capita remaining the clear market leader, maintaining 23% market share (2010: 23%)<sup>3</sup>. The overall market potential for BPO in the UK is estimated at £117bn<sup>3</sup> a year demonstrating the substantial capacity for long term growth. In 2011, we gained business across both the public and private sectors and the sector split of our revenues currently stands at 52% private/48% public (2010: 50%/50%).

➔ See pages 12 to 16

### Increasing our resources and infrastructure

The strength of our offering is a result of our proactive development of the Group's capability and infrastructure, ensuring that we have the right resources in place to deliver tailored service solutions for our clients. We harness the extensive skills and resources that we have internally across the Group and work with partners, SMEs and third sector organisations to meet each client's specific needs.

In 2011, we established a new European business centre in Krakow, Poland, which extends our flexible service delivery network.

Against a backdrop of challenging market conditions during 2011, the effort made by our 46,500 employees has been outstanding. In the year, we further strengthened our management teams to prepare us for our next stage of growth and to ensure we have the strongest operational team in place to maintain our track record of quality service delivery to our clients.

<sup>3</sup> IDC 2010 and 2011.

The Board would like to take this opportunity to thank all our people for their continued hard work and dedication which underpins Capita's performance.

➔ See pages 27 to 30

### Group Board

Capita Non-Executive Director Paddy Doyle has decided to retire from Capita and will be stepping down from the Board at the end of March 2012. Paddy joined Capita in 1992, was appointed to the Board as an Executive Director in 1994 and became a Non-Executive Director in 2010.

The Board has valued Paddy's insight and guidance and the significant contribution he has brought to Capita throughout his career. The Board and his Capita colleagues wish him the very best.

We already have good visibility of stronger revenue growth in 2012 due to renewed organic growth from our major contract sales performance in 2011 and to date in 2012 and the contribution from 2011 acquisitions.

This visibility and the current buoyant sales environment, evidenced by the rapid replenishment of our bid pipeline, underpin our confidence in good growth prospects and performance for 2012 and beyond.

Paul Pindar Chief Executive

In the following pages we provide a detailed view of our business and how we performed against our aims and KPIs in 2011.

# 1 Generating and supporting growth

From an initial entry into local government outsourcing in 1984, we have created unparalleled scale and infrastructure which supports our added value propositions to clients in key growth markets across both the public and private sectors. As a result of our commitment to service excellence, we have created a long term sustainable business which delivers value to all our stakeholders.

## Aim

To maintain existing relationships and win new clients across our target markets by actively developing our capability and scale, both internally and through complementary acquisitions, continuously enriching our service offering.

- Our business model ➔ page 11
- Targeting growth markets ➔ page 12
- Creating growth organically and through acquisition ➔ page 17  
➔ page 24
- Building capability and scale ➔ page 27

## Generating and supporting growth: performance metrics:

	2011	2010
BPO market share	23%	23%
Major contracts over £10m	26 contracts worth £2.0bn	18 contracts worth £0.8bn
Major contract win rate	1 in 2 to 1 in 3	1 in 2 to 1 in 3
Average contract length	9 years	9 years
Acquisition spend	21 companies worth £341m	12 companies worth £301m

➔ See pages 12 to 26



# Our business model

Explore our broad business offering across our divisions. See page 38

Explore how acquisitions enhance our propositions, capability and market reach. See page 24

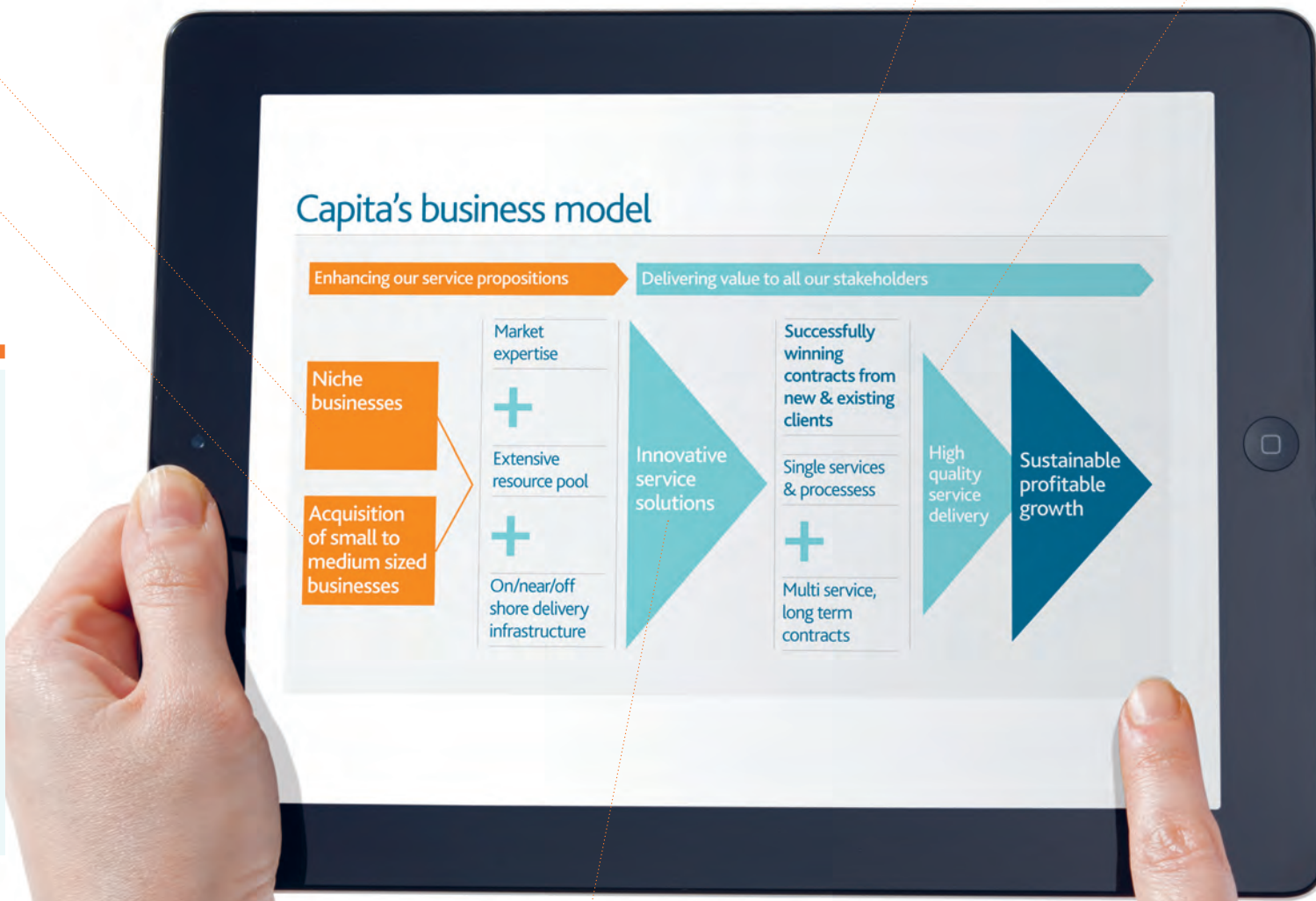
## A consistent approach to fuelling growth

Our business goal is to continue building a sustainable business that meets the needs of all our stakeholders.

We achieve this goal through our business strategy of growing the business in a controlled and profitable manner across our target markets.

Our goal is to create a sustainable business for our investors, clients, employees, suppliers and communities. See page 45

Explore how we deliver value to our clients. See our case studies on pages 15, 20, 23, 26 and 48



Explore how we use our scale and infrastructure to create tailored client services. See page 27

## Targeting growth markets

Capita primarily focuses on business process outsourcing opportunities and professional support services in the UK and Europe. Our turnover is currently derived 52:48 from the private and public sectors where there are significant opportunities for growth across our 10 target markets.

### Maintaining a strong competitive position

We lead and shape the BPO market in the UK by continually developing our outsourcing offering and by maintaining an excellent track record of service delivery with a strong set of satisfied clients. We respond to clients' specified requirements but always seek to share our expertise by recommending alternative service models that deliver even greater added value to their operations and enhance effectiveness and competitiveness.

Our clients are highly selective and seek an outsourcing partner that has the financial strength and stability to deliver large scale, complex activities over a long term partnership. Our experience, skill base and extensive operational and technical infrastructure position us strongly. We have a detailed knowledge of the markets in which we operate; and our management team is highly accessible and swift to respond to our clients' needs.

### Total UK BPO market p.a<sup>1</sup>

Today	£8.1bn
Public sector	28%
Private sector	72%

### Total potential UK BPO market p.a<sup>2</sup>

Potential	£117bn
-----------	--------

£8.1bn<sup>1</sup>  
currently outsourced  
2010: £7.8bn

£117bn<sup>2</sup>  
potential market



### Competitor rankings UK BPO market

	Market share	
	2011 <sup>1</sup>	2010 <sup>2</sup>
1. Capita	22.9%	22.6%
2. Accenture	4.4%	4.4%
3. Xerox	3.7%	3.6%
4. HP Enterprise Services	2.9%	3.0%
5. Xchanging	2.6%	2.9%

<sup>1</sup>IDC: 2011.

<sup>2</sup>IDC: 2010.

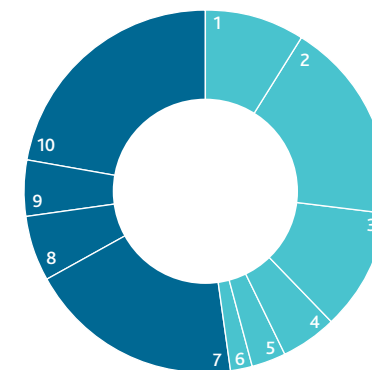
### Turnover by market

#### Public sector 48%

	% of Group revenue	
	2011	2010
1. Central government	9	9
2. Local government	18	20
3. Education	11	15
4. Health	5	4
5. Emergency services	3	-
6. Transport	2	2

#### Private sector 52%

	% of Group revenue	
	2011	2010
7. Life and pensions	19	18
8. Insurance	6	7
9. Financial services	5	5
10. Other corporates	22	20



## Growth potential

Independent industry analyst, IDC, estimates that the total market for BPO in the UK was £8.1bn<sup>1</sup> in 2011 against market potential of £117bn<sup>2</sup> a year. The capacity for long term growth is therefore substantial as organisations become increasingly aware of the benefits that outsourcing can deliver, particularly in the current economic climate. We remain the clear leader in the overall UK BPO market with 23%<sup>1</sup> market share (2010: 23%). Our nearest competitor is reported to have 4% market share<sup>1</sup>.

There are significant drivers for outsourcing across all our chosen markets.

## Expanding our international reach in 2011

In 2011, we have established an office in Continental Europe, in Krakow, Poland, for both existing and new clients across life and pensions and the wider financial services market. We are actively pursuing opportunities in these areas and we are already seeing a good level of interest. We estimate that there are circa 500m life and pensions policies in force in Continental Europe with an addressable spend of £18bn per annum. Costs of administration are some two times higher than in the UK, demonstrating significant potential for us to replicate our business model and expertise in this market.

## Drivers for outsourcing

In the current economic climate, where organisations are facing difficult decisions about how best to allocate resources to protect their frontline activities and long term sustainability, outsourcing is seen as an essential part of a cost efficient operating model.

By moving from in-house service provision to a specialist third party provider, government and commercial entities can benefit from economies of scale and flexible delivery options that fit their service requirements, enabling them to focus on their core activities.

With our wealth of experience of transforming processes, people management and effective ICT, together with our flexible delivery network, we are well positioned in this marketplace.

**Private sector** – Commercial organisations are facing continued pressure to maintain their competitive position by driving down operational costs and introducing new products to market faster, whilst maintaining high levels of customer service.

Organisations can clearly benefit from the higher productivity, enhanced operational capabilities and flexible capacity that an experienced outsourcing partner can provide. We saw sales activity pick up in 2011 following the delay in decisions experienced in 2009 and 2010 and we expect to see continued activity in 2012.

Several of our recent acquisitions bring with them high level relationships across a wide range of industries including retail, utilities and telecoms and we are actively looking to grow these relationships.

**Public sector** – The ongoing pressure to reduce budgets whilst maintaining frontline services is creating a steady pipeline of opportunities in the public sector, particularly across local government and increasingly in central government. The 2011 Open Public Services White Paper confirms the Government's commitment to reform and open service provision to a wide range of suppliers. They are also exploring a spectrum of engagement models, such as joint ventures, mutuals and other employee ownership and cooperative models. We have a strong track record of developing bespoke service delivery models that meet the needs of our clients and the current and future expectations of the public.



With our wealth of experience, capabilities and scale, we are well positioned to win business and deliver value to clients across our 10 growing markets.

Maggi Bell Business Development Director



## Targeting growth areas

1

**Central government**  
9% of Group revenue  
(2010: 9%)

### Drivers for outsourcing

- Government required to reduce administration spend by approximately £6bn a year by 2014-2015<sup>1</sup>. Total administrative spend estimated at £23bn in 2009/10<sup>2</sup>
- Few central government departments have to date outsourced wider services such as customer, HR or financial administration services
- Legislation and other policy initiatives likely to offer opportunities for greater private sector involvement in public service delivery
- Evidence from other sectors, including local authorities, that BPO and new models of public service delivery can achieve more for less
- Access to skills and technology that can guarantee savings both upfront and for the longer term
- Government committed to opening up competition on existing IT contracts and to shorter, more efficient procurement timelines.

➔ See case study on page 23

2

**Local government**  
18% of Group revenue  
(2010: 20%)

### Drivers for outsourcing

- Funding to councils is to be reduced by approximately 7% per annum for the next three years (October 2010 Comprehensive Spending Review)
- To date, less than 10% of the 468 UK local authorities, have undertaken significant outsourcing
- Increasing recognition of the benefits of shared service infrastructures which bring together public services in a more co-ordinated, cost efficient way
- Greater responsibility for spending and service procurement to be transferred from central to local level allowing authorities to play a greater role in shaping efficient, accessible services
- Changing role of local authorities – continued shift from role as direct provider towards being commissioner of services.

➔ See case study on pages 48 and 49

3

**Education**  
11% of Group revenue  
(2010: 15%)

### Drivers for outsourcing

- Requirement to respond quickly to changing legislation and Government initiatives
- Increasing competition between higher education institutions creates a role for outsourcing expertise and shared back office services
- Need to make full use of technology to support informed decision making and effective learning and school improvement
- Delegation of funding from local authorities to schools likely to create opportunities for private sector involvement
- Expansion of the Academies programme providing greater outsourcing opportunities in areas such as HR, finance and ICT
- Significant potential to increase our presence in the international and independent school markets.

4

**Health**  
5% of Group revenue  
(2010: 4%)

### Drivers for outsourcing

- NHS organisations need to make up to £20bn of efficiency savings by 2015
- As the Government's guidelines for reform become clearer, opportunities are expected to emerge for the private sector to support and partner with NHS organisations in the delivery of non-clinical services
- Health expenditure in 2011 was estimated at £121bn<sup>2</sup>. The addressable spend on the type of administration support services that Capita can deliver is estimated to be between £10bn and £15bn
- Opportunity to provide commissioning support to NHS organisations as they implement Government changes
- The requirement to drive down sickness absence and improve staff wellbeing in the workplace.

5

**Emergency services<sup>3</sup>**  
3% of Group revenue  
(2010: N/A)

### Drivers for outsourcing

- Need to protect frontline services while delivering significant cost savings
- Back office spend in policing estimated at £2.7bn with 20% budget cuts targeted by 2015
- Regional collaboration – police forces recognising the benefits of shared service infrastructure and procurement of technology to deliver significant savings
- Potential to enhance frontline services through adoption of mobile technology and innovation.

➔ See case study on page 15

<sup>1</sup> <http://www.civilservice.gov.uk>.

<sup>2</sup> HM Treasury, Public Expenditure Statistical Analyses 2011.

<sup>3</sup> Emergency services now shown separately (was previously reported under local government).





## Entering the emergency services market



# Supporting the frontline



Capita provides a solution that matches the process of our frontline officers. With the growing and successful partnership, Nottinghamshire Police has a mobile data platform that realises substantial benefits for our frontline officers and enables cashable savings.

Richard Hitch IT Project Manager, Nottinghamshire Police

We are now able to offer the emergency services an end to end back office solution with real opportunities to drive down costs, improve services to citizens and accelerate their transformational journey.

Craig Rodgeron CEO Capita Secure Information Solutions



UK emergency services are under pressure to turn government policy into real results for citizens, delivering effective and efficient services in the face of reduced funding.

Capita entered the market to support emergency services in December 2010 with the acquisition of SunGard Public Sector, a supplier of ICT, radio network services and communication systems. Since then we've consolidated our position with the acquisitions of Tribal – advisory services, Beat Systems – secure mobile data solutions, and Cedar HR – a leading provider of HR management software to UK police forces.

We now handle ICT, HR, payroll, pensions, duty management and estate management for organisations across the emergency services sector. We supply ICT products and services to 52 of the 53 UK police forces, and the only police specific ERP and duty management solution in the UK. Capita also supplies the leading secure mobile data system in use in the police service, the Home Office and other criminal justice organisations. We manage over 40% of the radio terminals used by the police and 100% of those used by UK ambulance trusts. We deliver integrated criminal justice solutions to more than 50% of UK police forces, and we are a leading supplier of fully integrated, collaborative digital interview recording and asset management solutions.

### The facts



We manage over 40% of the radio terminals used by the police and 100% of those used by the UK ambulance trusts

## £2.7bn

£2.7bn is currently spent on back office police services in the UK, and with 20% budget cuts targeted by 2015, the pipeline of outsourcing opportunities looks set to increase



Capita delivers integrated criminal justice solutions to more than 50% of UK police forces

## Targeting growth areas continued

6

**Transport**

2% of Group revenue  
(2010: 2%)

**Drivers for outsourcing**

- Opportunities to support the Government's £8bn programme of investment in the UK rail network
- Continued squeeze on public sector spending prompting local authorities to increase managed services in highway maintenance and outsource CCTV monitoring services
- Highway maintenance contracts being re-formed within many local authorities, creating opportunities to forge links with major contractors
- Increased number of civil engineering consultancy projects in India and various parts of Asia and Africa.

7

**Life and pensions**

19% of Group revenue  
(2010: 18%)

**Drivers for outsourcing**

- Ongoing pressure on life and pensions providers to reduce operating and administration costs to maintain competitive positions
- We estimate there are circa 104m life and pensions policies in force in the UK of which around 52m have not yet been outsourced
- There are 29m members in group pension schemes and third party administration is actively embraced in this market sector
- Providers seeking assistance to respond to and share associated costs of increasingly complex legislation
- Acknowledgement of the cost benefits offered by commonality across shared delivery platforms
- Significant potential in Europe with an estimated 500m policies in force and the cost of administration around two times higher than in the UK.

👉 See case study on page 20

8

**Insurance**

6% of Group revenue  
(2010: 7%)

**Drivers for outsourcing**

- Need to provide claims processing and comprehensive, quality customer service at lower operational cost and embrace new technology
- Higher frequency of severe weather events in UK prompting an increase in claims – need for organisations to offset this with cost savings
- The Lloyd's of London Claims Transformation Programme may result in new claims handling models
- The forthcoming Solvency II regime may lead to some firms adjusting their portfolios and moving away from some capital intensive lines of business giving rise to more run-offs or portfolio transfers
- Need to improve management of claims costs, particularly by preventing fraud and leakage.

9

**Financial services**

5% of Group revenue  
(2010: 5%)

**Drivers for outsourcing**

- Increasing burden on back office processes due to the financial crisis driving regulatory and compliance change, such as the Markets in Financial Instruments Directive
- Need to reduce risks and costs associated with regulatory change creates increased potential for value added outsourcing propositions
- Need for financial organisations to offer greater flexibility and enhance competitiveness
- Focus on customer retention and innovative ways to improve the customer experience creates opportunities for outsourced expertise
- New market entrants looking for low risk scalable models that can enable them to rapidly take advantage of changing market conditions.

10

**Other corporates**

22% of Group revenue  
(2010: 20%)

**Drivers for outsourcing**

- Increased competition creating pressure on organisations to reduce administrative costs and improve service levels
- Pressure on investment and research budgets, despite undiminished requirement for development to maintain competitiveness
- Growing recognition of outsourced expertise as a way of improving customer service and satisfaction
- Drive to optimise organisations' own corporate services
- Increased regulatory and legislative requirements.

👉 See case study on page 26

## Creating growth both organically and through acquisition

We create growth by securing long term relationships with new and existing clients and through acquisitions which enhance our proposition, capability and market reach.

### Organic growth is a key component of Capita's long term growth

Our evolution across a number of markets has enabled us to develop a broad based services business which generates revenues from multiple clients across a wide range of different sectors.

### Progress in 2011

2011 was a record year for Capita in respect of new major contracts and renewals, with £2.0bn of contract wins secured during the year. This reflects the operational track record of the Group and the demand for outsourcing across our target markets and will support stronger revenue growth in 2012.

Our performance in 2011 was impacted by the more challenging economic environment, including a range of austerity measures implemented across Government. This adversely affected a number of our trading activities, including our property consultancy and parts of our IT and resourcing businesses, and also resulted in lower discretionary revenue being generated from existing clients.

### Highly visible future revenues

The combination of long term major contracts, which makes up around 65% of revenue, and recurrent business ensures highly visible future revenues for the Group:

#### Long term BPO contracts

- High quality recurring revenues delivered from multiple, integrated administration and customer services contracts, currently average nine years in length

#### Single service business

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

#### Discretionary spend

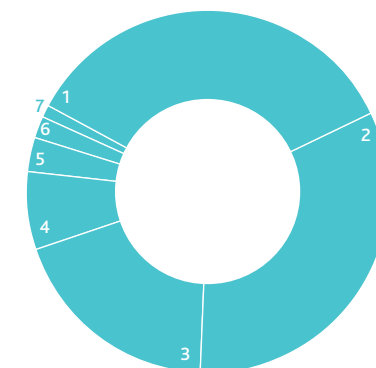
- Additional services for existing clients and/or change control requests

#### Transactional activities <10% of revenue

- Short term projects/contracts for specific work streams.

### 2011 contract wins by market

	% by value
1. Life and pensions	35%
2. Other corporates	33%
3. Central government	19%
4. Local government	7%
5. Financial services	3%
6. Health	2%
7. Emergency services	1%



### Securing long term client relationships

#### What we do

- Construct and deliver robust business transformation programmes
- Re-engineer and improve processes
- Introduce new ways of working
- Increase service efficiency, quality and effectiveness
- Harness the most appropriate technology
- Apply innovative solutions

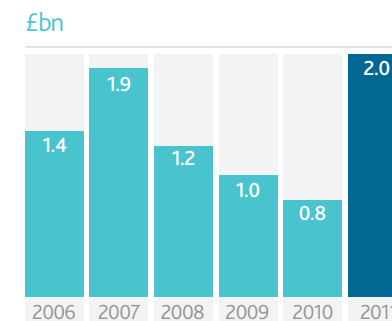
#### What we deliver

- Improved customer service
- Reduced operating costs
- Enhanced revenues
- Improved quality
- Staff progression

Commercial certainty

Partnership model

### Historical contract wins and renewals by total annual value



## 2011: 26 major contract wins totalling £2.0bn

### Central government

#### Teachers' Pension Scheme

**Value: £80m over 7 years**

Administration of the Teachers' Pension Scheme (TPS), the second largest public sector pension scheme in England and Wales.

#### Driver and Vehicle Licensing Agency (DVLA)

**Value: £100m over 5 years**

A new contract to provide a national Vehicle Excise Duty service that includes provision, at the DVLA's option, for a Continuous Insurance Enforcement service.

#### The Pensions Regulator

**Value: £105m over 7 years**

Appointed to support direct communications with employers for automatic enrolment of staff into workplace pension schemes, due to be phased in from October 2012.

### Life and pensions

#### MetLife

**Value: £149m over 10 years**

Selected to deliver an extended life and pensions administration contract providing customer servicing, policy administration, claims activity and related IT support.

#### Zurich Financial Services Group

**Value: £570m over 11 & 15 years**

Extension of current contract and a new contract to support development of Zurich's European and international administration hubs.

### Local government

#### London Borough of Lambeth

**Value: £50m over 10 years**

Collaborative partnership to deliver a range of services including revenue collection, management of call centre operations, ICT support and benefits resilience.

### Other corporates

#### TV Licensing

**Value: £560m over 8 years**

New contract to continue administering TV Licensing on behalf of the BBC.

### Various sectors

**19 contracts worth £10-50m**

**Total value: £397m over average 6 years**

Secured contracts with clients across our 10 markets including EDF Energy, The Children's Mutual and the London Boroughs of Lewisham and Bromley.

👉 See pages 39 to 44

### Selecting new business opportunities

We constantly identify areas of opportunity across all our chosen markets and actively engage with potential clients to demonstrate the benefits and added value that outsourcing can offer, both to their organisations and their customers.

The procurement process, especially in the public sector, can be costly to pursue and we maintain stringent criteria to focus on opportunities where we see a real prospect of securing value to the client and Capita. If at any stage we feel that conditions have shifted significantly or that any of these criteria are no longer met, we will, after detailed consultation, withdraw from the process. We will not take on excessive risk or output based contracts which are reliant on external factors that are out of our control.

Given the long term nature of contracts, it is essential for us to pursue only those relationships that can both meet the clients' expectations and generate reasonable returns for Capita. This high level of selectivity, along with our bespoke client solutions, underpins our long term win rate of approximately one in three and most recently just below one in two.

#### We continue to look for:

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



Over the past 18 months, we've increased our major sales team headcount to ensure we have the right resources in place to manage the higher level of opportunities coming through.

Maggi Bell Business Development Director

## Average contract life cycle

### Opportunity identified

Typically 3-18 months

- Creation of bid team
- Exploration of clients' long term objectives and their customers' needs
- Solution developed in dialogue with the client, drawing on Group wide skills



### Contract secured

Average 9 year contract duration

- Transfer & transformation
- Delivering service improvement and cost savings
- Continuous improvement



### Contract extension

Average 2-5 years (stipulated at original contract award)

- Further adaptation of service to meet new requirements



### Contract renewal/rebid

Average 9 year contract duration (full rebid required with public sector contracts)

- In our 28 years of operation we have only failed to renew three of our material contracts<sup>1</sup>



## Procurement landscape

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

UK public sector contracts are subject to a defined procurement process which can take up to two years to complete. EU policy requires 'fair and open competition' and opportunities are formally advertised and notified. In addition, under EU competition law, public sector outsourcing contracts that are already in place must be offered for tender when the initial contract and extension term is complete. However, Government and local authorities are exploring ways to speed up the procurement process as they strive to realise the benefits of outsourcing at a faster pace and we have seen progress on this in 2011.

## Creating the right bid team

We manage procurements either centrally or at business level, depending on the size and complexity of the opportunity.

Our major sales team pursues complex, long term contracts, usually valued in excess of £50m. It can draw on the resources of the whole Group to tailor solutions to each client's requirements. Each central bid team is comprised of a sales director, who is responsible for the client relationship, and a support team including: solution architects, financial modellers and bid support specialists. They are also able to draw from our wealth of businesses to ensure that they have the relevant specialist market and technical knowledge to support the process.

To ensure prudent pricing, we clearly separate responsibilities:

- sales teams: client relationships
- sales support teams: pricing and risk models
- Group Board: solution and pricing approval (major bids).

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

## Expanding our relationship with Zurich

# A growing partnership

Strong delivery

Back in 2005, we were looking for a partner that could bring operational and scalable efficiencies and deliver on cost. We also wanted an organisation that was a good cultural fit.

### Capita ticked every box.

The key to the success of the partnership is good relationships at all levels, not just amongst senior managers. We're very open and honest with each other which means that when issues do arise they are resolved quickly and in an adult way. These strong relationships have been fundamental to the smooth transition of the recent contract extension, particularly as many of the people involved have been here since 2005 and bring with them a wealth of experience from the first transition.

Paul Kenmir Head of the European and International Hub, Zurich Financial Services



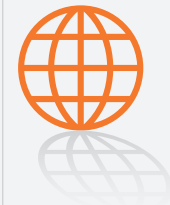
In December 2005, Capita entered into a partnership with Zurich Financial Services Group to deliver customer service, policy administration, new business and claims activities for their 2.1m UK open-book life and pensions policies.

In May 2005, 11.6% of all calls were abandoned and overall competency was at just 87%. Within one month we'd reduced call abandonment to 2.3% and raised overall competency to 99%, a level we've maintained ever since, and Zurich has continued to win coveted five star service ratings from distributors year-on-year. In 2007, our UK operations for Zurich in Swindon and Cheltenham were officially recognised with Investors in People accreditation. Areas of particular commendation included our values, our performance management system and our culture of valuing individuals.

The partnership has continued to go from strength-to-strength, so much so that in July 2011, not only did Zurich extend the UK contract, they also appointed us to support the growth of their European and international business by providing customer service and administration for cross-border products in Europe, the Middle East and Asia, and their domestic business in Ireland.

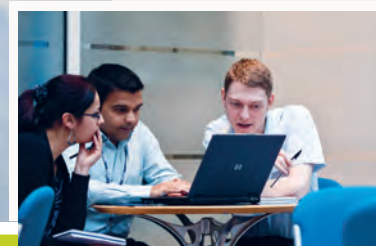
### The facts

In July 2011, Zurich extended the UK contract, and also appointed Capita to support the growth of their European and international business



# 99%

Within one month we reduced call abandonment to 2.3% and raised overall competency to 99%



Over the past 18 months, we have increased our major sales team headcount to ensure that we have the right resources and skills in place to manage the higher level of opportunities coming through. In 2011, we also appointed a European business development director, who feeds into the central UK sales team, and senior country managers for Scotland and Ireland to further develop our presence in these countries.

Contracts below a £50m threshold, usually focused on a single or a smaller bundle of services, are managed by the relevant business unit. Where the contract is worth between £10m to £50m, the major sales team may provide extra support.

**Converting opportunities**

The key to winning new business is to really engage with our clients and listen to and understand their challenges and the expectations of their customers. Our sales teams are dedicated to creating solutions which meet the needs of organisations today and into the future and we have the capability and infrastructure to deliver the solutions to high service quality levels.

**Actively replenishing our pipeline**

Our bid pipeline at the end of February 2012 was £4.6bn, comprising 35 bids across our target markets with the highest value being in central government, followed by defence, local government and life and pensions.

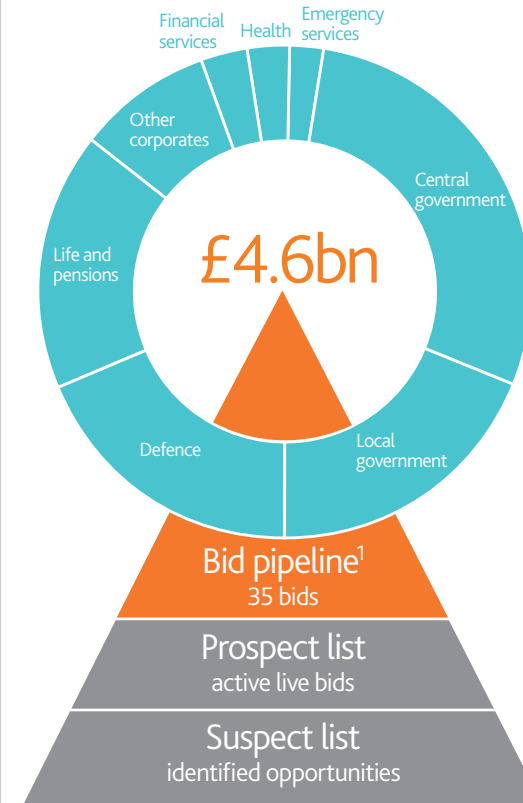
We report on the status of our pipeline twice a year, in February and July, providing a snapshot in time. The bid pipeline represents bids which are at an advanced stage to provide a fair indication of the health of the market and is subject to the following criteria:

- contains contracts of £10m or above
- where we have been shortlisted to the last four or fewer bidders
- all bids are capped at £500m to prevent very large individual contracts distorting the total
- reported twice a year at our half year and full year results.

Setting our bid success rate against our bid pipeline provides a useful indicator of likely future sales growth. Our long term win rate is one in three, however, in 2011 we achieved a win rate of just below one in two.

Behind our bid pipeline is an active prospect list of opportunities where the bidding process is underway but we have yet to reach a shortlist or final bidding stage. Our prospect list is also at a record level. This prospect list is in turn supported by a list of suspects – relationships which we are nurturing to generate future bid opportunities.

**Fuelling our growth: Major sales opportunities**



<sup>1</sup> Bid pipeline as at February 2012: Shortlisted to 4 bidders.

### Securing appropriate pricing and contract terms

Our major contracts are long term commitments. It is therefore essential to get our pricing and contract terms correct from the start, to deliver value to both the Group and our clients and to ensure that we maintain a mutually beneficial, long term relationship which is based on trust. We undertake extensive due diligence to build detailed service, risk and pricing models. We often share these openly with our prospective clients to ensure that all our assumptions for delivering successfully on the project are robust and that the benefits generated to both parties are fully understood.

Our contract price is generally made up of a base cost that covers the transformation and normal running costs of the service. Where demand on the service infrastructure and resources fluctuates, the pricing will include a variable volume-related element. All contracts include a related basket of indices that reflect the cost elements of the service (such as wage inflation indices, CPI and RPI). Our scale, multi country service delivery model and low central overhead costs help to provide additional competitive advantage and enable us to generate reasonable margins for the Group.

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

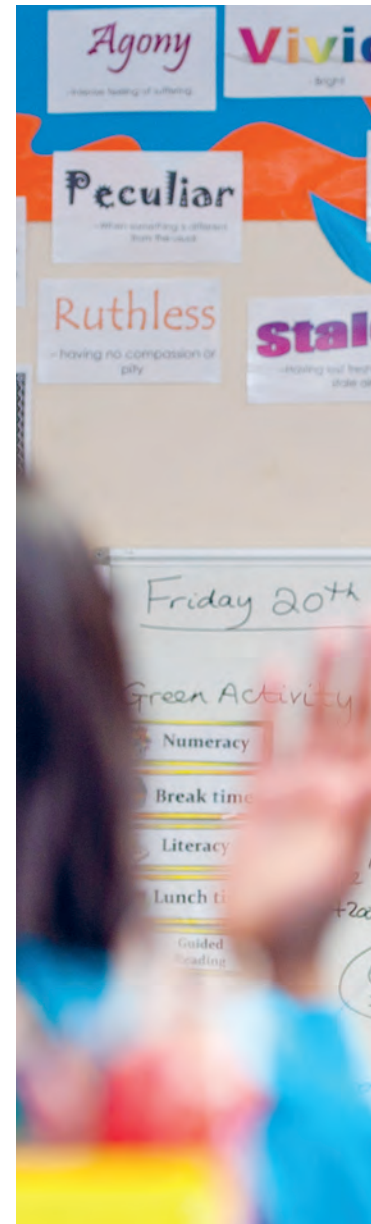
### Retaining and expanding contracts

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 28 years, we have only failed to renew three of our material contracts (defined as generating more than 1% of the previous year's revenue).

We maintain open and honest discussions with our clients, which allow us to develop a detailed understanding of their business and challenges. This ensures that we can secure opportunities to expand the relationship where this is mutually beneficial. We agree detailed service standards and key performance indicators to measure progress and improvements.

In line with the nature and the size of the contract, we create appropriate governance and client engagement structures to ensure that we are delivering to expectations.

On our largest contracts, strategic partnership boards help both parties understand each other's requirements better and ensure that the partnership develops to support any changing needs. As a result, clients find that outsourcing gives them more control over support operations, not less.





## Taking teachers' pensions administration to the next level

# A better customer experience

In March 2011, Capita was awarded its third consecutive Teachers' Pension Scheme administration contract, having been awarded its first in 1996.

Creating solutions

A+

Our remit includes raising awareness amongst members and helping them to proactively manage their pensions. In parallel, we will improve systems and support to help employers meet their obligations, all within a strict budget.

We engaged in a highly collaborative approach to service design with members and employers playing an integral role in the design process as our expert advisors. We developed an engagement strategy, including a new brand, to improve perceptions of the service and encourage members to change their behaviour, as well as enhancing their experience of the service.

We also worked hard to reduce the risk of re-engineering the service by identifying and addressing design challenges at an early stage, before we invested in changes in technology, processes or people.

Initial research showed that there was a significant opportunity for channel shift, with a key focus on equipping members with intuitive tools and resources to enable them to self-serve. We are developing a new website that will provide the main platform for encouraging improved understanding, self-service and behaviour change.

To advise both members and employers, we launched the Employer Relationship Management Service, a team of regionally focused pension experts who provide training and support both face-to-face and online. Additionally, in response to the current focus on public sector pensions, we have developed a pensions calculator which allows members to estimate what pension benefits they may receive under any new scheme arrangements.

Capita has offered a solution which will see the effective delivery of services to both members and employers, with continuous improvement and innovation throughout the life of the contract to reflect the challenges associated with the pension environment. The Department will work with Capita to build on their achievements to date in delivering the requirements of the new contract.

Department for Education



### Stimulating growth and adding value through acquisitions

Acquisitions that enhance our capabilities and take us into new and complementary areas have always played a key part in Capita's growth.

Alongside our organic growth, we acquire small to medium sized companies with capabilities that enhance our propositions to clients and can support further organic growth. We have also consistently used acquisitions to take us into new market segments.

Capita took its first significant step into the private sector in 2000 with the acquisition of share registration business, IRG Plc. We then expanded this business through organic growth and further acquisitions creating the platform for our growth into the private sector and particularly the wider financial services market. Our private sector annual revenues now contribute 52% of the Group's total revenue and we have leading market positions established across a number of areas, including life and pensions, insurance and financial services. In the public sector, acquisitions have also played a key role in helping us to enter and grow in areas such as education, health and, most recently, the emergency services.

### Progress in 2011

We have had a particularly active year in 2011 with £341m invested in 21 acquisitions. Through acquisitions we have enhanced our pensions, corporate mortgage and trust administration operations and extended our capabilities in customer management, IT, health and the emergency services market.

In the emergency services market we have acquired a number of niche businesses which bring specialist market knowledge, products and services and relationships with 52 of the 53 police authorities across the UK. These acquisitions, together with existing Group capabilities and infrastructure, now position us well to bid for major outsourcing contracts in the police and wider emergency services market.

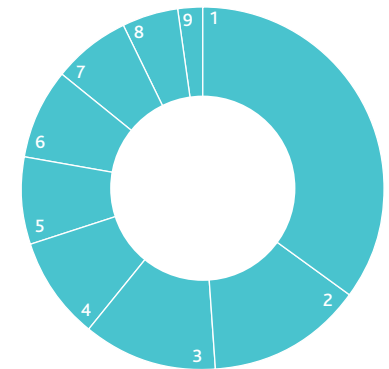
← See case study on page 15

Market conditions in the year enabled us to acquire the non-core activities of a number of private sector organisations at attractive prices. For example, our successful acquisition of both Ventura and Vertex Private Sector expands our private sector client base significantly and will enable us to offer wider service propositions to this client base beyond the existing customer management offering.

← See case study on page 26

### 2011 acquisitions by business area

	% by value
1. Customer management & technology	35%
2. Financial services	14%
3. Health	12%
4. Document management	9%
5. Pensions administration	8%
6. IT & software services	8%
7. Emergency services	7%
8. Consultancy	5%
9. Translation services	2%



#### Did you know...

Capita took its first significant step into the private sector in 2000 with the acquisition of share registration business, IRG Plc

Our focus is now on achieving the successful integration of all our 2011 acquisitions realising synergies. We expect our acquisition activity to slow to our previous historic levels going forward in 2012 as organic growth across the Group picks up.

We continuously look to acquire small to medium sized businesses that will help us to:

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

### Rigorous selection criteria and pricing

Potential acquisitions are identified and brought to the Group by external consultants, people in our businesses, or through a direct approach and all deals are assessed, priced and agreed by the Group Board. Stringent due diligence, before and after acquisition, is undertaken at both Group and business level enabling us to achieve clear targets for growth, integration benefits and profit.

To stimulate growth and ensure that we can negotiate sensible purchase prices and terms we generally seek target acquisitions that:

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

### Smooth integration

We have substantial experience of successfully integrating acquired businesses and contracts into the Group and achieving synergies with our existing operations. Our values and key processes are communicated and implemented right from the start of the integration process. A dedicated project team manages the transition – bringing financial procedures, information and communications technology (ICT), HR, legal, compliance and marketing quickly into line with our standards. Acquiring only small to medium sized businesses enables us to integrate them into our existing business infrastructure efficiently and allows us to generate value faster.

## Expanding capability through acquisitions

### 2011: 21 acquisitions totalling £341m<sup>1</sup>

Enhancing our capabilities	Acquisition	Price £m <sup>2</sup>
Customer management & technology	Ventura	65.0
	Vertex Private Sector	40.0
	Call Centre Technology	15.0
Translation services	Applied Language Solutions	7.5 (+60)
	Salmat Speech Solutions (UK operations)	0.1
Emergency services	Beat Systems	8.0 (+4)
	Cedar HR Software	15.0
IT & software services	Talis Information	18.5 (+3)
	Technophobia	6.3
Document management	Right Document Solutions	30.0 (+10)
Health	Insurance Medical Group (IMG)	9.7
	Team24 (recruitment)	24.0 (+2)
	Tribal health division	16.5
Consultancy	Tribal government division	1.0 (+1)
	Red Procurement and Business Systems	2.4
	Xayce (financial services)	3.9
	MSS Health & Safety (property)	2.0 (+1)
Financial services	Barclays Capital Mortgage Servicing	7.0
	AIB International Financial Services + AIB Jersey Trust	29.0 +12.5
Pensions administration	NorthgateArinso	27.5

<sup>1</sup> Before contingent consideration.

<sup>2</sup> Value in brackets represents maximum contingent performance based consideration.



## Growing our customer management capability



# Adding to our capabilities

### The facts



## 60m

We are trusted to handle over 60m customer contacts each year for more than 35 clients

## 9,400

employees



Over 9,400 employees transferred into Capita across the two acquisitions, making it the largest employee transfer in Capita's history.

In 2011, Capita acquired contact centre and customer management experts Ventura and Vertex Private Sector. Since then we have merged the two organisations with our existing capabilities to create a new customer management business. Now the UK's leading provider of customer management services, we are trusted to handle over 60m customer contacts each year for more than 35 clients, including O<sub>2</sub>, Google, The National Trust, BT, British Gas and the Department for Work and Pensions.

Many of our clients adopt a multi-channel approach for both sales and customer engagement, so it is essential that we have the depth of functions necessary to meet all of these requirements. These acquisitions enhance our customer management and front office outsourcing capabilities, increasing our reach and significantly strengthening our proposition to the private sector. By outsourcing their customer management, we can help clients to increase sales, improve customer satisfaction, reduce costs without compromising quality, consolidate existing contact centres or rapidly set up new ones, improve efficiency at existing sites, and increase flexibility.



### This is a really exciting time for all of us.

The transfer went very smoothly and we really felt welcomed by our new Capita colleagues. I have 10 clients across multiple sectors and we are looking forward to maximising the opportunities that being part of Capita brings.

The back office support that we now enjoy means that we can offer clients a completely joined up service, and the customer service expertise that we bring to the table means that the newly formed customer management operation is capable of handling new contracts of almost any size and complexity.

Karen Moorby Head of Operations



## Building our capability and scale

The strength of our offering is a result of our proactive development of the Group's capability and infrastructure ensuring that we have the right resources in place to deliver quality services for our clients.

We achieve this by continuously investing in and developing our services and products, our infrastructure and our people and by acquiring small to medium sized companies which add value to our propositions. We harness the extensive skills and resources that we have internally across the Group and work with partners, SMEs and third sector organisations to meet each client's need.

We continuously assess the needs of each part of the Group to ensure that we have the necessary people, infrastructure and resources in place to maintain consistent service delivery and to plan for future business development. Each month we review comprehensive operational management information which helps us to allocate resources in a way that meets the needs of our clients and delivers our key financial targets.

## Harnessing talent and leadership

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

Attracting, developing and retaining a highly skilled workforce helps to drive our business performance. By nurturing our employees' talents, while recognising their differences, we can meet, and often exceed, the needs of our clients and their customers. We encourage our people to develop their skills and we ensure that they have access to the right expertise and training to do their jobs effectively, underpinning the Group's long term success.

We track employee retention as one of our key performance indicators and continue to maintain levels in line with the industry. Our retention rate for managers across the Group was 95% (2010: 84%). Our overall employee retention rate was 89% (2010: 83%).

Succession planning is a key element of our strategy, ensuring that we have the appropriate resources in place to maintain stable leadership. In order to retain the best people we give them the opportunity to grow and develop and actively reassign managers to new business areas. This also serves to promote the Capita ethos and allows us to share innovation and skills between contracts and businesses, helping us to stay at the forefront of the BPO market.

➔ See page 50

## Effective integration and transformation

Successfully managing large-scale employee transfers is one of our strengths. This is an extremely complex and sensitive process and our experienced HR integration team consult with the client and potential transferees throughout the whole project, providing support and information to ensure that we meet our objectives. Staff typically transfer under TUPE (Transfer of Undertakings, Protection of Employment regulations) and, approaching 70% of our workforce have transferred in this way.

We work closely with clients to transform their business performance primarily through effective people management, process re-engineering and appropriate ICT platforms. We apply the experience that we have gained through numerous large scale transformations in order to drive through efficiencies and optimise revenue for the organisation.



# Smart procurement



## £1m

Red Procurement and Business Systems was acquired for £1m in May 2011

By creating mutually beneficial relationships with our suppliers, we can use our purchasing power to secure best value goods and services, which can directly improve our business performance and that of our clients. To support this, during the year we acquired a procurement business, Red Procurement and Business Systems, which provides expert procurement consultancy services to the public and private sectors. The team are responsible for optimising Capita's procurement process and we are also using this expertise to help our clients procure in a smarter way, bringing additional value to our BPO proposition.

➔ See page 54



## Leveraging resources

Our range of capabilities and flexible infrastructure means that we can support organisations in a way that works best for them, whether it's a single service in a specific market area or a full strategic partnership combining multiple objectives and services.

This allows us to deliver the appropriate outcome for each client, meeting their individual objectives, budget and timeframe.

## Sharing scale benefits

Our substantial scale and broad capability enable us to put forward compelling, cost effective propositions for clients and are integral to us winning major service transformation projects. The successful integration and delivery of progressively larger contracts, with common processes and substantial numbers of transferring employees, fuels the growth of our operations and resources.

Wherever possible, we migrate and integrate systems, share resources and rationalise premises to optimise our infrastructure while maintaining and enhancing services. As we increase scale, we are able to deliver more services and contracts through shared ICT platforms and operating structures, allowing us to deliver significant cost savings for clients. We also use our scale to procure services cost effectively and share these cost benefits with our clients.

Within our IT Services & Consulting division we provide a full range of IT services from off the shelf solutions to full service, on-premise solutions. We support businesses and contracts internally and sell to external clients. We have the capability to work with and enhance a client's existing technical platforms or we can create entirely new, bespoke systems depending on the desired outcomes.

Integral to our offering is our highly efficient internal operating and financial structure which ensures that we contain our central overhead, helping us to remain competitive on price whilst providing real added value for clients.



## Did you know...

Capita was formed in 1984 with two employees and has grown to a workforce of 46,500 today

### Business centre network

Our business centres, where we are able to run a broad range of shared services, form a central part of our service delivery infrastructure. We are further developing our nearshore and offshore capability to meet the increasing demand for flexible delivery models from clients, particularly in the private sector. We have 68 centres onshore in the UK, the Channel Islands and Europe and offshore in India and Dubai. Our comprehensive security and quality assurance systems ensure consistent service quality across the entire infrastructure.

**Onshore:** We now have 55 multi service centres in the UK serving clients across all our markets. We increased our capability in 2011 through the acquisitions of Ventura and Vertex Private Sector, which we are in the process of integrating into one unified customer management business offering.

➔ See case study on page 26

**Nearshore:** In 2011, we established a new European business centre in Krakow, Poland. The centre is now operational and will be servicing a number of Capita's existing clients and new clients in English and the core European languages. This development adds another option to our flexible network and means that clients have even more choice of how and where they want their service to be delivered. The centre in Krakow is located close to the city centre and the university and can therefore access a skilled, multi-lingual workforce. We have a 550 seat capacity and expect to expand as client demand grows.

**Offshore:** Our offshore operations in India, which we established in 2004, are an integral part of our flexible delivery model. They deliver a range of services, from simple transaction processing through to more complex knowledge based back office functions and English language based services. Following the acquisitions of Ventura and Vertex Private Sector in 2011, we now have a total of six sites in India, located in Mumbai, Pune and Bangalore.

Capita India operates like any other Capita business with the same values, technical infrastructure and operating model. The sites share a combined management team to ensure they all benefit from their collective skills.

We proactively recruit from the highly skilled graduate workforce that is available in these locations. Their skills, knowledge and excellent work ethic help us meet our objectives of delivering a first class service to our clients.

As part of our new contract with Zurich Financial Services Group, we now have a business centre in Dubai which currently primarily supports life and pensions administration.

### Our business centre network

**Onshore:**  
UK



**What we do**

Core client marketplace

**What we provide**

- Back office administration
- Customer services
- Life and pensions
- IT and software
- Resourcing and training
- Share registration
- Property consultancy
- Electronic document processing
- Claims and policy administration
- HR administration

**Nearshore:**  
Continental Europe, Ireland, Channel Islands Isle of Man



**What we do**

Additional tax jurisdictions to support clients' products

**What we provide**

- Customer services
- Life and pensions administration
- Financial services
- Corporate registrars
- Loan administration
- Fund administration

**Offshore:**  
India Dubai



**What we do**

Quality, cost effective offshore service delivery

**What we provide**

- Data validation and entry
- Claims and policy administration
- Fund management administration
- Accounting and finance processing
- Payroll processing and HR services
- Property consultancy
- IT services
- Consultancy and knowledge services

### Flexible delivery models

By offering clients onshore, nearshore, offshore or blended delivery options, over a time frame that suits their organisational objectives, we can offer maximum service flexibility, quality and cost savings. For some clients, a long term defined contract and cost profile is important to support their long term strategy. Other clients, who face faster decision making cycles and business seasonality, require a greater degree of flexibility, for example, organisations in the retail and utilities sectors. We can adapt to meet their specific requirements and through this, we generate a healthy mix of revenue streams across a wide spectrum of markets and industries. The majority of our revenue is generated from medium to long term contracts which average 3 – 15 years.

We have an extensive track record of creating collaborative partnerships and working together with small businesses, local organisations and charities to deliver the right outcomes for our clients and the communities they serve. We are, therefore, well positioned to help create and participate in new models of delivering public services. We leverage our expertise, capability and infrastructure to support government at both a central and local level, and the private sector.



### Priorities for 2012

#### Generating long term, profitable growth:




- convert and replenish our bid pipeline
- explore new market segments where we can add value
- maintain rigorous bid selection, pricing and contractual criteria
- select acquisitions that complement or grow our offering
- focus on integration of 2011 acquisitions
- apply rigorous selection, due diligence and pricing in line with our acquisition criteria
- continue to develop our capability and scale to deliver innovative service solutions for clients.

# 2 Controlling and measuring growth

Our growth is underpinned by strong leadership and disciplined business practices which are essential to creating a stable organisation with the ability to deliver sustained growth and healthy investor returns. Our robust management structure and financial reporting process promote accountability and knowledge sharing across the Group. This is underpinned by a straightforward and pragmatic operating structure which supports optimum service delivery for all our clients and provides ready access to the Group's wider expertise and scale.

## Aim

To continue to manage the Group in a financially disciplined manner, maximising the scale and expertise that enables us to deliver innovative solutions for our clients and, as a result, create long term value for all our stakeholder groups.

- **Maintaining strong leadership and controls**  page 32
- **Focusing on clear financial key performance indicators**  page 35
- **Managing consistently across our divisions**  page 38

## Our principal financial KPIs

	2011	2010
<b>Earnings per share<sup>1</sup></b> Achieve long term steady growth in EPS	<b>48.49p</b>	44.98p
<b>Operating margin<sup>1</sup></b> Maintain and strengthen margin	<b>14.59%</b>	14.40%
<b>Free cash flow<sup>2</sup></b> Maintain a high level of operating and free cash flow	<b>£157m</b>	£241m
<b>Return on capital employed (ROCE)</b> Achieve a healthy ROCE which exceeds our cost of capital	<b>17.2%</b> (7.5%) <sup>3</sup>	20.6% (7.7%) <sup>3</sup>
<b>Economic profit<sup>1</sup></b> Achieve steadily increasing economic profit	<b>£184m</b>	£187m
<b>Gearing – interest cover</b> Maintain a conservative and efficient capital structure, with an appropriate level of gearing	<b>10.2x</b>	12.4x
<b>Capital expenditure</b> Keep at or below 4% of revenue	<b>3.5%</b>	3.6%

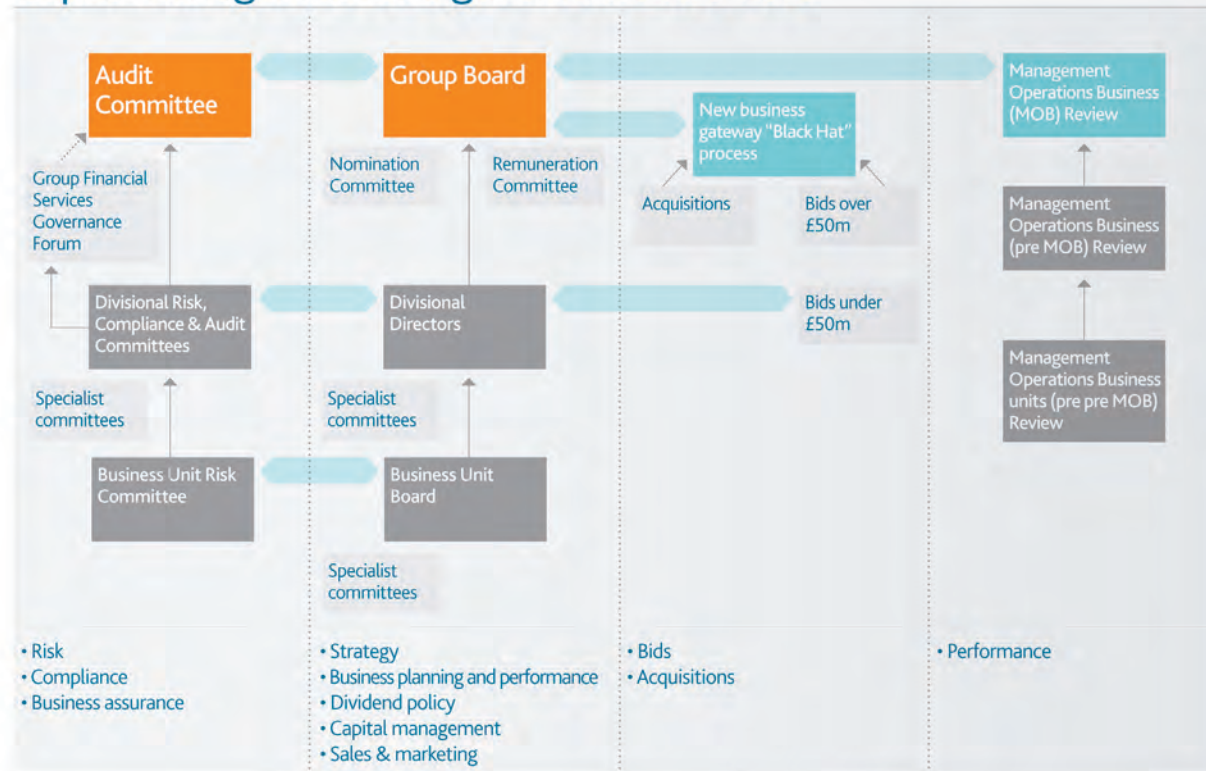
 See pages 35 to 37

<sup>1</sup> Excludes non-underlying items being: intangible amortisation and acquisition expenses and release of contingent consideration of £71.9m (2010: £47.8m), the non-cash impact of mark to market movement on financial instruments of £7.1m (2010: £6.6m), and £3.3m (2010: £nil) for increased counterparty credit risk. After these non-underlying items: reported operating profit is £355.5m (2010: £347.3m), reported profit before tax is £302.9m (2010: £309.8m) and reported earnings per share is 39.16p (2010: 38.44p).

<sup>2</sup> Settlements consist of a £17.9m settlement for Arch cru and an additional pension contribution of £10.0m on the transfer back of the Cumbria County Council pension scheme.

<sup>3</sup> Weighted average cost of capital (WACC).

## Capita management and governance structure





## Maintaining strong leadership and controls

Our management structure, business reporting and risk management processes ensure that management are informed and responsive to performance and trends in the business and the wider marketplace and can make informed strategic and tactical decisions.

### Management responsibilities and processes

Our Group Board is responsible for establishing, maintaining and reviewing the Group's strategy, risk appetite, financial performance and systems of internal control.

The Joint Chief Operating Officers and the Divisional Directors are responsible to the Group Board for business development and operational performance. They communicate and monitor the application of Group-wide business objectives, policies, procedures and standards. They work with, and delegate responsibility to, their management teams.

Each of our business units prepares a comprehensive annual business plan. This includes monthly revenue and cost forecasts for the year ahead, taking into account new service and product developments and changes in the competitive landscape. The business units' financial plans feed into the Group financial model.

### Management Operations Business (MOB) review

The MOB review process encapsulates the performance of each business unit in each division and tracks performance against business plans. The process enables the management of each division to present details of performance across all their business units to the Group's Executive Board Directors. This monthly review process consists of three tiers of meetings:

- **pre-pre MOBs:** Management of each business unit reviews and prepares a report regarding the operational and financial performance of their unit against plan.
- **pre-MOBs:** Divisional Directors and their management teams assess each unit's performance against plan and discuss its ongoing development, determining how planned targets will be met. These are forums to share knowledge and identify challenges early, develop tactics, reallocate resources and refresh strategies.
- **MOBs:** Divisional Directors and representatives of their management teams report on progress to the Group's Executive Board Directors. This ensures that the Group Executive Board members have a detailed knowledge of the progress of the divisions and a monthly view of actual and anticipated performance against business plans.

### Careful risk management

Managed risk-taking is an important ingredient in our growth and success. We are, therefore, focused on comprehensively assessing risks and understanding which risks can be controlled and mitigated and which are outside of our control. Where we believe there is a sensible balance of reward against any potential risk, then we will proceed with specific business developments including new contracts and acquisitions.

Systems and procedures are in place across the Group to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy. Monitoring our exposure to risk is an integral part of the MOB process.

The MOB process is supplemented across many of our businesses, including all the regulated financial services businesses, by formally constituted risk committees. A 'Black Hat' process is additionally in place to discuss and seek Group Board approval regarding acquisitions and major bids.

At Group level, risk management is independently facilitated and challenged by the Group Risk and Business Assurance function. In respect of financial services regulated businesses, there is also a Group Compliance function. Both of these control functions report to the Group Finance Director and independently to the Audit Committee. In addition, for regulated financial services, there is a Financial Services Governance Forum which assists with the Board's oversight of risk in this sector.

## Controlling &amp; measuring growth

## Principal risk categories, potential impacts and examples of mitigations

Key risk categories	Potential impacts	Mitigating activities include
<b>Financial</b>	<ul style="list-style-type: none"> <li>– Adverse effect on financial performance and brand reputation.</li> </ul>	<ul style="list-style-type: none"> <li>– Financial performance of each business unit is monitored monthly</li> <li>– Capital expenditure is subject to rigorous monitoring and budgetary controls.</li> </ul>
<b>Delegates and counterparty failure</b>	<ul style="list-style-type: none"> <li>– Reputation risk and financial loss e.g. disruption to supply chain; service interruption.</li> </ul>	<ul style="list-style-type: none"> <li>– Rigorous risk-based due diligence processes for the selection of key delegates and wider counterparties monitoring.</li> </ul>
<b>Operational risks</b>	<ul style="list-style-type: none"> <li>– Failure to meet contractual Service Level Agreements</li> <li>– Financial penalties</li> <li>– Potential loss of contracts</li> <li>– Brand reputation impacted.</li> </ul>	<ul style="list-style-type: none"> <li>– Risk committees and Group Board escalation of risks/issues</li> <li>– MOB process escalation</li> <li>– Operating performance indicators in place</li> <li>– Business resilience arrangements in place</li> <li>– Risk-based independent assurance</li> <li>– Centralised proactive and reactive PR team provides full issues management communications support.</li> </ul>
<b>Acquisitions and organic growth</b>	<ul style="list-style-type: none"> <li>– Planned synergies not achieved</li> <li>– Adverse impact on financial growth and performance</li> <li>– Financial penalties.</li> </ul>	<ul style="list-style-type: none"> <li>– Rigorous risk-based due diligence</li> <li>– Black Hat process: <ul style="list-style-type: none"> <li>– Fit with strategy and pricing is subject to review and approval by the Group Board</li> <li>– Appropriate contractual terms to ensure fair risk/reward profile</li> </ul> </li> <li>– Robust integration and transition process.</li> </ul>
<b>Regulatory and economic landscape</b>	<ul style="list-style-type: none"> <li>– Weaker economic conditions are a key driver for outsourcing, however, extreme economic uncertainty can result in a delay in buying decisions and lower discretionary spend across some market segments</li> <li>– Changes to regulation in different jurisdictions could potentially impact businesses located there.</li> </ul>	<ul style="list-style-type: none"> <li>– Focus on 10 diverse public and private sector markets</li> <li>– Focus on widening scope of existing contracts to help clients save money</li> <li>– Supply of services that support essential client functions rather than discretionary activities</li> <li>– Initiatives to increase the efficiency of Group operations</li> <li>– Increased compliance and risk monitoring of potential changes across all jurisdictions we are active in.</li> </ul>
<b>Attract and retain staff</b>	<ul style="list-style-type: none"> <li>– Lack of appropriate resources may lead to inability to develop and execute business plans</li> <li>– Poor staff morale</li> <li>– Competitive disadvantage.</li> </ul>	<ul style="list-style-type: none"> <li>– Training and development</li> <li>– Continual development through objective setting and appraisals</li> <li>– Competitive incentive and bonus plans</li> <li>– Succession planning</li> <li>– Comprehensive vetting process in line with roles.</li> </ul>
<b>Loss of sensitive or confidential data or failure to protect consumers' funds</b>	<ul style="list-style-type: none"> <li>– Contractual and regulatory penalties</li> <li>– Adverse media comment and reputation impact on brand.</li> </ul>	<ul style="list-style-type: none"> <li>– Appropriate policies and procedures</li> <li>– Robust information security framework, including policies and processes</li> <li>– Escalation to risk committees and subsidiary boards</li> <li>– Training and monitoring programme across businesses</li> <li>– Swift adoption of Group policies and protocols by newly acquired businesses</li> <li>– Sharing of best practice and issues through cross-Group forums</li> <li>– Regular monitoring through risk-based audits and follow-up of actions</li> <li>– Centralised proactive and reactive PR team.</li> </ul>
<b>Fraud, bribery and corruption</b>	<ul style="list-style-type: none"> <li>– Potential for civil and criminal penalties for business and/or Senior Officers</li> <li>– Potential prohibition from bidding for public sector contracts in EU</li> <li>– Media comment and reputation impact.</li> </ul>	<ul style="list-style-type: none"> <li>– Appropriate policies and procedures in place including a 'speak up' policy</li> <li>– Anti corruption culture and a zero tolerance approach with a robust disciplinary process</li> <li>– Risk assessments of vulnerabilities</li> <li>– Monitoring and audit</li> <li>– Centralised proactive and reactive PR team.</li> </ul>
<b>Financial services regulation</b>	<ul style="list-style-type: none"> <li>– Non-compliance with the requirements of the FSA and other financial services regulators, including procedures to protect clients' assets</li> <li>– Regulatory, financial and contractual penalties</li> <li>– Adverse impact on reputation.</li> </ul>	<ul style="list-style-type: none"> <li>– Appropriate policies and procedures</li> <li>– Monitoring by Risk, Business Assurance and Regulatory Compliance teams</li> <li>– Escalation of risks to risk committees and subsidiary boards</li> <li>– Risk-based assurance and actions for improvement</li> <li>– Independent reporting to Group Audit Committee and Group Financial Services Governance Forum.</li> </ul>
<b>Health and safety</b>	<ul style="list-style-type: none"> <li>– Non-compliance with health and safety regulations</li> <li>– Adverse impact on wellbeing of our employees.</li> </ul>	<ul style="list-style-type: none"> <li>– Rigorously applied health and safety policy and processes</li> <li>– Health and safety training</li> <li>– Comprehensive Group wide health and safety audits undertaken twice a year.</li> </ul>
<b>Environmental</b>	<ul style="list-style-type: none"> <li>– As a low impact company our key environmental impacts are energy use, business travel, resource use and waste management which we manage proactively.</li> </ul>	<ul style="list-style-type: none"> <li>– Raising awareness of environmental issues and Group sustainability initiatives</li> <li>– Continue to measure and manage our carbon footprint and achieve energy reductions</li> <li>– Environmental management system in place</li> <li>– Environmental site audits carried out twice a year</li> <li>– Reduction of paper use and increase in recycling.</li> </ul>

## Focusing on clear financial KPIs

Capita is a financially focused business. We monitor performance against our clear financial aims and KPIs, with strong financial controls and effective governance.

Alongside profitability, we focus particularly on KPIs in seven areas and these remain our priorities for 2012.

### 1 Earnings per share (EPS)

**Aim:** achieve long term, steady growth in EPS.

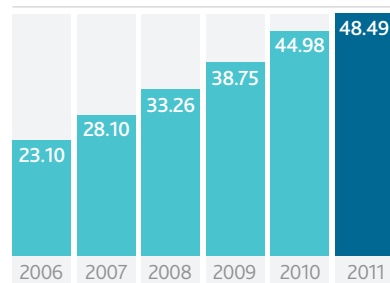
Long term growth in EPS is a fundamental driver to increasing shareholder value. Basic EPS is calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted number of ordinary shares outstanding during the year. Board Directors' long term incentive schemes have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

**Progress:** In 2011, underlying earnings per share<sup>1</sup> grew by 8% to 48.49p (2010: 44.98p). See note 11 on page 103.

#### Underlying earnings per share<sup>1</sup> (p)

Annual change 8%

5 year compound growth 16%



### 2 Operating margin

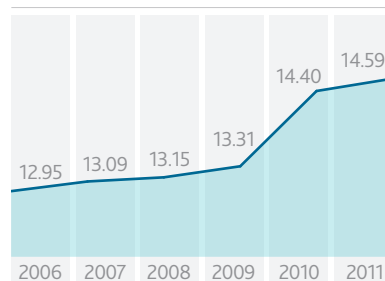
**Aim:** maintain and strengthen margin.

**Progress:** We constantly monitor operating margin and manage operating costs to ensure that the business is running efficiently and cost effectively. In 2011, the Group's underlying operating margin<sup>1</sup> was 14.59% (2010: 14.40%). In 2011, operating profit was impacted by a number of notable items including: unusually high restructuring costs (including redundancies) and the settlement of certain historic captive insurance claims. This adverse impact was offset by a past pension service credit of £23.9m which includes the change to indexation benefits from RPI to CPI. See note 32 on page 122.

Our ability to maintain margins at this level is a result of our scale, in particular our extensive shared service infrastructure, flexible delivery models and effective procurement and the added value of the services we deliver to clients.

#### Underlying operating margin<sup>1</sup>

Annual change 19bpts



### 3 Cash flow

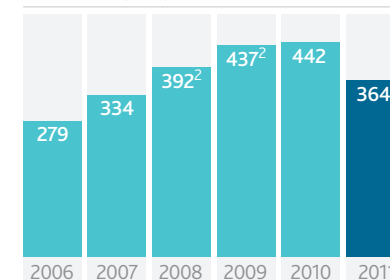
**Aim:** maintain a high level of operating and free cash flow.

**Progress:** In 2011, £364m (2010: £442m) was generated by operations representing an operating profit to cash conversion rate (defined as cash generated from operations before settlements divided by underlying operating profit<sup>1</sup> for the year) of 85% (2010: 112%).

As previously highlighted, operating cash flow before settlements<sup>3</sup> has been impacted by the conclusion of the National Strategies programme and additional working capital requirements for new and expanded contracts, in particular our Building Schools for the Future projects, Service Birmingham and certain life and pensions contracts.

Due to the recent more challenging economic conditions, the beneficial payment terms that we have historically secured from certain clients are more difficult to obtain and this inevitably impacts our working capital profile as these payment terms revert to industry norms. However, we expect that our operating cash to operating profit conversion rate will improve in 2012 and again in 2013.

#### Cash flow from operating activities (£m)



<sup>2</sup> Exceptional additional pension contribution £10m (2008), £40m (2009).

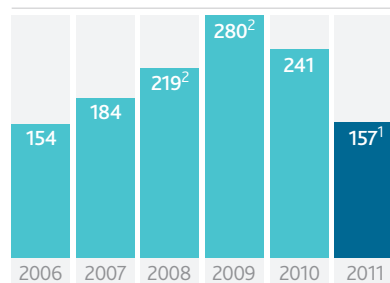
<sup>3</sup> Before one off settlements of £17.9m for Arch cru and £10.0m pension contribution for transfer back of the Cumbria County Council pension scheme.

<sup>1</sup> Excludes non-underlying items being: intangible amortisation and acquisition expenses and release of contingent consideration of £71.9m (2010: £47.8m), the non-cash impact of mark to market movement on financial instruments of £7.1m (2010: £6.6m), and £3.3m (2010: £nil) for increased counterparty credit risk. After these non-underlying items: reported operating profit is £355.5m (2010: £347.3m), reported profit before tax is £302.9m (2010: £309.8m) and reported earnings per share is 39.16p (2010: 38.44p).

## Controlling &amp; measuring growth

**Free cash flow:** defined as operating cash flow before settlements<sup>1</sup>, less capital expenditure, interest and taxation for the year was £157m (2010: £241m). This decrease was due to the movement in working capital noted in the previous section.

## Free cash flow (£m)



<sup>1</sup> Before one off settlements of £17.9m for Arch cru and £10.0m pension contribution for transfer back of the Cumbria County Council pension scheme.

<sup>2</sup> Exceptional additional pension contribution £10m (2008), £40m (2009).

## 4 Capital expenditure (capex)

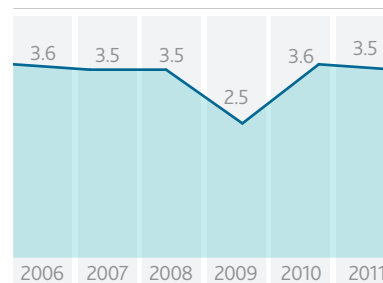
**Aim:** contain capex at or below 4% of revenue.

This helps us to focus investment on the opportunities that generate greatest shareholder value and avoid tying up too much capital in long term projects.

**Progress:** In 2011, we met this objective, with net capex at 3.5% of annual revenue (2010: 3.6%). We believe capex at or below 4% is sustainable for the foreseeable future. There are currently no indications of significant capex requirements in our business forecasts or bid pipeline, however, we would not rule out the possibility of exceeding 4% if we saw an exceptional opportunity to use our financial strength as a competitive advantage.

## Capex as % of turnover

2011 3.5%



## 5 Return on capital employed (ROCE)

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

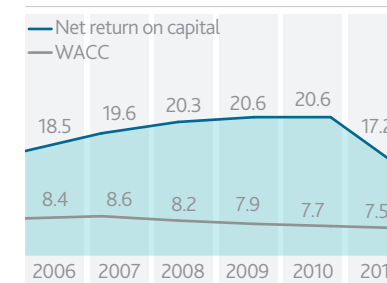
This reflects the margin between the cost of our capital and the returns we generate by investing it and ensures that we add shareholder value over the long term.

In the chart opposite the post-tax WACC indicates the return that could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our post-tax WACC assuming a risk-free rate of 2.31%, an equity risk premium of 9.6% and a Beta of 0.65.

**Progress:** During 2011, our post-tax return on average capital employed was 17.2% (2010: 20.6%). This compares to our estimated post-tax WACC which is 7.5%. We expect returns to improve as recent acquisitions deliver their full profitability and organic growth returns.

Net return on capital (%)<sup>3</sup>

Annual change 17.2%



<sup>3</sup> Excludes items which the Group treats as non-underlying, see notes 4 and 9 on pages 96 and 101.

## 6 Gearing

**Aim:** maintain a conservative and efficient capital structure, with an appropriate level of gearing.

It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf. During 2011, we issued £340m of private placement notes with maturities between seven and 10 years. Following these issuances, we have £1,176m of private placement debt of which £123m matures between now and August 2015 with the remainder gradually maturing until 2021. In February 2012, we raised a further £285m of bank debt under a two year term loan facility to further increase liquidity headroom.

Our aim continues to be to keep the ratio of net debt to EBITDA at or below 2.5 over the long term and we would be unlikely to incur borrowings which would reduce interest cover below seven times.

**Progress:** During the year, our net debt to EBITDA ratio increased to 2.5 (2010: 1.6) as a result of taking advantage of a higher level of acquisition opportunities in 2011 and higher working capital requirements. Interest cover for the year ended 31 December 2011 was 10.2 times.

### Balance sheet gearing

	2011	2010
Net debt		
Bond debt (£m) <sup>1</sup>	1,176	834
Net bank facilities drawn/(deposit) (£m)	(71)	60
Loan notes (£m)	2	2
Revolving credit facility (£m)	176	–
Other	3	2
Total underlying net debt (£m)	1,286	898
Interest cover	10.2x	12.4x
Net debt to EBITDA	2.5 <sup>2</sup>	1.6 <sup>2</sup>

<sup>1</sup> Underlying net debt after impact of currency and interest swaps.

<sup>2</sup> Adjusted for December acquisitions.

### Bond debt maturity profile as at 31 December 2011

	£m
2012	25
2013	87
2014	11
2015	98
2016	141
2017	124
2018	153
2019	101
2020	219
2021	217
<b>Total</b>	<b>1,176</b>

## 7 Economic profit

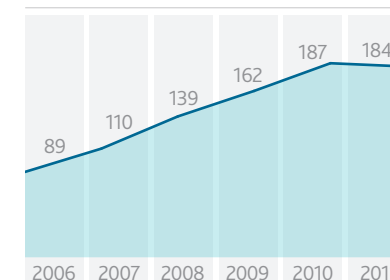
**Aim:** achieve steadily increasing economic profit. We are focused on delivering value for our shareholders.

An effective way of measuring this is to assess whether our after tax returns are sufficient to cover the returns required from all our capital providers (weighted average cost of capital – WACC). Economic profit allows us to assess whether the return generated on the average capital base is sufficient to meet the base return requirements of our investors (debt and equity). Positive economic profit, therefore, means that we have created value above this base level.

**Progress:** In 2011, we achieved positive economic profit of £184m (2010: £187m).

### Group economic profit (£m)

5 year compound growth 16%



### Creating economic profit

	2006	2007	2008	2009	2010	2011
Underlying operating profit <sup>1</sup> (£m)	225	271	321	358	395	427
Average capital (£m)	880	998	1,155	1,271	1,451	1,901
Tax (%)	27.7	27.7	27.0	26.8	24.5	23.5
Post-tax WACC (est %)	8.4	8.6	8.2	7.9	7.7	7.5
Capital charge (£m)	(74)	(86)	(95)	(100)	(112)	(143)
Tax (£m)	(62)	(75)	(87)	(96)	(96)	(100)
<b>Economic profit (£m)</b>	<b>89</b>	<b>110</b>	<b>139</b>	<b>162</b>	<b>187</b>	<b>184</b>

<sup>1</sup> Excludes non-underlying items being: intangible amortisation and acquisition expenses and release of contingent consideration of £71.9m (2010: £47.8m), the non-cash impact of mark to market movement on financial instruments of £7.1m (2010: £6.6m), and £3.3m (2010: £nil) for increased counterparty credit risk.



## Managing consistently across our divisions

Capita's operating divisions and the businesses within them are aligned with the Group's overall objectives and strategy.

### A flexible divisional structure

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

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

With an objective of achieving continuous growth and strong performance, each business undertakes appropriate strategies to achieve or maintain market leading positions.

### Divisional leadership

To reflect the Company's continued expansion, in January 2011 we strengthened our operating structure in order to maximise management focus and create smaller more flexible divisional units to fuel growth.

This has also provided us with the opportunity to recognise and promote some of the exceptional talent we have within Capita.

Each of Capita's nine divisions is led by a Divisional Director. These Divisional Directors, the two senior divisional finance directors and the heads of strategic sales and acquisitions meet on several occasions during the year to share knowledge, experience and to discuss opportunities and challenges which can be supported by cross divisional support.

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

### Our divisional structure in 2011

Integrated Services	Life & Pensions Services	Investor & Banking Services	General Insurance	Professional Services	IT Services & Consulting	Health	Workplace Services	Property Services
👉 page 39	👉 page 40	👉 page 40	👉 page 41	👉 page 41	👉 page 43	👉 page 43	👉 page 44	👉 page 44
BBC contracts	Life & pensions services	Shareholder services	Commercial insurance	Software services	IT services	Health	Resourcing & development	Capita Symonds
CRB	Corporate pensions	Trust services	Insurance distribution	Local government services	Consulting	Health & wellbeing	Education resourcing	• Design & infrastructure
Central government services	Capita India	Financial administration services	Specialist insurance	Local government partnerships	Secure information solutions		HR solutions	• Regional services
Census	Capita Poland	Asset services	Marsh	Communications	Assurance & testing		Business travel & conferences	• Real estate
Customer management		Treasury services		Total document services				
				Debt management services				

## Business planning

The annual financial plans and targets of each business unit feed into the overall Group financial model. Each month we review comprehensive operational management information through the MOB process enabling us to manage our Group resources in a way that meets the needs of our clients and delivers our key performance.

Research and development initiatives underpin the creation of products and services to meet the current and future needs of clients. Businesses adopt the most appropriate marketing and sales activities to address the characteristics of their individual marketplaces and, where appropriate, procure services and products internally. Each business also maintains strict disciplines on cost control and seeks to streamline processes where appropriate.

## Overall divisional objectives

All our Divisional Directors are tasked with growing market positions and identifying new areas for the Group to pursue opportunities. Each division targets opportunities in their specific marketplace but they are also committed to delivering the Group's overall strategy through:

- supporting major BPO contracts and sales opportunities with specialist expertise and market knowledge
- identifying opportunities to cross sell services and activities within the division and to other divisions
- diversifying and expanding across market sectors to grow and provide resilience to market cyclicality
- working with the central acquisition team to identify acquisition opportunities which support and enhance Capita's overall offering
- identifying opportunities to transfer work into shared services operations and to our nearshore and offshore business centres to ensure that the Group is running as efficiently as possible.

## Integrated Services

	2011	2010
Revenue	327.7	260.6
Underlying operating profit <sup>1</sup>	61.2	48.2
Underlying operating margin <sup>1</sup>	18.7%	18.5%
Capex	6.7	2.5

2011 was an extremely active and successful year for this Division, with a number of key contract wins from both existing and new clients as well as the completion of two strategic acquisitions, Ventura and Vertex Private Sector, which add significant scale to Capita's customer management capability.

### 2011 highlights

- Secured a new contract to continue administering TV Licensing on behalf of the BBC, valued at £560m over eight years commencing in July 2012
- Selected by The Pensions Regulator to deliver employer education for automatic enrolment in a contract worth £105m over seven years
- Successful delivery of the 2011 Census for England and Wales where we deployed circa 35,000 people
- Strengthened our customer contact offering through the acquisitions of Ventura and Vertex Private Sector, adding scale, flexibility and a strong set of clients across the utilities and retail sectors.

### 2012 priorities

- Maximise relationships across the division to support continued sales growth
- Integration of Vertex Private Sector and Ventura acquisitions to create one seamless customer management experience
- Broaden our customer management offering into new market areas, enhancing our scale and value proposition for clients
- Deliver the transition activities for the new TV Licensing contract scheduled to commence in July 2012
- Successfully work with The Pensions Regulator to support direct communications with employers for automatic enrolment of staff into workplace pension schemes due to be phased in from October 2012.

<sup>1</sup> See page 97 for a full segmental breakdown.

## Life & Pensions Services

	2011	2010
Revenue	545.1	529.2
Underlying operating profit <sup>1</sup>	55.9	58.7
Underlying operating margin <sup>1</sup>	10.3%	11.1%
Capex	39.6	64.4

Capita is the leading life and pensions outsourcing provider in the UK with around 22% share of the market.

2011 was a strong year for the Division in terms of contract wins, with over £800m of new life and pensions contracts and extensions secured during the year. High levels of service were delivered to our clients and we continued to invest in and roll out our proprietary IT systems. We took measures in the second half of the year to improve the efficiency of our divisional operating model.

### 2011 highlights

- Extension and expansion of our relationship with Zurich Financial Services Group
- Selected to administer the Teachers' Pensions Scheme in a new seven year contract worth £80m
- Extension of MetLife life and pensions administration contract worth £149m over 10 years
- Awarded additional contract by Children's Mutual to deliver the product platform and administration for its Junior Individual Savings Account (junior ISA)
- Capita Hartshead secured a number of wins including the London Boroughs of Hammersmith & Fulham, Brent and Hillingdon under a new framework agreement, adding 45,000 members
- Acquisition of the trade and assets of the pensions administration and software business of NorthgateArinso which adds expertise and capacity to Capita Hartshead

- Established a new 550 seat capacity multi-lingual business centre in Krakow, Poland to support our existing clients' business in Europe and other European financial services businesses.

### 2012 priorities

- Retain and grow our position as the UK's leading BPO provider in life and pensions
- Focus on converting opportunities in the Company's bid pipeline
- Roll out of Junior ISA product, achieve further economies of scale
- Further build common functional service management capability
- Optimise capability in our key strategic nearshore and offshore locations: India, Poland, Ireland and the Channel Islands
- Support clients through continued economic uncertainty and accelerated pace of regulatory change
- Formally launch our business centre in Poland for existing and new UK and European clients.

## Investor & Banking Services

	2011	2010
Revenue	212.9	181.2
Underlying operating profit <sup>1</sup>	54.9	42.2
Underlying operating margin <sup>1</sup>	25.8%	23.3%
Capex	12.4	10.2

The Division performed strongly in 2011. Our share registration business was particularly successful in securing new business. We further enhanced our service offering through a number of acquisitions.

### 2011 highlights

- Secured new share registration contracts and share plans with a number of FTSE companies including, Legal & General Plc, BAE Systems plc, Kingfisher Plc and Shire Pharma
- Launched an exclusive partnership with the Institute of Chartered Secretaries & Administrators to provide BoardPad2, enabling board directors to read and manage board papers on iPads
- Selected as receiving agent on two of the largest takeovers of 2011, Autonomy Plc and Northumbrian Water Plc
- Provision of retail bond administration services to retailers, including an investment product for card holders and Partners of the John Lewis Partnership
- Treasury services launched pilot scheme where local authorities 'top up' the deposits of first time buyers and a panel of high street lenders offer mortgages under the scheme

- Acquisition of Allied Irish Bank's international financial services and trust services businesses in Ireland, Hungary, Switzerland, Luxembourg and Jersey strengthening our existing service to both clients and increasing our footprint in Europe via entry to new jurisdictions
- Acquisition of securitised commercial loan business of Barclays Capital Mortgage Servicing, complementing our existing loan servicing business and providing added breadth of expertise.

### 2012 priorities

- Identify and convert acquisition opportunities and material outsourcing contracts
- Continue to develop enhanced sales distribution channels
- Leverage existing relationships and cross sell services across the division and other Capita businesses
- Continue to invest in IT systems infrastructure to manage growth and enhance customer service.

<sup>1</sup> See page 97 for a full segmental breakdown.

## General Insurance

	2011	2010
Revenue	<b>183.5</b>	184.9
Underlying operating profit <sup>1</sup>	<b>28.3</b>	23.3
Underlying operating margin <sup>1</sup>	<b>15.4%</b>	12.6%
Capex	<b>8.0</b>	1.5

The consolidation of some of our businesses in this area in 2010, provided an efficient base for our operations in 2011 and positions us well for future growth.

### 2011 highlights

- Launched in March 2011, a vehicle telematics based car insurance scheme targeted at the young driver insurance market
- Secured a five-year contract extension to run risk capture, aggregations and pre bind checking services for a top six Lloyd's managing agent
- Launch of a new web portal which provides a one stop shop for schools' sickness absence insurance needs
- Successful integration of 2010 acquisitions SureTerm and National Dental Plan (NDP)
- Consolidated six service sites into three centres of excellence in 2011.

### 2012 priorities

- Identify and pursue insurance administration opportunities in new market areas
- Identify suitable bolt-on acquisitions to enhance our position in the insurance outsourcing market
- Continue to deliver robust compliance and risk mitigation to respond to FSA regulations
- Invest in innovative techniques to ensure that we retain a strong position in this marketplace.

## Professional Services

	2011	2010
Revenue	<b>389.0</b>	460.5
Underlying operating profit <sup>1</sup>	<b>95.7</b>	90.4
Underlying operating margin <sup>1</sup>	<b>24.6%</b>	19.6%
Capex	<b>9.2</b>	3.9

2011 was a solid year for the Division with respect to contract wins, particularly in the local government and education market. Revenues during the year were impacted by the planned ending of the National Strategies contract. We continue to see a buoyant bid pipeline of long term BPO opportunities as well as short term capacity support.

### 2011 highlights

- Selected by the London Borough of Lambeth, with whom we've had a relationship since 1997, to form a new strategic partnership
- Secured a contract to administer revenue and benefits for the London Borough of Brent worth £15m over five years
- Capita Total Document Solutions, our document management business, awarded a number of new contracts including The Law Society and Aintree University Hospitals NHS Foundation Trust
- Acquisition of the library division of Talis Information Limited, which brought over 100 new higher education and local authority library clients to Capita
- Acquisition of Right Document Solutions strengthening our design and managed print services capability, adding a range of public and private sector clients
- Capita Children's Services secured relationships with a number of schools and local authorities including Peterborough City Council and Staffordshire County Council.

### 2012 priorities

- Continue to develop service and business process transformation opportunities for existing and new local government partnerships to help them meet the ongoing pressure to deliver efficient services
- Support new and existing clients through the transition to shared service models
- Continue to provide innovative and cost effective software solutions for local government, education, housing providers and further develop our offering in the health market
- Increase the reach of our SIMS and One products to new sectors, while also further developing our significant presence in the emerging Academy market
- Explore opportunities for our communications and document management offering – work with new and existing internal and external clients to deliver savings through process automation.

<sup>1</sup> See page 97 for a full segmental breakdown.

# A valued business partner

## IT Services & Consulting

### Supporting shared services

Council tax payers in four Essex local authority areas look set to reap the benefits of a pioneering enterprise which will see their local authorities slash £7m from council spending. Braintree District, Castle Point Borough, Colchester District and Rochford District Councils joined forces this summer with the aim of buying their IT services jointly through Capita's secure information solutions business in order to gain best value for money for residents.

We were bowled over by the savings we could make. By working together in this way we were able to reap the benefits of economies of scale – making massive savings against what we could achieve by acting independently.

CLlr Graham Butland Leader of Braintree District Council



## Investor & Banking Services

### Promoting innovative online solutions

Capita Registrars has entered into an exclusive UK partnership with ICOSA Software to promote Blueprint BoardPad 2, one of the leading electronic board solutions currently available. The 'app' design gives directors all board papers at their fingertips with full annotation functionality and completely secure access. For company secretaries and meeting organisers, BoardPad 2 provides a web-based administration platform designed to cater for every requirement for managing and preparing board and committee meetings.



## Workplace Services

### Best in class



Following our entry into this market in 2005, Capita's end-to-end business travel offering is now one of the UK's top travel businesses winning 'Best Travel Management Company of the Year' and 'Best Hotel Booking Agent' in January 2012<sup>1</sup>.

2011 was a record sales year for the business with a number of significant wins including a travel management contract with one of the world's largest banks, Santander.

Capita Business Travel's offering is innovative, cost-efficient and user-friendly. The online tool is seamless and Santander is provided with a one-stop shop which benefits from separate specialist offers, without compromise.

Mark Payne  
Travel Manager, Santander

<sup>1</sup> 2012 Business Travel Awards.



## IT Services & Consulting

	2011	2010
Revenue	600.3	453.2
Underlying operating profit <sup>1</sup>	55.5	56.9
Underlying operating margin <sup>1</sup>	9.2%	12.6%
Capex	18.3	10.2

The Division performed well during 2011 as clients looked to access ICT expertise and resources to help manage their operations more efficiently. However, the need to reduce costs also resulted in some downward pressure relating to the supply of IT hardware during the year. We further enhanced the capability across the Division through a number of acquisitions.

### 2011 highlights

- Selected by West Sussex County Council to manage core data and applications in a contract estimated to be worth £26m over six years
- Awarded a shared services contract for the London Boroughs of Bromley and Lewisham worth £18m over five years
- Agreed a one year contract extension with BAE Systems Maritime-Submarines, supporting over 5,500 users
- Secured contract with four Essex councils to jointly procure their IT services, estimated to be worth £8m over five years
- Our secure information solutions business secured £36m of new business including contracts with MOJ HM Prison Radios, MOD Police control rooms and the Food Standards Agency
- Reached an agreement with the National Policing Improvement Agency (NPIA) to be one of just three companies selected for the Digital Interviewing Framework Arrangement

- Significantly enhanced our proposition to the police market through the acquisitions of Beat Systems and Cedar HR Software
- Acquisitions of Technophobia, a developer of next generation web applications, and Call Centre Technology, provider of voice telephony, applications and services for contact centres.

### 2012 priorities

- Continue to work with our clients in the public and private sectors to support the Company's growth objectives
- Continue to build and promote our capability in the emergency services market
- Continue to support clients through budgetary pressures and legislative change
- Leverage relationships with existing clients across IT services and consulting as well within other divisions
- Support clients looking to benefit from expertise, scale, shared risk and ability to invest in best of breed
- Expand our IT offshore and nearshore capability to India and Poland.

## Health

	2011	2010
Revenue	133.0	86.9
Underlying operating profit <sup>1</sup>	25.9	15.8
Underlying operating margin <sup>1</sup>	19.5%	18.2%
Capex	4.0	2.3

The Division, which includes our outsourced back office services for key Department of Health contracts and our occupational health services business, traded steadily in 2011. It was a year of significant transition and uncertainty for the NHS due to the planned Government reforms and, as a result, many public sector opportunities and decisions were put on hold. A number of the new structures and policies have now been announced and we therefore expect to see greater opportunities in this area in 2012.

### 2011 highlights

- Secured extension to our NHS Choices contract for a further 15 months, valued at approximately £16m. The number of website visits allowing access to health information rose from 7m to 12m per month during 2011
- Selected to provide an employee assistance programme to De Montfort University's 3,000 employees including access to a counselling service, helpline and wellbeing programme
- Deployed a risk stratification toolset which helps the NHS to identify those most at risk and proactively plan the appropriate care
- Successful integration of 2010 acquisitions, Premier Medical Company, First Assist and iSoft Business Solutions, which have significantly strengthened our offering in this marketplace
- Acquisition of Tribal Company Plc's health division, bringing expertise in clinical coding, health informatics and commissioning support
- Acquisition of Insurance Medical Group (IMG), provider of medico-legal reporting, diagnostics, and pro-active physiotherapy and treatment services.

### 2012 priorities

- Target opportunities to partner with NHS in providing commissioning support to clinical commissioning groups following introduction of NHS reforms and support clients through proposed changes
- Continue to provide an increased range of tools and services to NHS providers and commissioners to help them improve productivity and governance
- Develop our offering for transformational change of non-clinical services that deliver cost efficiencies and enhance the NHS employee and patient experience
- Expand health offering nationally to support Government efficiency agenda
- Continue to promote and expand our health & wellbeing offering to clients across the public and private sectors
- Liaise with the Company's IT services businesses to target opportunities and develop IT outsourcing offerings for NHS Trusts.

<sup>1</sup> See page 97 for a full segmental breakdown.

## Workplace Services

	2011	2010
Revenue	<b>282.8</b>	278.5
Underlying operating profit <sup>1</sup>	<b>37.2</b>	34.0
Underlying operating margin <sup>1</sup>	<b>13.1%</b>	12.2%
Capex	<b>3.3</b>	2.4

Despite the economic climate, the Division's resourcing businesses held up well in 2011 due to their focus on targeting new client bases and operational efficiency. This also ensures that they are well placed to benefit from any future upturn. Our business travel and integrated HR operations performed well during the year.

### 2011 highlights

- HR managed services secured a number of key contract extensions including EDF Energy, BAA and Gatwick Airport as well as expanded framework agreements with a number of key Government departments
- Selected to deliver transactional HR and payroll services for 10 NHS trusts in North Merseyside in a contract estimated to be worth £22m over seven years
- Successful integration of specialist hotel booking agency BSI Holdings Ltd, acquired in December 2010, enabling Capita Business Travel and BSI together to secure record new business wins totalling £50m including contracts with Santander and Home Retail Company
- Capita Learning & Development selected by HSBC to deliver a vocational apprenticeship programme to over 1,000 employees in the largest contract of its type in financial services
- Acquired Team24, a specialist healthcare recruitment firm, and secured place on the new Southern and Central Regions framework for the supply of healthcare professionals.

### 2012 priorities

- Raise and strengthen our profile and offering across all divisional service lines
- Increase our effort on cross selling service lines to expand relationships with existing key clients and convert strong pipeline of opportunities
- Support investment in leading technology solutions to provide clients with self sufficiency and to support our offering in new market segments, for example, the fast growing RPO market
- Support clients through changes in legislation, for example the Agency Worker Directive introduced in late 2011 and new pensions legislation, due in October 2012
- Explore the opportunities for integrated HR services arising from the Government's efficiency agenda, to provide clients with total control and visibility of costs and quality of service.

## Property Services

	2011	2010
Revenue	<b>255.9</b>	309.0
Underlying operating profit <sup>1</sup>	<b>12.8</b>	25.6
Underlying operating margin <sup>1</sup>	<b>5.0%</b>	8.3%
Capex	<b>2.5</b>	1.1

Our property and infrastructure services consultancy continued to face challenging market conditions in 2011 resulting in lower revenue and reduced margin. We continue to focus on operating as efficiently as possible and we are now well placed to pursue the opportunities coming through in our core central, local government, health and education markets.

### 2011 highlights

- Secured further renewals on the London Crossrail project and successfully completed the Royal Oak portal, the first of five tunnel portals on the Crossrail route (three of which have been designed by Capita Symonds)
- Capita Symonds' technology team has been appointed by the Highways Agency to provide three regional training venues, as well as to manage the agency's Technology Performance Management Service (TPMS) and Traffic Information System (HATRIS)
- Our international property consultancy unit secured a contract to design and build a 62,000 home city in Kenya
- Acquisition of the health & safety and water management business of MSS Plc which adds to our capability and brings new market opportunities in this area
- Acquisition of architecture and design company ESA, providing design-led architecture, planning and project management expertise across the commercial sector.

### 2012 priorities

- Identify opportunities and support central and local government organisations to meet stringent cost saving targets
- Continue to build major programme management capability through acquisition and recruitment
- Continue to grow our niche capability in target sectors such as renewable energy, waste management and transport technology
- Continue to rigorously control internal costs.

<sup>1</sup> See page 97 for a full segmental breakdown.

# 3 Delivering business responsibly

We are committed to growing our business in a transparent and socially responsible way. By focusing on delivering positive social impacts and managing our key social and environmental risks we can add value to the communities in which we work. This also benefits us and our clients by reducing risk as well as associated costs, improving relationships and maintaining our reputation with our wider stakeholders.

## Aim

To develop Capita as a long term sustainable business that delivers value to all our stakeholders.

- Delivering shareholder value ➔ page 47
- Responding to our clients' needs ➔ page 48
- Managing, motivating and supporting our people ➔ page 50
- Building successful supplier relationships ➔ page 54
- Running a resource efficient business ➔ page 55
- Engaging and supporting our local communities ➔ page 56

## Our principal non-financial KPIs

	2011	2010
<b>Shareholders: creating valuable returns</b> Steadily grow ordinary dividends (Annual growth of total dividends)	7%	19%
<b>Client resources: building scale and capacity</b> Continue to develop our infrastructure of business centres to meet the needs of our business	68 business centres	64 business centres
<b>Employee resources: retaining people</b> Maintain high retention rates for senior managers (annual salaries exceeding £50k p.a.)	95%	84%
Maintain overall employee retention at or above industry average (2011: 87.5%, 2010: 86.5%) <sup>1</sup>	89%	83%
<b>Suppliers: creating successful relationships</b> Annually audit all strategic suppliers against Capita's standards of business	100%	100%
<b>Environment: controlling our impacts</b> Continue to measure and assess our carbon footprint (tonnes CO <sub>2</sub> e) <sup>2</sup>	91,318	81,112
<b>Communities: supporting local initiatives</b> Continue to measure and grow our community investment annually, using London Benchmarking Group methodology	£2.00m	£1.65m

➔ See pages 46 to 56

<sup>1</sup> CIPD 2011 and 2010.

<sup>2</sup> Based on latest available greenhouse gas emissions from Defra.

## Our sustainability approach

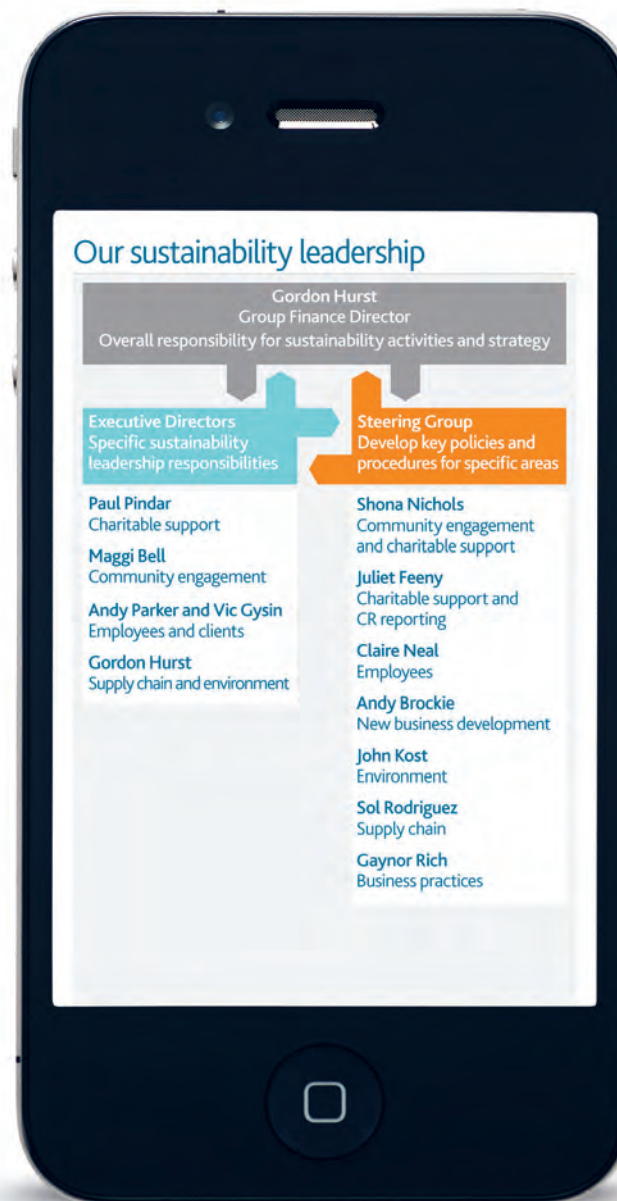
We have identified six main impact areas that reflect our stakeholders' interests. Focusing on these impacts helps us to add value and means that we can consistently meet the needs of all our stakeholders: shareholders, clients, employees, suppliers and the wider community.

### Sustainability leadership

The Group Board continues to take responsibility for our sustainability programme. Gordon Hurst, Group Finance Director, has overall responsibility for sustainability initiatives across the Group. Each Executive Director has specific responsibility for one or more priority impact areas.

On a day-to-day basis Group functional heads are accountable for activities in their areas. They also provide guidance and support at a business unit level to a network of employees. They communicate our progress and performance back to the Group Board through our business reporting processes.

In addition to this we have a Sustainability Steering Group who meet quarterly. Their role is to review and challenge our approach and ensure that we identify and manage sustainability risks and opportunities for our individual businesses and those that could affect the whole Group.



We are committed to managing our key social, environmental and economic impacts to create a sustainable business.

Gordon Hurst  
Group Finance Director

## Delivering shareholder value

We maintain a strong structure and controls, focus on clear financial KPIs and apply consistent, thorough risk management.

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

### Funding acquisitions to add value

In 2011, we spent £341m on 21 acquisitions. Our focus is now on achieving the successful integration of these businesses and realising synergies. We expect our acquisition activity to reduce going forward in 2012 and to revert to historic levels. We will continue to be selective and disciplined when assessing opportunities. Over the four years to 31 December 2011, we estimate our acquisitions have delivered a post-tax return of approximately 14%.

➔ See pages 24 to 26

### Distribution to shareholders through dividends

The Group dividend strategy is to return surplus cash to shareholders through a combination of progressive dividends and, when appropriate, capital returns.

A key element in the creation of shareholder value is a progressive dividend policy. Over the five years to 31 December 2011 we grew our dividend at a compound annual rate of 19%. Dividend cover, was 2.27 times for 2011.

### 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 2011, however, we will continue to evaluate any attractive opportunities as they arise. Shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our Annual General Meeting in May 2011.

### 2011 progress

Including the proposed 2011 final dividend, £899m has been returned to shareholders in respect of the last five years – £516m in ordinary dividends, £155m in special dividends and £228m through share buybacks.

➔ See pages 35 to 37

<b>Dividend per share</b>	<b>2011</b>	2010	2009	2008	2007	2006
Interim dividend (p)	7.20	6.60	5.60	4.80	4.00	2.70
Final dividend (p)	14.20	13.40	11.20	9.60	8.00	6.30
Total ordinary dividend (p)	21.40	20.00	16.80	14.40	12.00	9.00
Special dividend (p)	–	–	–	–	25.00	–
Total dividend (p)	21.40	20.00	16.80	14.40	37.00	9.00
Dividend cover (excluding special dividend)	2.27x	2.25x	2.31x	2.31x	2.34x	2.57x
<b>Totals</b>	<b>2011</b>	2010	2009	2008	2007	2006
Interim dividend (£m)	44	40	34	29	25	17
Final dividend (£m)	86	81	69	59	49	39
Total ordinary dividend (£m)	130	121	103	88	74	56
Special dividend (£m)	–	–	–	–	155	–
Total dividend paid (£m)	130	121	103	88	229	56
<b>Share buybacks</b>	<b>2011</b>	2010	2009	2008	2007	2006
% of share capital authorised to repurchase	10	10	10	10	10	10
% of share capital repurchased	–	2.5	–	1.7	1.1	7.9
Issued share capital at year end (m)	608	606	617	611	609	617
No. of shares repurchased (m)	–	15.4	–	10.4	6.6	52.9
Average price (p)	–	751	–	659	665	465
Total cost (£m)	–	116	–	68	44	245
<b>Shareholder returns</b>	<b>2011</b>	2010	2009	2008	2007	2006
Total return to shareholders (£m)	130	237	103	156	273	301



## Responding to our clients' needs

Strong client relationships are vital to Capita's ongoing success. We strive to meet, and where possible exceed, the expectations of our clients, adding real value to their operations.

By listening and responding to the views of our clients, and that of their customers, we can keep delivering ever better service, ensuring client satisfaction.

➔ See pages 27 to 30



Our strong track record of quality service delivery for our clients enables us to win and retain long term contracts.

Andy Parker Joint Chief Operating Officer



### Ensuring client satisfaction

We engage with our clients on a regular basis to receive their feedback, ensuring that effective communication is maintained at all levels of the relationship from the head of the organisation, through to day-to-day operational contacts. Due to the size and breadth of services that we offer, it is difficult to adopt a uniform approach to measuring client satisfaction. We use a number of different feedback mechanisms depending on the size and type of contract.

### Protecting our clients

Many of our contracts involve handling sensitive and confidential information. We have an established, robust framework in place, which includes detailed policies and procedures to ensure that we adhere to all legal requirements regarding data protection and information security.

All Capita employees complete information security, data protection and fraud awareness training on an annual basis. The training is regularly reviewed and updated. Those employees working in particularly sensitive areas receive additional specialised training. Each of our divisions has clear incident procedures for identifying, investigating, reporting and rectifying any security issues that may occur.

## Working in partnership with Swindon Borough Council

In 2007, Capita entered into a 15 year strategic partnership with Swindon Borough Council. The aim of the partnership was to transform services for residents by putting them at the heart of service delivery, whilst delivering a challenging cost savings target. The partnership is on track to deliver £18m in savings over its lifetime.

Listening to residents





# Building strong relationships

## Swindon Borough Council partnership:

### The facts

In June 2011, Swindon Direct was crowned Best Outsourced Partnership at the South West Contact Centre awards for the second year running



# £18m

The partnership is on track to deliver £18m in savings over its lifetime

As part of our 15 year strategic partnership with Swindon Borough Council, we were tasked with transforming the customer service function. We worked closely together with the Council to create Swindon Direct. This one stop shop service model presents a single view of the Council to the customer, guaranteeing a consistent experience across all channels. Customer satisfaction is now running at over 95%, and in June 2011, Swindon Direct was crowned Best Outsourced Partnership at the South West Contact Centre awards for the second year running.

Significant improvements have been made to financial administration, HR and payroll, facilities management and ICT services.

The housing and council tax revenues and benefits service is performing at its best level in five years.

We've worked hard to promote social and economic responsibility within the Borough. Over the past two years 15 young people have completed apprenticeships in IT, customer services and business administration, with the majority going on to full time employment within the partnership. We've also worked with local schools and organisations and provided funding for the Swindon Alzheimer's Society and Down's Syndrome Group.



Working with Capita has really helped to raise our aspirations and look to the art of the possible rather than the necessary. They've introduced new ways of working that have made a huge difference to how the organisation works, most visibly in the success of the one stop shop.

We've learned a lot together and the partnership is now at a mature stage where we challenge each other to get the best results for our citizens.

Gavin Jones Chief Executive, Swindon Borough Council



## Managing, motivating and supporting our people

We have over 46,500 employees working across 350 sites. To manage and support them effectively we have a number of Group-wide policies which focus on particular areas including equality and diversity, health and safety and our code of ethical conduct.

### One company

We ensure that we apply the same principles to all employees wherever they are based - onshore, offshore and nearshore. All of our policies comply with or exceed the legal and regulatory requirements of the countries in which we operate.

View all our policies online at:

 [capita.co.uk/sustainability](http://capita.co.uk/sustainability)

### Our culture

Approaching 70% of our employees have transferred into Capita either from previous employers, who outsource activities to Capita, or through acquisitions. We benefit from the constant flow of new skills when employees transfer into Capita, but it also gives us the challenge of ensuring that these employees are effectively integrated into our business and our culture. We have a clear set of values which are embedded across our business to help achieve this.

### Engaging our people

We believe that when employees feel engaged and valued this can lead to increased productivity and higher retention rates. We regularly interact with our employees using formal and informal channels to ensure that they understand the ambitions of the business and their role in its success.

It is important for us to know what our employees think about how we are doing. We conduct an annual employee survey which gives employees the opportunity to tell us where we are doing well and identify opportunities for improvement. In 2011, the response rate for our employee survey increased from 35% to 45%. The feedback was generally positive with 74% of employees saying Capita was a good place to work. They felt that managers were supportive, open and honest and encouraged innovation within their teams.

### Recognising and rewarding performance

We want our employees to be motivated and to perform to the best of their ability. Recognising and rewarding their individual performance plays a big part in this. We reward employees both financially through competitive remuneration packages, local performance schemes, and through the Capita People Awards Scheme, which celebrates individuals who have demonstrated commitment to our values.

During 2011, the economic background affected growth within some areas of the Group, and so whilst we rewarded success we were mindful of effectively managing costs. The actions we took will ensure that the business is running efficiently and is best placed to continue delivering for our clients and supporting our employees in the future.



Our people are critical to our success and growth. We have created a strong culture where our employees feel motivated to perform to the best of their ability.

Vic Gysin Joint Chief  
Operating Officer



## Employee safety and wellbeing

We promote a culture that supports the health and safety of our employees and have a dedicated health and safety team who identify and manage potential risks to our people.

As a mainly office based business, our most frequent accidents are slips, trips and falls. Where there are job specific risks, such as for employees who are lone workers or working on a construction site, we provide additional training. All our employees receive health and safety training as part of their induction.

We monitor our health and safety performance across the business and in 2011, our RIDDOR accident rate was 1.16 per 1,000 employees (2010: 1.43) showing a 49% reduction in the reportable accidents rate from the 2004 baseline.

As well as ensuring our people's safety at work, caring for their wellbeing is also important to us. Our managers have a positive and supportive style, which aims to help minimise work related stress. We also provide employees with information on our intranet to help improve their own health, as well as offering them a range of healthcare and dental schemes. By investing in the health and wellbeing of our employees this can lead to a reduction in employee ill health and absenteeism. In 2011, our absenteeism rate was 2.70%, down from 3.37% in 2010.

## Supporting people through change

Due to the nature of our business there are times where, in order to make efficiencies for our clients, we need to make changes to the organisational structure of a particular contract or business. This may lead to a reduction in head count in this particular business area. However, as business across other parts of the Group grows, we are often able to find other suitable opportunities in the Group for affected employees, or offer retraining. Where suitable opportunities are not available we communicate openly with our employees and consult with trade unions where appropriate. We also use our HR advisers to help with external redeployment opportunities.



### Did you know...

70% of our employees have transferred into Capita with contracts or acquisitions

## Our 2011 performance

	2011	2010
<b>Employee retention</b>		
Manager retention rate (salaries exceeding £50k p.a.)	95%	84%
Overall employee retention rate	89%	83%
Health and safety (accident frequency rate per 1,000 employees RIDDOR)	1.16	1.43
<b>Employee diversity</b>		
Male/female split	53% male/ 47% female	53% male/ 47% female
Male/female split for management (salaries £50k – £89k p.a.)	78% male/ 22% female	74% male/ 26% female
Male/female split for senior management (salaries exceeding £90k p.a.)	85% male/ 15% female	88% male/ 12% female
Percentage/actual number of employees from ethnic minority groups	23% <sup>1</sup> / 5,561	25%/ 4,736
Percentage of employees working part-time out of total workforce	15%	14%
<b>Employees by location</b>		
Onshore	87.6%	87.4%
Offshore	10.1%	10.4%
Nearshore	2.3%	2.2%

<sup>1</sup> Based on 52% of our employees disclosing their ethnic origin (2010: 64%).



## Motivating and supporting our people

# we 'can do'

Our people are critical to our success and growth. We have created a strong culture, aiming to offer them a workplace that is supportive, rewarding, safe and inspiring.

# hello

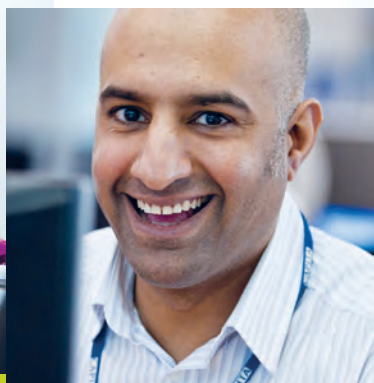
from 46,500 people across 350 business sites

## £13m

Over £13m invested in employee training in 2011, through our Academy training programmes

Successfully managing large-scale employee transfers is one of our strengths.

Over 12,000 employees transferred into Capita in 2011. We have a dedicated HR integration team who guide potential transferees throughout the whole process. The team communicates with potential transferees on a regular basis, addressing their concerns and explaining the benefits of being part of the wider Group.







Offering our employees the opportunity to develop their skills helps us to keep a motivated workforce. We continuously encourage them to progress through training, which is firmly embedded in all our businesses. As the Group grows the range of new opportunities increases, allowing us to offer our employees a more varied career.



89%

Overall employee retention rate



### Enhancing skills and cultivating talent

A skilled workforce is key to our ability to deliver quality services and drive our business forward. We concentrate on building and retaining a strong and stable leadership team. We provide courses for our senior managers through the Capita Manager Academy to equip them with the right skills so that they can respond to our clients' needs and support and manage our people effectively.

We support all our employees in their career development and offer a number of different types of training:

- skills and personal development courses
- vocational learning programme
- professional qualifications.

Our Capita Academy training programme delivers skills and personal development courses for all our employees and in 2011, we invested £13m, providing over 9,500 days of training. In addition to this we also provide workplace training, coaching and group instruction.

We support those employees who wish to gain, or expand, their National Vocational Qualifications (NVQs) through our vocational learning programme. Over 3,000 people have enrolled on our programme since 2006 with 1,072 employees achieving a nationally recognised qualification during 2011. We also sponsor employees to undertake professional qualifications.

### Promoting diversity and inclusion

We work hard to create an inclusive culture and are committed to promoting diversity across our business and ensuring that individuals or groups are not discriminated against. By recognising and embracing the differences between our employees we benefit from their unique talents, which allows us to be more creative and innovative in the way we work and deliver for our clients.

All our employees complete our online diversity awareness training every three years and we use a network of diversity champions to help communicate our strategy across the business.

We want to give everyone the opportunity to work for us and so offer flexible working arrangements, supporting part-time working, reduced hours and job sharing where possible. This allows our employees to balance their work and family commitments. In 2011, 15% of our employees worked part-time.

We track the diversity of our workforce using our online HR administration system and encourage our employees to disclose their ethnic origin. During 2011, 52% (2010: 64%) of our employees stated their ethnic origin and of these 5,561 employees (2010: 4,736 employees) were from ethnic minority groups.

## Building successful supplier relationships

We recognise that good procurement practices have a direct influence on our business performance. Our aim is to use our purchasing power to procure goods that deliver value for money, whilst ensuring that the goods and services are provided by suppliers who meet the highest ethical standards and comply with our Responsible Sourcing Policy.

### How we manage our suppliers

Our supplier relationships are managed by a central procurement team at Group level and by procurement specialists within the business at a local level. We also manage some of our clients' supplier relationships on their behalf.

We categorise our suppliers based on whether they provide services to the whole Group or individual businesses. Our central procurement team manage relationships with our strategic suppliers who provide services to the whole Group.

In 2011 we reviewed our supply chain strategy. This included revising our Responsible Sourcing Policy through which we developed new responsible sourcing guidelines.

View all our policies online at:

 [capita.co.uk/sustainability](http://capita.co.uk/sustainability)

### Understanding our supply chain

All our suppliers must register on our supplier assessment portal. We ask them to complete a detailed questionnaire, including questions covering anti-bribery and corruption, working conditions, and the health and safety of their employees.

This allows us to identify and manage any potential risks in our supply chain and select suppliers who meet our standards.

### Engaging with our suppliers

Our suppliers are an important source of new ideas, innovation and support and, therefore, building mutually beneficial relationships with them is valuable. We aim to use a diverse range of suppliers and recognise that working with smaller, local suppliers, social enterprises and third sector organisations makes good business sense. We use the portal for online tendering, giving everyone that is registered, including smaller suppliers, the opportunity to work with us. In 2011, 32% of our supplier base was comprised of small to medium sized businesses (SMEs).



### Did you know...

In 2011, 32% of our supplier base were SMEs

### Our 2011 performance

	2011	2010
Annually audit all strategic suppliers	100% strategic suppliers audited	100% strategic suppliers audited
Engaging with our suppliers	All new suppliers registered on online portal to ensure they meet our standards	All new suppliers registered on online portal to ensure they meet our standards

## Running a resource efficient business

Capita is a mainly office-based organisation and so our environmental impacts are not extensive. We nonetheless recognise the value of taking a proactive approach to environmental management, not only to ensure that we comply with relevant statutory and regulatory requirements but also to ensure business continuity.



### Did you know...

In January 2012, Capita was awarded the Carbon Saver Gold Standard for achieving an absolute reduction in carbon emissions over a three year period up to April 2011

## Our carbon emissions

We are committed to playing our part in tackling climate change and have measured our carbon footprint since 2005. We report our performance transparently, and have completed the Carbon Disclosure Project (CDP) for the last five years.

In 2011, our total carbon footprint was 91,318 tonnes CO<sub>2</sub>eq, an increase of 13% in line with the growth of the Group. Our carbon footprint for our India operations remained almost the same, however, the large number of acquisitions made in 2011 meant that our UK office footprint increased by nearly 20%. Many of these new offices were not as carbon efficient as our existing offices. We will be working closely with facilities managers at these sites to reduce emissions over the next year.

Although our carbon emissions are relatively low we aim to make further reductions. We have concentrated on addressing our direct carbon footprint by reducing our two main impacts: the energy use in our offices and our business travel.

We have had a formal energy reduction programme in place since 2006 and we continued to roll the programme out across our sites during 2011. Since the programme began we have made savings which equate to more than £1m. Where a site is subject to the UK Government's Carbon Reduction Commitment Energy Efficiency Regulations (CRC), we ensure that they have smart meters installed to help manage and meet our CRC obligations.

Our second biggest impact is business travel. Our overall aim is to reduce our total business travel across the Group and we have continued to focus our efforts here through the promotion of video and tele conferencing. In 2011, we increased the number of calls made by 126% and increased the number of Telepresence video conference suites, which are now available at 17 of our sites. The use of conferencing technology provides cost savings for the business by saving time and reducing the necessity to travel between sites, yet still allowing our employees to work collaboratively.

We encourage our employees to use alternatives to car travel, by promoting the use of public transport, using shuttle buses at our larger sites and by encouraging participation in our Cycle to Work scheme.

## Resource use

Although we do not have a formal Group-wide waste management system, we work hard to reduce our waste and increase recycling across the Group. One challenge we face is that we often share our sites with other tenants. Where this is the case, we work collaboratively with our landlords and our facilities management provider to help monitor and improve our waste management.

As a highly IT literate company, electronic document management is used extensively across the Group and we encourage our employees to only print where necessary. We try to increase the amount of recycling by engaging with our employees and encouraging behavioural change.

We have a number of Group-wide recycling schemes for paper, consumables, such as printer cartridges, mobile phones and redundant IT equipment. In 2011, we recycled 2,263 tonnes of paper and 25,740 pieces of IT equipment.

We also want to extend our influence to help our clients to reduce their environmental impact as well. For our clients, we focus on streamlining processes, and replacing paper-based services with online services, wherever possible.

Additionally, we work with our suppliers to encourage them to provide us with more environmentally responsible products. We also look at the logistics of how they deliver goods to our offices to help reduce their carbon emissions.

## Our 2011 performance

	2011	2010
Total carbon footprint (tonnes CO <sub>2</sub> eq) <sup>1</sup>	91,318	81,112
Energy savings made at our 18 largest sites since 2006	41%	39%
Conference calls made	404,813	179,000
Undertake environmental site audits twice a year	100% audits completed	100% audits completed
Engaging employees	Our annual 'Going Green' campaign specifically promoted ways to reduce business travel	Promoted environmental initiatives across the Group through 'Going Green' campaign

<sup>1</sup> Based on latest greenhouse gas emissions from Defra.

## Engaging and supporting local communities

We actively engage with our local communities, aiming to improve the social and economic development of the areas where our employees live and work. We build relationships at a local level to help address the specific needs of each community and make as valuable a difference as possible.

### Supporting regeneration

Our clients and their customers benefit as a result of us improving the services that we deliver on their behalf. However, we also want to add real value to our local communities beyond these services to make a further relevant and sustainable contribution. Where we are delivering services at reduced costs on behalf of the public sector, the savings that we make can be reinvested by our clients back into frontline services for the public.

Through our strategic BPO contracts we can help to regenerate communities and support local economic growth by providing jobs, using local suppliers, supporting social enterprises and providing apprenticeship places. Where a contract has expanded and we are delivering new or additional services for our clients this can lead to job creation. For example, in 2011 we created jobs in two areas of low employment: 330 new jobs in Northern Ireland, to support our financial services operations and a further creation of 140 new jobs in Forres, Scotland, as part of the expansion of our contact centre operations.

### Community investment

Our community investment programme focuses on tackling exclusion of all kinds, whether this is from a lack of access to educational opportunities, through social exclusion or ill health. In 2011, we established the Capita Community Development Foundation to build on our existing initiatives and deliver innovative, scalable community programmes for both our clients and ourselves to address local needs.

We engage and encourage all our employees to get involved in our programmes, either through volunteering or by supporting our charity activities.

We measure the impact of our community investment using the London Benchmarking Group methodology and in 2011, we estimate that our total investment was £2m based on data captured from 55% of the Group.

### Working in partnership to maximise benefits

We often work collaboratively with our clients, local businesses and third sector organisations on our community programmes, building relationships and ensuring that we maximise our impact. For example, a key element of our partnership with Lambeth Council is to help improve opportunities for Lambeth residents, focusing on particular issues such as worklessness within the Borough, as well as providing support for local social enterprises.

### Giving our skills and expertise

We offer our employees the opportunity to support local projects by donating their time, skills and expertise through our volunteering scheme. This gives them the opportunity to take part in one-off projects or invest in longer term initiatives, such as helping young people to improve their literacy and numeracy skills. In 2011, we introduced an official employee volunteering policy, giving each employee one paid day off a year to volunteer.

### Charitable support

Alongside our community investment programme we have an active charity programme. We work with our corporate charity partner, the Alzheimer's Society, which was chosen by employees. We set ourselves a challenging target to raise £1 million by the end of our two year partnership in 2012 and we had raised £475,000 by the end of 2011. Through our partnership we promote the work of the charity to increase awareness and learning about dementia across our employees.

We also support our employees who fundraise for numerous local causes through our matched funding scheme, donating a further £25,000 in 2011. We have a central payroll giving scheme which is an efficient way for our people to donate to their chosen charities. In 2011, over 1,800 employees donated over £252,000 to charities through this scheme.

View all our policies online at:

 [capita.co.uk/sustainability](http://capita.co.uk/sustainability)

### Our 2011 performance

	2011	2010
Total community investment (using London Benchmarking Group methodology)	£2.0m	£1.65m
Total corporate donations including support for our charity partner and matched funding scheme, other community initiatives and disaster appeals	£0.5m	£0.7m
Employee fundraising for our corporate charity partner	£475k	£600k

# Governance

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

---

**Board members** **58**

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

---

**Corporate governance report** **60**

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

---

**Audit Committee report** **65**

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

---

**Remuneration report** **75**

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



## Board members

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



### Martin Bolland

#### Non-Executive Chairman

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

#### Committee memberships:

Nomination Committee (Chairman)

### Nigel Wilson

#### Senior Independent Director

Joined the Board in May 2010 and became Senior Independent Director upon appointment. Nigel is Group Chief Financial Officer of Legal & General Group Plc, appointed in September 2009. Having held many senior management positions across varied sectors, including his roles as Chief Financial Officer and Deputy Chief Executive of United Business Media plc. Nigel's extensive financial and commercial experience further strengthens the Board. Nigel retired as the Senior Independent Director of Halfords Group plc on 31 March 2011.

#### Committee memberships:

Nomination Committee  
Remuneration Committee  
Audit Committee

### Paddy Doyle

#### Non-Executive Director

Joined Capita in 1992 and was appointed to the Board in 1994. As Group Operations Director he was responsible for the ongoing operational management of the Group's business units. From August 2006 to the end of July 2008 he was Joint Chief Operating Officer before moving to a part-time Executive position. He became a Non-Executive Director from 1 March 2010. Paddy has been instrumental to Capita's success. In January 2012 Paddy decided to retire and will step down from the Board at the end of March 2012.

#### Committee memberships:

Nomination Committee

### Martina King

#### Non-Executive Director

Joined the Board in January 2005 and is currently the Managing Director of Aurasma, a division of Autonomy. Martina previously held a number of senior positions in marketing and online media, including Managing Director roles at Yahoo! and Capital Radio. Her broad knowledge and extensive experience of management, new technology and sales and marketing brings a different range of expertise to the Board and is of value in our continued growth. Martina is also a Non-Executive Director of Cineworld PLC and Debenhams Plc.

#### Committee memberships:

Remuneration Committee (Chair)  
Audit Committee  
Nomination Committee

### Paul Bowtell

#### Non-Executive Director

Joined the Board in June 2010 and is currently the Chief Financial Officer of Gala Coral Group. Paul was previously on the Board of Tui Travel PLC as Chief Financial Officer and was also on the Board of First Choice Holidays PLC. He is a Chartered Accountant and has extensive experience across the UK retail sector. He brings significant financial and commercial knowledge to the Board. He is also a Non-Executive Director and Chairman of the Audit Committee at STthree PLC.

#### Committee memberships:

Audit Committee (Chairman)  
Remuneration Committee  
Nomination Committee



## Paul Pindar

### Chief Executive

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



## Gordon Hurst

### Group Finance Director

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



## Maggi Bell

### Business Development Director

Joined Capita in January 1999 and was appointed to the Board in August 2008. Maggi has held various positions across Capita, including running our recruitment businesses and leading the Business Services and Corporate Services Divisions, and has been head of the Group Sales & Marketing Division since January 2005. She is responsible for driving forward business development across the Group, including managing our Major Sales Team, and has Board responsibility for community engagement.



## Andy Parker

### Joint Chief Operating Officer

Joined Capita in 2001 and was appointed to the Board in January 2011. Andy oversees the majority of Capita's non-financial services operations. Prior to joining the Board he was the Divisional Director for Capita's ICT, Health and Business Services Division. Before this he held a number of senior finance director positions across the Group including 3 years as a Senior Divisional Finance Director. Andy is a Chartered Accountant and has extensive commercial and financial experience. Andy has joint Board responsibility for clients and employees with Vic Gysin.



## Vic Gysin

### Joint Chief Operating Officer

Joined Capita in 2002 and was appointed to the Board in January 2011. Vic oversees Capita's financial services operations and the Integrated Services Division. Prior to joining the Board he was Divisional Director for Capita's Insurance and Investor Services Division. Before this he headed up the Integrated Services Division, containing many of Capita's major central government contracts. Since joining Capita he has overseen the successful implementation and delivery of a number of our key contracts. Vic is an experienced business director with strong leadership and management skills. Vic has joint Board responsibility for clients and employees with Andy Parker.

## Corporate governance report

### Chairman's report

I am pleased to present to you this report on the work of the Capita Group Board during 2011. This section of the Report and Accounts (pages 57 to 85) together with the Business Review on pages 1 to 56 form the Directors' Report.

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

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

### Results for 2011

When determining the Executive Directors' remuneration for 2011 a stretching target was agreed with them at the beginning of 2011.

Although Capita has had a strong sales year securing new major contracts and has performed well in challenging trading conditions, achieving revenue growth of 7%, underlying operating profit growth of 8%, and an underlying EPS growth of 8%, the agreed stretching target was not met for the first time in over a decade. In line with our policy of remuneration based upon meeting performance targets, no bonuses have been awarded to the Executive and Divisional Directors for the period under review.

### Board activities in 2011

As explained in our 2010 reporting, in January 2011 we appointed Vic Gysin and Andy Parker as Joint Chief Operating Officers and Simon Pilling stepped down from the Board. I believe that we have a talented and strong team in place on the Group Board and across our divisional management team to support our continued growth as a Group.

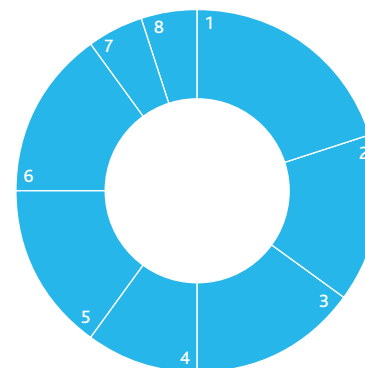
During 2011 the Board discussed a range of items as well as the business as usual of strategy, risk and oversight of the Group. The Group has undertaken a record number of acquisitions and had its best year on record for securing new and renewed major contracts.

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

In order that the Board can ensure that the strategic direction and growth of the Group can continue successfully and with the appropriate risk oversight, meetings are held between the Director, Group Risk and Business Assurance and the Chairman of the Audit Committee and the Group Compliance Director and the Chairman of the Audit Committee throughout the year as well as the normal scheduled meetings. Risks are identified in a number of ways and are prioritised and delegated in accordance with the risk ratings provided. An additional meeting of the Audit Committee was held this year to review the risk profile across the Group and to ensure that it reflected the Group's overall appetite for risk.

### Approximate allocation of agenda time in 2011

During the year the Board's discussions have been wide-ranging, including: strategy, acquisitions, finance, corporate reporting, operational performance and risk and business assurance. An increased amount of time was spent on our acquisitions due to the number we have completed this year. The work of the Board is shown in the diagram below.



1. Strategy	20%
2. Risk	15%
3. Finance	15%
4. Operations	10%
5. Acquisitions	15%
6. Bids	15%
7. Corporate reporting	5%
8. Other	5%

## Strategy

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

## Board members reporting

All Executive Directors prepare and present a report at each Board meeting. These include the key issues (including risk and opportunity), operational and financial performance and bid and acquisition activity. These reports are then complemented with verbal updates at the meeting. This allows the Directors to focus on specific issues and also for the other Directors to debate and challenge as required. See management and governance structure on [page 32](#).

## Financial and corporate reporting

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

## Major bids and acquisitions

Maggi Bell, Business Development Director, presents a report at each Board meeting which covers the current major bid strategy, constituents of the bid pipeline (bids over £10m in value where we are shortlisted to four or fewer) and prospects which are sitting just outside of the bid pipeline. As many of these potential contracts are of significant size and duration, these opportunities can make a significant impact on the shape and resource requirements of the Group as it grows.

Paul Pindar reports on the acquisition strategy and current acquisition activity in addition to his Chief Executive report. Again these acquisitions have an impact on the shape and resource requirements of the Group, particularly in 2011 when a large number of acquisitions were completed.

The Board considers the potential impacts of new acquisitions and contracts on resourcing at a senior management level and identifies candidates from within the Group or externally for key positions in the transition periods and ongoing delivery of these operations.

## Board evaluation in 2011

In 2010 we undertook a full Board evaluation. In 2011 we undertook a shortened evaluation managed by the Deputy Company Secretary. The evaluation was questionnaire based as I had recently held one to one meetings with all Board members. The unedited Board evaluation report was presented at the October 2011 Board meeting. The evaluation covered risk, board strategy and training. Further detail on this is shown on [page 63](#).

## Risk and business assurance

Both the Director, Group Risk and Business Assurance and Group Compliance Director report to the Group Finance Director and independently to the Audit Committee and report on the internal assurance programme and risk management activities across the Group. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit Committee Chairman and myself at least quarterly. See [pages 32 to 34](#).

## Directors

The Directors of the Company currently in office are listed on [pages 58 and 59](#). As explained in our announcement in January 2012, Paddy Doyle has decided to retire from the Board at the end of March 2012. All the current Directors (except Paddy Doyle) will be offering themselves for re-election at the forthcoming Annual General Meeting in May 2012. Paddy has made an immense contribution to Capita over the last 20 years and has been instrumental in our success. I wish him a long and prosperous retirement and know that he will remain a good friend to many of us here in Capita.

No Director has a service contract exceeding one year.

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

### Martin Bolland

Non-Executive Chairman

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

Capita plc and its subsidiaries (the Group) continue to be committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2010 (the Code) applies to accounting periods beginning on or after 29 June 2010 and replaces the Combined Code on Corporate Governance 2008. A copy of the Code is available from the Financial Reporting Council's website [www.frc.org.uk](http://www.frc.org.uk). Throughout the accounting period to which this report relates, the Company applied all of the principles set out in Sections A to E of the Code except as detailed below;

Code provision	Area of non-compliance	Position at 31 December 2011
B.1.2 Composition of the Board	During the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors.	The balance was 5 Executive Directors and 3 Independent Non-Executive Directors, a Non-Executive Chairman and a Non-Executive Director.

As noted above, the balance of independent Non-Executives to Executives is not equal. However, in accordance with the Code (June 2010), (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 is appropriate for the scale and scope of the business and to ensure effective board processes. The Board has the broad range of experience that is essential to ensure effective execution of strategy and management of risk, whilst also ensuring that the balance of skills is appropriate for the committees. Our Executives recognise all of their responsibilities and do not solely represent the activities they have within the Group which adds to open and constructive debate, as well as demonstrating the overall strength of the Board.

This area of non-compliance is expected to remain throughout 2012.

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

### Board changes in the year

On 10 January 2011, Vic Gysin and Andy Parker were appointed to the Board as Joint Chief Operating Officers and Simon Pilling stood down.

	Executive Directors	Non-Executive Directors
January 2011	Paul Pindar Gordon Hurst Maggi Bell Vic Gysin Andy Parker	Martin Bolland Nigel Wilson* Paul Bowtell* Martina King* Paddy Doyle

\*Independent in accordance with the Code.

As announced in January 2012 Paddy Doyle's date of retirement is 31 March 2012.

### Board leadership

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

Martin Bolland as Chairman and Nigel Wilson as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2011. Both Martin and Nigel are also available to meet with shareholders when requested.

### Role of the Board

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

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

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

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



### Board independence

Non-Executive Directors are required to be independent in character and judgement. All relationships that may materially interfere with this judgement are disclosed as required under the conflicts of interest policy. The Board has determined that all the Non-Executive Directors, except Paddy Doyle, 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 all support the value and continuity Paddy brings and will continue to bring to the Board until his retirement at the end of March 2012.

The Board is satisfied that there are no compromises to the independence of the Non-Executives and 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 Management Operations Business ('MOB') reports
- the Group approach to risk management.

Following the appointment of Vic Gysin and Andy Parker to the Board in January 2011, training was given in respect of their roles and responsibilities as Executive Directors.

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

### Board evaluation

During October 2011, the Board evaluation process was carried out by means of a questionnaire requiring written responses from the Directors. To ensure independence and objectivity, the questionnaire was conceived, administered and reviewed on a confidential basis by the Deputy Company Secretary. The resultant report, analysing responses and drawing anonymous conclusions, was sent to each Director for consideration at the October Board meeting. The Chairman also met with each Board member individually to discuss the performance of the Board and also discussed and agreed the format of the Board evaluation with the Senior Independent Director.

The report recognised the robustness of the governance process within the Board, and the strength of the dynamics that exists between strategic challenge and strategic focus amongst Executive and Non-Executive Directors.

The results of the evaluation were very positive and the final report was presented without amendment to the Board.

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

The use of an external evaluator for the Board evaluation is reviewed annually.

### Company Secretary

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

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

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

To assist in this area, the Deputy Company Secretary coordinates and manages the provision of share registration, company secretarial services and share plans to the Group on behalf of Gordon Hurst. The Deputy Company Secretary has direct access and responsibility to the Chairmen of the standing committees and open access to all the Directors. The Deputy Company Secretary has been appointed as Secretary to the Audit, Remuneration and Nomination Committees to ensure that there are no conflicts of interest.

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

### Committees' terms of reference

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

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

### Membership of the committees

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

	Martin Bolland	Martina King	Nigel Wilson	Paul Bowtell	Paddy Doyle
Nomination	(C)x	x	x	x	x
Audit		x	x	(C)x	
Remuneration		(C)x	x	x	

(C) Chairman

Paddy Doyle is not independent and therefore is only appointed to the Nomination Committee, but he is available to the Audit and Remuneration Committees as required.

### Nomination Committee

The Nomination Committee in 2011 comprised Martin Bolland (Committee Chairman), Nigel Wilson, Martina King, Paddy Doyle and Paul Bowtell. The Deputy Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly. The Committee is also authorised under its terms of reference to obtain the advice of independent search consultants. The terms of reference for the Nomination Committee can be found on the Group's website at [www.capita.co.uk/investors](http://www.capita.co.uk/investors).

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

- to identify and nominate appropriate candidates for appointment to the Group 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 Group Board and the leadership needs of the organisation under review and ensure that plans are in place for the orderly succession of appointment to the Board; and
- to review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Group Board members.

### Committee activities during 2011

During the year Vic Gysin and Andy Parker were appointed to the Group Board as Executive Directors. Prior to recommending the appointments for approval, the Committee conducted a rigorous review of the size and structure of the Board and the balance and range of its Directors' knowledge and experience.

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

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

The Committee considered many issues, such as length of service and conflicts of interest, and how these may have an impact on the independence of the Non-Executives.

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

## Audit Committee report

I am pleased to present the report on the activities of the Audit Committee for the year to 31 December 2011. Set out below is a summary of the work carried out by the Committee.

### Audit Committee

Throughout 2011 the members of the Audit Committee were Paul Bowtell (Chairman), Martina King and Nigel Wilson, all of whom are independent Non-Executive Directors. Paul Bowtell is a Chartered Accountant and has recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit Committees. The Board has reviewed the performance of the Committee and is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner.

Audit Committee meetings are by invitation and generally attended by: the Non-Executive Chairman; Chief Executive; Executive Directors; Director, Group Compliance; Director, Group Risk and Business Assurance and by representatives of the external Auditors.

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

### Role and responsibilities

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

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

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

### Committee activities during 2011

The Committee met five times during the year. Meetings are planned around the financial calendar for the Company and the meeting held in May is specifically to focus on the risk, internal control and compliance agendas.

During the year the Committee undertook the following activities:

- February: At the meeting to review the 2010 Annual Report and Accounts, the Committee considered the level of non-audit services being provided by the Group's Auditors in order to satisfy itself that the objectivity and independence of the Auditors were safeguarded
- February: Reviewed and approved the Representation Letter required by the Auditors
- February: Met with the Auditors independently of the Executive Directors and also separately met with the Director, Group Risk and Business Assurance
- February: Update from Group Compliance and Group Risk and Business Assurance including Group safety, health and environment
- May and ongoing: Monitored the internal controls that are operated by management to ensure the integrity of information reported to shareholders
- May: Discussion and update on the Anti-Bribery Act and the processes and policies implemented across the Group
- May: A review of the terms of reference was undertaken and no changes were proposed. The terms of reference include the approval of the appointment of the Director, Group Risk and Business Assurance
- July: Contract wins to date in the year were reviewed
- July: Review of Half Yearly Accounts for 2011. This included consideration of both financial and non-financial aspects of the accounts
- September: Review of the Group's risk appetite and risk maps
- November: Report from the External Auditors on the audit planning for the year-end audit process.

In line with its responsibilities, the Committee reviewed the annual business assurance programme and ensured that the Group Risk and Business Assurance function was adequately sponsored and resourced. The Group Risk and Business Assurance business plan was presented to the Committee in January 2012 and approved.

Ongoing: Reviewed a wide range of financial reporting and related matters during the year, including 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 Compliance and Group Risk and Business Assurance. The Committee is also responsible for the policies on whistle blowing (speak up) and the provision of the non-audit services by the external Auditors. Both policies are published on the Company's intranet.

### Statutory Auditors

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

The Committee discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. The evaluation of KPMG also included the planning of the audit and a post audit evaluation. Particular importance was placed on this review as this was the first full year that KPMG had been appointed.

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

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

### Disclosure of information to Auditors

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

### Auditor independence

The Committee takes seriously its responsibility to put in place safeguards to Auditor objectivity and independence. It has therefore established a policy on the provision of services by the Group's Auditors. The policy describes the circumstances in which the Auditors may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditors for non-audit work. Any assignment where the expected fee is above the relevant threshold requires specific approval from the Committee or a member of the Committee. The Deputy Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. The policy is reviewed by the Committee annually. Details of audit and non-audit fees are given in note 7 on [page 100](#).

The Company is committed to ensuring appropriate independence in its relationship with the Auditors and the key safeguards are:

- the Group Finance Director monitors the independence of the Auditors as part of the Group's assessment of auditor effectiveness and reports to the Audit Committee
- the Audit Committee routinely benchmarks the level of the Group audit fee against other comparable companies both within and outside of the Group's sector, to ensure ongoing objectivity in the audit process
- the Group Finance Director monitors the level and nature of non-audit fees accruing to the Auditors, and specific assignments are discussed in advance with the Auditors and flagged for the approval of the Audit Committee as appropriate and in accordance with the Company's policy on the provision of non-audit services by the Auditors. The Audit Committee reviews, in aggregate, non-audit fees of this nature on an annual basis and considers implications for the objectivity and independence of the relationship with the Auditors
- the Auditors undertook various non audit work such as assistance on acquisitions and bids across our business.

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

**Paul Bowtell**  
Chairman  
Audit Committee

### Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on [pages 75 to 85](#).

### Board and Committee members, frequency of meetings and attendance

During 2011 the Board met nine times, excluding ad hoc meetings, solely to deal with procedural matters. The Nomination Committee and the Remuneration Committee met two and five times during the year, respectively. The Audit Committee met five times during the year. Attendance is recorded in the table below:

	Board meetings	Nomination Committee meetings	Remuneration Committee meetings	Audit Committee meetings
Scheduled meetings	9	2	5	5
Martin Bolland	9	2	–	–
Paul Pindar	9	–	–	–
Gordon Hurst	9	–	–	–
Andy Parker	9	–	–	–
Vic Gysin	9	–	–	–
Maggi Bell	8	–	–	–
Nigel Wilson	8	2	5	5
Paul Bowtell	9	2	5	5
Martina King	8	2	5	5
Paddy Doyle	8	2	–	–

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

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

### 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. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company's website – [www.capita.co.uk/investorcentre](http://www.capita.co.uk/investorcentre). All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is personally available to the significant shareholders in the Group.

The Corporate Communications team has effective day-to-day responsibility for managing shareholder communications and always acts in close consultation with the Board. A Disclosure Committee consisting of the Corporate Communications Director, Chief Executive and Group Finance Director ensures all appropriate communications are made to the London Stock Exchange and shareholders. Shareholders can also access up-to-date information through the Group's website at [www.capita.co.uk/investorcentre](http://www.capita.co.uk/investorcentre). A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

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

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

### Internal control

The Board is responsible for the Group's system of internal control and for regularly reviewing its effectiveness. Procedures have been designed for, inter alia, the safeguarding of assets against unauthorised use or disposition, maintaining proper accounting records and the reliability of financial information used within the business or for publication. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud. There is an ongoing process of identifying, evaluating and managing the key risks faced by the Group, which has been in place throughout the year under review and up to the date of approval of the 2011 Annual Report and Accounts. This process is regularly reviewed by the Board. The Group's key internal control procedures include the following:

- the Board has responsibility to set, communicate and monitor the application of policies, procedures and standards in areas including operations, finance, legal, commercial and regulatory compliance, human resources and health and safety, information security and property management and corporate social responsibility and the environment and these policies are cascaded to the businesses via the MOB review process and additional internal communication channels



## Corporate governance

- authority to operate the individual businesses comprising the Divisions that make up the Group who then delegate to Managing Directors, within limits set by the Group, including the recruitment of the underlying management teams. The Board establishes key operations, functional and financial reporting standards for application across the whole Group and this is cascaded through the MOB review process. These are supplemented by operational standards set by local management teams, as required for the type of business and geographical location of each subsidiary and business unit
  - comprehensive annual financial plans are prepared at the individual business unit level and summarised at a Divisional and Group level. Financial plans are reviewed and approved by the Board following challenge within the MOB review process. Capital expenditure is subject to rigorous budgetary control beyond specified levels and detailed written proposals have to be submitted to the Board. Expenditure on acquisitions is the subject of appropriate consideration, review and approval by the Board
  - results are monitored routinely by means of comprehensive management accounts and actual progress against plan is challenged directly by Executive Directors of the Board on a Group-wide basis and at the business unit level each month. The Non-Executive Directors challenge the Executive Directors at each Board meeting
  - a framework is in place to identify, assess and mitigate the major business risks, including credit, liquidity, operations, reputation, information security, regulatory and fraud. The framework also includes specific provision for risk-based due diligence in respect of business acquisitions and new customer contracts. Exposure to business risk is monitored as an integral part of the MOB review process and by the Audit Committee
  - the MOB process is supplemented across many of the Group's businesses, including all the regulated financial services businesses, by a number of formally constituted risk committees. These committees provide an appropriate means to routinely monitor the risk profile for these businesses, including regulatory risks, and for proposed mitigating actions to be challenged and tracked. During the course of 2011 a new Group Financial Services (FS) Governance Forum was established to provide enhanced Group oversight of all financial services business streams. The forum is chaired by Vic Gysin, will have an independent member and when fully established will meet quarterly
  - the Group Risk and Business Assurance function reports to the Group Finance Director and independently to the Audit Committee. In addition to independently facilitating the Group's risk management framework, it delivers a risk-based internal audit programme, to provide assurance on the effectiveness of the internal control structures operating across the business. The annual audit programme is focused on areas of greatest risk to the Group, as determined by the Group risk framework, and an independent view of those risks is taken by the Group Risk and Business Assurance function. Work continues to further segregate the internal audit function that reviews FSA regulated financial services businesses with a reporting line into the FS Governance Forum, as described previously
  - in addition, regulatory risks and compliance matters are overseen by the Group Compliance Director reporting through the Group Finance Director and independently to the Audit Committee. Dedicated compliance teams within the relevant businesses independently monitor regulatory compliance by way of risk-based work programmes and support operations in identifying and mitigating regulatory risks as an integral part of the Group risk framework
  - both the Group Compliance function and Group Risk and Business Assurance function routinely apprise the Group's senior management and the Audit Committee of their work programmes and findings.
- The Board keeps under review the effectiveness of this system of internal control. The key mechanisms used by the Board to achieve this include regular MOB review reports, periodic updates from the Audit Committee based on its review of risk management, business assurance and compliance reports by the relevant Group functions; discussions with and reports from the external auditors and other advisers.
- Through the above mechanisms, the Board and the Audit Committee have performed a Group-wide review of the effectiveness of the internal control system, including financial and operational controls and risk management in accordance with the Code for the period from 1 January 2011 to the date of approval of this Annual Report and Accounts. The Board and the Audit Committee is satisfied with the process of monitoring the effectiveness of internal controls and complies with the Internal Control Guidance for Directors in the Code issued by the Institute of Chartered Accountants in England and Wales and in the revised Turnbull Guidance (2005).

Risk management and governance is also referred to on [pages 32 to 34](#).

## Other statutory and regulatory information

### Business Review and principal activities

#### Business Review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2011 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review'). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the Business Review can be found in [pages 1 to 56](#). Details of the Group's business goal, strategy and model are on [pages 2 to 5 and 11](#).

#### Events after the Balance Sheet date

The Board agreed with Paddy Doyle's wish to retire and step down from the Board at the end of March 2012.

#### 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 (except Paddy Doyle) will retire and will offer themselves for re-election at the Annual General Meeting in May, in accordance with the Code provision B.7.1.

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

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

#### Board diversity

Regarding the continuing debate on the topic of diversity on boards and in particular whether prescribed quotas regarding women on boards are preferable or not, approaching 20% of our senior management team and 20% of our Board in 2011 were women. Capita sees significant business benefit in having access to the diversity of thinking that comes from people with a wide range of backgrounds at all levels in the Company. Only by encouraging this diversity and

by fostering talent throughout the business can the Company expect to achieve further diversity in senior management and on boards. Capita established a network of diversity champions across the Group in 2008 and the Company's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to continuing to foster talent and support those people from all backgrounds who wish to progress. However, the Company will also continue to appoint and promote people on merit and in line with the skills and attributes identified for each post, including those identified by the Nominations Committee for the Board.

#### Social and environmental responsibility

Details of how the Group manages its social and environmental responsibilities can be found on [pages 45 to 56](#) and at [www.capita.co.uk/sustainability](http://www.capita.co.uk/sustainability).

#### Group activities

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

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

A review of the development of the Group and its business activities during the year is contained in the Business Review on [pages 1 to 56](#). Our divisional operations and financial performance are detailed on [pages 35 to 44](#).

In January 2011, the Board decided to reorganise the Group's divisions to reflect the growth of the Group and provide greater transparency. From January 2011, the Group's principal activities are managed through nine operating divisions. Additionally a Divisional Executive Management Team was created with representation from the heads of the nine divisions, and the head of Group acquisitions, head of strategic sales development and two Senior Divisional Finance Directors.

### Profits and dividends

The Group underlying profit before taxation amounted to £385.2m (2010: 364.2m). The Directors recommend a final dividend of 21.4p share (2010: 13.4p per share) to be paid on 28 May 2012 to ordinary shareholders on the Register on 20 April 2012. This gives a total dividend for the year of 21.4p per share (2010: 20.0p per share).

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

### Conflicts policy

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

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

### Voting rights and share capital

On 17 February 2012 the Company had received notifications that the following were interested in accordance with DTR5:

Shareholder	Number of shares	% of Voting Rights as at 17 February 2012	Number of shares direct	Number of shares indirect
BlackRock Inc	32,380,092*	5.28	32,380,092*	–
Capital Research and Management Company	56,167,933	9.16	–	–
Invesco Limited	122,463,959	19.96	–	122,463,959
Legal & General Group Plc	23,086,079	3.76	19,663,063	3,423,016

\*This figure includes a Contract For Difference (CFD) for 1,108,828 shares.

At 17 February 2012, 627,638,789 ordinary shares of 2<sup>1</sup>/<sub>15</sub>p each have been issued and are fully paid up and are quoted on the London Stock Exchange. 14,199,984 shares are held in treasury and the total voting rights equates to 613,438,805. During the year ended 31 December 2011, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 152,415 new ordinary shares. 8,679 shares have been allotted under these schemes since the end of the financial year to the date of this report. 0.82% 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 2011 was 628.5p. The highest share price in the period was 786.5p and the lowest was 611.5p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2011. During the year the Company did not purchase any shares (2010: 15,403,930).

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on [pages 1 to 56](#). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on [pages 35 to 37](#). In addition note 26 to the financial statements on [page 113](#) includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

After making enquiries, and in accordance with the FRC's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

### Disabled persons

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

### Employee involvement

Capita is committed to involving all employees in the performance and development of the Group. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development. The Group supports employees through a comprehensive range of key business and management skills and personal development programmes through the Capita Academy and Capita Manager Academy. At the same time our businesses provide business specific training for all employees relevant to their role. In addition the Group supports the achievement of professional qualifications including a range of National Vocational Qualifications.

The Group encourages all of its employees to participate fully in the business through open dialogue. Employees receive news of the Group through: frequent email notices; internal notice board statements; the Group employee intranet, Capita Connections, and regular email updates on business performance from both Divisional and Group Directors. Capita Connections enables employees to manage their work more efficiently and to share information within and between business units and employees are encouraged to contribute news, views and feedback. The Group maintains a strong communications network and employees are encouraged, through its open door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group.

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

### Payment of suppliers

The Company aims to pay suppliers in accordance with the suppliers' contract terms. In 2011 the Company had an average of 41 days purchases (2010: 41 days purchases) outstanding in trade creditors.

### Charitable and political donations

During the year charitable donations amounted to £0.5m (2010: £0.7m). No political contributions were made. Further details of the Group's charitable donations and work within the community can be found on [page 56](#) and at [www.capita.co.uk/sustainability](http://www.capita.co.uk/sustainability)

### Financial instruments

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

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

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

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

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

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

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in India, which generates exposure to movements in the Indian Rupee exchange rate. The Group seeks to mitigate the effect of this exposure by entering forward currency instruments, in the form of non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian Rupees. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on [pages 113 to 118](#).

### Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2012 Annual General Meeting from 15 minutes before the meeting until it ends.

### Powers of Directors

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

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

### Change of control

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

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

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



## Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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

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

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

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

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

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

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

Details of the principal risk categories can be found on [page 34](#).

### 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 2012 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB, on 15 May 2012. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which was sent to shareholders with the 2011 Annual Report and Accounts and includes notes explaining the business to be transacted. In May 2011 shareholders granted authority for the Company to purchase up to 62,298,429 ordinary shares which will expire at the conclusion of the 2012 AGM. No shares were purchased during 2011. A resolution to renew this authority will be put to shareholders at the 2012 Annual General Meeting.

### Approval of the Annual Accounts

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

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

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

## Remuneration report

### Chair's report

*The following information is not subject to audit.*

It is my pleasure to report on the activities of the Remuneration Committee for the period to 31 December 2011. This report will be presented for approval by shareholders at the 2012 Annual General Meeting.

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

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

During 2011, following shareholder approval at the Annual General Meeting, we introduced a one off Co-Investment Plan (CIP) for Paul Pindar. It was part of the benchmarking exercise undertaken in 2010 and was devised with our advisers

and consulted fully with our major shareholders, to retain, motivate and help bridge the competitive pay gap with Paul's annualised total compensation increasing to around the median of market practice in four years time. Further details on this plan are detailed on [page 79](#).

The Committee met during the year to consider the performance of the various elements of the remuneration such as the Long Term Incentive Plan and the Deferred Annual Bonus to understand how these plans were performing against the targets set.

The Committee also met in August to specifically discuss the Remuneration Policy that was adopted by the subsidiaries who were identified as firms captured by the FSA's Remuneration Code.

### Members of the Committee

The following Non-Executive Directors were members of the Committee during 2011:

Martina King (Chair), Nigel Wilson, Paul Bowtell

The Committee met five times during 2011 and the attendance of the Committee is shown in the attendance table on [page 67](#).

### Summary of remuneration and share awards in respect of 2011

The table below shows how the areas of salary and other benefits are broken down between fixed and variable pay.

Strategy	Policy	Package	Risk
Alignment to shareholders' interests	Set base pay at lower quartile level	Base salary Cash bonus	Low Low – medium
Competitive in the current market and our business sector	Reward upper quartile performance	Deferred Annual Bonus plan Long Term Incentive Plan	Low – medium Medium to high
Encourages and supportive of a high performance culture	Balance between short and long term rewards with a balance on longer term rewards	Share Matching Plans	Medium
Attract, retain and motivate	Competitive package of benefits	Pension provision Car allowance Healthcare All employee plans	Low – medium

Below is a summary of the remuneration for the Executive Directors awarded during 2011.

Executive Director	Salary £	Bonus £	LTIP Shares £	Pension £	Other benefits* £
Paul Pindar	380,000	nil	165,000	19,000	1,490
Gordon Hurst	280,000	nil	120,000	14,000	17,390
Andy Parker	230,000	nil	80,000	11,500	16,466
Vic Gysin	230,000	nil	80,000	11,500	16,405
Maggi Bell	230,000	nil	120,000	–	15,404

\*The benefits are car allowance and private medical insurance.

### Base salaries

The Executive Directors asked to keep their 2012 remuneration unchanged from 2011 levels and therefore the salaries at Executive and Divisional Director level have been frozen for 2012. This decision was supported by the Committee. The Committee noted that all employees are paid in accordance with the market conditions and business requirements for their role. To compare directly our wide range of employees with the Executive Directors is very difficult and therefore a general review and consideration has been undertaken to ensure that salaries across the Group are considered. The base salaries of the Executive Directors are currently below lower quartile when benchmarked against the FTSE 40 - 60 and also the FTSE 100.

### Key activities undertaken during 2011

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

- approval of the 2010 Directors' remuneration report
- review of share plan performance measures against the 2010 year-end targets
- review and approval of all awards made under the LTIP and DAB, taking into account the total value of awards made under these plans
- review of Executive Directors' shareholdings and levels achieved
- approval of the Co-Investment Plan (CIP) for Paul Pindar
- consideration of advisory bodies' and institutional investors' current guidelines on executive compensation
- annual review of all Executive Directors' and Chairman's base salaries and benefits
- ratification of 2011 salary increases for Divisional Directors in line with Company policies
- assessment of the risk environment surrounding the Company's current remuneration arrangements
- set targets for 2012 cash bonuses and deferred bonus
- review of targets under the DAB and the LTIP
- review and adoption of the Remuneration Policy for areas of the business adhering to the FSA's Remuneration Code
- approve the Remuneration Policy Statement as required under the FSA's Remuneration Code
- review of the committee's terms of reference.

### Service contracts

The service contracts for Executive Directors are for an indefinite period and provide for a one year notice period. They do not include provisions for predetermined compensation on termination that exceed one year's salary and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid. All Directors are appointed for an indefinite period but are subject to annual re-election at the Annual General Meeting.

Details of the contracts are set out below:

Executive Directors	Date of contract	Notice period
Paul Pindar	17 December 2007	12 months
Gordon Hurst	17 December 2007	12 months
Maggi Bell	1 August 2008	12 months
Andy Parker	10 January 2011	12 months
Vic Gysin	10 January 2011	12 months

Non-Executive Directors	Date of joining the Board
Martin Bolland	1 March 2008
Martina King	1 January 2005
Paddy Doyle <sup>1</sup>	1 March 2010
Paul Bowtell	28 June 2010
Nigel Wilson	12 May 2010

<sup>1</sup> Joined the Board in 1994 and will be retiring at the end of March 2012.

## Key elements of Executive remuneration

### Remuneration framework

For Executive Directors this is summarised as follows:

	Policy	Delivery	Year in review
Base pay	Lower quartile pay	Monthly in cash Reviewed annually in December and effective January	Reviewed against: Salaries in similar companies and comparably-sized companies Economic climate, market conditions and Group performance The role and responsibility of the individual Director
Bonus plan	Upper quartile for performance	Paid in cash following the results. For 2012 a maximum of 200% of annual salary can be achieved subject to stretching performance targets.	No award made
Deferred Annual Bonus plan	Upper quartile for performance	Compulsory deferral of 50% of the cash bonus is put into the plan and this is matched with up to 2 shares for each one deferred. From 2012 awards onwards up to 100% of all bonus awarded can be deferred.	No award made
Long Term Incentive Plan	Upper quartile for performance	Award of nil cost options Vest in 3 years following a performance condition of EPS and share price performance	Reviewed against: The role and responsibility of the individual Director Review of performance targets for future awards
Benefits	In line with all employees within the Group	Pension – up to 5% Car allowance Healthcare All employee plans	

### Annual bonus

For the period to 31 December 2011, no bonuses have been awarded to the Executive or Divisional Directors. The target set during the business planning process for 2011, in agreement with the Executive Directors, was extremely stretching and was not met as explained on page 60.

### Pay and benefits received by the Board

#### Executive remuneration

##### Salary

A salary increase of £5,000 per annum was awarded to each Executive Director in 2011. No salary increases were awarded to the Executive Directors for 2012.

##### Non-Executive fees

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

The fees also recognise the responsibility of the role and the time commitments required - these are not performance-related or pensionable. The fees are paid monthly in cash and there are no other benefits. There were no increases in fees in 2011.

In line with the Executive Directors, no increase in fees are proposed for 2012 for the Non-Executive Directors.



## Short term incentives

### Annual bonus scheme

The annual bonus scheme is reviewed annually and designed to drive performance and profitability across the organisation. The cash bonus potential for 2011 for Executive Directors was 85% of salary. For the period to 31 December 2011 nothing was paid as the stretching performance conditions were not met. The performance target was set, during the business planning process for 2011, at a level of profit before tax with a stretch target to achieve the full potential. This was set using market expectations and forecasts submitted within the business planning process.

### Share Plans

Plan name	Plan background and objective	Plan operation	Performance period and criteria
Deferred Annual Bonus plan (DAB)	<p>The DAB was approved and adopted at the Annual General Meeting on 28 April 2005 and new rules were adopted at the Annual General Meeting in May 2010. The DAB is comprised of Deferred Shares, which form part of the annual bonus scheme, and Matching Shares.</p> <p>The Committee believes that this plan focuses participants on delivering strong year on year performance, which in turn drives long term shareholder value creation. Executive and Divisional Directors are eligible to participate in the DAB.</p> <p>The DAB is split into two elements:</p> <ul style="list-style-type: none"> <li>– Deferred Award – this is the compulsory deferral of the bonus awarded. This part is not subject to performance conditions.</li> <li>– Matching Award – which is subject to performance conditions. This is awarded at a ratio of 1.5 shares for each gross share awarded under the Deferred Award. Although this is a fixed amount the calculation is based on a percentage of salary. In 2011 (for the year ending December 2010) this was 70% of base salary which is the maximum that could be awarded at that time.</li> </ul> <p>In February 2011, 122,350 Deferred Shares were awarded to Executive Directors at a price of 718p being the market price determined at grant.</p> <p>No award will be made in 2012 as no bonus was awarded in respect of the 2011 financial period.</p> <p>From awards in 2012 the Matching Award is increased to a ratio of two shares for each deferred share awarded.</p>	<p>The value of the Deferred Shares is determined by the entitlement under the annual bonus scheme, half of the bonus entitlement is paid in cash and the remainder is deferred as determined by the Committee. The remainder is deferred on a gross basis into Deferred Shares or as a net restricted share award. The Deferred Shares are held for a period of three years from the date of award. They are only forfeited in the case of dismissal for gross misconduct.</p> <p>A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants are eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares vest after a three year holding period to the extent to which performance criteria have been met. During the year an aggregate of 183,523 Matching Shares were awarded to Executive Directors as detailed on pages 82 and 83 and subject to the following performance conditions.</p> <p>The Committee has decided that the performance condition that will apply to the Matching Shares is earnings per share (EPS) growth against the UK Retail Price Index (RPI). The Committee continues to believe that long term EPS growth is the most appropriate performance condition for the Company, as it is a key indicator of shareholder value creation. The review of the EPS target for 2010 and 2011 was to ensure that the target continued to be no less challenging than the original conditions. The Committee continues to believe that these targets are very challenging given Capita's earnings growth over the last five years.</p> <p>There are no non-financial targets for this plan, however the annual appraisal process considers non-financial measures and awards consider the prior year performance as a whole.</p>	<p>2009 and before</p> <p>EPS growth of RPI + 6% per annum – 33% of the award vests</p> <p>EPS growth of RPI +16% per annum – 100% of the award vests</p> <p>Straight-line vesting occurs between these points.</p> <p>2010</p> <p>EPS growth of RPI + 4% per annum – 33% of the award vests</p> <p>EPS growth of RPI +14% per annum – 100% of the award vests</p> <p>Straight-line vesting occurs between these points.</p> <p>2011 onwards</p> <p>EPS growth of RPI + 4% per annum – 33% of the award vests</p> <p>EPS growth of RPI +12% per annum – 100% of award vests</p> <p>Straight-line vesting occurs between these points.</p>

## Share plans

Plan name	Plan background and objective	Plan operation	Performance period and criteria
<b>Long Term Incentive Plan (2008 LTIP)</b>	<p>At the Annual General Meeting in 2008 the Long Term Incentive Plan (LTIP) was approved by shareholders. In calculating the LTIP awards granted to Executive Directors, the Committee considered that a fixed number of shares was preferable than fixing awards as a percentage of salary. Under the plan rules the Committee can award up to three times salary or a maximum of 165,000 shares. Paul Pindar has been awarded the maximum of 165,000 shares in all years.</p> <p>On 25 February 2011, 565,000 shares were awarded to the Executive Directors as detailed in the table on <a href="#">pages 82 and 83</a>.</p>	<p>The vesting of awards will depend on the share price growth and EPS targets measured over a three year period. An award will not vest if Capita's average share price at the date of vesting is below the average share price at the date of grant.</p> <p>The proportion of awards that vest will be determined by the following criteria as shown.</p> <p>The Committee may vary the performance conditions if it considers that the original conditions are not appropriate and a fair measure of performance. Where the performance conditions are not met, the award will lapse. There will be no re-testing of performance. The Committee has considered the targets set for both Executive Directors and other participants of the scheme and feels that they are very challenging especially in the current market.</p> <p>Although there are no non-financial targets for this plan the annual appraisal process considers non-financial measures and awards considers the prior performance as a whole.</p>	<p>2009 and before</p> <p>EPS growth of RPI + 4% per annum – 20% of the award vests</p> <p>EPS growth of RPI +16% per annum – 100% of the award vests</p> <p>Straight-line vesting occurs between these points.</p> <p>2010</p> <p>EPS growth of RPI + 4% per annum – 20% of the award vests</p> <p>EPS growth of RPI +14% per annum – 100% of the award vests</p> <p>Straight-line vesting occurs between these points.</p> <p>2011 onwards</p> <p>EPS growth of RPI + 4% per annum – 20% of the award vests</p> <p>EPS growth of RPI +12% per annum – 100% of the award vests</p> <p>Straight-line vesting occurs between these points.</p>
<b>Co-Investment Plan (CIP)</b>	<p>The Co-Investment Plan (CIP) was approved and adopted at the Annual General Meeting on 10 May 2011. The CIP is comprised of Pledged Shares and Matching Shares.</p> <p>The Committee believes that this plan will provide a one off plan for Paul Pindar and is an opportunity to retain, motivate and help bridge the competitive pay gap and increase the annualised compensation to around median of market practice within the four years from grant.</p> <p>The CIP is split into two elements. Paul Pindar pledged the value of £1m of shares, made up of new and existing shares. These Pledged Shares do not have any performance conditions as they are part of Paul Pindar's personal shareholding. The second part is awarded as a Matching Award with performance conditions over a four year period.</p> <p>In May 2011 412,087 Matching Shares were awarded to Paul Pindar and the market price at award was 741p.</p>	<p>The value of the Pledged Shares was determined by the share price, and one third of the Pledged Shares were required to be purchased as new shares. The remainder could be pledged from the existing shareholding. The Pledged Shares do not have any performance conditions.</p> <p>The Matching Award was made following the pledging of the shares and the approval of the plan by shareholders. The Matching Shares have a performance target of Total Shareholder Return compared to the FTSE 100 Index over a fixed four year period. In addition, the Committee may consider various factors when assessing the underlying performance but the minimum requirement for any vesting is that the earnings per share of the Company must have grown over the performance period.</p> <p>Clawback – In circumstances where the Committee considers in good faith that the vesting of the Matching Award was determined on the basis of materially misstated or other financial data, it shall take such steps as it considers appropriate to recover the difference in value between the incorrect Matching Award and the Matching Award that would have vested had the correct data been used.</p>	<p>Capita's TSR over the performance period to be at upper quartile to the constituents of the FTSE 100 Index.</p> <p>One third will vest for achieving median TSR and straight line vesting between median and upper quartile.</p> <p>There will be no vesting of the Matching Award below median TSR</p>
<b>Long Term Indexed Share Appreciation Scheme (LTISAS)</b>	<p>The LTISAS was only open to the Executive Directors and Divisional Directors. Under the scheme, participants were provided with two equal tranches of 600,000 options.</p> <p>The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards have or will be made under this plan. Paul Pindar remains the only Executive Director with outstanding options within this scheme.</p>	<p>The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was adjusted in line with the movement in the FTSE All Share Index from the date of grant to 25 November 2007. The adjusted exercise prices were 348p for the 2002 award and 474p for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index.</p>	<p>As growth in the Company's EPS over the three year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.</p>

## Remuneration

Plan name	Plan background and objective	Plan operation	Performance period and criteria
<b>Executive Share Option Scheme (ESOS)</b>	The 1997 Executive Share Option Scheme (including both HMRC approved and unapproved elements) is a discretionary scheme for senior managers in which the Executive Directors no longer participate.	Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds growth in RPI by 8% over a three year period from the date of grant.	If the growth in the Company's EPS exceeds growth in RPI by 8% over a three year period from the date of grant.
<b>Save as you Earn (SAYE)</b>	The SAYE is open to all employees of the Company, under certain eligibility criteria, including Executive Directors. The SAYE was renewed for a further 10 years at the AGM in May 2010.	Under the plan employees can save up to £250 per month for a period of three years and purchase shares at the price set at the beginning of the savings period.	There are no performance criteria to be satisfied under this scheme.
<b>Capita Share Ownership Plan (CSOP)</b>	The CSOP is open to all employees of the Company, under certain eligibility criteria.	Under the plan employees may invest up to £125 per month in the Company's shares and the Company matches these at a ratio of one matching share for every 10 participant shares.	There are no performance criteria to be satisfied under this scheme Share plans.

## Satisfaction of options

When satisfying awards made under its share plans and long term incentive plans, the Company uses newly issued, treasury or purchased shares as appropriate.

## Dilution

All awards are made under plans that incorporate dilution limits as set out in the Guidelines for Share Incentive Schemes published by the Association of British Insurers. The estimated dilution from existing awards including executive and all-employee share awards is approximately 7.02% of the Company's share capital as at 31 December 2011.

*The following information is subject to audit.*

## Directors' remuneration

The remuneration of the Directors is made up as follows:

Directors	Salary and fees £	Benefits £	Performance related bonus £	Total 2011 £	Total 2010 £	Dividends equivalent for DAB £	Gain on exercise of options 2011 ** £	Gain on exercise of options 2010 £	Pension 2011 £	Pension 2010 £
Martin Bolland	200,000	–	–	200,000	200,000	–	–	–	–	–
Paul Pindar	380,000	1,490	–	381,490	901,360	17,349	1,432,818	479,565	19,000	18,750
Gordon Hurst	280,000	17,390	–	297,390	677,260	12,706	972,002	345,572	14,000	13,750
Andy Parker	230,000	16,466	–	246,466	–	–	266,784	–	11,500	–
Vic Gysin	230,000	16,405	–	246,405	–	–	266,784	–	11,500	–
Maggi Bell	230,000	15,404	–	245,404	555,384	9,530	404,528	267,948	–	–
Nigel Wilson	70,000	–	–	70,000	44,722	–	–	–	–	–
Paul Bowtell	60,000	–	–	60,000	30,682	–	–	–	–	–
Martina King	60,000	–	–	60,000	51,250	–	–	–	–	–
Paddy Doyle	60,000	–	–	60,000	93,887	–	1,065,602	380,843	–	1,000
Simon Pilling*	285,000	17,960	–	302,960	699,381	–	–	293,121	–	29,150

\*Simon Pilling received £21,000 for compensation for loss of office in January 2011

\*\* The gain on exercise of options was primarily awarded from the first award under the Long Term Incentive Plan launched in 2008.

## Directors' interests

	31 December 2011 or date of resignation ordinary shares of 2 <sup>1</sup> / <sub>15</sub> each	31 December 2010 or date of appointment if later ordinary shares of 2 <sup>1</sup> / <sub>15</sub> each
Martin Bolland	40,000	25,000
Paul Pindar*	1,701,903	1,669,252
Gordon Hurst*	54,900	64,025
Andy Parker	–	–
Vic Gysin*	16,220	16,220
Maggi Bell*	81,094	67,856
Nigel Wilson	–	–
Paul Bowtell	–	–
Martina King	717	717
Paddy Doyle	27,289	27,176
Simon Pilling*	32,383	32,383

\*Some held beneficially in trust

Executive Directors	Beneficially held restricted stock
Paul Pindar	45,290
Gordon Hurst	33,213
Andy Parker	–
Vic Gysin	16,220
Maggi Bell	25,918

## Directors' remuneration

	2011 £000s	2010 £000s
Base salaries	1,635	1,180
Benefits	85	51
Annual bonus <sup>1</sup>	–	1,652
Dividend Equivalent for DAB	39	64
Pension contributions to the Group's defined contribution scheme	37	47
Pension contributions to external defined contribution pension schemes	19	16
Fees	450	395
Compensation for loss of office	21	–
Total	2,286	3,405

<sup>1</sup>No bonuses have been paid in respect of 2011.

In addition, by way of salary sacrifice, the base salary of Andy Parker was reduced by £13,800 and paid into separate defined contribution schemes.

The benefits of Gordon Hurst, Andy Parker, Vic Gysin, Maggi Bell and Simon Pilling are in respect of private medical insurance and the provision of a company car allowance. The benefits of Paul Pindar, the highest paid Director, are in respect of a company car and private medical insurance.

No Executive Director is holding any external directorships for which they are paid.

### Simon Pilling

On 10 January 2011 it was announced that Simon Pilling was leaving Capita. Simon has been paid one year's salary of £302,960 (which includes his benefits and annual leave) in accordance with his contract and his full bonus for the period to 31 December 2010. He was also paid £21,000 as compensation for loss of office.

In respect of the DAB, Simon has kept the Deferred Award and the Matching Award has lapsed in respect of the award made in 2009 and 2010. For the award made in 2008, the Remuneration Committee has agreed that Simon completed the full performance period and therefore kept the Matching Award for this period, subject to the performance conditions being met.

For the LTIP 2008, it was agreed that Simon would keep in full his award in 2008 and a pro rata amount for the 2009 and 2010 award. This is in line with a pro rata of service and notice period. These awards will vest following the full three year vesting period and are subject to the performance conditions being met.

## Remuneration

## Share plan awards

The Company utilises a number of different share plans to incentivise and align the interests of employees, including the Executive Directors, with that of shareholders. Details regarding the various share plan schemes can be found on [pages 78 and 80](#). The table below sets out the Executive Directors' interests in these plans.

	Number of shares under award/option at 1 January 2011 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/ exercise price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2011	Number of shares under award/option at 31 December 2011 or date of resignation	Vested number of shares under option	Value of release/ exercise (£)	End of share plan performance period (or first exercise/ scheduled release date)	Last exercise/ scheduled release date
<b>Paul Pindar</b>													
LTISAS 2004	600,000	–	–	3.51	4.74	–	–	–	600,000	–	–	25/11/2007	25/11/2014
LTIP 2008	165,000	–	–	6.83	–	146,137	7.1828	18,863	–	146,137	1,049,673	07/05/2011	07/06/2011
LTIP 2009	165,000	–	–	6.84	–	–	–	–	165,000	–	–	20/03/2012	20/04/2012
LTIP 2010	165,000	–	–	7.215	–	–	–	–	165,000	–	–	04/03/2013	04/06/2013
LTIP 2011	–	165,000	–	7.355	–	–	–	–	165,000	–	–	25/02/2014	25/05/2014
DAB 2008	79,170	–	–	6.56	–	72,673	7.6316	6,497	–	72,673	554,611	03/03/2011	03/06/2011
DAB 2009	83,438	–	–	6.575	–	–	–	–	83,438	–	–	26/02/2012	26/05/2012
DAB 2010	76,999	–	–	7.16	–	–	–	–	76,999	–	–	26/02/2013	26/05/2013
DAB 2011	–	36,559	54,838	7.18	–	–	–	–	91,397	–	–	24/02/2014	24/05/2014
Co-Invest Plan	–	412,087	–	7.41	–	–	–	–	412,087	–	–	10/05/2015	10/05/2021
<b>Gordon Hurst</b>													
LTIP 2008	120,000	–	–	6.83	–	106,281	7.1828	13,719	–	106,281	763,395	07/05/2011	07/06/2011
LTIP 2009	120,000	–	–	6.84	–	–	–	–	120,000	–	–	20/03/2012	20/04/2012
LTIP 2010	120,000	–	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
LTIP 2011	–	120,000	–	7.355	–	–	–	–	120,000	–	–	25/02/2014	25/05/2014
DAB 2008	57,982	–	–	6.56	–	53,224	7.6136	4,758	–	53,224	405,226	03/03/2011	03/06/2011
DAB 2009	61,188	–	–	6.575	–	–	–	–	61,188	–	–	26/02/2012	26/05/2012
DAB 2010	56,465	–	–	7.16	–	–	–	–	56,465	–	–	26/02/2013	26/05/2013
DAB 2011	–	26,810	40,215	7.18	–	–	–	–	67,025	–	–	24/02/2014	24/05/2014
CSOP	263	222	21	–	–	–	–	–	506	–	–	–	–



## Remuneration

	Number of shares under award/option at 1 January 2011 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/ exercise price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2011	Number of shares under award/option at 31 December 2011 or date of resignation	Vested number of shares under option	Value of release/ exercise (£)	End of share plan performance period (or first exercise/ scheduled release date)	Last exercise/ scheduled release date
<b>Andy Parker<sup>1</sup></b>													
LTIP 2008	40,000	–	–	6.83	–	37,142	7.1828	2,858	–	37,142	266,784	07/05/2011	07/06/2011
LTIP 2009	40,000	–	–	6.84	–	–	–	–	40,000	–	–	20/03/2012	20/04/2012
LTIP 2010	40,000	–	–	7.215	–	–	–	–	40,000	–	–	04/03/2013	04/06/2013
LTIP 2011	–	80,000	–	7.355	–	–	–	–	80,000	–	–	25/02/2014	25/05/2014
DAB 2010	11,665	–	–	7.16	–	–	–	–	11,665	–	–	26/02/2013	26/05/2013
DAB 2011	–	18,523	27,784	7.18	–	–	–	–	46,307	–	–	24/02/2014	24/05/2014
ESOS 2009	4,392	–	–	6.84	6.83	–	–	–	4,392	–	–	20/03/2012	20/06/2012
<b>Vic Gysin<sup>1</sup></b>													
LTIP 2008	40,000	–	–	6.83	–	37,142	7.1828	2,858	–	37,142	266,784	07/05/2011	07/06/2011
LTIP 2009	40,000	–	–	6.84	–	–	–	–	40,000	–	–	20/03/2012	20/04/2012
LTIP 2010	40,000	–	–	7.215	–	–	–	–	40,000	–	–	04/03/2013	04/06/2013
LTIP 2011	–	80,000	–	7.355	–	–	–	–	80,000	–	–	25/02/2014	25/05/2014
DAB 2009	20,500	–	–	6.575	–	–	–	–	20,500	–	–	26/02/2012	26/05/2012
DAB 2010	36,959	–	–	7.16	–	–	–	–	36,959	–	–	26/02/2013	26/05/2013
DAB 2011	–	18,523	27,784	7.18	–	–	–	–	46,307	–	–	24/02/2014	24/05/2014
ESOS 2007	50,000	–	–	6.83	6.615	–	–	–	50,000	–	–	26/02/2010	26/02/2017
ESOS 2009	4,392	–	–	6.84	6.83	–	–	–	4,392	–	–	26/03/2012	20/06/2012
<b>Maggi Bell</b>													
LTIP 2008	30,000	–	–	6.83	–	27,574	7.1828	2,426	–	27,574	198,059	07/05/2011	07/06/2011
LTIP 2009	80,000	–	–	6.84	–	–	–	–	80,000	–	–	20/03/2012	20/04/2012
LTIP 2010	120,000	–	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
LTIP 2011	–	120,000	–	7.355	–	–	–	–	120,000	–	–	25/02/2014	25/05/2014
DAB 2008	43,486	–	–	6.56	–	39,917	7.39409	3,569	–	39,917	295,150	03/03/2011	03/06/2011
DAB 2009	45,613	–	–	6.575	–	–	–	–	45,613	–	–	26/02/2012	26/05/2012
DAB 2010	46,199	–	–	7.16	–	–	–	–	46,199	–	–	26/02/2013	26/05/2013
DAB 2011	–	21,935	32,902	7.18	–	–	–	–	54,837	–	–	24/02/2014	24/05/2014
ESOS 2008	4,467	–	–	6.83	6.715	4,467	7.1828	–	–	4,467	32,086	07/05/2011	07/08/2011

## Remuneration

	Number of shares under award/option at 1 January 2011 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/ exercise price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2011	Number of shares under award/option at 31 December 2011 or date of resignation	Vested number of shares under option	Value of release/ exercise (£)	End of share plan performance period (or first exercise/ scheduled release date)	Last exercise/ scheduled release date
<b>Paddy Doyle</b>													
LTIP 2008	120,000	–	–	6.83	–	106,281	7.1828	13,719	–	106,281	763,395	07/05/2011	07/06/2011
LTIP 2009	48,000	–	–	6.84	–	–	–	–	48,000	–	–	20/03/2012	20/04/2012
DAB 2008	44,817	–	–	6.56	–	39,693	7.6136	5,124	–	39,693	302,207	03/03/2011	03/06/2011
DAB 2009	47,908	–	–	6.575	–	–	–	–	47,908	–	–	26/02/2012	26/05/2012
CSOP	3,008	88	–	–	–	–	–	–	3,096	–	–	–	–
SAYE <sup>2</sup>	1,289	–	–	7.33	7.33	–	–	1,289	–	–	–	01/11/2012	01/05/2013
<b>Simon Pilling<sup>3</sup></b>													
LTIP 2008	120,000	–	–	6.83	–	–	–	–	120,000	–	–	07/05/2011	07/06/2011
LTIP 2009	120,000	–	–	6.84	–	–	–	–	120,000	–	–	20/03/2012	20/04/2012
LTIP 2010	120,000	–	–	7.215	–	–	–	–	–	–	–	04/03/2013	04/06/2013
DAB 2008	55,752	–	–	6.56	–	–	–	–	55,752	–	–	03/03/2011	03/06/2011
DAB 2009	58,963	–	–	6.575	–	–	–	–	58,963	–	–	26/02/2012	26/05/2012
DAB 2010	70,000	–	–	7.16	–	–	–	–	70,000	–	–	26/02/2013	26/05/2013

<sup>1</sup> As at date of appointment on 10 January 2011.

<sup>2</sup> On 3 February 2011, Paddy Doyle closed the Sharesave account detailed above and allowed this option to lapse.

<sup>3</sup> Simon Pilling resigned with effect from 10th January 2011.

## Pensions

Pension contributions are made into the Group's defined contribution scheme. The Company makes contributions at a rate of 5% of basic salary. Andy Parker made additional contributions, by way of salary sacrifice in the year, to a separate defined contribution scheme.

## Changes in Directors' interests

Between the end of the financial year and 17 February 2012, Gordon Hurst acquired 43 shares under the Capita Share Ownership Plan, increasing his beneficial interest in ordinary shares of the Company to 54,943.

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

**Martina King**  
Chair, Remuneration Committee  
22 February 2012

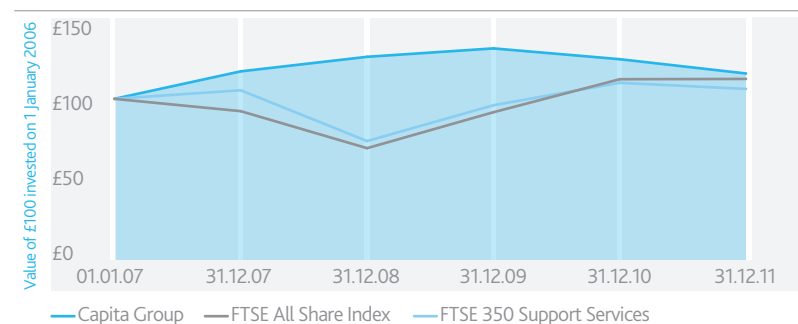
**Martin Bolland**  
Non-Executive Chairman  
22 February 2012

## Other disclosures

### Comparison of Total Shareholder Returns

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All Share Index and the FTSE 350 Support Services Index over the five years starting 1 January 2007 assuming that all dividend income is reinvested. The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the United Kingdom and also a specific group of companies within the same sector.

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



A £100 investment in Capita shares on 1 January 2007 would be worth £115.73 at 31 December 2011 compared to £106.15 for an investment in the FTSE All Share Index and £112.36 for an investment in the FTSE 350 Support Services Index.

## Advisers to the Committee

During 2011 the Committee sought advice from PricewaterhouseCoopers (PwC), the remuneration advisers, as required. Paul Pindar was invited to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management.

PwC also provides services in respect of overseas tax compliance, share plans and other ad hoc tax projects.

KPMG also provides services in respect of ad hoc tax projects.

## Terms of reference

The Remuneration Committee has formal terms of reference and these are agreed by the Board. These include:

- setting and reviewing performance targets
- determining remuneration and benefits for Executive Directors and senior management
- determining contractual terms for Executive Directors
- granting of long term incentive plan options.

The Committee also considers the remuneration packages within the organisation when reviewing the Executive Directors' remuneration. The terms of reference for the Committee are reviewed annually and updated as required. The terms of reference were recommended and approved by the Board. These are available at [www.capita.co.uk/investors](http://www.capita.co.uk/investors) or copies can be requested from the Company Secretary.

### Gordon Hurst

Company Secretary  
22 February 2012

# Accounts

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

Consolidated income statement	87
Consolidated statement of comprehensive income	87
Consolidated balance sheet	88
Consolidated statement of changes in equity	89
Consolidated cash flow statement	90
Notes to the consolidated financial statements	91
Statement of Directors' responsibilities	127
Independent Auditor's report to the members of Capita plc	128
Five year summary	129
Company balance sheet	130
Notes to the accounts	131
Principal Group investments	140
Useful information for shareholders	141

## Financial statements

## Consolidated income statement

for the year ended 31 December 2011

	Notes	Underlying £m	Non-underlying £m	2011 Total £m	Underlying £m	Non-underlying £m	2010 Total £m
<b>Continuing operations:</b>							
<b>Revenue</b>	3	2,930.2	–	2,930.2	2,744.0	–	2,744.0
Cost of sales		2,094.7	–	2,094.7	1,950.4	–	1,950.4
Gross profit		835.5	–	835.5	793.6	–	793.6
Administrative expenses	4	408.1	71.9	480.0	398.5	47.8	446.3
<b>Operating profit</b>	7	427.4	(71.9)	355.5	395.1	(47.8)	347.3
Net finance costs	9	(42.0)	(10.4)	(52.4)	(31.8)	(6.6)	(38.4)
Investment (expense)/income	5	(0.2)	–	(0.2)	0.9	–	0.9
<b>Profit before tax</b>		385.2	(82.3)	302.9	364.2	(54.4)	309.8
Income tax expense	10	(90.5)	25.6	(64.9)	(89.2)	14.4	(74.8)
<b>Profit for the year</b>		294.7	(56.7)	238.0	275.0	(40.0)	235.0
<b>Attributable to:</b>							
Equity holders of the parent		294.7	(56.7)	238.0	275.0	(40.0)	235.0
<b>Earnings per share</b>							
– basic	11	48.49p	(9.33)p	39.16p	44.98p	(6.54)p	38.44p
– diluted		48.38p	(9.31)p	39.07p	44.48p	(6.47)p	38.01p

## Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Notes	2011 £m	2011 £m	2010 £m	2010 £m
<b>Profit for the year</b>			238.0		235.0
<b>Other comprehensive income/(expense):</b>					
Actuarial losses on defined benefit pension schemes	32	(104.4)		(14.1)	
Income tax effect	10	24.1		2.7	
			(80.3)		(11.4)
Exchange differences on translation of foreign operations			2.1		1.1
(Losses)/gains on cash flow hedges arising during the year	26	(16.5)		2.8	
Reclassification adjustments for gains included in the income statement	26	(5.0)		(2.0)	
Income tax effect	10	5.6		(0.2)	
			(15.9)		0.6
<b>Other comprehensive expense for the year net of tax</b>			(94.1)		(9.7)
<b>Total comprehensive income for the year net of tax</b>			143.9		225.3
<b>Attributable to:</b>					
Equity holders of the parent			143.9		225.3



## Financial statements

Consolidated  
balance sheet

as at 31 December 2011

	Notes	2011 £m	2010 £m
<b>Non-current assets</b>			
Property, plant and equipment	13	330.2	291.4
Intangible assets	14	1,828.9	1,416.0
Financial assets	16	293.8	237.4
Trade and other receivables	18	65.8	66.8
		<b>2,518.7</b>	2,011.6
<b>Current assets</b>			
Financial assets	16	3.0	6.0
Funds receivables <sup>1</sup>	23	98.0	100.0
Trade and other receivables	18	846.3	704.2
Cash	19	71.5	38.5
		<b>1,018.8</b>	848.7
<b>Total assets</b>			
		<b>3,537.5</b>	2,860.3
<b>Current liabilities</b>			
Trade and other payables	20	936.5	836.5
Financial liabilities	22	36.5	115.8
Funds payables <sup>1</sup>	23	107.1	117.0
Provisions	25	17.0	26.3
Income tax payable		47.0	42.9
		<b>1,144.1</b>	1,138.5
<b>Non-current liabilities</b>			
Trade and other payables	20	20.0	54.0
Financial liabilities	22	1,695.9	1,084.6
Deferred taxation	10	21.0	31.8
Provisions	25	46.7	31.3
Employee benefits	32	85.7	24.6
		<b>1,869.3</b>	1,226.3
<b>Total liabilities</b>			
		<b>3,013.4</b>	2,364.8
<b>Net assets</b>			
		<b>524.1</b>	495.5
<b>Capital and reserves</b>			
Issued share capital	27	13.0	13.0
Share premium		459.4	454.9
Employee benefit trust & treasury shares	27	(0.4)	(0.5)
Capital redemption reserve		1.8	1.8
Foreign currency translation reserve		7.5	5.4
Net unrealised gains reserve		(7.5)	8.4
Retained earnings		50.3	12.5
<b>Equity shareholders' funds</b>			
		<b>524.1</b>	495.5

<sup>1</sup> These balances are related to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The comparatives have been restated – see note 23.

Included in aggregate financial liabilities is an amount of £1,432.2m (2010: £1,016.4m) 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 £256.8m included in financial assets and £0.9m included in financial liabilities (2010: £194.3m included in financial assets and £11.4m included in financial liabilities). Consequently, this gives an effective liability of £1,176.3m (2010: £833.5m).

The accounts were approved by the Board of Directors on 22 February 2012 and signed on its behalf by:

**P R M Pindar**  
Chief Executive

**G M Hurst**  
Group Finance Director

Company registered number: 2081330

## Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital £m	Share premium £m	Employee benefit trust shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Net unrealised gains reserve £m	Total equity £m
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	-	-	-	-	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 1 January 2011	13.0	454.9	(0.5)	1.8	12.5	5.4	8.4	495.5
Profit for the year	-	-	-	-	238.0	-	-	238.0
Other comprehensive expense	-	-	-	-	(80.3)	2.1	(15.9)	(94.1)
Total comprehensive income for the year	-	-	-	-	157.7	2.1	(15.9)	143.9
Share based payment	-	-	-	-	8.3	-	-	8.3
Income tax deduction on exercise of stock options	-	-	-	-	(3.8)	-	-	(3.8)
Deferred income tax relating to share based payments	-	-	-	-	0.7	-	-	0.7
Shares issued	-	4.5	0.1	-	(0.1)	-	-	4.5
Equity dividends paid	-	-	-	-	(125.0)	-	-	(125.0)
At 31 December 2011	13.0	459.4	(0.4)	1.8	50.3	7.5	(7.5)	524.1

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

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

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

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

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

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

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

## Financial statements

# Consolidated cash flow statement

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
<b>Cash flows from operating activities</b>			
Operating profit on continuing activities before interest and taxation		355.5	347.3
Depreciation	13	70.2	70.3
Amortisation of other intangible assets (treated as depreciation)	14	0.2	0.2
Amortisation of intangible assets recognised on acquisition	14	67.7	41.3
Share based payment expense	28	8.3	10.2
Pensions	32	(33.3)	(21.4)
Loss on sale of property, plant and equipment		0.7	0.8
Movement in provisions		(9.2)	7.5
Net movement in payables and receivables		(96.1)	(13.8)
<b>Cash generated from operations before settlements</b>		<b>364.0</b>	<b>442.4</b>
Settlement of Arch cru		(17.9)	–
Settlement of Cumbria County Council pension deficit		(10.0)	–
<b>Cash generated from operations</b>		<b>336.1</b>	<b>442.4</b>
Income tax paid		(62.6)	(70.8)
Net interest paid		(42.0)	(31.8)
<b>Net cash inflow from operating activities</b>		<b>231.5</b>	<b>339.8</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	(102.3)	(98.5)
Purchase of intangible assets	14	(8.0)	–
Proceeds from sale of property, plant and equipment		0.1	0.1
Acquisition of subsidiary undertakings and businesses	17	(352.2)	(208.5)
Debt repaid on the acquisition of subsidiaries	17	(22.3)	(95.7)
Overdraft acquired with subsidiary undertakings	17	(9.6)	(7.2)
Purchase of financial assets	16	(0.2)	(1.1)
Investment loan	16	–	0.5
Return on investment in joint venture	5/16	0.3	0.5
<b>Net cash outflow from investing activities</b>		<b>(494.2)</b>	<b>(409.9)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital	27	4.5	19.8
Share buybacks	27	–	(115.7)
Share transaction costs	27	–	(0.5)
Dividends paid	12	(125.0)	(109.1)
Capital element of finance lease rental payments	29	(1.0)	(0.6)
Instalment debtor movement		14.2	6.6
Asset based securitised financing	29	(11.7)	(5.4)
Repayment of loan notes and long term debt	29	–	(217.4)
Proceeds on issue of debt	29	339.8	252.9
Revolving credit facility	22	178.0	–
Financing arrangement costs	22	(3.2)	(2.3)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>395.6</b>	<b>(171.7)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		(60.3)	181.5
Impact of movement in exchange rates		(1.1)	–
<b>Cash and cash equivalents at 31 December</b>		<b>71.5</b>	<b>(60.3)</b>
<b>Cash and cash equivalents comprise:</b>			
Overdrafts		–	(98.8)
Cash at bank and in hand	19	71.5	38.5
<b>Total</b>		<b>71.5</b>	<b>(60.3)</b>

# Notes to the consolidated financial statements

for the year ended  
31 December 2011

## Notes

### 1 Corporate information

The consolidated financial statements of Capita plc (formerly The Capita Group Plc) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 22 February 2012. Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the business review on pages 1 to 56.

### 2 Summary of significant accounting policies

#### Underlying profit

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

#### Significant accounting judgements, estimates and assumptions

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill, the measurement of defined benefit obligations, provisions (see note 25) and revenue. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether goodwill is impaired on an annual basis and thus requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate (see note 15). Measurement of defined benefit obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate (see note 32). The Group makes use of estimates to determine revenue in respect of percentage complete/long term and construction contracts (see (e) and (f) below).

#### (a) Statement of compliance

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

The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 130–139.

#### (b) Basis of preparation

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

#### (c) Basis of consolidation

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Capita plc has control. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

#### (d) Changes in accounting policies

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

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

- IAS 24 Related Party Transactions (Revised)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- Improvements to IFRSs (2010)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

The principal effects of these changes are as follows:

**IAS 24 Related Party Transactions (Revised)** The revised standard clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect the related party relationships of an entity. Secondly, the revised standard introduces a partial exemption from the general related party disclosure requirements for government-related entities. The adoption of this revised standard did not have any impact on the financial position or performance of the Group.

**IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)** The amendment alters the definition of a financial liability to enable parties to classify rights issues (and certain options or warrants) as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

**Improvements to IFRSs** In May 2010 the International Accounting Standards Board issued its third 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 2011, did not have any impact on the financial position or performance of the Group although in some cases they resulted in enhanced or additional disclosures.

**IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)** The amendment provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits a prepayment of a minimum funding requirement by an entity to be recognised as a pension asset. The adoption of this interpretation had no effect on the financial position or performance of the Group.

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments** This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration in accordance with paragraph 41 of IAS 39. The equity instruments issued are measured at fair value (unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished) with gain or loss being immediately recognised in profit or loss. The adoption of this interpretation had no effect on the financial position or performance of the Group.

#### (e) Revenue

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

## Notes to the consolidated financial statements

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

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

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

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

**(f) Revenue recognition**

The main accounting policies for recognition are:

**Ongoing service contracts**

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

**Time and materials contracts**

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

**Brownfield contracts**

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

**Percentage complete/long term contracts**

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

**Construction contracts**

The Group's property consultancy provides professional services to clients as a subcontractor. The services provided are architectural, structural or other services that result in the construction of an asset. In line with the requirements of IAS 11 gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

**Greenfield contracts**

A greenfield contract is one in which an entirely new service is being established for a client. For these contracts no profit is recognised until service delivery has commenced and is being invoiced. On commencement, revenue represents fees invoiced in respect of services provided. Direct incremental costs incurred prior to service commencement and reimbursable during the contract, excluding any overheads, are included in prepayments and amortised over the contract's life.

On some contracts non-refundable payments are received prior to full service commencement on the achievement of agreed contract delivery milestones; these are recognised as revenue when the associated milestone has been achieved.

**Contracts with multiple elements**

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

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

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

**(g) Foreign currency translation**

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

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

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

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

**(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



## Notes to the consolidated financial statements

## Notes

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

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

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

**(i) Borrowing costs**

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

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

**(j) Business combinations and goodwill**

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

**Acquisitions on or after 1 January 2010**

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

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

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

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

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

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

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

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

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

**Acquisitions prior to 1 January 2004 (IFRS transition date)**

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

**Goodwill**

Following initial recognition goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves and does not get recycled through the income statement.

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

**Acquisitions and disposals of non-controlling interests**

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

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

**(k) Intangible assets**

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2010 or 2011. Amortisation is charged on assets with finite lives, this expense is taken to the income statement through the administrative expenses line item.

## Notes to the consolidated financial statements

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

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

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

Intangible assets identified and recognised since transition to IFRS are profiled, on a straight-line basis, as follows:

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

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

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

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

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

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

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

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

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

**(n) Trade and other receivables**

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

**(o) Cash and cash equivalents**

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

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

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

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

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

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

**(q) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Group provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

**(r) Onerous contracts**

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

**(s) Pre-contract costs**

Pre-contract award bidding costs are expensed as incurred.

**(t) Pension schemes**

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

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

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

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

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

## Notes to the consolidated financial statements

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

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

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

**(u) Derivative financial instruments**

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

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

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

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

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

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

**(v) Leasing**

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

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

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

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

**(w) Income tax**

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

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

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

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

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

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

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

**(x) Share based payments**

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

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

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

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

## Notes to the consolidated financial statements

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

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

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

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

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

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

The Group has treated this arrangement as an investment in a joint venture, whereby the Group and the other venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group's investment in the joint venture is accounted for using the equity method of accounting. Under the equity method the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity. The income statement reflects, where material, the share of the results of operations of the joint venture. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The Corporate Member's share of the assets and liabilities of the Syndicate and the quota share arrangement are further disclosed in note 16 to these financial statements.

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

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

	Effective date
<b>International Accounting Standards (IAS/IFRSs)</b>	
	Annual periods after
IFRS 7 Amendment: Disclosures – Transfers of Financial Assets	1 July 2011
IAS 12 Amendment: Deferred Tax – Recovery of Underlying Assets	1 January 2012
	Annual periods after
IAS 1 Amendment: Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 Amendment: Employee Benefits	1 January 2013
IAS 27 Amendment: Separate Financial Statements	1 January 2013
IAS 28 Amendment: Investments in Associates and Joint Ventures	1 January 2013
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
<b>IFRS Interpretations Committee (IFRIC)</b>	
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Other than 'IAS 19 Amendment: Employee Benefits', the Directors do not currently anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application. The amended IAS 19 standard changes the method of calculating the net interest related to the defined benefit pension schemes from one which uses the expected return on scheme assets to one based on the discount rate. It is estimated that this change would lead to an increase in the net interest charge of circa £7.5m in the year of adoption.

**3 Revenue**

Revenue disclosed in the income statement is analysed as follows:

	Notes	2011 £m	2010 £m
Rendering of services		2,802.2	2,582.1
Construction contracts	21	128.0	161.9
Revenue from operating activities		2,930.2	2,744.0
Finance revenue	9	0.4	2.2
Total revenue		2,930.6	2,746.2

**4 Administrative expenses**

Included within administrative expenses are:

	Notes	2011 £m	2010 £m
<b>Non-underlying</b>			
Intangible amortisation	14	67.7	41.3
Professional fees re acquisitions		13.3	5.5
Stamp duty paid on acquisitions		2.1	1.0
Contingent consideration release		(11.2)	–
Total		71.9	47.8

In 2011, underlying profit was impacted by a number of notable items: higher restructuring costs (including redundancies) of £8.0m, higher insurance captive claims of £14.0m offset by a past service credit of £23.9m which includes £27.9m from the reduction in pension liabilities due to the move from RPI to CPI (see note 32).

**5 Investment (expense)/income**

	2011 £m	2010 £m
Investment in joint venture	(0.2)	0.9

This represents (expense)/income recognised in relation to the Lloyd's Market Syndicates in which the Group has a joint venture arrangement as disclosed in note 16. During the year the Group received a dividend of £0.3m (2010: £0.5m) from the Syndicate which is reflected in the net assets recognised in the disclosure in note 16. The Group has during the year ceased this joint venture arrangement and the remaining value will unwind in 2012.

## Notes to the consolidated financial statements

**6 Segmental information**

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the business review on pages 1 to 56. No operating segments have been aggregated to form the reportable operating segments below. The information disclosed below represents the way in which the results of the businesses are reported to the Group Board. The comparative figures have been restated due to a reorganisation of the Group's business segments during the year and a consequent change in the way in which the results of the businesses are reported to the Group Board.

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 2011 and 2010. All operations are continuing.

**Year ended 31 December 2011**

	Health £m	Property Services £m	General Insurance £m	Investor & Banking Services £m	Integrated Services £m	IT Services & Consulting £m	Life & Pensions Services £m	Professional Services £m	Workplace Services £m	Total £m
<b>Underlying segment revenue</b>										
Total segment revenue	162.0	275.9	183.5	223.5	333.4	749.0	639.3	503.8	310.9	3,381.3
Inter-segment revenue	(29.0)	(20.0)	–	(10.6)	(5.7)	(148.7)	(94.2)	(114.8)	(28.1)	(451.1)
Third party revenue	133.0	255.9	183.5	212.9	327.7	600.3	545.1	389.0	282.8	2,930.2
<b>Underlying segment result</b>										
Result after depreciation	26.2	13.4	29.0	55.5	63.2	56.0	56.9	97.3	38.2	435.7
Share based payment	(0.3)	(0.6)	(0.7)	(0.6)	(2.0)	(0.5)	(1.0)	(1.6)	(1.0)	(8.3)
	25.9	12.8	28.3	54.9	61.2	55.5	55.9	95.7	37.2	427.4
<b>Non-underlying</b>										
Intangible amortisation	(8.5)	(3.7)	(7.4)	(6.5)	(2.9)	(18.6)	(5.9)	(8.4)	(5.8)	(67.7)
Acquisition costs	(1.7)	(0.3)	(0.8)	(2.0)	(3.2)	(3.8)	–	(2.8)	(0.8)	(15.4)
Contingent consideration movement	–	13.2	2.5	(4.5)	–	–	–	–	–	11.2
	15.7	22.0	22.6	41.9	55.1	33.1	50.0	84.5	30.6	355.5
Net underlying finance costs										(42.0)
Financial instruments – mark to market										(7.1)
Investment expense										(0.2)
Currency swaps' counterparty risk – mark to market										(3.3)
Profit before tax										302.9
Corporation taxation										(64.9)
Profit after tax										238.0

**Other segment information**

	Health £m	Property Services £m	General Insurance £m	Investor & Banking Services £m	Integrated Services £m	IT Services & Consulting £m	Life & Pensions Services £m	Professional Services £m	Workplace Services £m	Total £m
<b>Assets by segment</b>										
Assets	88.0	88.0	130.3	195.7	127.6	236.2	293.1	131.9	86.8	1,377.6
Intangible assets	122.3	106.6	292.8	245.9	142.2	408.5	148.2	168.6	193.8	1,828.9
	210.3	194.6	423.1	441.6	269.8	644.7	441.3	300.5	280.6	3,206.5
Liabilities	(151.8)	(79.3)	(84.1)	(149.4)	(167.3)	(248.0)	(190.2)	(140.3)	(48.6)	(1,259.0)
Net allocated assets	58.5	115.3	339.0	292.2	102.5	396.7	251.1	160.2	232.0	1,947.5
Unallocated assets										331.0
Unallocated liabilities										(1,754.4)
Total net assets										524.1
<b>Capital expenditure</b>										
Tangible assets	4.0	2.5	8.0	12.4	6.7	18.3	39.6	9.2	3.3	104.0
Depreciation charge	3.2	2.0	3.2	6.1	6.3	11.8	24.9	9.1	3.8	70.4
Intangible assets	19.3	11.6	–	54.5	134.9	125.8	34.5	68.1	32.6	481.3
Intangible amortisation	8.5	3.7	7.4	6.5	2.9	18.6	5.9	8.4	5.8	67.7





## Notes to the consolidated financial statements

**6 Segmental information (continued)**  
**Other segment information**

	Health £m	Property Services £m	General Insurance £m	Investor & Banking Services £m	Integrated Services £m	IT Services & Consulting £m	Life & Pensions Services £m	Professional Services £m	Workplace Services £m	Total £m
<b>Assets by segment</b>										
Assets	57.8	92.4	132.9	196.4	47.2	190.0	330.0	82.3	70.2	1,199.2
Intangible assets	111.6	98.6	300.2	198.4	10.1	301.4	119.8	108.9	167.0	1,416.0
Liabilities	169.4	191.0	433.1	394.8	57.3	491.4	449.8	191.2	237.2	2,615.2
Net allocated assets	(69.4)	(43.8)	(52.2)	(144.3)	(102.7)	(263.3)	(225.6)	(212.2)	(57.9)	(1,171.4)
Unallocated assets	100.0	147.2	380.9	250.5	(45.4)	228.1	224.2	(21.0)	179.3	1,443.8
Unallocated liabilities										245.1
Total net assets										(1,193.4)
<b>Capital expenditure</b>										495.5
Tangible assets	2.3	1.1	1.5	10.2	2.5	10.2	64.4	3.9	2.4	98.5
Depreciation charge	1.2	2.6	5.2	5.1	3.4	16.8	24.1	7.8	4.3	70.5
Intangible assets	90.9	33.6	47.1	3.7	–	122.0	–	6.0	47.2	350.5
Intangible amortisation	4.7	3.4	5.5	6.4	–	10.0	4.9	5.1	1.3	41.3

Unallocated assets include available-for-sale financial assets, the cash flow hedge financial asset, cash in bank and currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, overdrafts, callable swaps, currency swaps, bonds and the pension liability.

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

	United Kingdom £m	Non-United Kingdom £m	Total £m
<b>Revenue</b>			
Total segment revenue	3,039.1	144.9	3,184.0
Inter-segment revenue	(380.8)	(59.2)	(440.0)
Third party revenue	2,658.3	85.7	2,744.0
<b>Other segment information</b>			
Assets	1,149.5	49.7	1,199.2
Intangible assets	1,347.1	68.9	1,416.0
Unallocated assets	245.1	–	245.1
Total assets	2,741.7	118.6	2,860.3
<b>Capital expenditure</b>			
Tangible assets	91.5	7.0	98.5
Intangible assets	346.8	3.7	350.5

## Notes

## Notes to the consolidated financial statements

**7 Operating profit**

This is stated after charging/(crediting):

	Notes	2011 £m	2010 £m
Employee benefits expense	8	1,282.1	1,149.1
Amortisation of intangible assets (as shown in the non-underlying column)	14	67.7	41.3
Depreciation	13	70.2	70.3
Loss on sale of property, plant and equipment		0.7	0.8
Amortisation of other intangible assets (treated as depreciation) <sup>1</sup>	14	0.2	0.2
Minimum lease payments recognised as an operating lease expense		80.9	75.2
Foreign exchange differences		1.6	(3.7)
		<b>2011</b>	<b>2010</b>
		<b>£m</b>	<b>£m</b>
<b>UK fees paid to the auditors include fees in relation to:</b>			
Audit of financial statements		0.8	0.6
Other UK fees:			
Local statutory audits for subsidiaries		0.4	0.1
Taxation compliance services		0.1	–
Taxation advisory services		0.1	–
Services related to corporate finance transactions		0.7	–
Other assurance services <sup>2</sup>		0.4	0.2
		<b>2.5</b>	<b>0.9</b>

**8 Employee benefits expense**

	Notes	2011 £m	2010 £m
Wages and salaries		1,138.3	1,002.5
Social security costs		105.0	96.1
Pension costs	32	30.5	40.3
Share based payments	28	8.3	10.2
		<b>1,282.1</b>	<b>1,149.1</b>

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

	2011 Number	2010 Number
Sales	1,005	1,013
Administration	4,376	3,035
Operations	34,986	31,367
		<b>40,367</b>

Details of Directors' remuneration are contained within the Directors' remuneration report – section subject to audit, on pages 80 to 85.

<sup>1</sup> Included within operating activities before amortisation.

<sup>2</sup> There were no other amounts payable to the auditors requiring disclosure under Section 494 of the Companies Act 2006.

## Notes to the consolidated financial statements

**9 Net finance costs**

	Notes	2011 £m	2010 £m
Bank interest receivable		(0.1)	(1.9)
Other interest receivable		(0.3)	(0.3)
Interest receivable		(0.4)	(2.2)
Loan note interest		–	0.1
Bonds		26.3	17.3
Callable swaps – realised		11.5	11.7
Bank loans and overdrafts		4.6	4.8
Other interest payable		–	0.1
Interest payable		42.4	34.0
Underlying net finance costs		42.0	31.8
Callable swaps – mark to market	26	7.2	6.6
Foreign exchange forward contracts (non-hedged) – mark to market		(0.1)	–
Currency swaps' counterparty risk – mark to market <sup>1</sup>	26	3.3	–
Non-underlying net finance costs		10.4	6.6
Total net finance costs		52.4	38.4

**10 Income tax**

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	2011 £m	2010 £m
<b>Consolidated income statement</b>		
<b>Current income tax</b>		
Current income tax charge	80.0	87.0
Adjustment in respect of prior years	(8.3)	(6.0)
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	(7.0)	(5.2)
Adjustment in respect of prior years	0.2	(1.0)
	64.9	74.8
<b>Consolidated statement of comprehensive income</b>		
Deferred income tax on cash flow hedges	(5.6)	0.2
Deferred income tax movement in relation to actuarial losses on defined benefit plans	(24.1)	(2.7)
	(29.7)	(2.5)
<b>Income tax related to items (credited)/charged directly to equity:</b>		
<b>Consolidated statement of changes in equity</b>		
Current income tax deduction on exercise of stock options	(3.8)	(4.0)
Deferred income tax movement in relation to share based payment	0.7	4.7
	(3.1)	0.7

<sup>1</sup> The mark to market movement on currency swaps represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US\$ denominated bonds (see note 26 – Hedges).

## Notes

## Notes to the consolidated financial statements

**10 Income tax (continued)**

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2011 and 2010 is as follows:

	2011 £m	2010 £m
Accounting profit before tax	302.9	309.8
Notional charge at UK corporation tax rate of 26.5% (2010: 28%)	80.3	86.7
Adjustments in respect of current income tax of prior years	(8.3)	(6.0)
Adjustments in respect of deferred tax of prior years	0.2	(1.0)
Non-deductible expenses	2.2	2.3
Attributable to reduction in corporation tax rate	(6.5)	(1.8)
Attributable to lower tax rates in overseas jurisdictions	(6.7)	(5.4)
Adjustments to tax relief on share based payment	3.7	–
At the effective tax rate of 21.4% (2010: 24.1%)	64.9	74.8
Total tax expense reported in the income statement	64.9	74.8

The tax charge for the year ended 31 December 2011 was £64.9m (2010: charge of £74.8m) and is after a prior year net credit of £8.1m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an effective tax rate of 21.4% (2010: 24.1%). The effective tax rate on underlying profit is 23.5% (2010: 24.5%). In addition, a net tax credit of £3.8m has been credited directly to equity in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2011.

**Deferred income tax**

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Deferred tax liabilities</b>				
Accelerated capital allowances	(14.2)	(10.4)	5.6	0.7
Cash flow hedges	–	(3.1)	–	–
Fair value adjustments on acquisition	(63.9)	(55.3)	(21.7)	(11.9)
	(78.1)	(68.8)		
<b>Deferred tax assets</b>				
Share based payments	2.7	4.9	1.5	(2.9)
Pension schemes' liability	21.4	6.7	9.3	5.0
Provisions	17.7	14.6	–	3.0
Losses available for offset against future taxable income	0.1	–	0.2	1.5
Mark to market movement on currency swaps	1.5	0.7	(0.8)	–
Cash flow swaps	11.3	10.1	(0.9)	(1.6)
Cash flow hedges	2.4	–	–	–
	57.1	37.0		
<b>Net deferred tax liability</b>	(21.0)	(31.8)		
<b>Deferred income tax credit</b>			(6.8)	(6.2)

The Group has tax losses and other temporary differences of £72.3m (2010: £85.3m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £57.5m 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 £72.3m (2010: £85.3m) of these losses or other temporary differences, as their recoverability is uncertain.

The UK corporation tax rate will decrease from 26% to 25% from 1 April 2012. The deferred tax balance has been adjusted in the current year to reflect this change. Proposed changes to tax laws and rates that will have an effect on the deferred tax assets and liabilities of the Group have also been announced but not substantively enacted at the balance sheet date. The impact of these changes on the Group is not considered to be material.



## Notes to the consolidated financial statements

**11 Earnings per share**

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

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

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

	2011 £m	2010 £m
Net profit attributable to ordinary equity holders of the parent from operations	238.0	235.0
	2011 Number million	2010 Number million
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	607.7	611.3
Dilutive potential ordinary shares:		
Employee share options	1.4	7.0
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	609.1	618.3

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 £294.7m (2010: £275.0m) and, after non-underlying costs, earnings of £238.0m (2010: £235.0m). They are included as they provide a better understanding of the underlying trading performance of the Group.

	2011 P	2010 P
Basic earnings per share – underlying	48.49	44.98
– after non-underlying	39.16	38.44
Diluted earnings per share – underlying	48.38	44.48
– after non-underlying	39.07	38.01

**12 Dividends paid and proposed**

	2011 £m	2010 £m
<b>Declared and paid during the year</b>		
Ordinary shares (equity):		
Final for 2010 paid: 13.4p per share (2009: 11.2p per share)	81.2	69.1
Interim for 2011 paid: 7.2p per share (2010: 6.6p per share)	43.8	40.0
	125.0	109.1
<b>Proposed for approval at AGM (not recognised as a liability at 31 December)</b>		
Ordinary shares (equity):		
Final for 2011: 14.2p per share (2010: 13.4p per share)	86.4	81.2

## Notes

## Notes to the consolidated financial statements

**13 Property, plant and equipment**

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
<b>Cost</b>			
At 1 January 2010	69.3	330.1	399.4
Subsidiaries acquired	1.9	5.4	7.3
Additions	6.1	92.4	98.5
Disposals	(7.9)	(32.2)	(40.1)
At 31 December 2010	69.4	395.7	465.1
Subsidiaries acquired	0.6	6.6	7.2
Additions	10.5	93.5	104.0
Disposals	(8.0)	(47.4)	(55.4)
Exchange movement	(1.0)	(3.0)	(4.0)
At 31 December 2011	71.5	445.4	516.9
<b>Depreciation and impairment</b>			
At 1 January 2010	29.6	113.2	142.8
Provided during the year	10.3	60.0	70.3
Disposals	(7.5)	(31.9)	(39.4)
At 31 December 2010	32.4	141.3	173.7
Provided during the year	8.5	61.7	70.2
Disposals	(7.5)	(47.1)	(54.6)
Exchange movement	(0.7)	(1.9)	(2.6)
At 31 December 2011	32.7	154.0	186.7
<b>Net book value</b>			
At 1 January 2010	39.7	216.9	256.6
At 31 December 2010	37.0	254.4	291.4
At 31 December 2011	38.8	291.4	330.2

The net book value of plant and machinery includes an amount of £2.1m (2010: £0.8m) in respect of assets held under finance leases.

## Notes to the consolidated financial statements

## 14 Intangible assets

	Brands £m	Software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Sub-total £m	Other intangibles £m	Total £m
<b>Cost</b>								
At 1 January 2010	19.1	9.2	33.3	152.0	973.3	1,186.9	13.4	1,200.3
Recognition of intangibles – prior year acquisitions	–	–	–	0.2	(0.2)	–	–	–
Subsidiaries acquired	6.0	9.8	59.9	43.5	231.3	350.5	–	350.5
At 31 December 2010	25.1	19.0	93.2	195.7	1,204.4	1,537.4	13.4	1,550.8
Recognition of intangibles – prior year acquisitions	–	–	–	–	2.0	2.0	–	2.0
Subsidiaries acquired	3.7	3.1	3.1	140.8	320.6	471.3	–	471.3
Additions	–	–	–	–	–	–	8.0	8.0
Exchange movement	–	–	(1.0)	(0.4)	(0.1)	(1.5)	–	(1.5)
At 31 December 2011	28.8	22.1	95.3	336.1	1,526.9	2,009.2	21.4	2,030.6
<b>Amortisation and impairment</b>								
At 1 January 2010	8.6	5.3	8.5	45.7	12.0	80.1	13.2	93.3
Amortisation during the year	3.5	1.5	6.6	29.7	–	41.3	0.2	41.5
At 31 December 2010	12.1	6.8	15.1	75.4	12.0	121.4	13.4	134.8
Amortisation during the year	4.2	3.5	14.4	45.6	–	67.7	0.2	67.9
Exchange movement	–	–	–	–	(1.0)	(1.0)	–	(1.0)
At 31 December 2011	16.3	10.3	29.5	121.0	11.0	188.1	13.6	201.7
<b>Net book value</b>								
At 1 January 2010	10.5	3.9	24.8	106.3	961.3	1,106.8	0.2	1,107.0
At 31 December 2010	13.0	12.2	78.1	120.3	1,192.4	1,416.0	–	1,416.0
At 31 December 2011	12.5	11.8	65.8	215.1	1,515.9	1,821.1	7.8	1,828.9

During the year a total of £2.0m (2010: £0.2m) of intangible assets was recognised or derecognised in respect of prior year acquisitions for which the provisional intangible valuations performed in the previous year have now been completed. This has resulted in an increase in the value of goodwill. As required by IAS 12, deferred taxation is recognised in respect of these items, the impact of this was to increase goodwill in 2011 by £nil (2010: £nil) and to create a deferred tax liability of the same amount.

The amount in 'Other intangibles' at December 2010 represents the consideration paid to AON to acquire the contract for the administration of the miners' personal injury liability claims on behalf of the Department of Energy and Climate Change. During the year the Group paid £8.0m to acquire the underlying elements which support the new contract with Zurich. The amortisation on this intangible is being treated as depreciation.

## 15 Impairment of goodwill

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

The significant groups of CGUs identified are Local Government Software and Partnerships, Property Services, Workplace Services, General Insurance, Registrar Services, Life & Pensions Services, IT & Software Services, Health and Private Sector. The remaining groups of CGUs are included in the 'balance of non-significant CGUs' column.

The recoverable amount of all the CGUs is based on a value in use calculation using cash flow projections based on the latest 1 year budget forecast approved by senior management, extrapolated for 4 future years by a growth rate applicable to each unit; an appropriate terminal value based on a perpetuity calculation using nil real growth is then added. A pre-tax discount rate of 10.2% (2010: 10.5%) is then applied to these projections.

Compound growth rates (years 2-5)	%
Local Government Software and Partnerships	6% – 8%
Property Services	5% – 7%
Workplace Services	7% – 9%
General Insurance	4% – 6%
Registrar Services	6% – 8%
Life & Pensions Services	4% – 6%
IT & Software Services	7% – 9%
Health	8% – 11%
Private Sector	8% – 11%
Balance of non-significant CGUs (weighted average growth rate)	6% – 9%

## Notes

## Notes to the consolidated financial statements

**15 Impairment of goodwill (continued)****Carrying amount of goodwill allocated to groups of cash generating units**

	Local Government Software & Partnerships £m	Property Services £m	Workplace Services £m	General Insurance £m	Registrar Services £m	Private Sector £m	Life & Pensions Services £m	IT & Software Services £m	Health £m	Balance of non-significant CGUs £m	Total £m
<b>2011</b>											
Goodwill	98.1	94.9	110.3	276.3	158.2	91.2	106.2	277.0	90.6	213.1	1,515.9
<b>2010</b>											
Goodwill	81.5	86.4	91.3	276.3	123.5	–	90.4	224.4	75.5	143.1	1,192.4

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

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

**Profit before interest and taxation**

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

**Discount rate**

A pre-tax discount rate, derived from the Group's post-tax weighted average cost of capital has been used in discounting the projected risk adjusted cash flows. The discount rate reflects management's estimate of the gross cost of capital employed for the groups of CGUs listed above. This is the benchmark established to assess operating performance and to evaluate future capital investment proposals. The rate applied to all CGUs is the same across all units, this reflects the Group's funding arrangements where all units have equal access to the Group's treasury functions and borrowing lines to fund their operations. None of the Group's CGUs demonstrates levels of risk that are significantly different to that experienced by the Group generally and all have similar funding profiles and therefore the discount rate applied is deemed to be justified.

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

Growth rate assumptions used in each CGU 5 year plan are based on a combination of projections by senior operational management and published industry research for the relevant market, including IDC forecasts. The range of growth rates applied to the CGUs is set out above.

**Goodwill impairment**

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

**16 Financial assets****Current financial assets**

	2011 £m	2010 £m
Investment loan <sup>1</sup>	0.3	1.0
Available-for-sale assets <sup>3</sup>	0.9	–
Cash flow hedges <sup>2</sup>	1.8	5.0
	3.0	6.0

**Non-current financial assets**

	2011 £m	2010 £m
Investment loan <sup>1</sup>	36.0	35.2
Available-for-sale assets <sup>3</sup>	–	0.7
Cash flow hedges <sup>2</sup>	0.9	6.6
Currency swaps in relation to US\$ denominated bonds <sup>4</sup>	243.3	189.9
Interest rate swaps in relation to GBP denominated bonds <sup>4</sup>	13.5	4.4
Investment in a joint venture <sup>5</sup>	0.1	0.6
	293.8	237.4

<sup>1</sup> The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) and during the year has not increased the level of funding advanced (2010: £nil).

<sup>2</sup> The cash flow hedges are used to hedge the exposure to currency fluctuations in the Group's forecast transactional cash flows, principally in Indian rupees. Details of the cash flow hedges are contained in note 26.

<sup>3</sup> Available-for-sale assets comprise investments in unlisted ordinary shares. The unlisted ordinary shares, for which there is no immediately identifiable market and which have no fixed maturity date or coupon rate, are carried at cost less provision for any impairment.

<sup>4</sup> The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US\$ denominated bonds. The uplift in the fair value of the underlying bonds due to changes in interest and currency rates is 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 uplift in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swap, currency swaps and cash flow hedges are contained in note 26.

<sup>5</sup> The investment in a joint venture disclosed represents the Group's interest in a Syndicate (for which the Group provides administrative outsourcing services) operating in the Lloyd's Market, through its joint venture ownership of Cobex Corporate Member No 1 Limited (Cobex) in conjunction with the Group's insurance partners. The Group's share of the net assets and liabilities of this Syndicate are set out in the table headed 'Investment in joint venture'.

## Notes to the consolidated financial statements

**16 Financial assets (continued)****Investment in joint venture**

	2011 £m	2010 £m
Investments	–	10.2
Reinsurance assets	–	6.2
Other debtors	–	1.8
Cash and cash equivalents	0.5	2.3
<b>Total assets</b>	<b>0.5</b>	<b>20.5</b>
Technical provisions		13.7
Other creditors	0.2	5.6
Accruals and deferred income	0.2	0.6
<b>Total liabilities</b>	<b>0.4</b>	<b>19.9</b>
<b>Net position</b>	<b>0.1</b>	<b>0.6</b>

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

The Group has no rights over the assets or liabilities of the Syndicate other than to the extent that it will receive distributed profits or contribute to relieve losses.

The Group no longer has any interest in the underlying syndicates and the remaining position will unwind in the subsequent year.

**17 Business combinations**

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

	Fair value to Group recognised on acquisition £m
Intangible assets	150.7
Property, plant and equipment	7.2
Deferred tax	(25.1)
Bank loans and overdrafts	(9.6)
Debtors - gross	103.8
Provision for doubtful debts	(11.4)
Creditors	(28.0)
Accruals	(67.7)
Long term debt	(22.3)
Provisions	(33.2)
Corporation tax	1.7
<b>Net assets</b>	<b>66.1</b>
<b>Goodwill arising on acquisition</b>	<b>320.6</b>
	<b>386.7</b>
Discharged by:	
Cash	335.1
Contingent consideration accrued	51.6
	<b>386.7</b>

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

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



## Notes to the consolidated financial statements

**17 Business combinations (continued)**

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.

**Contingent consideration**

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 4 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The estimated range of the additional consideration payment is estimated to be between £40m and £70m. The Group has included £51.6m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighing the probability of a range of payments to give an estimate of the final obligation. There is further contingent consideration accrued of £2m in respect of acquisitions in previous years and these are expected to be paid in the forthcoming year.

The fair value exercise has been completed on a provisional basis for acquisitions made in 2011. The Group will complete this review in 2012 though any adjustment to the carrying value is likely to be insignificant to the individual acquisition.

**Acquisition related costs**

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

**2010 acquisitions**

The Group made a number of acquisitions in 2010 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Intangible assets	119.4
Property, plant and equipment	7.3
Deferred tax	9.6
Debtors	128.0
Bank loans and overdrafts	(7.2)
Finance leases	(1.6)
Creditors	(118.4)
Long term debt	(109.6)
Provisions	(2.1)
Corporation tax	(1.8)
Net assets	23.6
Goodwill arising on acquisition	195.4
	219.0
Discharged by:	
Cash	200.8
Contingent consideration accrued	18.2
	219.0

A further £31.8m was added to goodwill in relation to deferred tax on the intangible assets valued at acquisition.

During 2010 the Group completed a number of acquisitions which are shown in aggregate above. In all cases 100% of the ordinary share capital was acquired and the consideration satisfied in cash. The companies acquired were mainly in the areas of Health, Property and IT and complemented or extended the Group's existing skill sets and provide opportunities for growth into the Health market. In addition during 2010 the Group settled deferred consideration payments with regard to previous acquisitions amounting to £3.7m, of which £1.8m had been accrued. The impact of this was to increase goodwill by £1.9m.

During the year some of the acquired businesses had been completely integrated into the existing businesses of the Group and therefore their post-acquisition performance could not be determined. In aggregate for the year, the other acquired subsidiaries contributed £12.3m to the profit before tax of the Group. If the acquisition had occurred on 1 January 2010, Group revenue would have been an estimated £2,924.0m and Group profit before tax would have been an estimated £324.1m. 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 2010.

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.

## Notes to the consolidated financial statements

**17 Business combinations (continued)****Contingent consideration**

In respect of the acquisitions in 2010, 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 2 years in duration and will be settled in cash on their payment date on achieving the relevant target. The estimated range of the additional consideration payment is estimated to be between £15m and £20m. The Group has included £18.2m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighing the probability of a range of payments to give an estimate of the final obligation.

Fair values had been provisional in relation to the acquisitions that were completed in the final quarter of 2010. The Group completed this review in the first quarter of 2011.

**Acquisition related costs**

The Group incurred acquisition related costs of £6.5m related to professional fees paid for due diligence, general professional fees and legal advice in respect of the acquisitions in 2010. These costs were included in administrative expenses in the Group's consolidated income statement.

**18 Trade and other receivables****Current**

	2011 £m	2010 £m
Trade receivables	464.5	385.6
Other receivables	30.5	23.7
Gross amounts due from customers on construction contracts	20.0	20.3
Accrued income	271.8	215.0
Prepayments	59.5	59.6
	<b>846.3</b>	704.2

**Non-current**

	2011 £m	2010 £m
Other receivables	33.2	25.4
Accrued income	17.5	31.1
Prepayments	15.1	10.3
	<b>65.8</b>	66.8

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

At 31 December 2011, trade receivables at a nominal value of £30.1m (2010: £22.7m) were impaired and fully provided for.

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

	2011 £m	2010 £m
At 1 January	22.7	10.5
Provisions acquired	11.4	15.3
Charge for year	21.3	13.7
Amounts written off	(3.6)	(0.3)
Unused amounts reversed	(21.7)	(16.5)
	<b>30.1</b>	22.7

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

	Total £m	Neither past due nor impaired £m	Past due but not impaired			
			0-3 months £m	4-6 months £m	7-12 months £m	More than 12 months £m
<b>2011</b>	<b>464.5</b>	<b>406.5</b>	<b>51.2</b>	<b>6.8</b>	<b>-</b>	<b>-</b>
2010	385.6	341.0	39.7	4.9	-	-

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

## Notes

## Notes to the consolidated financial statements

## 19 Cash

	2011 £m	2010 £m
Cash at bank and in hand	71.5	38.5

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

## 20 Trade and other payables

	2011 £m	2010 £m
<b>Current</b>		
Trade payables	170.9	158.0
Other payables	136.0	97.9
Other taxes and social security	91.1	68.5
Gross amounts due to customers on construction contracts	2.6	2.1
Accruals	344.3	319.3
Deferred income	191.6	190.7
	936.5	836.5
<b>Non-current</b>		
Other payables	3.4	–
Accruals	7.5	2.9
Deferred income	9.1	51.1
	20.0	54.0

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

## 21 Construction contracts

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

	2011 £m	2010 £m
Contract revenue recognised in relation to construction contracts in the year	128.0	161.9
Aggregate costs incurred and recognised profits (less losses) to date	209.8	259.1
Gross amount due from customers for construction contracts	20.0	20.3
Gross amount due to customers on construction contracts	2.6	2.1

## 22 Financial liabilities

	Notes	2011 £m	2010 £m
<b>Current</b>			
Contingent consideration		6.0	1.7
Obligations under finance leases	24	2.0	1.3
Unsecured loan notes		2.3	2.3
Cash flow hedges		0.5	–
Currency swaps in relation to US\$ denominated bonds		0.9	–
Overdraft		–	98.8
Bonds		24.4	–
Callable swaps		0.4	–
Asset-based securitised financing (see below)		–	11.7
		36.5	115.8
<b>Non-current</b>			
Contingent consideration		54.6	18.2
Obligations under finance leases	24	1.1	1.1
Bonds		1,407.8	1,016.4
Revolving credit facility		176.1	–
Cash flow hedges		12.0	–
Currency swaps in relation to US\$ denominated bonds		–	11.4
Callable swaps		44.3	37.5
		1,695.9	1,084.6

Included in current Overdraft and bank loans of £98.8m in the comparative above are short term borrowings under the Group's committed revolving credit facilities due to mature in December 2015. These have been shown as non-current financial liabilities this year as the Group has the right to roll these short term loans over until the maturity date of the facility. The comparative figures have not been restated in this regard.

The aggregate bond value stated above of £1,432.2m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2011. To remove the Group's exposure to interest rate and currency fluctuations it has entered into interest rate swaps and currency swaps which effectively hedge any movement in the underlying bond fair value. The fair value of the currency swaps is disclosed in note 16 – Financial assets and note 22 – Financial liabilities in the current and comparative years.

During the year, the Group issued fixed rate bonds; these were US\$406m (sterling equivalent: £254.8m) and £85m GBP denominated bonds giving an aggregate bond issue of £339.2m in the year after offsetting issue costs of £0.6m. The bonds had a weighted average maturity of 9 years and a weighted average coupon rate of 4.57%. Currency swaps were taken out to convert the US\$ denominated bonds to a variable rate based on six month GBP LIBOR. Interest rate swaps were taken out to convert the GBP denominated bonds to a variable rate based on six month GBP LIBOR. Further details of the bond issues are shown in the table on page 111.

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

## Notes to the consolidated financial statements

**22 Financial liabilities (continued)**

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. Loan notes issued during the year amounted to £nil (2010: £ nil) and £nil (2010: £0.7m) were repaid. The interest rates attributable to the loan notes are fixed for each new issue. The rates attributable to these remaining loan notes ranged from 0.87% to 5.00%. The outstanding loan notes totalling £2.3m are repayable on demand and have a final weighted average maturity of less than 1 year.

The Group has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
<b>Issued 2005<sup>3</sup></b>				
Series A	0.525 above 6m GBP LIBOR	GBP	50.0	28 September 2013
Series B	0.525 above 6m GBP LIBOR	GBP	25.0	28 September 2015
<b>Issued 2008<sup>1</sup></b>				
Series C	7.19	GBP	32.0	13 September 2015
<b>Issued 2010</b>				
Series C	4.78	GBP	50.0	30 June 2020
<b>Issued 2011<sup>1</sup></b>				
Series A	4.85	GBP	50.0	22 July 2019
Series C	4.76	GBP	35.0	19 July 2021
Total of sterling denominated bonds			242.0	
			US\$m	
<b>Issued 2002<sup>2,3</sup></b>				
Series C	6.47	US\$	36.0	20 June 2012
<b>Issued 2006<sup>2,3</sup></b>				
Series A	5.74	US\$	60.0	28 June 2013
Series B	5.88	US\$	130.0	28 June 2016
Series A	5.66	US\$	11.0	13 September 2013
Series B	5.81	US\$	74.0	13 September 2016
Series C	5.77	US\$	60.0	13 September 2016
<b>Issued 2007<sup>2,3</sup></b>				
Series A	5.57	US\$	21.0	11 October 2014
Series B	5.88	US\$	179.0	11 October 2017
<b>Issued 2008<sup>2</sup></b>				
Series A	6.04	US\$	80.0	13 September 2015
Series B	6.51	US\$	256.0	13 September 2018
<b>Issued 2010<sup>2</sup></b>				
Series A	4.15	US\$	50.0	30 June 2017
Series B	4.80	US\$	250.0	30 June 2020
<b>Issued 2011<sup>2</sup></b>				
Series B	4.65	US\$	80.0	22 July 2019
Series A	3.72	US\$	40.0	19 July 2018
Series B	4.50	US\$	236.0	19 July 2021
Series A	4.75	US\$	50.0	26 July 2021
Total of US\$ denominated bonds			1,613.0	

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

In February 2012 the Group arranged a new £285m 2 year term loan from our banks at floating rates of interest. Proceeds were used to provide additional liquidity to the Group.

The issue costs incurred on the issue of the bonds during the year amounted to £0.6m (2010: £0.7m). Issue costs on the bonds are spread over the life of the bonds to their maturity. The unamortised balance of issue costs at the year-end totalled £2.0m (2010: £1.6m).

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

<sup>2</sup> 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.

<sup>3</sup> Subsequently, the Group has entered a series of callable interest rate swaps to convert these issues from paying a floating rate based on 6 month LIBOR to fixed rates. See note 26 for further details of these callable swaps.

## Notes

## Notes to the consolidated financial statements

**23 Funds receivables and payables**

	2011 £m	2010 £m
Funds receivables	98.0	100.0
Funds payables	(107.1)	(117.0)

These balances relate to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The balances are due to and from the investors and Investment Funds. The parties to the trade are permitted to take advantage of a four day settlement period between initiation and settlement of the trade. Historically, the Group has not presented these balances gross, as they believed that the impact on the Group accounts was immaterial. However, as these balances have become more significant, management has taken the decision to present them separately in the consolidated balance sheet.

**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:

	2011 £m	2010 £m
Not later than 1 year	2.0	1.3
Later than 1 year but not more than 5 years	1.1	1.1
	3.1	2.4

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

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

	2011 £m	2010 £m
Not later than 1 year	76.5	66.6
Later than 1 year but not later than 5 years	182.2	139.6
Later than 5 years	120.2	59.2
	378.9	265.4

**25 Provisions**

	Insurance captive provision £m	Property provision £m	Arch cru £m	Other £m	Total £m
At 1 January 2011	27.0	9.3	18.5	2.8	57.6
Utilisation	(23.9)	(1.5)	(17.9)	(1.8)	(45.1)
Additional provisions in the year	17.2	(0.6)	–	1.4	18.0
Provisions acquired	–	33.2	–	–	33.2
At 31 December 2011	20.3	40.4	0.6	2.4	63.7

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

The insurance provision is made in relation to the Group's Professional Indemnity, Motor and Employee Liability exposures. The Group uses a captive insurer to reduce the cost of providing this cover for its operations; claims that are in excess of the Captive's liability are reinsured with a number of large insurance underwriters. The Group makes provision when a claim has been made where it is more probable than not that an insured loss will occur. These provisions are reassessed regularly to ensure that the level of provisioning is consistent with the claims that have been reported. In the year the Group has settled a number of insurance liabilities which it had provided for in previous years. Additionally it has made provision for new claims and increased or decreased existing provisions where more information on the progress of the claim has become available.

Within the provisions acquired in the year is included a discounted provision for the difference between the market value of the property leases acquired with Ventura and Vertex Private Sector and the lease obligations committed to at the date the leases were signed by the previous owners. This is in accordance with IFRS 3 (revised) which requires the use of fair value measurement. The remaining property provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 15 years.

Arch cru funds – On 21 June 2011, Capita Financial Managers Limited ('CFM') agreed with the FSA to contribute to and administer a package for investors holding shares in sub funds of Arch cru investments. Under the terms of the agreement, CFM along with the depositaries to the funds voluntarily contributed to the establishment of a £54m payment scheme. CFM's contributions to this payment scheme were already provided for within the 2009 accounts. The Directors anticipate that no further provisions are required.

Other relates to provisions in respect of potential claims 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.

## Notes to the consolidated financial statements

**26 Financial instruments****Financial risk management objectives and policies**

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

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

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

**Carrying values and fair values of financial instruments**

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The fair values are the same as the carrying values other than a £50m fixed rate bond, included below in the bond value of £1,432.2m, with a carrying value of £50m and a fair value £51.4m.

	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
<b>At 31 December 2011</b>						
<b>Financial assets</b>						
Unlisted equity securities	0.9	-	-	-	-	0.9
Investment loan	-	-	36.3	-	-	36.3
Cash flow hedges	-	-	-	2.7	-	2.7
Interest rate swaps in relation to GBP denominated bonds	-	-	-	13.5	-	13.5
Currency swaps in relation to US\$ denominated bonds	-	-	-	243.3	-	243.3
	<b>0.9</b>	<b>-</b>	<b>36.3</b>	<b>259.5</b>	<b>-</b>	<b>296.7</b>
<b>Financial liabilities</b>						
Unsecured loan notes	-	-	-	-	2.3	2.3
Bonds	-	-	-	-	1,432.2	1,432.2
Revolving credit facility	-	-	-	-	176.1	176.1
Cash flow hedges	-	-	-	12.5	-	12.5
Currency swaps in relation to US\$ denominated bonds	-	-	-	0.9	-	0.9
Contingent consideration	-	-	-	-	60.6	60.6
Obligations under finance leases	-	-	-	-	3.1	3.1
Callable swaps	-	44.7	-	-	-	44.7
	<b>-</b>	<b>44.7</b>	<b>-</b>	<b>13.4</b>	<b>1,674.3</b>	<b>1,732.4</b>



## Notes

## Notes to the consolidated financial statements

**26 Financial instruments (continued)**

The aggregate bond value above of £1,432.2m includes the GBP value of the US\$ denominated bonds at 31 December 2011. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the bonds' fair value due to changes in prevailing foreign exchange and interest rates. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The fair values of the currency and interest swaps are disclosed in note 16 – Financial assets and in note 22 – Financial liabilities in the current year.

	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
<b>At 31 December 2010</b>						
<b>Financial assets</b>						
Unlisted equity securities	0.7	–	–	–	–	0.7
Investment loan	–	–	36.2	–	–	36.2
Cash flow hedges	–	–	–	11.6	–	11.6
Interest rate swaps in relation to GBP denominated bonds	–	–	–	4.4	–	4.4
Currency swaps in relation to US\$ denominated bonds	–	–	–	189.9	–	189.9
	0.7	–	36.2	205.9	–	242.8
<b>Financial liabilities</b>						
Overdrafts and bank loans	–	–	–	–	98.8	98.8
Unsecured loan notes	–	–	–	–	2.3	2.3
Bonds	–	–	–	–	1,016.4	1,016.4
Currency swaps in relation to US\$ denominated bonds	–	–	–	11.4	–	11.4
Asset-based securitised financing	–	–	–	–	11.7	11.7
Contingent consideration	–	–	–	–	19.9	19.9
Obligations under finance leases	–	–	–	–	2.4	2.4
Callable swaps	–	37.5	–	–	–	37.5
	–	37.5	–	11.4	1,151.5	1,200.4

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

**Fair value hierarchy**

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

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

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

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

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

	2011 £m	2010 £m
<b>At 31 December 2011</b>		
<b>Assets measured at fair value</b>		
Cash flow hedges	2.7	11.6
Interest rate swaps in relation to GBP denominated bonds	13.5	4.4
Currency swaps in relation to US\$ denominated bonds	243.3	189.9
<b>Liabilities measured at fair value</b>		
Bonds	1,382.2	966.4
Cash flow hedges	12.5	–
Currency swaps in relation to US\$ denominated bonds	0.9	11.4
Callable swaps	44.7	37.5
Contingent consideration	60.6	19.9

During both years the Group only had Level 2 assets or liabilities measured at fair value apart from contingent consideration which is a Level 3 liability. During the year ended 31 December 2011, 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.

## Notes to the consolidated financial statements

**26 Financial instruments (continued)****Interest rate risk**

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

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

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

In February 2008, Capita executed a series of callable interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. The counterparty holds the option to cancel these swaps on each semi-annual coupon payment date. These callable interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 9 – Net finance costs.

Following the fall in interest rates at the end of 2008 and the low base interest rates maintained thereafter, these callable swaps show a negative mark to market value of £44.7m at 31 December 2011 (2010: negative mark to market value of £37.5m). This movement results in a non-cash accounting loss in the year of £7.2m (2010: loss of £6.6m).

In addition to the fixed rate bonds of £429.6m in issue as at 31 December 2011 (underlying value – not adjusted for the impact of the swaps), the Group had a further £742.8m of swapped bonds, and a £425.0m revolving credit facility, both paying floating rate interest. This gives the Group as a whole a balanced interest rate risk profile through the use of both fixed and floating rate financial instruments.

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

	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	More than 5 years £m	Total £m
<b>At 31 December 2011</b>							
<b>Fixed rate</b>							
Loan notes	2.3	-	-	-	-	-	2.3
Bonds	23.5	98.7	14.9	24.7	201.6	190.0	553.4
Obligations under finance leases	2.0	1.1	-	-	-	-	3.1
Foreign currency swaps in relation to US\$ denominated bonds	0.9	(10.9)	(4.6)	-	(60.8)	(47.4)	(122.8)
Callable swaps	0.4	4.9	1.0	3.0	20.2	15.2	44.7
<b>Floating rate</b>							
Cash in hand	(71.5)	-	-	-	-	-	(71.5)
Revolving credit facility	-	176.1	-	-	-	-	176.1
Investment loan	(0.2)	(0.3)	(0.5)	(3.5)	(4.0)	(27.8)	(36.3)
Assets available-for-sale	-	-	-	-	-	(0.9)	(0.9)
Bonds	-	-	-	95.1	-	783.7	878.8
Cash flow hedges	(1.3)	1.1	2.3	1.4	1.2	5.1	9.8
Interest rate swap in relation to GBP denominated bonds	-	-	-	(4.9)	-	(8.6)	(13.5)
Foreign currency swaps in relation to US\$ denominated bonds	-	-	-	(18.2)	-	(101.4)	(119.6)

## Notes

## Notes to the consolidated financial statements

## 26 Financial instruments (continued)

	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
<b>At 31 December 2010</b>							
<b>Fixed rate</b>							
Loan notes	2.3	–	–	–	–	–	2.3
Bonds	–	24.8	100.5	15.1	25.0	379.5	544.9
Obligations under finance leases	1.3	1.1	–	–	–	–	2.4
Foreign currency swaps in relation to US\$ denominated bonds	–	(0.1)	(12.4)	(4.7)	–	(98.2)	(115.4)
Callable swaps	–	1.2	6.8	1.0	2.6	25.9	37.5
<b>Floating rate</b>							
Cash in hand	(38.5)	–	–	–	–	–	(38.5)
Overdrafts and bank loans	98.8	–	–	–	–	–	98.8
Investment loan	(1.0)	(2.0)	(2.5)	(3.0)	(3.5)	(24.2)	(36.2)
Assets available-for-sale	–	–	–	–	–	(0.7)	(0.7)
Bonds	–	–	–	–	93.9	377.6	471.5
Asset-based securitised financing	11.7	–	–	–	–	–	11.7
Cash flow hedges	5.0	2.8	2.6	1.6	0.8	(1.2)	11.6
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	(4.3)	(0.1)	(4.4)
Foreign currency swaps in relation to US\$ denominated bonds	–	–	–	–	(17.5)	(45.6)	(63.1)

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
<b>2011</b>	<b>62/(62)</b>	<b>(5.0)/5.0</b>
2010	45/(45)	(2.0)/2.0

**Foreign currency risk**

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

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

At 31 December 2011, the Group had cash flow hedges in place against forecast monthly INR costs in 2012 and each year up to and including 2019. These forecast INR costs have been determined on the basis of the underlying cash flows, associated with the delivery of services under signed contracts which run to 2019.

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

	Increase/ (decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
<b>2011</b>	<b>(4.99)%</b>	<b>–</b>	<b>8.7</b>
2010	0.95%	–	(1.7)

**Hedges****Fair value hedges**

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

The Group had interest rate swaps in place with a notional amount of £117.0m (2010: £32.0m) whereby it receives a weighted average fixed rate of interest of 5.46% (2010: fixed rate of interest 7.19%) and pays variable rates based on six month GBP LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £117.0m (2010: £32.0m) of the Group's bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on six month GBP LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £930.5m (2010: £675.6m) of the Group's bonds, which have coupon rates ranging from 3.72% to 6.51%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar issued bonds. The bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 22).

## Notes to the consolidated financial statements

**26 Financial instruments (continued)**

The total gain in the year on the fair value hedges of £76.4m (2010: £43.6m), 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	2011 Liabilities £m	Assets £m	2010 Liabilities £m
Fair value	2.7	12.5	11.6	–

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 2011 and a net unrealised loss of £9.8m (2010: gain of £11.6m) less deferred tax of £2.5m (2010: £3.1m) was recognised in equity. The net loss recognised on cash flow hedges during the year was £16.5m (2010: net gain £2.8m) whilst net gains of £5.0m (2010: £2.0m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a credit of £5.6m (2010: debit of £0.2m).

**Credit risk**

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

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

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

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

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

**Liquidity risk**

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2021.

## Notes

## Notes to the consolidated financial statements

**26 Financial instruments (continued)**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments.

	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	More than 5 years £m	Total £m
<b>At 31 December 2011</b>							
Revolving credit facility	–	176.1	–	–	–	–	176.1
Interest on above revolving credit facility	3.1	3.1	–	–	–	–	6.2
Loan notes	2.3	–	–	–	–	–	2.3
Bonds	23.2	95.8	13.5	108.6	170.2	870.6	1,281.9
Interest on above bonds	65.7	63.9	61.4	60.6	52.3	131.0	434.9
Obligations under finance leases	2.0	1.1	–	–	–	–	3.1
Currency swaps	0.9	–	–	–	–	–	0.9
Callable swaps	0.4	4.9	1.0	3.0	20.2	15.2	44.7
Cash flow hedges	0.5	1.9	2.6	1.7	1.4	4.4	12.5
	<b>98.1</b>	<b>346.8</b>	<b>78.5</b>	<b>173.9</b>	<b>244.1</b>	<b>1,021.2</b>	<b>1,962.6</b>
<b>At 31 December 2010</b>							
Overdraft and bank loans	98.8	–	–	–	–	–	98.8
Loan notes	2.3	–	–	–	–	–	2.3
Bonds	–	23.1	95.5	13.5	108.2	689.9	930.2
Interest on above bonds	50.1	49.4	47.5	45.2	44.5	100.3	337.0
Asset-based securitised financing	11.7	–	–	–	–	–	11.7
Obligations under finance leases	1.3	1.1	–	–	–	–	2.4
Currency swaps	–	–	–	–	–	11.4	11.4
Callable swaps	–	1.2	6.8	1.0	2.6	25.9	37.5
	<b>164.2</b>	<b>74.8</b>	<b>149.8</b>	<b>59.7</b>	<b>155.3</b>	<b>827.5</b>	<b>1,431.3</b>

The Group has available to it a Revolving Credit Facility of £425m maturing in December 2015, of which £178m had been drawn down as at 31 December 2011 (2010: £110m drawn down). These funds are available for the Group's immediate use.

**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value.

The Group has covenanted to maintain a specified consolidated leverage ratio and a consolidated net interest expense coverage ratio, the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

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

	2011 £m	2010 £m
Shareholders' funds	524.1	495.5
Overdraft and bank loans	–	98.8
Cash in hand	(71.5)	(38.5)
Unsecured loan notes	2.3	2.3
Obligations under finance leases	3.1	2.4
Bonds	1,432.2	1,016.4
Revolving credit facility	176.1	–
Currency and interest rate swaps	(255.9)	(182.9)
At 31 December	<b>1,810.4</b>	<b>1,394.0</b>

## Notes to the consolidated financial statements

## Notes

**27 Issued share capital**

<b>Allotted, called up and fully paid</b>	<b>2011 Million</b>	2010 Million	<b>2011 £m</b>	2010 £m
Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p each				
At 1 January	<b>627.5</b>	624.6	<b>13.0</b>	12.9
Issued on exercise of share options	<b>0.1</b>	2.9	–	0.1
At 31 December	<b>627.6</b>	627.5	<b>13.0</b>	13.0

During the year 0.1m (2010: 2.9m) ordinary 2<sup>1</sup>/<sub>15</sub>p shares with an aggregate nominal value of £nil (2010: £0.1m) were issued under share option schemes for a total consideration of £1.0m (2010: £15.6m).

<b>Treasury shares</b>	<b>2011 Million</b>	2010 Million	<b>2011 £m</b>	2010 £m
Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p				
At 1 January	<b>14.7</b>	–	<b>0.3</b>	–
Shares repurchased	–	15.4	–	0.3
Shares transferred to employee benefit trust	–	(0.7)	–	–
Shares allotted in the year	<b>(0.5)</b>	–	–	–
At 31 December	<b>14.2</b>	14.7	<b>0.3</b>	0.3

In 2011, the Group made no purchases of shares into Treasury and allotted 0.5m shares with an aggregate nominal value of £nil. The total consideration received in respect of these shares was £1.2m.

<b>Employee benefit trust shares</b>	<b>2011 Million</b>	2010 Million	<b>2011 £m</b>	2010 £m
Ordinary shares of 2 <sup>1</sup> / <sub>15</sub> p				
At 1 January	<b>7.2</b>	7.9	<b>0.2</b>	0.2
Shares transferred from treasury	–	0.7	–	–
Shares allotted in the year	<b>(2.1)</b>	(1.4)	<b>(0.1)</b>	–
At 31 December	<b>5.1</b>	7.2	<b>0.1</b>	0.2

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.1m ordinary 2<sup>1</sup>/<sub>15</sub>p shares with an aggregate nominal value of £0.1m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £2.3m.

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

**28 Share based payment plans**

The Group operates several share based payment plans. The expense recognised for share based payments in respect of employee services received during the year to 31 December 2011 was £8.3m (2010: £10.2m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

**Deferred Annual Bonus Plan**

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report on pages 75 to 85) and Matching Shares.

The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 2 Matching Shares for every Deferred Share. Prior to 2010 Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The vesting conditions for matching awards made in 2010 were such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

The vesting conditions for matching awards made in 2011 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

There will be no issues under the Deferred Annual Bonus Plan in 2012.

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

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

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

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

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

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



## Notes

## Notes to the consolidated financial statements

**28 Share based payment plans (continued)****1997 Executive Share Option Scheme**

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

**Capita Sharesave Scheme**

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at the market price at the date of grant. The options become exercisable for a 6 month period following completion of a 3 year savings period. There are no performance conditions attached to these options.

**2011 Co-Investment Plan**

The Co-Investment Plan was approved at the AGM on 10 May 2011 and provides for a grant of three times the number of Company shares pledged by Chief Executive Paul Pindar (the sole participant) before the end of 2011, up to a maximum limit of £1.0m in total market value of shares pledged. The number of matching shares vesting is determined on the basis of Total Shareholder Return (TSR) as compared to the increase in the TSR of the FTSE 100 over the four year performance period from the date of grant. No shares will vest if over the performance period the Companies 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 the total number of shares pledged was 137,362 with a market value of £1.0m. The maximum matching shares under the plan amounted to 412,087 with a market value of £2.6m at 31 December 2011.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and 2008 LTIP, which are shown separately).

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

	2011 Million	2011 WAEP	2010 Million	2010 WAEP
Outstanding as at 1 January	7.5	£6.60	9.8	£6.18
Granted during the year	1.6	£7.20	1.7	£7.05
Exercised	(0.7)	£6.29	(3.1)	£5.23
Forfeited	(1.0)	£7.05	(0.8)	£7.06
Expired during the year	(0.4)	£6.95	(0.1)	£3.89
Outstanding as at 31 December <sup>1</sup>	7.0	£6.68	7.5	£6.60
Exercisable at 31 December	2.7	£5.99	3.1	£5.00

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.42 (2010: £7.31).

**2008 LTIP**

	2011 Million	2011 WAEP	2010 Million	2010 WAEP
Outstanding as at 1 January	5.9	–	3.6	–
Awarded during the year	2.7	–	2.4	–
Forfeited	(0.4)	–	(0.1)	–
Outstanding as at 31 December	8.2	–	5.9	–
Exercisable at 31 December	–	–	–	–

<sup>1</sup> Included within this balance are options over nil (2010: 0.1m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

**LTISAS**

	2011 Million	2011 WAEP	2010 Million	2010 WAEP
Outstanding as at 1 January	0.6	£4.74	1.1	£4.74
Exercised	–	–	(0.5)	£4.74
Outstanding as at 31 December	0.6	£4.74	0.6	£4.74
Exercisable at 31 December	0.6	£4.74	0.6	£4.74

The weighted average price of options exercised in 2011 was £6.30.

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

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.0m (2010: £0.9m). The Matching Shares allocation in respect of the 2010 awards under this plan charged in 2011 was £1.6m (2010: £0.5m).

The weighted average fair value of options granted during the year was £3.24 (2010: £2.35). The range of exercise prices for all options outstanding at the end of the year was £6.76 to £7.33 (2010: £2.50 to £7.33).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2011 and 31 December 2010.

	2011	2010
Dividend yield (%)	2.74	2.39
Expected share price volatility (%)	26.00	26.00
Floor price for LTIP (applicable to LTIP 08)	£7.25	£7.20
Risk free interest rate (%)	1.90	1.95
Expected life of option (years)	3.17	3.12
Weighted average share price of options granted during the year	£3.24	£2.60

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.

## Notes to the consolidated financial statements

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

	Net debt at 1 January 2011 £m	Acquisitions in 2011 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2011 £m
Cash and cash equivalents	38.5	–	34.1	(1.1)	71.5
Overdraft and bank loans	(98.8)	–	98.8	–	–
Cash	(60.3)	–	132.9	(1.1)	71.5
Loan notes	(2.3)	–	–	–	(2.3)
Bonds <sup>1</sup>	(1,016.4)	–	(339.2)	(76.6)	(1,432.2)
Revolving credit facility	–	–	(175.4)	(0.7)	(176.1)
Currency swaps in relation to US\$ denominated bonds <sup>1</sup>	178.5	–	–	63.9	242.4
Interest rate swaps in relation to GBP denominated bonds <sup>1</sup>	4.4	–	–	9.1	13.5
Long term debt	–	(22.3)	22.3	–	–
Finance leases	(2.4)	–	1.0	(1.7)	(3.1)
Underlying net debt	(898.5)	(22.3)	(358.4)	(7.1)	(1,286.3)
Asset based securitised finance <sup>2</sup>	(11.7)	–	11.7	–	–
Callable swaps	(37.5)	–	–	(7.2)	(44.7)
	(947.7)	(22.3)	(346.7)	(14.3)	(1,331.0)

The aggregate bond fair value above of £1,432.2m (2010: £1,016.4m) (disclosed in note 22 – Financial liabilities) includes the GBP value of the US\$ denominated bonds at 31 December 2011. 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 £255.9m (2010: £182.9m), is disclosed in note 16 – Financial assets, and in note 22 – Financial liabilities.

	Net debt at 1 January 2010 £m	Acquisitions in 2010 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2010 £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 <sup>1</sup>	(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 <sup>1</sup>	136.0	–	–	42.5	178.5
Interest rate swaps in relation to GBP denominated bonds <sup>1</sup>	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)
Underlying net debt	(604.5)	(111.2)	(181.0)	(1.8)	(898.5)
Asset based securitised finance <sup>2</sup>	(17.1)	–	5.4	–	(11.7)
Callable swaps	(30.9)	–	–	(6.6)	(37.5)
	(652.5)	(111.2)	(175.6)	(8.4)	(947.7)

<sup>1</sup> The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,176.3m (2010: £833.5m).

<sup>2</sup> The asset based securitised finance movement represents the net movement on the underlying balances with clients.

## Notes

## Notes to the consolidated financial statements

**30 Capital commitments**

At 31 December 2011, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £0.1m (2010: £0.8m).

**31 Contingent liabilities**

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £47.6m (2010: £69.4m).

**32 Pensions**

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

The pension charge for the defined contribution pension schemes for the year is £39.9m (2010: £32.6m).

In 2011 there was one main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: allocated sections of 2 multi-employer schemes in which the Group is a participating employer; an allocated section in an industry wide scheme; and several schemes to which the Group makes contributions under Admitted Body status to our clients' defined benefit pension schemes in respect of certain TUPE employees. In addition, there was a further scheme that was merged into the Capita scheme during the year.

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

During the year the contract with Cumbria County Council came to an end and the assets and pension obligations relating to the participants were transferred back to the Council. The respective Scheme Actuary determined that an additional payment was due and, as requested, the Group made a provisional payment of £10m to cover the estimated exit debt. The final deficit is not expected to be materially different.

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

	Capita scheme £m	Other schemes £m	Group total £m
<b>At 31 December 2011</b>			
<b>Scheme assets at fair value:</b>			
Equities/hedge funds/absolute returns	346.8	49.4	396.2
Bonds	99.8	22.0	121.8
Property	47.9	4.7	52.6
Insurance contracts	2.9	–	2.9
Cash/other	2.5	2.4	4.9
Total	499.9	78.5	578.4
<b>Present value of scheme liabilities</b>	<b>(560.3)</b>	<b>(103.8)</b>	<b>(664.1)</b>
<b>Net liability</b>	<b>(60.4)</b>	<b>(25.3)</b>	<b>(85.7)</b>
<b>At 31 December 2010</b>			
<b>Scheme assets at fair value:</b>			
Equities/hedge funds/absolute returns	348.0	96.3	444.3
Bonds	108.3	34.0	142.3
Property	45.0	8.2	53.2
Insurance contracts	3.0	–	3.0
Cash/other	2.0	3.3	5.3
Total	506.3	141.8	648.1
<b>Present value of scheme liabilities</b>	<b>(505.8)</b>	<b>(166.9)</b>	<b>(672.7)</b>
<b>Net asset/(liability)</b>	<b>0.5</b>	<b>(25.1)</b>	<b>(24.6)</b>

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

## Notes to the consolidated financial statements

**32 Pensions (continued)**

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

	Capita scheme £m	Other schemes £m	Group total £m
<b>Year ended 31 December 2011</b>			
<b>Recognised in the income statement:</b>			
Current service cost	20.7	1.1	21.8
Past service cost	(27.9)	4.0	(23.9)
Recognised in arriving at operating profit	(7.2)	5.1	(2.1)
Expected return on scheme assets	(34.3)	(5.9)	(40.2)
Interest cost on scheme liabilities	27.3	5.6	32.9
Net finance cost included in administrative expenses	(7.0)	(0.3)	(7.3)
Total defined benefit charge	(14.2)	4.8	(9.4)
<b>Taken to the statement of comprehensive income:</b>			
Actual return on scheme assets	(16.0)	(4.8)	(20.8)
Less: expected return on scheme assets	(34.3)	(5.9)	(40.2)
	(50.3)	(10.7)	(61.0)
Other actuarial losses	(45.3)	1.9	(43.4)
Actuarial losses recognised in the statement of comprehensive income	(95.6)	(8.8)	(104.4)

In 2010, the Minister of State for Pensions announced the UK Government's intention to change to the use of the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the inflation measure for determining the statutory pension increases in respect of benefits accrued. As a result, certain benefits within the schemes of the Group changed their link of increases in RPI to increases in CPI in 2011. This change was communicated to the members during 2011. As such, members' expectations were changed from pension increases related to changes in RPI to pension increases related to changes in CPI. Therefore, for accounting purposes this is treated as a change in the operation of the plan and the associated credit in respect of past service costs has been recognised in the income statement in accordance with the guidance in UITF Abstract 48 'Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits' issued by the Accounting Standards Board.

The impact of changing the minimum increase in pensions within the schemes affected to one based on CPI, was a reduction of the pension liabilities in those schemes of £27.9m and a gain in respect of this change being recognised within past service cost in the income statement within the period as disclosed in the table above.

Of the total service cost credit of £2.1m in 2011, £1.6m was included in cost of sales and £0.5m was included in administrative expenses.

	Capita scheme £m	Other schemes £m	Group total £m
<b>Year ended 31 December 2010</b>			
<b>Recognised in the income statement:</b>			
Current service cost	24.4	2.4	26.8
Curtailment gain	(12.6)	(0.8)	(13.4)
Recognised in arriving at operating profit	11.8	1.6	13.4
Expected return on scheme assets	(32.0)	(8.7)	(40.7)
Interest cost on scheme liabilities	26.3	8.7	35.0
Net finance cost included in administrative expenses	(5.7)	–	(5.7)
Total defined benefit charge	6.1	1.6	7.7
<b>Taken to the statement of comprehensive income:</b>			
Actual return on scheme assets	42.9	12.2	55.1
Less: expected return on scheme assets	(32.0)	(8.7)	(40.7)
	10.9	3.5	14.4
Other actuarial losses	(22.2)	(6.3)	(28.5)
Actuarial losses recognised in the statement of comprehensive income	(11.3)	(2.8)	(14.1)

In March 2010 the Group announced that it had made changes to certain sections of the defined benefit schemes by introducing a CARE benefit basis for service after 30 June 2010.

The curtailment gain in respect of this change has been recognised in the income statement in the period to 31 December 2010.

Of the total service cost charge of £13.4m in 2010, £10.4m was included in cost of sales and £3.0m was included in administrative expenses.

Pension contributions are determined based on the advice of independent qualified actuaries. A formal valuation of the Capita scheme was carried out as at 6 April 2011. The last formal valuation of the FPS scheme (the other scheme where the Group is the sole employing sponsor) was carried out as at 31 March 2008, however this scheme was merged into the Capita scheme on 31 July 2011. For the other schemes, the latest formal valuations were carried out as at either 31 December 2009 or 31 March 2010. These valuations are updated by qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

## Notes to the consolidated financial statements

**32 Pensions (continued)**

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

	Capita scheme		Other schemes	
	2011 %	2010 %	2011 %	2010 %
<b>Main assumptions:</b>				
Rate of price inflation – RPI/CPI	<b>3.0/2.1</b>	3.4	<b>3.0/2.1</b>	3.4
Rate of salary increase	<b>4.0</b>	4.4	<b>4.0</b>	4.4
Rate of increase of pensions in payment <sup>1</sup> :				
– RPI inflation capped at 5% pa	<b>2.9</b>	3.2	<b>2.9</b>	3.2
– RPI inflation capped at 2.5% pa	<b>2.1</b>	2.2	<b>2.1</b>	2.2
– CPI inflation capped at 5% pa	<b>2.1</b>	–	<b>2.1</b>	–
– CPI inflation capped at 2.5% pa	<b>1.7</b>	–	<b>1.7</b>	–
Discount rate	<b>4.9</b>	5.4	<b>4.9</b>	5.4
CARE active revaluation (inflation capped at 3.5% pa)	<b>2.6</b>	2.8	<b>2.6</b>	2.8
Expected rates of return on scheme assets (net of scheme expenses):				
Equities/hedge funds/absolute returns	<b>6.2 to 6.7</b>	5.5 to 7.6	<b>6.2 to 6.7</b>	5.5 to 7.6
Bonds	<b>4.4</b>	5.2	<b>3.6 to 4.9</b>	4.6 to 5.4
Property	<b>5.2</b>	4.9	<b>5.2</b>	4.9
Insurance contracts	<b>4.9</b>	5.4	<b>4.9</b>	5.4
Cash/other	<b>1.0</b>	0.9	<b>1.0</b>	0.5
Expected take up maximum available tax free cash (for 2010 shown as expected take up of extended limits of tax free cash due to A day legislation) <sup>4</sup>	<b>85.0</b>	50.0	<b>85.0</b>	50.0 <sup>2</sup>

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the the various different schemes at 31 December 2011 and 31 December 2010 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2011	2010	2011	2010	2011	2010	2011	2010
Capita scheme	<b>23.8</b>	20.5	<b>24.5</b>	23.5	<b>23.8</b>	21.8	<b>25.1</b>	24.7
Other schemes <sup>3</sup>	<b>22.1</b>	20.5	<b>24.3</b>	23.5	<b>23.4</b>	21.8	<b>25.9</b>	24.7

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

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

<sup>3</sup> This does not apply to the Admitted Body Schemes.

<sup>4</sup> The assumptions shown for cash commutation are expressed differently in 2011 compared to 2010; however, the impact of this change is estimated to be minimal.

## Notes to the consolidated financial statements

**32 Pensions (continued)**

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2010	457.1	153.4	610.5
Current service cost	24.4	2.4	26.8
Curtailment gain	(12.6)	(0.8)	(13.4)
Interest cost	26.3	8.7	35.0
Benefits paid	(12.1)	(4.2)	(16.3)
Actuarial gains and losses	22.2	6.3	28.5
Contributions by employees	0.3	1.1	1.4
Contract bulk transfers/business combinations	0.2	–	0.2
As at 31 December 2010	505.8	166.9	672.7
Current service cost	<b>20.7</b>	<b>1.1</b>	<b>21.8</b>
Past service cost	<b>(27.9)</b>	<b>4.0</b>	<b>(23.9)</b>
Interest cost	<b>27.3</b>	<b>5.6</b>	<b>32.9</b>
Benefits paid	<b>(14.7)</b>	<b>(3.0)</b>	<b>(17.7)</b>
Actuarial gains and losses	<b>45.3</b>	<b>(1.9)</b>	<b>43.4</b>
Contributions by employees	<b>0.3</b>	<b>0.5</b>	<b>0.8</b>
Contract bulk transfers/business combinations	<b>3.5</b>	<b>(69.4)</b>	<b>(65.9)</b>
As at 31 December 2011	<b>560.3</b>	<b>103.8</b>	<b>664.1</b>

The defined benefit obligation comprises £664.1m (2010: £672.7m) arising from schemes that are wholly or partly funded.

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

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2010	450.3	128.3	578.6
Expected return on scheme assets	32.0	8.7	40.7
Contract bulk transfers/business combinations	0.2	–	0.2
Employer contributions	24.7	4.4	29.1
Contributions by employees	0.3	1.1	1.4
Benefits paid	(12.1)	(4.2)	(16.3)
Actuarial gains and losses	10.9	3.5	14.4
As at 31 December 2010	506.3	141.8	648.1
Expected return on scheme assets	<b>34.3</b>	<b>5.9</b>	<b>40.2</b>
Employer contributions	<b>20.5</b>	<b>13.4</b>	<b>33.9</b>
Contributions by employees	<b>0.3</b>	<b>0.5</b>	<b>0.8</b>
Benefits paid	<b>(14.7)</b>	<b>(3.0)</b>	<b>(17.7)</b>
Actuarial gains and losses	<b>(50.3)</b>	<b>(10.7)</b>	<b>(61.0)</b>
Contract bulk transfers/business combinations	<b>3.5</b>	<b>(69.4)</b>	<b>(65.9)</b>
As at 31 December 2011	<b>499.9</b>	<b>78.5</b>	<b>578.4</b>

The total employer contributions to the defined benefit pension schemes in 2012 are estimated to be £19.6m in respect of the Capita scheme and £11.0m in respect of the 'Other' schemes.



## Notes to the consolidated financial statements

**32 Pensions (continued)**

History of experience gains and losses:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>Capita scheme</b>					
Fair value of scheme assets	499.9	506.3	450.3	317.8	350.5
Present value of defined benefit obligation	(560.3)	(505.8)	(457.1)	(320.2)	(330.2)
Scheme surplus/(deficit)	(60.4)	0.5	(6.8)	(2.4)	20.3
Experience adjustments arising on scheme liabilities	(8.5)	–	–	3.5	–
Experience adjustments arising on scheme assets	(50.3)	10.9	51.5	(92.7)	(4.3)
<b>Other schemes</b>					
Fair value of scheme assets	78.5	141.8	128.3	109.6	137.6
Present value of defined benefit obligation	(103.8)	(166.9)	(153.4)	(131.7)	(153.5)
Scheme deficit	(25.3)	(25.1)	(25.1)	(22.1)	(15.9)
Experience adjustments arising on scheme liabilities	(6.8)	(2.2)	–	28.7	0.1
Experience adjustments arising on scheme assets	(10.7)	3.5	9.1	(40.1)	(0.3)

The cumulative amount of actuarial losses recognised since 1 January 2004 in the consolidated statement of comprehensive income is £209.8m (2010: cumulative actuarial losses of £105.4m). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £77.8m (of which an IFRS transitional adjustment of £67.7m was taken directly to equity) is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of comprehensive income before 1 January 2004.

**33 Related party transactions****Compensation of key management personnel**

	2011 £m	2010 £m
Short term employment benefits	5.5	6.2
Pension	0.2	0.1
Share based payments	3.6	3.9
	9.3	10.2

Gains on share options exercised in the year by key management personnel totalled £5.8m (2010: £2.6m).

Nigel Wilson, Senior Independent Director, is Group Chief Financial Officer of Legal & General Group Plc. The Legal & General Group Plc had an interest in 23,086,079 shares in Capita plc as at 16 February 2012 and has a contractual relationship with the Group. Nigel Wilson does not participate in any Legal & General board discussions or decisions in respect of that company's dealings with Capita Plc which are conducted on an arm's length basis.

## Statement of Directors' responsibility

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

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

By order of the Board.

**P R M Pindar**  
Chief Executive

22 February 2012

**G M Hurst**  
Group Finance Director

## Independent auditor's report to the members of Capita plc

We have audited the financial statements of Capita plc for the year ended 31 December 2011 set out on pages 87 to 139. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 73, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 60 to 68 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- 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;
- certain disclosures of Directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit or
- a Corporate Governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 71, in relation to going concern;
- the part of the Corporate governance statement on pages 60 to 68 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Oliver Tant (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

### Chartered Accountants

15 Canada Square  
London, E14 5GL

Other

## Five year summary

for the year ended 31 December 2011

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>Group balance sheet</b>					
Non-current assets	2,518.7	2,011.6	1,570.2	1,488.8	1,032.5
Current assets <sup>1</sup>	1,018.8	848.7	801.9	675.5	458.1
	<b>3,537.5</b>	2,860.3	2,372.1	2,164.3	1,490.6
Liabilities <sup>1</sup>	(2,949.7)	(2,307.2)	(1,857.9)	(1,764.1)	(1,156.2)
Provision for liabilities and charges	(63.7)	(57.6)	(48.0)	(3.3)	(2.6)
	<b>524.1</b>	495.5	466.2	396.9	331.8
Capital and reserves	<b>524.1</b>	495.5	466.2	396.9	331.8
<b>Group income statement</b>					
Turnover	2,930.2	2,744.0	2,686.8	2,441.4	2,073.3
Underlying operating profit	427.4	395.1	357.7	320.9	271.3
Other income/(expense)	(0.2)	0.9	0.2	(0.2)	1.2
Net interest payable	(42.0)	(31.8)	(32.8)	(43.5)	(34.1)
Underlying profit before taxation	385.2	364.2	325.1	277.2	238.4
Intangible amortisation	(67.7)	(41.3)	(28.1)	(18.6)	(9.7)
Arch cru costs	-	-	(30.0)	-	-
Professional fees and stamp duty on acquisitions	(15.4)	(6.5)	-	-	-
Contingent consideration movement	11.2	-	-	-	-
Financial instruments – mark to market	(7.1)	(6.6)	1.1	(32.0)	-
Loss on business disposal	-	-	(7.5)	-	-
Currency swaps' counterparty risk – mark to market	(3.3)	-	(2.5)	-	-
Taxation	(64.9)	(74.8)	(69.2)	(60.8)	(62.5)
Profit after taxation	238.0	235.0	188.9	165.8	166.2
Basic earnings per share – underlying	48.49p	44.98p	38.75p	33.26p	28.10p
Basic earnings per share – after non-underlying	39.16p	38.44p	30.76p	27.26p	27.09p
Diluted earnings per share – underlying	48.38p	44.48p	38.42p	32.96p	27.63p
Diluted earnings per share – after non-underlying	39.07p	38.01p	30.50p	27.01p	26.64p
Special dividend	-	-	-	-	25.00p
Dividend per ordinary share	21.4p	20.0p	16.80p	14.40p	12.00p

<sup>1</sup> The 2010 comparatives have been restated for 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.

Other

# Company balance sheet

at 31 December 2011

	Notes	2011 £m	2010 £m
<b>Fixed assets</b>			
Tangible assets	5	19.0	19.5
Investments	7	300.5	495.7
Financial assets	6	0.9	6.6
		<b>320.4</b>	521.8
<b>Current assets</b>			
Trade investments	7	0.1	0.1
Financial assets	6	1.8	5.0
Debtors due within 1 year	8	801.2	689.1
Debtors due after more than 1 year	8	225.7	162.7
Cash		31.1	–
		<b>1,059.9</b>	856.9
<b>Creditors: amounts falling due within 1 year</b>	9	50.7	235.6
<b>Net current assets</b>		<b>1,009.2</b>	621.3
<b>Total assets less current liabilities</b>		<b>1,329.6</b>	1,143.1
<b>Creditors: amounts falling due after more than 1 year</b>	9	561.2	394.5
		<b>768.4</b>	748.6
<b>Capital and reserves</b>			
Called up share capital	11	13.0	13.0
Employee benefit trust and treasury shares	12	(0.4)	(0.5)
Share premium account	12	459.4	454.9
Capital redemption reserve	12	1.8	1.8
Merger reserve	12	44.6	44.6
Profit and loss account	12	250.0	234.8
		<b>768.4</b>	748.6

The accounts were approved by the Board of Directors on 22 February 2012 and signed on its behalf by:

**P R M Pindar**  
Chief Executive

**G M Hurst**  
Group Finance Director

Company registered number: 2081330

# Notes to the accounts

for the year ended 31 December 2011

Other

## 1 Accounting policies

### (a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply with the following new Financial Reporting Standards issued by the UK Accounting Standards Board (ASB).

#### Amendment to FRS 25 (IAS 32): Financial Instruments: Presentation – classification of rights issues

The amendment alters the definition of a financial liability to enable parties to classify rights issues (and certain options or warrants) as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of this amendment has had no impact on the financial statements of the Company.

#### Improvements to Financial Reporting Standards (2010)

In May 2010 the International Accounting Standards Board issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments were adopted by the ASB and issued in June 2010. The adoption of these amendments, which are effective from 1 January 2011, did not have any impact on the financial position or performance of the Company.

#### FRS 30 Heritage Assets

In June 2010 the ASB issued this standard on the accounting treatment of heritage assets which is effective for annual periods beginning on or after 1 April 2010. This standard did not have any impact on the financial position or performance of the Company.

#### UITF 47 (IFRIC 19) Extinguishing Financial Liabilities with Equity Instruments

This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration in accordance with paragraph 41 of FRS 26 (IAS 39). The equity instruments issued are measured at fair value (unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished) with gain or loss being immediately recognised in profit or loss. The adoption of this interpretation had no effect on the financial position or performance of the Company.

#### UITF 48 Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits

In December 2010 the UITF issued guidance on the accounting treatment consequent to the UK Government's announcement to replace RPI with CPI for the statutory minimum increase in pensions in defined benefit schemes. This UITF abstract did not have any impact on the financial position or performance of the Company.

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

### (b) Tangible fixed assets

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

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

### (c) Investments

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

Investments held as current assets are stated at the lower of cost and net realisable value. The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

### (d) Pension schemes

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

### (e) Leasing commitments

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

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

### (f) Deferred taxation

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

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

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



## Notes to the accounts

**1 Accounting policies (continued)****(g) Foreign currencies**

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

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

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

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

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

**(j) Derivative financial instruments**

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

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

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

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

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

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

**(k) Share based payments**

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

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

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

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

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

**2 Deferred taxation**

	2011 £m	2010 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	(1.3)	(1.6)
Share based payments	3.3	4.4
Cash flow hedges	2.5	(3.1)
Callable swaps	11.1	10.1
Provisions	1.1	1.3
Included in debtors note 8	16.7	11.1

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

The profit after taxation dealt with in the accounts of the parent undertaking was £132m (2010: profit of £182.8m).

**4 Dividends**

	2011 £m	2010 £m
<b>Declared and paid during the year</b>		
Ordinary shares (equity):		
Final for 2010 paid: 13.4p per share (2009: 11.2p per share)	81.2	69.1
Interim for 2011 paid: 7.2p per share (2010: 6.6p per share)	43.8	40.0
	125.0	109.1
<b>Proposed for approval at AGM (not recognised as a liability at 31 December)</b>		
Ordinary shares (equity):		
Final for 2011: 14.2p per share (2010: 13.4p per share)	86.4	81.2

## Other

## Notes to the accounts

**5 Tangible fixed assets**

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
<b>Cost</b>				
1 January 2011	34.3	0.5	3.2	38.0
Additions	3.2	0.1	–	3.3
Disposals	(1.1)	–	–	(1.1)
Asset retirement	(4.3)	(0.2)	(0.7)	(5.2)
31 December 2011	32.1	0.4	2.5	35.0
<b>Depreciation</b>				
1 January 2011	15.8	0.4	2.3	18.5
Charge for year	3.5	0.1	0.2	3.8
Disposals	(1.0)	(0.1)	–	(1.1)
Asset retirement	(4.3)	(0.2)	(0.7)	(5.2)
31 December 2011	14.0	0.2	1.8	16.0
<b>Net book value at:</b>				
1 January 2011	18.5	0.1	0.9	19.5
31 December 2011	18.1	0.2	0.7	19.0

**6 Financial assets****Current**

	2011 £m	2010 £m
Cash flow hedges	1.8	5.0

**Non-current**

	2011 £m	2010 £m
Cash flow hedges	0.9	6.6

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

	Shares in subsidiary undertakings £m
<b>Cost</b>	
1 January 2011	495.7
Additions	64.6
Disposals	(259.8)
31 December 2011	300.5

During the year the Company subscribed to £0.2m £1 redeemable preferences shares at a premium of £1.7m in Capita Group Insurance PCC Limited (formerly Capita Group Insurance Company Limited), a subsidiary undertaking.

During the year the Company acquired the entire share capital of AIB International Financial Services Limited (Renamed Capita International Financial Services (Ireland) Limited) for cash consideration of £17.3m. Also during the year the Company increased its investment in Capita Fiduciary (UK) Holdings Limited by £15.6m.

During the year the Company undertook a group restructuring project where £259.8m of investments were transferred to subsidiary undertakings and £29.8m of investments were transferred to the Company from subsidiary undertakings.

## Other

## Notes to the accounts

**7 Investments (continued)**

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company	Description of shares held
Capita Holdings Limited	England	100%	Ordinary £1 shares
Capita Business Services Limited*	England	100%	Ordinary £1 shares
Capita Trust Company Limited	England	100%	Ordinary £1 shares
Capita Hartshead Limited*	England	100%	Ordinary £1 shares
BDML Connect Limited*	England	100%	Ordinary £1 shares
Capita Registrars Limited*	England	100%	Ordinary £1 shares
Capita Resourcing Limited*	England	100%	Ordinary £1 shares
Capita Symonds Limited*	England	100%	Ordinary £1 shares
Capita Life & Pensions Limited	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited	England	100%	Ordinary £1 shares
Club 24 Limited*	England	100%	Ordinary £1 shares
Service Birmingham Limited*	England	100%	Ordinary £1 shares
Capita IT Services (BFS) Limited*	England	100%	Ordinary £1 shares
Synetrix Limited*	England	100%	Ordinary £1 shares
Capita IT Services Limited*	England	100%	Ordinary £1 shares
Premier Medical Group Limited*	England	100%	Ordinary 1p shares
Capita Gwent Consultancy Limited*	England	100%	Ordinary £1 shares

The activities of Capita plc undertakings are given on page 140.

**(b) Trade investments**

	<b>£m</b>
At 1 January 2011 and 31 December 2011	<b>0.1</b>

**8 Debtors****Debtors due within 1 year**

	2011 £m	2010 £m
Amounts owed by subsidiary undertakings	759.5	627.4
Taxation recoverable	36.4	55.9
Other debtors	2.0	2.4
Prepayments and accrued income	3.3	3.4
	<b>801.2</b>	689.1

**Debtors due beyond 1 year**

	2011 £m	2010 £m
Prepayments and accrued income	1.3	3.2
Deferred taxation	16.7	11.1
Currency swap	194.2	144.0
Interest rate swap	13.5	4.4
	<b>225.7</b>	162.7

\* Indirectly held.

## Notes to the accounts

**9 Creditors****Amounts falling due within 1 year**

	2011 £m	2010 £m
Bank overdraft	–	209.5
Trade creditors	2.8	4.5
Other creditors	3.2	0.2
Cash flow hedges	0.5	–
Currency swap	0.9	–
Callable swap	0.4	–
Bonds	24.6	–
Other taxes and social security	0.2	–
Accruals and deferred income	18.1	21.4
	<b>50.7</b>	<b>235.6</b>

**Amounts falling due after more than 1 year**

	2011 £m	2010 £m
Bonds	324.8	345.6
Revolving credit facility	176.1	–
Currency swap	–	11.4
Callable swaps	44.3	37.5
Provisions	4.0	–
Cash flow hedges	12.0	–
	<b>561.2</b>	<b>394.5</b>

The bank overdraft and the bonds are unsecured.

**10 Deferred taxation**

	£m
At 1 January 2011	(11.1)
New provisions in the year	(5.6)
At 31 December 2011 – included in debtors note 8	<b>(16.7)</b>

**11 Share capital**

	2011 Million	2010 Million	2011 £m	2010 £m
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 2 <sup>1</sup> /15p each				
At 1 January	627.5	624.6	13.0	12.9
Issued on exercise of share options	0.1	2.9	–	0.1
At 31 December	<b>627.6</b>	<b>627.5</b>	<b>13.0</b>	<b>13.0</b>

During the year 0.1m (2010: 2.9m) ordinary 2<sup>1</sup>/15p shares with an aggregate nominal value of £2,067 (2010: £0.1m) were issued under share option schemes for a total consideration of £1.0m (2010: £15.6m).

**Treasury shares**

	2011 Million	2010 Million	2011 £m	2010 £m
Ordinary shares of 2 <sup>1</sup> /15p each				
At 1 January	14.7	–	0.3	–
Shares repurchased	–	15.4	–	0.3
Shares transferred to employee benefit trust	–	(0.7)	–	–
Shares allotted in the year	(0.5)	–	–	–
At 31 December	<b>14.2</b>	<b>14.7</b>	<b>0.3</b>	<b>0.3</b>

During the year the Group allotted 0.5m (2010: nil) treasury shares with a nominal value of £10,333 (2010: £nil). The total consideration received in respect of these shares was £1.2m.

## Other

## Notes to the accounts

**11 Share capital (continued)****Employee benefit trust shares**

	2011 Million	2010 Million	2011 £m	2010 £m
Ordinary shares of 2 <sup>1</sup> /15p each				
At 1 January	7.2	7.9	0.2	0.2
Shares transferred from treasury	–	0.7	–	–
Shares allotted in the year	(2.1)	(1.4)	(0.1)	–
At 31 December	5.1	7.2	0.1	0.2

The Company will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.1m ordinary 2<sup>1</sup>/15p shares with an aggregate nominal value of £0.1m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £2.3m.

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

**12 Reserves**

	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Employee benefit trust shares £m	Profit and loss account £m
<b>Company</b>					
At 1 January 2011	454.9	1.8	44.6	(0.5)	234.8
Shares issued	4.5	–	–	0.1	(0.1)
Share based payment	–	–	–	–	8.3
Equity dividends paid	–	–	–	–	(125.0)
Retained profit for the year	–	–	–	–	132.0
At 31 December 2011	459.4	1.8	44.6	(0.4)	250.0

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

	2011 £m	2010 £m
Profit for the year	132.0	182.8
Dividends	(125.0)	(109.1)
	7.0	73.7
Share based payment	8.3	10.2
Shares issued	4.5	19.8
Share transaction costs	–	(0.5)
Shares purchased	–	(115.7)
Net movement in shareholders' funds	19.8	(12.5)
Opening shareholders' funds	748.6	761.1
Closing shareholders' funds	768.4	748.6

**14 Commitments and contingent liabilities**

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

	2011		2010	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In less than one year	0.5	0.1	–	–
In 2 to 5 years inclusive	–	0.2	0.5	0.3
Over 5 years from the balance sheet date	0.9	–	0.8	–
	1.4	0.3	1.3	0.3

(b) The Company has overdraft and loan facilities of Group undertakings amounting to £425.0m (2010: £425.0m), of which £178.0m had been drawn down at 31 December 2011 (2010: £110m drawn down).

## Notes to the accounts

**15 Borrowings**

	2011 £m	2010 £m
Bank overdraft payable on demand	–	99.5
Bonds	278.4	277.1
Rolling credit facility	176.1	–
	<b>454.5</b>	376.6
Repayments fall due as follows:		
Within 1 year:		
Bonds	24.6	–
Bank overdraft payable on demand	–	99.5
	<b>24.6</b>	99.5
After more than 1 year:		
In more than 1 year but not more than 2 years	88.1	24.7
In more than 2 years but not more than 5 years	201.1	112.9
In more than 5 years	140.7	139.5
	<b>429.9</b>	277.1
Total borrowings	<b>454.5</b>	376.6

The Company has issued guaranteed unsecured bonds as follows:

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

US\$m

<b>Issued 2002</b>				
Series C	6.47	US\$ <sup>1</sup>	36.0	20 June 2012
<b>Issued 2006</b>				
Series A	5.74	US\$ <sup>1</sup>	60.0	28 June 2013
Series B	5.88	US\$ <sup>1</sup>	130.0	28 June 2016
Series A	5.66	US\$ <sup>1</sup>	11.0	13 September 2013
Series B	5.81	US\$ <sup>1</sup>	74.0	13 September 2016
Series C	5.77	US\$ <sup>1</sup>	60.0	13 September 2016
Total of US\$ denominated bonds			371.0	

All series are unsecured.

<sup>1</sup> The Company has entered into currency swaps for the US\$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 26.



## Notes to the accounts

**16 Related party transactions**

In the following, figures for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year the Company sold goods/services in the normal course of business to Capita Gwent Consultancy Limited for £0.1m (2010: £nil). In addition the Company purchased goods/services in the normal course of business for £nil (2010: £nil). At the balance sheet date the net amount receivable from Capita Gwent Consultancy Limited was £nil (2010: £nil).

During the year the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £0.1m (2010: £nil). In addition the Company purchased goods/services in the normal course of business for £nil (2010: £nil). At the balance sheet date the net amount payable to Urban Vision Partnership Limited was £1.0m (2010: £1.2m).

During the year the Company sold goods/services in the normal course of business to Service Birmingham Limited for £1.8m (2010: £0.6m). In addition the Company purchased goods/services in the normal course of business for £0.2m (2010: £nil). At the balance sheet date the net amount receivable from Service Birmingham Limited was £0.3m (2010: £nil).

Nigel Wilson, Senior Independent Director, is Group Chief Financial Officer of Legal & General Group Plc. The Legal & General Group Plc had an interest in 23,086,079 shares in Capita plc as at 16 February 2012 and has a contractual relationship with the Group. Nigel Wilson does not participate in any Legal & General board discussions or decisions in respect of that company's dealings with Capita plc which are conducted on an arm's length basis.

**17 Pension costs**

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £1.7m (2010: £1.5m).

**18 Share based payment**

The Company operates several share based payment plans as follows:

***Deferred Annual Bonus Plan***

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

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 2 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The vesting conditions for matching awards made in 2010 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

The vesting conditions for matching awards made in 2011 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

There will be no issues under the Deferred Annual Bonus Plan in 2012.

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

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

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

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

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

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

***1997 Executive Share Option Scheme***

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

***Capita Sharesave Scheme***

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at the market price at the date of grant. The options become exercisable for a 6 month period following completion of a 3 year savings period. There are no performance conditions attached to these options.

***2011 Co-Investment Plan***

The Co-Investment Plan was approved at the AGM on 10 May 2011 and provides for a grant of three times the number of Company shares pledged by Chief Executive Paul Pindar, the sole participant, before the end of 2011, up to a maximum limit of £1.0m in total market value of shares pledged. The number of matching shares vesting is determined on the basis of Total Shareholder Return (TSR) as compared to the increase in the TSR of the FTSE 100 over the four year performance period from the date of grant. No shares will vest if over the performance period the Companies 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 the total number of shares pledged was 137,362 with a market value of £1.0m. The maximum matching shares under the plan amounted to 412,087, with a market value of £2.6m at 31 December 2011.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2011 was £8.3m (2010: £10.2m), all of which arises from equity-settled share based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of FRS 20 'Share based payment' was £3.4m (2010: £5.9m).

## Notes to the accounts

**18 Share based payment (continued)**

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and 2008 LTIP, which are shown separately).

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

	2011 Million	2011 WAEP	2010 Million	2010 WAEP
Outstanding as at 1 January	7.5	£6.60	9.8	£6.18
Granted during the year	1.6	£7.20	1.7	£7.05
Exercised	(0.7)	£6.29	(3.1)	£5.23
Forfeited	(1.0)	£7.05	(0.8)	£7.06
Expired during the year	(0.4)	£6.95	(0.1)	£3.89
Outstanding as at 31 December <sup>1</sup>	7.0	£6.68	7.5	£6.60
Exercisable at 31 December	2.7	£5.99	3.1	£5.00

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.42 (2010: £7.31).

**2008 LTIP**

	2011 Million	2011 WAEP	2010 Million	2010 WAEP
Outstanding at 1 January	5.9	–	3.6	–
Awarded during the year	2.7	–	2.4	–
Forfeited	(0.4)	–	(0.1)	–
Outstanding as at 31 December	8.2	–	5.9	–
Exercisable at 31 December	–	–	–	–

**LTISAS**

	2011 Million	2011 WAEP	2010 Million	2010 WAEP
Outstanding as at 1 January	0.6	£4.74	1.1	£4.74
Exercised	–	–	(0.5)	£4.74
Outstanding as at 31 December	0.6	£4.74	0.6	£4.74
Exercisable at 31 December	0.6	£4.74	0.6	£4.74

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.0m (2010: £0.9m). The Matching Shares allocation in respect of the 2010 awards under this plan charged in 2011 was £1.6m (2010: £0.5m).

The weighted average fair value of options granted during the year was £3.24 (2010: £2.35). The range of exercise prices for all options outstanding at the end of the year was £6.76 to £7.33 (2010: £2.50 to £7.33).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2011 and 31 December 2010.

	2011	2010
Dividend yield (%)	2.74	2.39
Expected share price volatility (%)	26.0	26.0
Floor price for LTIP (applicable to LTIP 08)	7.25	7.20
Risk free interest rate (%)	1.90	1.95
Expected life of option (years)	3.17	3.12
Weighted average share price of options granted during the year	£3.24	£2.60

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.

The weighted average price of options exercised in 2011 was: £6.30.

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

<sup>1</sup> Included within this balance are options over nil (2010: 0.1m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

## Other

## Principal Group investments

### Capita Holdings Limited

Holding and investment company.

### Capita Business Services Limited

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

### Capita Symonds Limited

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

### Capita Registrars Limited

Share registration and employee share scheme administration services.

### Capita Trust Company Limited

Corporate trustees and providers of trust and administration services.

### Capita Life & Pensions Limited

Administration and customer services for life and pensions operations.

### Capita Life & Pensions Regulated Services Limited

Administration and customer services for life and pensions regulated operations.

### BDML Connect Limited

Insurance intermediary and agent for the transaction of insurance business.

### Capita Resourcing Limited

Employee recruitment services.

### Synetrix Limited

Providing managed, high bandwidth network services.

### Capita IT Services Limited

Designing, providing and managing networked computing and communication systems.

### Premier Medical Group Limited

Medical services administration provider.

### Capita Hartshead Limited

Providing actuarial, pension consultancy and administrative services.

### Club 24 Limited

Providing business process outsourcing services.

### Service Birmingham Limited

Providing ICT and business transformation outsourcing services to the public sector.

### Capita IT Services (BFS) Limited

Providing ICT services to the public sector and commercial customers, particularly education services.

### Capita Gwent Consultancy Limited

Providing transport consultancy services.

# Useful information for shareholders

## Cautionary statement regarding forward-looking statements

This Annual Report has been prepared for the members of the Company and no one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. This Annual Report contains certain forward-looking statements with respect to the principal risks and uncertainties facing the Company. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

## 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 accounts online.

Registering for e-communications is very straightforward. Go to [www.capita.co.uk/investorcentre/ecomms](http://www.capita.co.uk/investorcentre/ecomms)

## Key dates for your diary

### Annual General Meeting 15 May 2012

The AGM will be held at 11.00am on Tuesday 15 May 2012 at Deutsche Bank, 1 Great Winchester Street, London EC2N 2DB. The Notice of Meeting and proxy card for the meeting are enclosed with this report.

Final dividend payment: **28 May 2012**

Half year results: **25 July 2012**

## Get in touch

### Shareholder enquiries

We aim to communicate effectively with our shareholders, via our website [www.capita.co.uk](http://www.capita.co.uk). Shareholders who have questions relating to the Group's business or wish to receive further hard 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 or dividend payments please contact the Company's registrar, Capita Registrars, by email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com) or at the address below:

### Capita Registrars

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel: (UK) 0871 664 0300

(UK calls cost 10p per minute plus network extras, lines are open 8.30am to 5.30pm, Monday to Friday).

(Overseas) +44 20 8639 3399

## Other helpful shareholder services

### Share dealing

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

For further information on this service or to buy and sell Capita shares online go to: [www.capitadeal.com](http://www.capitadeal.com) or by telephone: 0871 664 0454 (UK calls cost 10p per minute plus network extras, lines are open 8.00am to 4.30pm, Monday to Friday).

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 10528686). Find out more at [www.sharegift.org.uk](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, lines are open 9.00am to 5.30pm, Monday to Friday).

### International dividend payment service

Capita Registrars has partnered with Travelex to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Registrars on 0871 664 0385 (UK calls cost 10p per minute plus network extras, lines are open 9.00am to 5.30pm, Monday to Friday).

(Overseas) +44 20 8639 3405

e-mail: [ips@capitaregistrars.com](mailto:ips@capitaregistrars.com)

## Registered office

Capita plc  
71 Victoria Street  
Westminster  
London SW1H 0XA  
Tel: 020 7799 1525  
Fax: 020 7799 1526

Registered number: 2081330

## Company Secretary

Gordon Hurst

## Stockbrokers

### Citi

Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB

### Deutsche Bank A G

1 Great Winchester Street  
London EC2N 2DB

## Auditors

### KPMG

15 Canada Square  
London E14 5GL

## Solicitors

### Herbert Smith

Exchange House  
Primrose Street  
London EC2A 2HS

## Bankers

### Barclays Bank plc

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

### HSBC Bank plc

27-32 Poultry  
London EC2P 8BX

### National Westminster Bank Plc

1 Princes Street  
London EC2R 8PB

**Capita 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)



**A huge thank you to all our employees, clients, business partners and friends who have kindly participated in the production of this report.**

**Designed and produced by Radley Yeldar**  
Photography by David Hares  
Printed by Capita Communications

This report is printed on Think<sup>4</sup>Bright which is made from 50% recovered fibre, diverting waste from landfill and contains material sourced from responsibly managed forests together with recycled fibre. Think<sup>4</sup>Bright is manufactured under strict environmental management systems, namely the international ISO 14001 standard.



[www.carbonbalancedpaper.com](http://www.carbonbalancedpaper.com)  
C:BP0000710701223538